BIS | Department for Business Innovation & Skills

Annual Report and Accounts 2011-12

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Department for Business, Innovation and Skills

Annual Report and Accounts 2011-12

For the year ended 31 March 2012

Accounts presented to the House of Commons
pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons
by Command of Her Majesty

Annual Report and Accounts presented to the House of Lords
by Command of Her Majesty

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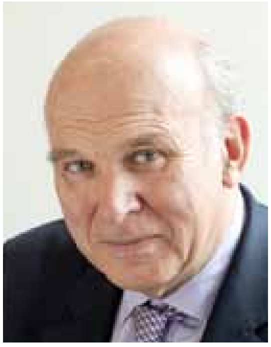


My Department is making a significant contribution to encouraging economic recovery, at the same time as playing its part in reducing the UK's fiscal deficit by making major budget reductions.

In 2011-12, we have continued our work on the cross-Government Growth Review – alongside HM Treasury – to ensure that each department is realising growth through their work.

Through BIS's own policy portfolio, we have set in motion a number of reforms which will deliver savings to the tax payer and deliver long-term growth in the UK economy.

We have put in place reforms to higher education student finance, which will take effect in the autumn; we have taken big steps to establish a Green Investment Bank; we passed the Postal Services Act 2011, clearing the path to reform Post Office Ltd and Royal Mail for a sustainable future; and we have continued our work to make the UK financially attractive for entrepreneurs to set up, finance and grow a business. We have delivered record growth in apprenticeships, with starts up almost two thirds in one year.

I would like to thank the staff of the Department for their commitment and hard work over the last year.

Rt Hon Dr Vince Cable MP

Foreword by the Permanent Secretary

The Department for Business, Innovation and Skills is at the heart of the Government's growth agenda. We are responsible for three of the Government's four ambitions to drive growth – to make the UK the best place in Europe to start, finance and grow a business, to encourage investment and exports as a route to a more balanced economy, to create a more educated workforce that is the most flexible in Europe, and to create the most competitive tax system in the G20. We are working together to create strong, sustainable and balanced growth across the UK and between regions.

We are driving forward a range of programmes and policy reforms to support these ambitions so that our policies on higher education, research and innovation, skills, enterprise, trade and markets work together to support growth. We work closely across government, with our partner organisations, and with the public, private and third sectors on our industrial strategy to build a more dynamic and competitive UK economy. Our challenge is to continue delivering these ambitions effectively as we reduce our resources to meet our Spending Review targets.

We are meeting this challenge by building a culture of continuous improvement. Over the last 18 months, we have restructured the core Department to create a more flexible and efficient organisation. We have implemented new team structures, reduced layers of management and delivered clear accountability and a focus on priorities. We are taking forward major transformation programmes to reform our corporate services, to adopt innovative new working practices to drive up productivity and engagement, to drive Civil Service Reform and to deliver an ambitious capability strategy.

I am proud of all the hard-working and dedicated staff in BIS and our partner organisations who have worked together to achieve so much this year. We are all committed to working closely together over the coming year to meet the challenges ahead and to create the conditions for sustainable economic growth, and for British business to succeed.

Martin Donnelly

Report from the lead Non-executive Director

The last twelve months have, rightly, been extremely busy for all staff at BIS and BIS partner organisations as the priorities of the Government have begun to be put into effect.

As Lead Non-executive Director, I have the responsibility to observe and advise on the progress made on the Department's priorities and its efficiency in delivery of value for money services.

The reduction in size of the department and re-organisation in recent years, to allow an overall fall in core BIS staff numbers of 18%, has been executed professionally and well. Such change in the tough economic environment will always be difficult but I congratulate the Management on their efforts to treat employees with respect and to focus on positively developing a culture for the future as well as reducing the headcount. All of the Department's staff deserves credit for delivery during tough times of change.

The new Departmental Board has established an effective rhythm and over the year effectively addressed the key issues including changes to higher education funding, student loans, Royal Mail evolution, wind up of the Regional Development Agencies and re-focus of UK Trade & Investment. Central, however, has been the focus on growth – reflected both in the very significant contribution to the Growth Review and the support for a wide range of pro-growth initiatives – most notably the encouragement of apprenticeships – 457,000 of which were taken up last year.

Going forward, the Board must focus on the key elements of promoting growth and the industrial strategy review currently underway marks a major opportunity.

The Department should be commended for delivering progress or full completion of the vast majority of the pro-growth initiatives during a period of significant departmental change.

I was sorry that after many years of support Brian Woods-Scawen was kept away from his role by illness. Brian sadly passed away in June 2012; we send our condolences to his family. During Brian's absence, Alan Aubrey ably stepped in to effectively chair the Audit & Risk Committee. I am delighted that Dalton Phillips chose to join the Board as a Non-executive, bringing tremendous UK-based common sense retail experience to the Board.

The next twelve months represent an opportunity to deliver on the pro-growth agenda, delivery of improved higher education impact to the UK, contribute to reduced regulation and bureaucracy and progress the Royal Mail towards a viable long term future.

The staff are capable and it is important now to deliver for them a stable, motivating environment in which they can do their best work. BIS, along with others in central Government, must now work together to simplify and streamline decision making, prioritise on high value opportunities and ensure the maximum contribution to growth.

I would like to thank the Permanent Secretary, Martin Donnelly, and his entire staff for their commitment over the last twelve months.

Sir Andrew Witty

About BIS

OUR VISION

To achieve, strong, sustainable and balanced growth, evenly shared across the country and between industries

OUR VALUES

Empowered to deliver

Commit to each other's success

Focus on what matters most

OUR PARTNERS

Over 50 partner organisations

Over 70% of our budget flows through partner organisations

OUR RESOURCES

£25 billion expenditure in 2011-12 (page 84)

£4 billion planned savings (25% reduction in real terms) by 2014-15

OUR MINISTERS

Our Secretary of State is **Rt Hon Dr Vince Cable MP**, supported by a team of seven Ministers

OUR COLLEAGUES

We have **24,500 staff** working within the BIS family

Our Permanent Secretary is **Martin Donnelly,** supported by a team of Directors General

OUR AMBITIONS

Make the UK the best place in Europe to start, finance and grow a business

Create a more educated workforce that is the most flexible in Europe

Encourage investment and exports as a route to a more balanced economy

OUR WORK

Working together for growth: Promoting policies across Government which actively drive growth (page 8)

Enterprise: Working to boost enterprise and rebalance the economy across sectors and across regions (page 10)

Knowledge and innovation: Promoting excellent universities and research, and increased business innovation (page 14)

Skills: Building an internationally competitive skills base (page 15)

Markets: Creating a positive business environment, and protecting and empowering customers (page 17)

Trade and investment: Stimulating exports and inward investment (page 21)

Our Ministers

Rt Hon Dr Vince Cable MP
Secretary of State for Business, Innovation and Skills

Lord Green
Minister of State for Trade and Investment

Rt Hon David Willetts MP
Minister of State for Universities and Science (attending Cabinet)

Rt Hon Greg Clark MP
Minister of State for Decentralisation and Cities (jointly with the Department for Communities and Local Government) (appointed 19 July 2011)

Mark Prisk MP
Minister of State for Business and Enterprise

Norman Lamb MP
Minister for Employment Relations, Consumer and Postal Affairs (appointed February 2012)

John Hayes MP
Minister of State for Further Education, Skills and Lifelong Learning (jointly with the Department for Education)

Baroness Wilcox
Parliamentary Secretary for Business, Innovation and Skills

Notes:
Rt Hon Edward Davey MP
Minister for Employment Relations, Consumer and Postal Affairs (until February 2012)

Our Management Team

Martin Donnelly
Permanent Secretary

Philippa Lloyd
Director General, People, Communications and Effectiveness (from September 2012)

Tera Allas
Director General, Strategy, Analysis and Better Regulation

Stephen Lovegrove
Chief Executive, Shareholder Executive

John Alty
Acting Director General, Knowledge and Innovation (from September 2012)

Howard Orme
Director General, Finance and Commercial

Nick Baird
Chief Executive, UK Trade & Investment (since September 2011)

Rachel Sandby-Thomas
Director General, Business, Skills and Legal

Bernadette Kelly
Director General, Markets and Local Growth

The Chief Scientific Adviser to the Department is Professor John Perkins, who reports to the Permanent Secretary.

BIS hosts the Government Office for Science which works across Government and is led by the Government Chief Scientific Adviser – Professor Sir John Beddington – who reports to the Cabinet Secretary.

Notes:

Joanna Donaldson Acting Director General, People, Communications and Effectiveness (May – August 2012)
Simon Edmonds Acting Director General, Business and Skills (April-May 2012)
Susan Haird Acting Chief Executive, UK Trade & Investment (December 2010-September 2011)
Philip Rutnam Director General, Business and Skills (until April 2012)
Rachel Sandby-Thomas Director General, Legal, People and Communications (until May 2012)
Sir Adrian Smith Director General, Knowledge and Innovation (until August 2012)

Our Non-executive Directors

Sir Andrew Witty
(Lead Non-executive Director since December 2010)

Andrew became Chief Executive Officer of GlaxoSmithKline in May 2008. He has served in numerous advisory roles to Governments around the world including South Africa, Singapore, China and the UK. He is also President of the European Federation of Pharmaceutical Industries and Associations.

Professor Dame Julia King
(Since January 2008)

Julia became Vice-Chancellor of Aston University in 2006 after a career in academia and in Rolls-Royce plc. She works closely with Government as a member of the Committee on Climate Change and the UK's Low Carbon Business Ambassador, and led the 'King Review' (2008) on reducing vehicle emissions. She is an inaugural member on the Governing Board of the European Institute of Innovation & Technology.

Dr Brian Woods-Scawen
(until May 2012)

Brian held a range of non executive appointments in the public and private sectors. He was formerly Chairman of the Supervisory Board of PricewaterhouseCoopers and a member of the PwC Global Board. Brian was awarded a CBE in 2008 for services to business and the community. He was awarded a Lifetime Achievement Award from the Institute of Chartered Accountants and was Midlands Business Leader of the Year in 2008.

Alan Aubrey
(since June 2012, but temporary from April 2012)

Alan is the Chief Executive Officer of IP Group plc, a company that invests in and builds technology businesses based on intellectual property originating from universities and other research intensive institutions. He is also a Non-executive in several listed technology companies. From 1995-2002, Alan was a corporate finance partner in KPMG. He is a fellow of the Institute of Chartered Accountants of England and Wales.

Dalton Philips
(Since May 2012)

Dalton joined Morrisons, as Chief Executive, in March 2010. Since beginning his retail career in New Zealand, he has spent seven years with Wal-Mart Stores Inc – including international assignments in Brazil and then as Chief Operating Officer of its business in Germany – before moving to work for the Weston family in 2005, in Ireland and then Canada.

Our Work

Working together for growth

Tera Allas:

"Sustainable and balanced growth is fundamental to prosperity and well-being. Much of this growth will come from private sector investment, innovation and enterprise. But Government policy and activities have a big impact on businesses' costs, capabilities and confidence. BIS is focused on ensuring that the overall effect is to create the best possible environment for growth, given the challenging economic climate. This means maximising our own effectiveness as well as working with other Government departments and public bodies to identify and implement pro-growth measures."

We have been ambitious in our efforts to achieve strong and sustainable growth that is more evenly balanced across the country and between industries. We are driving growth both through BIS's own policy portfolio and by championing growth across Government.

The cross-Government Plan for Growth[1], published in 2011, set four clear ambitions to ensure progress is made in achieving strong, sustainable growth. These are: create the most competitive tax system in the G20, make the UK the best place in Europe to start, finance and grow a business, encourage investment and exports as a route to a more balanced economy, and create a more educated workforce that is the most flexible in Europe.

BIS and HM Treasury launched the Growth Review in November 2010 to ensure all Government departments are doing everything they can to help the country grow and recover from recession. The Review is a rolling programme of forensic looks at cross-economy challenges and specific sectors to identify measures to improve the UK's growth potential. So far, the Review has led to over 250 commitments across 22 projects detailed in the Plan for Growth and in the Autumn Statement in November 2011.

Business has been clear that ensuring growth policies are implemented should be a priority for Government. We have published two update reports on all the measures in the Growth Review this year, setting out progress and delivery. We also continue to promote better regulation across Whitehall, in order to reduce the burden of regulation on business and civil society organisations (see page 20).

1 Plan for Growth: http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf

BIS leads on three of the Plan for Growth ambitions, and some examples of our work are:

- Make the UK the best place in Europe to start, finance and grow a business
  - Over 3,300 SMEs supported by Enterprise Finance Guarantee
  - 1,500 regulations reviewed by Red Tape Challenge – over half will be scrapped or improved
  - £1.4 billion allocated through the Regional Growth Fund.
- Encourage investment and exports as a route to a more balanced economy
  - 25,450 businesses assisted by UK Trade & Investment
  - 1,172 inward investment projects in 2011-12, creating just under 40,000 jobs.
- Create a more educated workforce that is the most flexible in Europe
  - Over £3.7 billion invested in further education and skills for around 3 million adult learners
  - 457,000 apprenticeships started in 2010/11, almost two thirds more than the previous year
  - Made it easier to take on staff and resolve employment disputes as part of the ongoing Employment Law Review.

Growth Review – Manufacturing Advisory Service

In the Plan for Growth, Government committed to launch an enhanced Manufacturing Advisory Service (MAS), offering an additional £7million support – £60 million in total over three years. This service went live in January 2012.

Arc Energy Resources Ltd is a Gloucestershire-based engineering company specialising in supplying weld overlay clad products and fabrications to the oil and gas, water and defence industries. Global economic uncertainties prompted the company to approach MAS for help to become more efficient and expand its operations by diversifying into new markets.

"I don't think that any manufacturer could fail to benefit from MAS. They provide support from both the top down and the bottom up and gave us the confidence we needed to go forward and grow the business. We decided that we wanted to progress the business rather than just sit still, so we took on three apprentices and purchased some state-of-the-art welding machinery." (Alan Robinson, Managing Director, Arc Energy Resources)

In addition to focusing on implementing the 250+ measures already agreed as part of the Growth Review process, BIS will continue to drive business success through our work on industrial strategy, which is aimed at:

- Giving business, investors and the public more clarity about the long-term direction in which the Government wants the economy to travel
- Recognising where the UK has strong capability and potential and consistently backing it for future success
- Maximising the impact the Government can have on growth by aligning our levers behind key priorities.

Lord Heseltine's independent review of UK competitiveness, which is due to report in the Autumn, will be an important contribution to this work.

Enterprise

Rachel Sandby-Thomas:

"SMEs are the life blood of the economy. 2011-12 was another tough year for UK businesses, and we made significant change in the delivery of our business support to SMEs. We have implemented a successful 'digital switchover' of regional Business Link customers to improved Business Link web services and increased access to mentoring by business people, alongside development of more intensive coaching for firms with high growth potential. Much of this help for firms to start and grow has increasingly been delivered in partnership with the private sector, notably through Start Up Britain and the Business in You campaign.

On the national level, the work on industrial strategy provides an exciting opportunity to develop policies to rebalance the economy including working with key sectors and the companies within them to make the best case for investment in the UK. The Advanced Manufacturing Supply Chain Initiative was established to help UK based supply chains achieve world class excellence.

There are certain things where a significant measure of success is a lack of noise: this has been true about the closure programme of the RDAs which has been achieved to timetable and with the minimum of fuss. Meanwhile BIS Local has been establishing its role across England, working with the equally new Local Enterprise Partnerships in staking out new ground in how we shape and encourage economic growth locally. The Regional Growth Fund was established and £1.4 billion of funding was allocated to businesses and intermediaries. We are also a long way advanced in our policy thinking on the next round of EU structural funds from 2014 onwards.

All in all, 2011-12 has been significant in terms of achievement, in the context of a challenging economic climate, and in providing the foundations to generate future economic growth."

Boosting enterprise

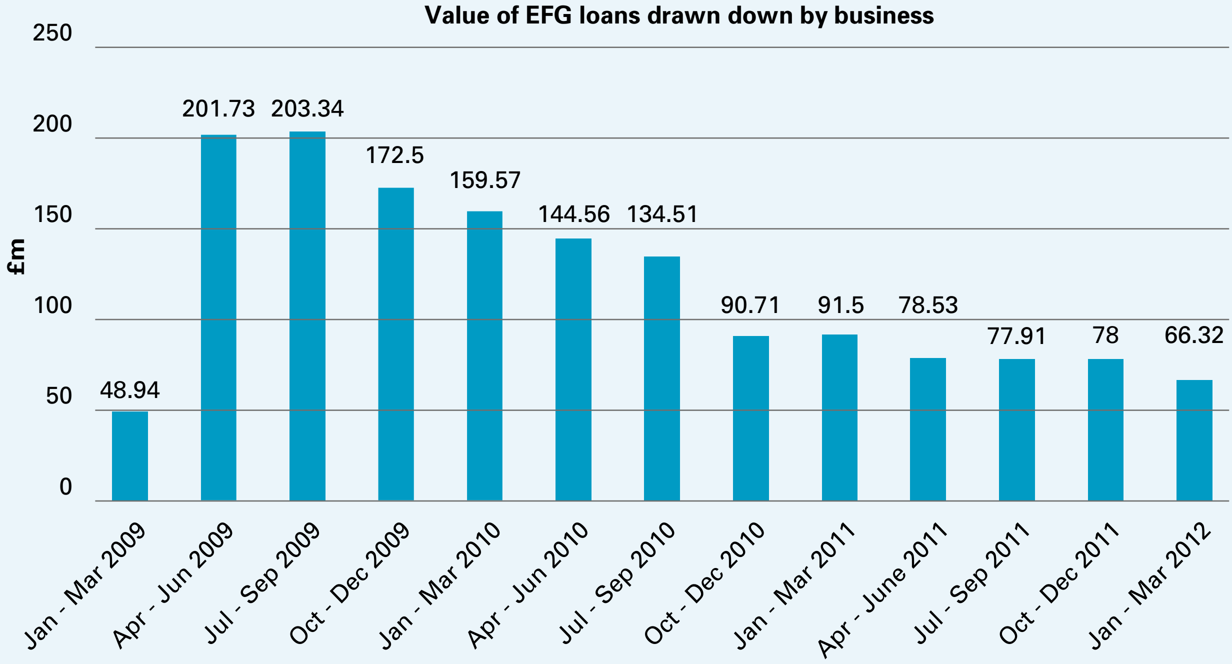
Access to finance is an important issue for smaller firms that do not have direct access to capital markets. BIS is committed to ensuring viable businesses can access the finance they need for investment and growth.

We launched the Enterprise Finance Guarantee (EFG) in January 2009 to assist viable SMEs unable to access finance through normal routes, as they may lack sufficient collateral or track record. In 2011-12, EFG facilitated loan offers to over 3,300 SMEs, to the value of £269 million. This forms around 1% of UK bank lending to SMEs, and is not meant to displace conventional lending.

Over 3,300 SMEs supported by EFG

Value of EFG funds used by businesses

Take up of EFG loans is influenced by the level of SME demand for bank finance in the wider economy and the extent to which this demand is being met by banks and other institutions. EFG lending peaked in 2009, at the peak of the credit crisis, and has been declining since. This partly reflects the wider reduction in SME demand for finance, as well as finance conditions stabilising.



Although the EFG has already helped a significant number of businesses, we believe it can help more, and are taking steps in 12-13 to extend its support. In October 2011, the scheme was extended to companies with up to £44 million turnover (from £25 million) The Government has also extended the scheme to a wider range of firms by increasing the total amount of loan defaults it guarantees.

With a view to improving access to finance for businesses, BIS commissioned the Breedon Review which investigated steps that industry and Government could take to develop non-bank finance channels with the ultimate aim of enabling greater diversity and competition in the provision of business finance. The Review reported in March 2012. Building on the Review's recommendations, BIS will invest £100 million from the Business Finance Partnership through innovative lending channels, boosting access to finance for small businesses. We expect the first proposals to be selected and start receiving investments later in 2012.

BIS work in this area is complemented by other Government activity to support business, such as the National Loan Guarantee Scheme, launched by HM Treasury in March 2012, to deliver cheaper bank loans to businesses.

Entrepreneurial activity

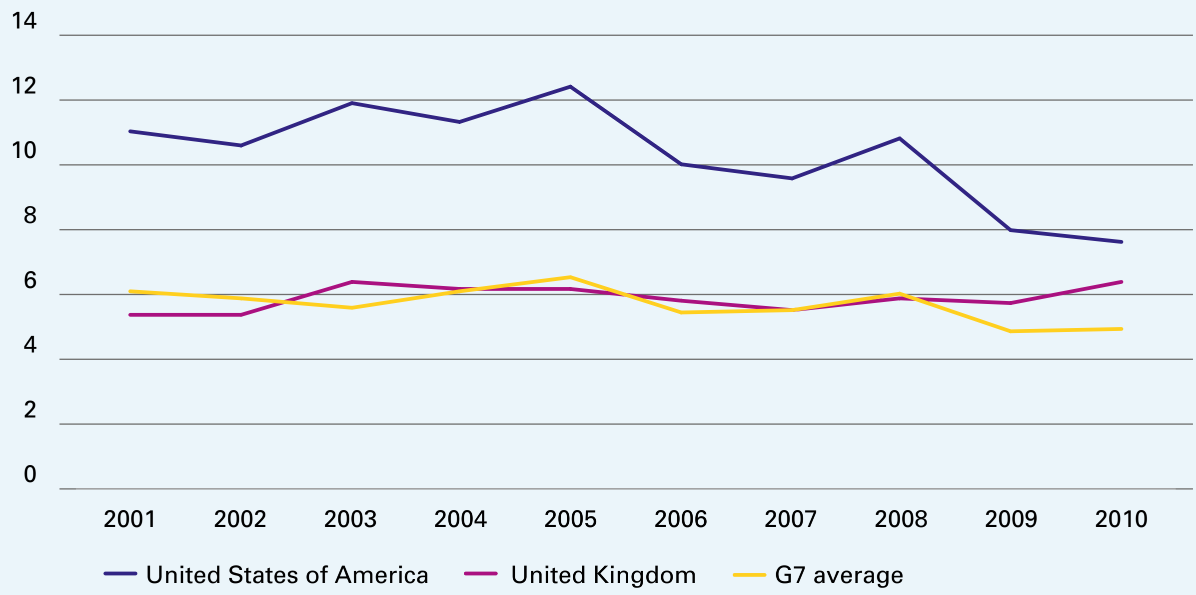
The rate of Total Early-stage Entrepreneurial Activity (TEA) provides a measure of the level of new enterprise creation in the economy: it covers both individuals in the process of starting a business and those who are running businesses less than three and a half years old.

A range of interacting factors will influence this indicator:

- The strength of the UK enterprise culture
- Access to finance

The wider business environment, e.g. the tax environment and regulatory regime (see page 17 for some examples of what BIS has been doing to improve the wider business environment)

Total Early-stage Entrepreneurial Activity in the G7, UK and US (%)



Since 2001, the UK's TEA rate has remained relatively stable, and compares favourably with other G7 countries. It is a positive result that the rate has not fallen, despite difficult economic times.

Rebalancing the economy across regions

We have made significant progress over the last year in reforming support for economic growth across England. Recognising the need for better targeted support, the Regional Development Agencies (RDAs) have been brought to an operational close, transferring a range of assets, liabilities and activities to successor bodies, explained below. RDAs formally ceased operation on 30 March 2012, to schedule and within budget.

We have established six BIS Local teams based around England, which work with local partners and businesses to unlock local growth opportunities. We have also supported the establishment of 39 Local Enterprise Partnerships (LEPs) in England, bringing together business and civic leaders to promote local economic growth. Working with the Department for Communities and Local Government, we have helped LEPs to establish and develop 24 Enterprise Zones across England, focused on promoting new jobs and growth. LEPs have been successfully established across all parts of England and are designed to be locally driven and accountable.

£1.4 billion allocated through the Regional Growth Fund

A key part of our ongoing local growth activity is the Regional Growth Fund, which plays a vital role in encouraging private sector enterprise and creating jobs. BIS provides the Secretariat for this Fund including the appraisal and contracting function: the programme funding sits within Department for Communities and Local Government. Successful round 1 and 2 projects and programmes, allocated £1.4 billion, are predicted by bidders to deliver 330,000 jobs and leverage £7.5 billion private investment. Round 3, with an additional £1 billion, attracted over 400 high quality bids with funding to be allocated in Autumn 2012.

Postal services

Both Royal Mail and Post Office Ltd are cornerstones of our economy and society, serving communities right across the country. Our objectives have been to secure the future of Royal Mail through the introduction of private sector capital, and ensure a sustainable future for Post Office Ltd. The Shareholder Executive in BIS successfully secured the passage of the Postal Services Act 2011, which set the framework to separate Post Office Ltd from Royal Mail, allowing both companies to focus more effectively on their own business challenges. Following State Aid approval from the European Commission in March 2012, and separation of Post Office Ltd from Royal Mail in April 2012, we are in a position to proceed with planned reforms to both businesses. Also in March, Ofcom – the new postal regulator – announced significant reform of the regulatory framework in order to help secure the future of the universal postal service.

Over the coming year, Post Office Ltd will begin its national programme of Network Transformation, seeing the modernisation of around 6,000 branches, due to be completed by 2015. Royal Mail will continue to prepare the ground for an introduction of private sector capital needed to secure the future of the universal postal service, under the terms of the Postal Services Act 2011.

Post Office Ltd will remain in public hands, with the possibility of a future conversion to a mutual organisation operating for the public benefit. In the long term modernisation of the Post Office network and growth in new revenues should lead to a reduction in Government subsidy. In the short term, this subsidy will increase during the Spending Review period, to enable the investments which will deliver reforms and longer term savings. We track the Government subsidy as a proportion of Post Office Ltd's turnover, to monitor our progress (see page 25).

Rebalancing the economy across sectors

Well-balanced growth should mean that the UK is not dependent on only a narrow range of economic sectors. BIS uses its strong links and knowledge of key sectors to ensure Government policy properly reflects the different economic conditions in different markets, including through the Red Tape Challenge and Sector Councils.

Through the new Manufacturing Advisory Service, launched in January 2012, we are supporting the UK to become world class in high value manufacturing and services. In 2011-12 we have also announced a number of investments to drive growth, including:

- £60 million to establish a world-class UK centre for aerodynamics
- £250 million to fund a package of measures to compensate energy intensive industries at risk of carbon leakage for costs they face due to carbon emissions regulations

- A £125 million competition to improve the global competitiveness of England-based advanced manufacturing supply chains and attract new manufacturers to the UK.

Looking ahead, Lord Heseltine's independent review into how UK businesses can compete more effectively on the world stage is due to conclude in autumn 2012, and will shape our work in this area.

Green Investment Bank

The transition to a green economy presents a huge opportunity to UK businesses to exploit new technologies and growth opportunities. The Government remains committed to setting the UK firmly on course towards this transition. In 2011-12, BIS's Shareholder Executive made significant progress in setting up a Green Investment Bank, which is a key component to making the transition to a green economy. It will complement other green policies by accelerating private sector investment in green infrastructure. The Bank was incorporated as a public company in May 2012, and is expected to become fully operational in the autumn.

Knowledge and innovation

Sir Adrian Smith:

"2011-12 has been a year where the critical importance of knowledge and innovation to the UK's economy has become very clear. We have made considerable progress in driving forward the Innovation and Research Strategy for Growth and the Higher Education White Paper. Progress continues apace on the setting up of seven Catapult centres, while £595 million of new research and innovation capital funding is being provided for science campuses and infrastructure. Whatever our future economy looks like, it will be knowledge-based."

Promoting excellent universities

We have started an ambitious programme of reform in higher education, and published a White Paper setting out our proposals in June 2011. Our objective is to create a sustainable, autonomous higher education system in England, with world class teaching. Evidence shows that people who participate in higher education are likely to have better prospects for employment and earnings, and enjoy non-economic benefits such as improved health. Therefore, we want our whole higher education system to be increasingly open to people from all backgrounds, while also expecting greater funding contributions from graduates who can afford to pay. In academic year 2012/13, the first students will enter higher education under new funding arrangements, and a new National Scholarship Programme will begin.

BIS tracks both the proportion of children from maintained schools going to higher education, in relation to free school meal status, and the proportion of A level students from state and independent schools going on to the most selective higher education institutions (see page 26). We expect the gap between students from different social backgrounds to narrow over time.

Promoting research

BIS has continued to fund high quality science and research, with the aim of sustaining a research base that delivers maximum benefit for the UK. Through investment of £4.6 billion of research funding, delivered by the Research Councils, HEFCE, the UK Space Agency and the National Academies, we have supported world-class research in UK universities and research institutes. We have also announced an additional £595 million of capital investment in a number of high value projects such as high performance computing, e-infrastructure and animal health research.

International comparison in 2011 of research performance showed that the UK punches well above its weight, producing 13.8% of the world's highly cited papers with only 4% of the researchers. By protecting funding for science and research in future years, our ambition is for the UK to sustain this world class performance.

Increasing business innovation

For the UK to harness the full economic benefit from its world class research base, it must strengthen its ability to commercialise emerging technologies. Innovation is the application of new knowledge to the production of goods and services, or the use of existing knowledge in new areas. It can come in many forms, from the development of a new technology to the refinement of a product design, or an improvement in a management process.

Innovative businesses are vital to drive productivity and growth. Our *Innovation and Research Strategy for Growth*, published in December 2011, outlined a series of measures to make it easier for individuals, businesses and the public sector to innovate – alone, or in partnership. To monitor our progress, the Department tracks the proportion of businesses in the UK who could be described as 'innovation active' (see page 26).

Through the Technology Strategy Board, BIS is establishing a network of Catapult centres to bridge the gap between academia and innovative businesses, and to commercialise new technologies. The first Catapult, in high value manufacturing, opened for business in October 2011. Six other technology areas in which Catapults will be established have been announced: cell therapy; offshore renewable energy; satellite applications; the connected digital economy; transport systems; and future cities. All Catapults are expected to be operational in 2013.

Skills

Rachel Sandby-Thomas:

"2011-12 has seen a lot of change in the skills area, including development of the new National Careers Service, the removal of central controls from the further education sector, freeing them to respond to the needs of their local communities and employers and prioritising public funding where it will have most impact, while laying the foundations for the introduction of 24+ Advanced Learning Loans. The revitalisation of the Apprenticeship programme has been a great success, the Employer Ownership Programme has been a good example of introducing innovation into the sector and the further involvement of business in the skills agenda is welcome."

Chapter 2: Our Work

Building an internationally competitive skills base

Improving the UK's skills will create more opportunities to export the products and services we offer and make the UK a more attractive place for international businesses to invest in. This in turn will create growth and jobs. Furthermore, improving skills does not just improve the economy, it also has the potential to make the UK a fairer place by improving social mobility and enabling people to play a stronger part in society.

The further education system itself will also need to become more efficient so that a greater proportion of funding reaches the front line, with less being spent on administration. We will enable this by reducing central controls and bureaucracy, giving providers the freedom and flexibility to respond to demand.

Around 3 million adult learners supported

In future, we will expect to share responsibility for funding courses with many people who will benefit from learning. To support this we are introducing a system of loans, for those aged 24 and over to invest in courses at Level 3 and above. In the 2011-12 financial year, we have laid the groundwork to introduce these loans, and they will come into effect for the 2013/14 academic year.

Our investment in high quality provision has continued through the Apprenticeships programme, and BIS has increased its support in the last year. In the 2010/11 academic year, over 457,000 apprenticeships were started, almost two thirds up on the previous year. Reporting in February 2012, the NAO estimated returns being achieved of up to £18 for every £1 of Government investment, with apprenticeships delivering benefits for apprentices, employers and the wider economy[2].

457,000 apprenticeships started in 2010/11

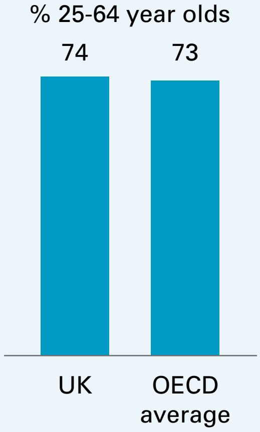
We plan to continue expanding and improving the quality of the Apprenticeships programme. Provisional data show a continued increase in the number of people starting an apprenticeship. There were 383,200 Apprenticeship starts in the first 9 months of the 2011/12 academic year.

2 Responsibility for the Apprenticeships programme is shared between BIS, which funds Apprenticeships for adults; and the Department for Education, which funds Apprenticeships for 16-18 year-olds.

International comparison of the qualification levels of the working age population

This indicator measures the skills level of the UK relative to other countries. Our most recent performance information is based on OECD data from 2009, published in September 2011.

Working age population educated to upper secondary level or above (2009)



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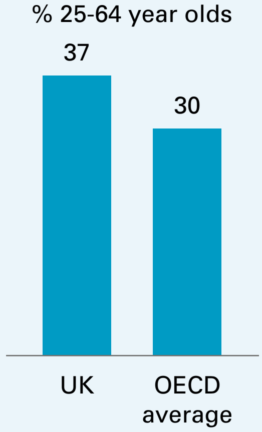
ranking against OECD countries

Working age population educated to tertiary level or above (2009)



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ranking against OECD countries

Markets

Bernadette Kelly:

"The Department's role in markets that serve businesses' and consumers' long-term interests is critical to the Government's growth agenda. Last year was a pivotal year in laying the foundations to deliver against a challenging agenda of consumer landscape and competition reform, reform of employment law and of course leading a Government-wide focus on the Red Tape Challenge to free up business from out-dated and cumbersome rules and regulations.

Our work to date puts us in a good position to deliver in 12-13 through an extensive legislative programme in the second session and to continue to deliver improvements to the business environment through non-regulatory means."

Creating a positive business environment

Competition

Competitive markets drive greater choice, lower prices, more innovation and higher quality goods and services. In 2011-12, we consulted on reforms to the UK's world-class competition regime, with the aim of delivering even better outcomes for consumers and increasing business confidence in competition decisions. Consequently, we announced that a single Competition and Markets Authority will be created to simplify and strengthen the competition institutional landscape. The new body will streamline procedures, make the competition regime less burdensome and increase its deterrent effect on anti-competitive behaviour, as well as delivering savings.

Employment law

Employment Law Review

BIS has been leading a co-ordinated effort across Government to reform laws affecting the labour market. The Employment Law Review has sought to address the reality for business that the cost and complexity of employment laws impact on their ability to take on staff and grow. We took forward a number of reforms in 2011-12, including measures to streamline the employment tribunals system and increasing the qualifying period for unfair dismissal. Other reforms include plans to introduce fees for taking a claim to tribunal, a model settlement agreement, and a fundamental review of the rules governing Employment Tribunals.

Better regulation

The Better Regulation Executive at BIS is driving changes across Government, to reduce the burden of regulation on business and civil society organisations. This includes keeping the overall net costs to business of new regulation at zero through the One-in, One-out rule, and gaining agreement to repeal or improve more than half the existing 1,500 regulations considered so far through the Red Tape Challenge. Twice-yearly Statements of New Regulation show that there has been no increase in the net domestic burden on business from regulations across Government, for the period January 2011-December 2012. Any increases in burden from regulatory measures have been more than offset by savings from deregulatory measures.

Scrapping or improving over half of 1500 regulations reviewed

As well as championing better regulation across Government, BIS has sought to minimise the burden of regulation for which the Department is specifically responsible. For example, through the One-in, One-out programme, BIS delivered net savings of £23.66 million to business in 2011-12. In some areas, we developed alternative, non-regulatory policies such as strengthening self-regulation in the pub industry, and supporting the development of a voluntary approach to promoting the representation of women in the boardroom. We have also minimised the burden to business from EU regulation, by influencing decision-making in Europe, and tackling gold-plating (see page 20).

The Better Regulation Delivery Office (BRDO) was established on 1 April 2012 to drive better delivery of regulation to help transform the way businesses experience regulation on a day-to-day basis. Poor delivery of regulation is a barrier to enterprise and the economic growth that is central to continued economic recovery, and undermines vital protection for citizens, workers and the environment. Good regulatory delivery can reduce the transactional costs of compliance and increase business confidence, whilst encouraging fair competition. To achieve this vision, BRDO promotes a simple and clear regulatory environment where businesses have the confidence to invest and grow, and citizens and communities are properly protected.

Ease of doing business in the UK, ranking of UK on World Bank Doing Business Report

Targeted and proportionate regulation promotes economic growth and wider economic welfare. The World Bank annually reports on a range of regulations that enhance or constrain business activity in countries across the world, such as protection of property rights, tax burdens and employment regulation.

How are we performing?

The following table summarises the latest situation. The UK is currently ranked 7th in the world, falling from 6th in 2011. The OECD countries ahead of the UK on the ranking were New Zealand, the United States, Denmark and Norway. The indicator has undergone several methodological changes and it is not possible to present earlier data on a comparable basis.

	2012	2011
UK rank out of OECD countries	5	4
UK rank overall	7	6

Empowering consumers

Markets work best when consumers trust businesses, and high levels of consumer confidence encourage experimentation, which drives innovation and boosts competition. Consumer confidence depends on consumers having access to information and, where necessary, advice. Therefore, in 2011-12 we acted to strengthen Citizens Advice and simplify the landscape of consumer advice and advocacy organisations, which will help consumers to exercise choice and will improve confidence.

We also launched a consumer empowerment strategy to ensure richer, more relevant information is available to enable better choice-making and encourage consumers to use their collective power to secure better deals. However, confidence and trust can be rapidly eroded by rogue traders, so a further part of our reforms focuses on strengthening the ability of Trading Standards to tackle these threats. On-going work for 2012-13 includes development of proposals for a Consumer Bill of Rights to simplify substantially consumer law, and restate consumer rights in terms people can understand.

Protecting consumers

We have been working to curb unsustainable lending and strengthen consumer protections, particularly for the most vulnerable. This included a Consumer Credit and Personal Insolvency Review that led, among other improvements, to voluntary commitments by the banking industry to tackle unfair bank charges, as well as improvements to store card practices. We have also consulted on the future of the consumer credit regime, and have begun work to design an improved and proportionate regulatory approach, to be implemented by the new Financial Conduct Authority from April 2014.

BIS regulation in 2011-12

As a result of BIS efforts in 2011-12 to minimise the burden of regulations for which it is responsible:

Through **One-in, One-out**, BIS delivered net savings of £23.66 million to business. Of our new regulations which fell within scope, there were:

3 INs (number of regulations that have a net cost to business)

4 OUTs (number of regulations that reduce cost on business)

BIS and its partner organisations submitted 73 impact assessments to the **Regulatory Policy Committee**:

58 impact assessments deemed FIT FOR PURPOSE

15 impact assessments deemed NOT FIT FOR PURPOSE

As part of the **Red Tape Challenge**:

Employment law	159 regulations examined; 70 to be scrapped or merged
Retail	257 regulations examined; more than half to be removed
Manufacturing	128 regulations examined; 47 to be removed and 18 to be improved

We implemented a number of **alternatives to regulation**, such as:

- Lord Davies' BIS-commissioned report on barriers to women reaching company boardrooms, set out a voluntary approach for business. It included 10 recommendations, as well as stronger corporate governance rules and a new voluntary code of conduct for executive search agencies. Within the FTSE 100, women now represent 16.7% of board positions, a rise from 12.5% in February 2010.
- BIS worked with pub companies to strengthen an existing code of practice rather than introduce new regulation. The code will bring about immediate improvements in rent, insurance, training and dilapidations. The package of measures includes a Pubs Independent Conciliation and Arbitration Service and an independent Pubs Advisory Service.

With regard to **EU regulations**, examples of our work include:

- We propose to remove existing gold-plating of the Fourth EU Company Law Directive, taking advantage of the flexibilities available under the Directive. An estimated 36,000 additional small companies and 83,000 UK subsidiaries will benefit from audit exemptions as a result, producing an estimated net benefit to business of £390 million. This measure is proposed to come into force on 1 October 2012.
- BIS successfully worked with other Member States to reduce the burden of requirements placed on retailers and manufacturers by EU regulation on textiles. Many micro-businesses will benefit from exemptions.

Trade and Investment

Nick Baird:

"During 2011-12 UK Trade & Investment (UKTI) has focused on supporting UK businesses trade overseas, helping 25,450, and attracting and maintaining a pipeline of high quality Inward Investment. It has been a year where we have: re-organised to align to the four key priorities in our Strategy supporting growth; and significantly strengthened our top management team, bringing in highly experienced senior executives from the private sector. Our aim is to increase the number of companies we help internationalise to 50,000 by 2014-15 and show year on year improvements in securing inward investment projects, creating and safeguarding many thousands of jobs.

Open markets help UK businesses to grow through exporting, and drive competitiveness and innovation through access to imports. With the Doha multilateral trade negotiations stalled, BIS is working hard with the EU to deliver through other routes the trade liberalisation we need for future growth. In particular, we are pressing for early progress on EU bilateral trade negotiations with Singapore, Canada, India, Japan and the US. BIS also works with the EU to ensure that UK companies are able to access markets worldwide."

Strategic partnerships

In order to create the conditions for UK businesses to maximise the benefits from international trade, BIS has worked to create high value strategic partnerships with emerging powers, which generate new economic opportunities for both countries. For example, we have worked in collaboration with the Singaporean government and business to develop an Economic Business Partnership, signed by the UK and Singapore in October 2011.

UK Trade & Investment

UK Trade & Investment (UKTI) – jointly funded by BIS and FCO – is contributing to growth by helping British companies boost exports and continuing to attract a high level of foreign direct investment into the UK.

UKTI provides practical expertise and support through a targeted range of services for innovative and high growth SMEs, aimed at boosting their export capability and helping them break into new markets. In 2011-12, UKTI assisted 25,450 companies, who gained increased sales of over £30 billion. UKTI also supported British companies to collaborate and secure large overseas procurement contracts through the High Value Opportunities Programme, which resulted in more than £800 million of associated contract wins.

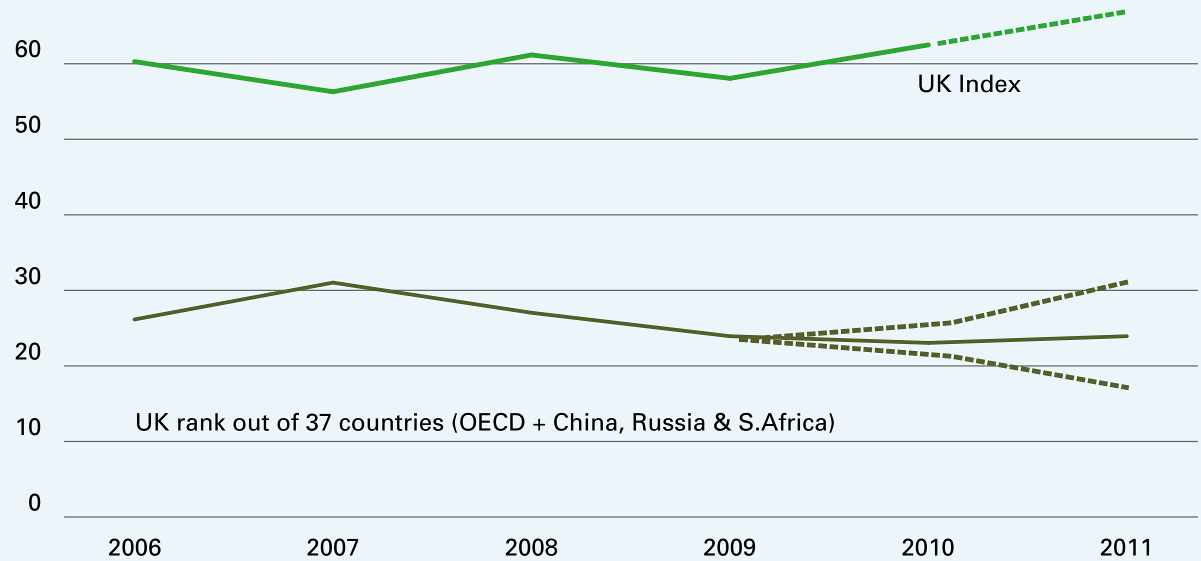
25,450 companies assisted by UKTI

UKTI is also working hard to ensure the UK remains the top destination for inward investment across Europe. During 2011-12 UKTI assisted in the delivery of 1,172 inward investment projects, creating just under 40,000 new jobs and safeguarding a further 20,000. This represents over 80% of all projects coming into the UK.

Over 1,172 inward investment projects

Openness to Trade

This indicator measures total trade (imports plus exports) relative to total GDP. The UK index has risen since 2009, which is a positive change.



What will influence this indicator?

- BIS work on trade negotiations (the European Commission lead on this on behalf of all member states)
- UKTI policies, encouraging more businesses to export or to invest in the UK
- UK Export Finance policies to help businesses finance trade.

Cross-cutting functions

Our work to achieve our policy objectives is underpinned by strong analysis, legal services and corporate finance expertise.

Analysis

The main responsibilities of analysts in the Department are to:

- Develop the evidence base to support the development of new policy, providing appropriate challenge where necessary, and evaluate existing policies to ensure maximum impact and value for money
- Ensure the reliability and integrity of the data and information underpinning the evidence base, and enable the department to fulfil its public data disclosure obligations
- Provide the over-arching economic framework for ministers and officials to support the development of policy, and provide context in which to ground departmental strategy.

Analysis underpinned key BIS policies in 2011-12, including the Green Investment Bank, the Innovation and Research Strategy, the second phase of the Growth Review, and over 70 BIS impact assessments. It is currently supporting high profile policy areas such as Lord Heseltine's review of UK competitiveness, and departmental work on industrial strategy.

Legal Services

BIS Legal Services Group provides the legal advice the Department needs on English, EU and international law, and plays a key role in the introduction and amendment of legislation. Expertise that cannot be provided in-house, is provided by external advisers. For example, Treasury Solicitors provide support on litigation, and expertise on some commercial, banking, regulatory and state aid issues is provided by private sector legal advisers.

In addition, Legal Services have a vital function in protecting businesses and increasing consumer confidence, essential to the growth agenda. The Criminal Enforcement teams investigate and prosecute criminal breaches of the Insolvency and Companies regimes and other departmental legislation, ranging from bankruptcy offences, rogue traders to serious and complex fraudulent trading. Across the country, the increased publicity given to successful prosecutions, which secure significant sentences of imprisonment, disqualification and the confiscation of the proceeds of crime, has raised the BIS profile as a prosecuting authority and acted as a deterrent to others.

Shareholder Executive

Shareholder Executive is Government's centre of corporate finance expertise and is located in BIS. Its role is to be an efficient, intelligent shareholder, helping Government-owned businesses perform better and advising Ministers and officials on a wide range of corporate finance issues. Of the 20 Government-owned businesses that form the Shareholder Executive's portfolio, seven are part of the wider BIS family – Royal Mail Group Ltd, Post Office Ltd, UK Export Finance, Companies House, Land Registry, Ordnance Survey and Met Office.

In 2011-12, Shareholder Executive led or contributed to a number of key BIS priorities. It successfully secured the passage of the Postal Services Act 2011 paving the way for longer term reforms for both Royal Mail and the Post Office network (see page 13), made progress in establishing a Green Investment Bank to accelerate private sector investment in the UK's transition to a green economy, established a Data Strategy Board and Public Data Group to ensure the efficient use of Government data and, finally, it assessed options and advised Ministers on the future of student loans. In its advisory capacity, it led negotiations on a £175 million investment as part of a total funding package of 1.5 billion Euros for the Airbus A400 military transport aircraft, and negotiated a £22 million loan and £10 million worth of research and development grants towards AgustaWestland's civil helicopter programme, helping to secure around 2,000 jobs in the process.

Shareholder Executive's main achievements for wider Government included the sale of the Tote for £265 million with £180 million of revenue split 50/50 between Government and the racing industry; and advising and assisting Department of Health in bringing about a solvent restructuring of Southern Cross, ensuring no unwelcome interruption to residential care and avoiding any major insolvency proceedings.

Our Business Plan

The activity described in the preceding pages was set out in the 2011-12 Business Plan, which BIS published in May 2011. The Plan detailed actions that the Department planned to undertake over the course of the year, to deliver our objectives.

At the end of 2011-12, BIS had completed all of the 155 actions which we were due to deliver.

Total number of actions completed during 2011-12	155
Total number of actions overdue at the end of the year	0
Total number of actions ongoing	42

We published an updated Business Plan on 31 May 2012. This sets out the action that we will take in 2012-13, in the areas of: enterprise, knowledge and innovation, skills, trade and investment, and markets.

Published alongside the Business Plan, the Department identified a set of indicators to help the public assess the effects of our policies and reforms on the cost and impact of public services.

The following section provides a summary of the latest data available on each of the indicators from our 2011-12 Business Plan. The 2012-13 Plan contains an updated set of indicators, the results of which will be published regularly on the Department's website.

Input indicators

Offers made from the Regional Growth Fund: (£million)	Oct 2010 – Jan 2011	
Greater South East	18	*No previous data available*
North, West and Midlands	435	

Government funding for the Post Office as a proportion of the Post Office's turnover (%)	2011-12	2010-11
	18.37	15.45

Average funding per course in government-funded adult further education (£)	2010/11	2009/10
	991	987

Administration costs of the adult further education system as a proportion of total funding to further education providers (%)	2010-11	2009-10
	2.01	2.12

Number of government-funded learners participating in further education (million)	2010/11	2009/10
	3.16	3.54

Funding per student in higher education (£)	2011/12	2010/11
	5,792	5,719

Note: 2011/12 data is provisional.

Value of Enterprise Finance Guarantee funds used by businesses (£million)	Q1 2011-12	Q4 2010-11
	66.32	78.00

Businesses assisted through BIS finance schemes, as a proportion of those reporting being refused finance (%)	Q3 2010 – Q2 2011	Q2 2010 – Q1 2011
	7	6

Expenditure on research and development performed in higher education (£billion)	2010	2009
	7.13	7.41

Impact indicators

Change in private sector employment share (%)	Q1 2012	
Greater South East	+0.3	*No previous data available*
North, West and Midlands	+1.1	

OECD comparison of the qualification levels of the working age population in the UK (rank)	2009	2008
Level 2+	19/33	19/30
Level 4+	9/34	12/31

Note: The methodology for this indicator has changed between data points.

Participation levels of 18-24 year olds in part-time or full-time education or training (%)	Q1 2012	Q1 2011
	45.5	44.3

Gaps between non-free school meal and free school meal 15 year olds going on to higher education (%)	2008/09	2007/08
	18	18

Gaps between state and independent school students who go on to the 33% most selective higher education institutions (%)	2008/09	2007/08
	36	38

The UK share of highly cited papers (%)	2010	2006
	13.80	12.09

Note: This is a measure of research excellence. Better quality research is more highly cited.

Proportion of firms which are innovation active (%)	2008-10	2006-08
	31	38

Note: For the purpose of the UK innovation survey, a business is defined as 'innovation active' if it has engaged in any of the following:

a. Introduction of a new or significantly improved product (good or service) or process;

b. Engagement in innovation projects not yet complete or abandoned;

c. New and significantly improved forms of organisation, business structures or practices and marketing concepts or strategies.

The methodology for this indicator has changed between the two data points (although the definition of 'innovation active' has remained constant).

Early-stage entrepreneurial activity rate (%)	2011	2010
	7.3	6.4

Note: This measure provides an indication of enterprise creation in the UK

Ease of doing business in the UK, ranking of UK on World Bank Doing Business Report (rank)	2011	2010
	5th	4th

Change in the net regulatory burden imposed on business by Government (£billion)	Jan 11 – Dec 12	Jan – Dec 11
	-0.85	-3.2

Note: This measure indicates that overall burden of regulation from Government has been reduced.

Change in employment regulatory burden imposed on business by Government, measured from baseline provided by OECD (£million)	Jan 11 – Dec 12	Jan – Dec 11
	3.3	8.0

Openness to trade: exports plus imports as a share of GDP (%)	2010	2009
	62.26	58.17

The value of the consumer benefits of the competition regime (£million)	2011-12	2010-11
	810	689

Social mobility in adulthood

This indicator has been under development in 2011-12. Our 2012-13 Business Plan includes an expanded set of social mobility indicators, including measures relating to adulthood.

How we are managed

Our colleagues

BIS is tasked with delivering a demanding portfolio of policy reforms, at the same time as making significant savings in its administration budget. In order to achieve this, the Department has become both more efficient and more effective. We have done this through reducing the size of our workforce and restructuring the core Department.

We were one of the first Whitehall departments to implement such a programme, early in 2011. We pursued the changes rapidly but fairly, in order to minimise disruption. The result is a leaner organisation, with fewer layers of management, clear responsibilities and greater accountability. We also enhanced flexibility and reduced silo-working by moving a quarter of our policy staff into new roles in July 2011.

Staff engagement

The difficult restructuring period inevitably had an impact on our People Survey results. Our overall staff engagement score in the 2011 survey dropped slightly, and we need to do better if we are to compare favourably to the Civil Service median scores.

People Survey results		2011	2010	Civil service median
Engagement index (%)		**49**	50	56
Theme scores (%)	Leadership and Managing Change	**33**	36	38
	My Work	**74**	71	71
	My Line Manager	**65**	66	64
	Organisational Objectives & Purpose	**74**	73	81

We hope that the activity that we have undertaken since the restructure will reverse the downward trend. For example, during the autumn, we launched a successful initiative to engage staff across BIS, seeking their views on the themes of innovation, flexibility and transparency. The initiative was known as the 'BIS Conversations' and was supported by an extensive staff network of volunteer change agents. A large number of ideas were generated and these were taken forward by staff, with Executive Board support. One of the key outputs of these Conversations was the creation of new BIS values and behaviours.

In March 2012, we introduced an Executive Board engagement programme to increase Board visibility and help staff to understand the links between their work and the work of the wider Department. One of these events is a fortnightly update from members of the Board, where they hold face-to-face conversations with staff about BIS achievements and focus areas.

We run an extensive programme of events to share knowledge, reduce silos and engage staff in BIS work and performance. This includes our high profile speaker series, whereby external industry leaders share their thoughts and experiences, including feedback on BIS policy and their own leadership journeys. The events programme also includes regular policy updates for our Senior Civil Servants and other leadership events to provide senior staff with the tools and information to communicate with staff.

Raising BIS capability

The Department's strategy to drive up our overall staff capability includes work programmes on: recognition and reward, resourcing, performance management (including sickness absence), leadership, talent management, and learning.

Recognition and reward

The current Government pay freeze comes to an end for BIS in summer 2012. Going forward, it is a priority for BIS to introduce a single pay system for all staff below the Senior Civil Service, as part of our revised reward and recognition strategy. Details of BIS Senior Civil Service and Ministerial pay and pensions are in our Remuneration Report (chapter 5).

Resourcing and workforce planning

Our resourcing and workforce planning strategy is a key part of ensuring that we have both the capacity and capability to be a high performing and effective Department through recruiting the right people with the right skills to deliver the Department's objectives.

The impact of the core Department's restructure can also be seen in the workforce shape: there is now a higher proportion of Higher and Senior Executive Officers within the Department than previously. The restructure has not had a significant impact on the proportion of staff working part time, which has remained relatively stable over the last year.

Workforce shape: core Department plus executive agencies (%)	Year ended 31 March 12	Year ended 31 March 11
Administrative Assistants and Administrative Officers	**17.1**	24.7
Executive Officers	**20.0**	21.7
Higher and Senior Executive Officers	**39.6**	28.6
Grade 7/6	**19.2**	21.6
Senior Civil Servants	**4.1**	3.4
Part time (%)	**13.2**	**13.4**

Recruitment into the civil service – and, therefore, into BIS – is regulated by the Constitutional Reform and Governance Act 2010. The Act established the Civil Service Commission with the role of regulating recruitment into the Civil Service. This is principally achieved through the Commission's Recruitment Principles. These specify the Commission's definition of what selection on merit on the basis of fair and open competition means, and when exceptions to the principle may be allowed.

The freeze on all recruitment into the Civil Service, announced in May 2010, has continued to apply in 2011-12. This affects secondments, temporary staff and interims from recruitment agencies, with some exemptions for frontline and business critical posts. Since the freeze was introduced, the Department recruited a number of specialist staff, such as those with accountancy or communications skills, as well as some temporary staff required by BIS's work for the Olympics. These are reflected in the Department's recruitment exceptions figures below.

The Department's turnover rate has increased between March 2011 and March 2012, which is to be expected as the figures reflect voluntary exits made during the restructuring exercise in summer 2011.

Core Department plus executive agencies	Year ended 31 March 12	Year ended 31 March 11
Recruitment Exceptions (FTE)	**45.5**	37
Annual Turnover Rate (%)	**21.4**	8.6

In 2011-12, the BIS family spent £66 million on consultancy – a decrease from £75 million in 2010-11. Of this, the core Department accounts for £11.6 million – this is a rise from £7 million in 2010-11, due to work in relation to establishing the Green Investment Bank, restructuring Royal Mail, and other work within the Shareholder Executive.

Expenditure on temporary staff was £68 million across the BIS family within Clear Line of Sight – a decrease from £73 million in 2010-11.

Further information on staff numbers and related costs can be found in Note 7 to the Accounts.

Performance and talent management

We are continuing to drive a strong performance management culture by raising visibility and quality of staff management through simpler policies; increased support for line managers handling poor performance cases and spotting and supporting talent. In 2011 we trained 700 staff through 'Optimising Performance' masterclasses with excellent feedback from participants on their increased confidence levels.

In the 12 months up to 31 March 2012, the average number of working days lost through sickness absence – within core BIS and its executive agencies – was 6.5 days per employee (6 days in 2010-11).

The Department agreed a new Talent Strategy in 2011 to enable us to manage our succession planning and support staff in the most appropriate way. We have delivered and evaluated a new, more transparent process for talent and career conversations for our senior staff. We are currently piloting the process with our middle managers.

Learning and development

Developing the skills of our staff remains a priority. Following the departmental restructure in 2011, we launched a new learning and development strategy which focuses on 3 priority areas – Leadership and People, Business of BIS and Excellence in the Civil Service. The 2011-12 programme offered a wide range of activities – not just courses – to ensure the programme took account of varying work patterns and differing learning styles. Senior managers and line managers continued to play a key role in ensuring people accessed the appropriate learning and development opportunities.

Equality and diversity

BIS is fully committed to equality and diversity. As an employer, we challenge ourselves to demonstrate best practice within the Department. However, it is not enough simply to reflect on equality within our workforce. In order to deliver on our ambitious growth agenda, we must ensure that our policy proposals fully reflect our diverse society and communities. We set this out in our 2012 equality objectives.

BIS prioritised equality, diversity and inclusion in its February 2012 Learning and Development programme. Activities included a talk from Help for Heroes about disability and bespoke management training, including working with actors to tackle sensitive diversity scenarios.

We are a recognised user of the 'Positive about Disabled People' (Two Ticks) symbol. We provide reasonable adjustments or assistance required by staff with disabilities or long term health conditions to help them perform their jobs. Our employment policies, practices and procedures, including those covering recruitment, promotion and performance appraisal, are monitored to ensure equality of opportunity for disabled staff, and other protected groups under the 2010 Equality Act.

Core BIS plus executive agencies		Year ended 31 March 12	Year ended 31 March 11
Workforce Diversity (%)	Black and minority ethnic	**13.0**	11.0
	Women	**53.1**	53.0
	Disabled	**8.2**	7.5
Workforce Diversity (Senior Civil Servants only) (%)	Black and minority ethnic	**3.4**	3.7
	Women	**40.6**	34.7
	Women (top management posts*)	**35.6**	33.4
	Disabled	**5.0**	4.0

* "Top management posts" include Director, Director General and Permanent Secretary level posts.

Our partner organisations

We work closely with a network of over 50 partner organisations to deliver our plans. These partners vary significantly in their size, function and legal status. With 73% of BIS's operating costs spent by our partner organisations, working together effectively is crucial to achieving the Government's ambition of sustainable growth. We are working together to realise ambitious reforms and to concentrate our resources on frontline services.

Following the creation of BIS in 2009, we have developed a common governance, standards and best practices framework. As part of the Public Body Reforms we have reviewed all our non departmental public bodies, reducing the number through closures, mergers or other structural reforms. We have continued to make improvements in 2011-12:

- **Improved communication** – forums have been established to ensure information flows between the core department and partner organisations, and amongst partner organisations themselves. The Partners Engagement Group has been formed to provide strategic direction and advice on common issues (see page 77). We also have forums for particular functions such as Finance Directors and Audit and Remuneration Committee Chairs.
- **Performance assessment** – we undertook joint assessments of our partner organisations' inherent level of risk and overall capabilities, and we are in the process of conducting panel meetings to follow up progress (see page 78).

- **Improving sponsorship** – we have put in place a number of measures to improve sponsorship including an advisory board, a single point of contact for messages to sponsor teams and guidance to help sponsors oversee partner organisations.
- **Improve financial management standards** – the number of partner organisations providing timely information for the Department's monthly Management Accounts has increased from 12% in May 2011 to 53% on February 2012. This has enabled a significant improvement in our financial reporting across the whole BIS family.
- **Consolidated accounts** – this year for the first time the accounts for our main partners are consolidated within BIS's accounts as part of the Government's Clear Line of Sight project. A number of long standing reporting issues within Government have been addressed resulting in higher quality, more timely and reliable information.
- **Joining up corporate services** – we are working together to join up and simplify the corporate services used by the BIS family, such as IT, HR and estates functions. Our Corporate Services Portfolio brings together six ambitious programmes that will drive sustainable savings, leverage and build on existing strengths, and create platforms for continuous improvement.

This work is building a robust platform for continuous improvement in working across the BIS family. We want to embed the new BIS values – 'commit to each other's success', 'focus on what matters most' and 'empowered to deliver' – in our approach to managing our partners. We aim to establish the optimal balance for subsidiarity with each partner organisation, so decisions are taken as close to the customer as possible that partners are empowered to deliver whilst contributing to the overall efficiencies and objectives of the BIS family. To achieve this balance we will:

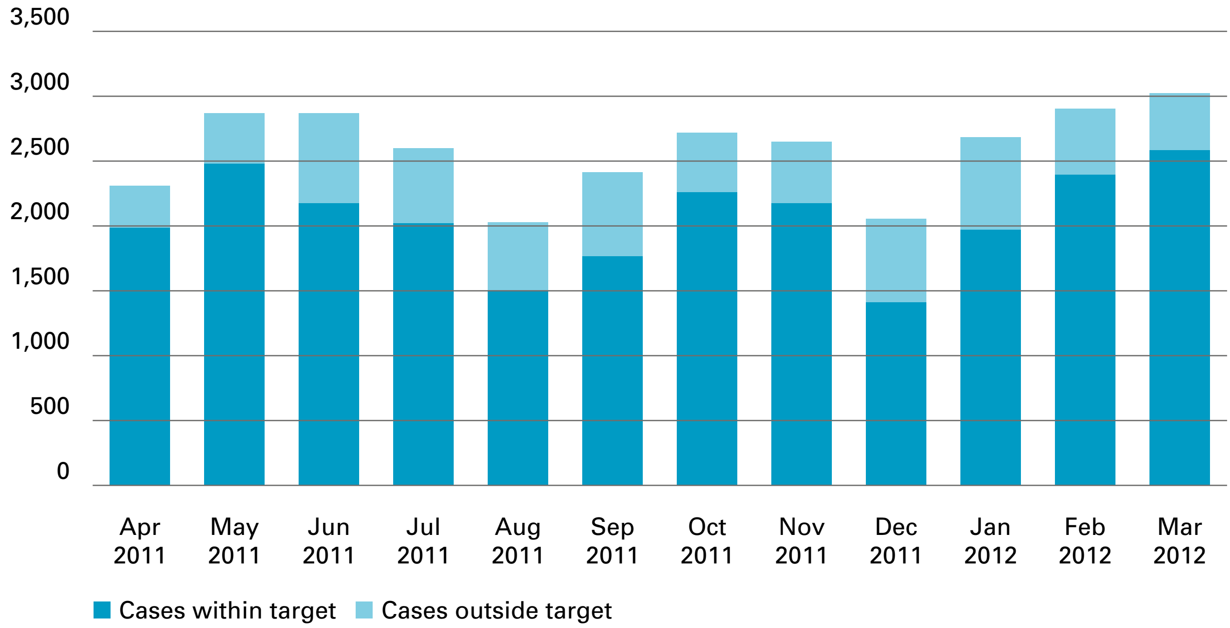
- Take forward our partner organisation performance assessment framework, to manage our partners based on risk
- Review the controls and delegations that partner organisations need to comply with
- Build on what has already been established to improve our sponsorship and support from core BIS
- Raise the pace and ambition of corporate services reform across BIS
- Undertake triennial reviews of all our non-departmental public bodies.

Other information

There are a number of other departmental responsibilities, in which the public may have an interest in our performance and activities.

Correspondence

BIS aims to respond to correspondence within 15 working days. In 2011-12, we responded to over 31,000 correspondence cases, with 79% replied to within that deadline. The chart below shows BIS performance in responding to correspondence received by the core Department in the year. This includes correspondence responded to both by Ministers and by officials.



BIS also reports to Parliament on our performance in handling MPs and Peers correspondence. In 2011, the Department responded to 82% of such correspondence within 15 working days – an improvement of 15% on the previous year.

Complaints

BIS is committed to producing a high quality, accessible and responsive service to businesses and the community, and takes all complaints very seriously. We give our staff guidance on how to handle complaints in line with Cabinet Office guidance and the Freedom of Information Act.

The Parliamentary Ombudsman is responsible for investigating formal complaints against government departments. The latest available information is from 2010-11. In that year, six complaints against the core Department were accepted for investigation, but none of these were upheld by the Parliamentary Ombudsman.

Our partner organisations manage their own complaints handling procedures, and liaise directly with the Parliamentary Ombudsman's office if there is a formal complaint made against them.

For information about BIS partner organisation complaints procedures, please see their own Annual Report and Accounts.

Government spending controls

Government-wide spending controls, to reduce expenditure in a number of areas, continued to apply in 2011-12. Areas of spend included are: pay and recruitment, advertising and marketing spend, consultancy, ICT, estates and procurement. BIS complies with all of its spending control obligations and regularly publishes information on any relevant exemptions via the BIS website and data.gov.uk.

Health and Safety

The Department continues to be committed to best practice with regard to occupational Health and Safety. Predominantly, our staff are office-based, and our main risks arise from the workplaces that we provide, and staff working practices conducted within them. We have procedures in place to ensure a safe working environment is maintained, and that those who are affected by our activity or visit our premises are not exposed to unacceptable risk. In 2011-12, we met a number of commitments, including the introduction of a new health and safety induction manual for staff, and developing training around this.

There were two reportable accidents and 35 minor accidents in 2011-12. RIDDOR accidents decreased, as an indication of improved safety measures.

Year	Reportable	Minor Accidents	Near Misses
2010 – 11	3	40	3
2011 – 12	2	35	4

There were four near misses reported across the Department's estates. The Health and Safety team aim to promote near miss reporting in the next financial year, putting the department in a better position to take action to eliminate potential risks.

Next year, we will:

- Review all health and safety costs to deliver savings initiatives without compromising current standards
- Provide up to date health and safety induction training to all staff, and further promote safe working procedures
- Provide fire safety and evacuation training across the BIS estate.

Sustainability Report

BIS is committed to sustainable economic growth. For growth to be sustainable in the long-term, it must support wellbeing and opportunity for all, and be achieved alongside protecting the environment, including the transition to a green, low carbon economy.

Our performance in 2011-12

Summary data

Area		2011-12 Core BIS	2011-12 Core + partners
Total Greenhouse gas emissions (scopes 1, 2 and 3) ('000 tCO_2e)		7.58	260.47
Estate Energy	Consumption (million kWh)	8.88	362
	Expenditure (£m)	0.88	23.84
Estate Waste	Consumption (tonnes)	417	94,850
	Expenditure (£k)	67.1	886.3
Estate Water	Consumption ('000 m^3)	22.06	661.30
	Expenditure (£k)	22.54	1,265.3

A detailed breakdown of the financial and non-financial data for core BIS and our major partner organisations is included below.

Improving sustainability at core BIS

Greenhouse gas emissions

We have a target to reduce our combined greenhouse gas emissions from energy use on our estate and through business transport by 25% by 2014-15, against a baseline level in 2009-10. This is building on the successful achievement of the Prime Minister's 10% carbon reduction campaign between May 2010 and May 2011.

Specific activities which contributed to BIS's reduction in office emissions by 11.5% and which continue to realise savings were:

- A 'switch off' campaign, aimed at ensuring computers and monitors are switched off properly for prolonged absences
- Minimising heating and ventilation plant running times
- Eliminating unnecessary internal and external lighting
- Closing down all but one area of the core Department's main building (1 Victoria Street) between Christmas and New Year, to minimise consumption of energy for heating and lighting
- Minimising business travel, and making greater use of videoconferencing facilities.

The programme of estate rationalisation has also helped reduce greenhouse gas emissions. Exiting Kingsgate House in March 2011 has already realised savings of over 2000 tonnes of carbon.

1 Victoria Street maintained its certification to the Carbon Trust Standard through 2011-12 and achieved BREEAM InUse ratings of 'Very Good' for Asset and Building Management.

Waste and recycling

In 2011-12, we achieved a reduction of 25% in the waste produced on our estate, compared to the previous year. However, the proportion of waste recycled also dropped between the two years and both of these can be attributed to a change in the way waste is measured, from average bin weights to an On Board Weighing system.

As far as possible, office waste on all sites is recycled and total waste production is being minimised through initiatives such as 'think before you print' campaigns and installation of Multi Function Devices.

Food waste from tea points is being separately collected at 1 Victoria Street, to be processed through anaerobic digestion this has helped minimise the amount of waste being sent to energy from waste.

A new total facilities management contract is starting in May 2012 and the way waste is processed will change and it is expected that recycling rates will improve.

Water

Water usage has reduced since 2009-10 through estate rationalisation, with the exit of Kingsgate House being the major contributory factor to reducing the Department's water use. In 2012-13, the toilet blocks in 1 Victoria Street are being refurbished and the Government Buying Standards will be followed to specify low water-using products.

Procurement and sustainable catering

In November 2011, the core Department was awarded a Good Egg Award by Compassion in World Farming, in recognition of sourcing 100% RSPCA Freedom Food free range eggs. In addition to this, our caterers support sustainable food procurement by:

- Not buying any fish that is labeled as 'red' by the Marine Conservation Society
- Signing up to the Mayor of London's Sustainable Fish City Pledge, and we are working with the Marine Stewardship Council on Chain of Custody for their supply chain
- Supplying coffee that is triple certified – Organic, Rain Forest Alliance and Fairtrade – and supplying Fairtrade tea
- Minimising food waste by plating meals and batch-cooking.

Government Buying Standards are used when procuring goods and services to meet mandatory standards and best practice standards where possible.

Sustainable policy making

Responsibility for sustainable development has been embedded into policy making within the Department. This means that policy teams have the responsibility to consider the long term social, environmental and financial impacts of their work. Teams are also expected to consider properly the needs and interests of rural people, communities and businesses, as policies are developed and implemented.

This culture of collective concern for sustainability has been supported by a Board level Sustainable Development Champion, and an informal departmental network of Green Guardians. Looking ahead, our commitment to ongoing concern for sustainable development is set out in our 2012-13 Business Plan.

Adapting to climate change

The Department ensures that consideration of the need to adapt to climate change is built into policies with long term implications. There are also a number of particular projects underway in our Research Councils to improve the UK's understanding and readiness for climate change.

For example, Living With Environmental Change (LWEC) is an innovative partnership – led by the Natural Environment Research Council – that aims to ensure that decision makers in government, business and society have the knowledge, foresight and tools to mitigate, adapt to and benefit from environmental change. During its first phase, LWEC has developed a substantial portfolio of research. For example, the UK National Ecosystem Assessment has provided a new way of assessing the costs and benefits of environmental change and a more comprehensive way to value services provided by the natural world.

The UK Energy programme – led by the Engineering and Physical Sciences Research Council – has invested more than £625 million in high quality research and training to position the UK to meet its energy and environmental targets. Industry and university collaborations are at the heart of delivery of the Energy Programme, which has over 500 partners involved in jointly funding or supporting projects and 900 current PhD students to generate the skills base to drive the transition to a low carbon future.

The Energy Technologies Institute is a joint public-private partnership between BP, Caterpillar, EDF, E.ON, Rolls-Royce, Shell and the Government, and has invested £150 million to date in engineering and technology projects that accelerate the development of affordable, clean and secure low carbon energy systems to help the UK meet its energy and climate change targets, and support economic development. In 2012 it has announced two new research programmes which will see a further £140 million of investment.

Detailed performance data

This sustainability report includes consolidated information for BIS and for ten of our largest partner organisations[1], and builds on the regular reports which we have published as part of our Greening Government Commitments.

Greenhouse gas emissions

Greenhouse gas emissions		2009-10 BIS Core	2009-10 Core + partners	2010-11 BIS Core	2010-11 Core + partners	2011-12 BIS Core	2011-12 Core + partners
Non-financial indicators ('000 tCO_2e)	Total gross emissions	6.97	133.42	8.89	127.45	7.58	260.47
	Total net emissions	-	15.92	-	17.15	-	102.48
	Gross emissions Scope 1 (direct)	1.24	23.37	1.13	30.44	0.48	64.60
	Gross emissions Scope 2 & 3 (indirect)	5.73	106.80	7.76	97.01	7.10	182.81
Related energy consumption (million kWh)	Electricity: non-renewable	0.00	207.87	0.00	179.86	0.00	260.02
	Electricity: renewable	10.6	10.60	10.80	12.04	6.93	9.93
	Gas	6.78	66.87	6.08	95.48	1.95	91.59
	LPG	-	0.30	-	0.10	-	0.00
	Other	-	0.07	-	0.11	-	0.27
Financial indicators (£m)	Expenditure on energy	1.59	10.86	1.21	10.83	0.88	23.84
	CRC licence expenditure (2010 onwards)	-	0.18	0.03	0.19	0.00	0.19
	Expenditure on accredited offsets	0.09	0.09	0.03	0.03	0.00	0.00
	Expenditure on official business travel	-	9.77	5.52	9.60	7.05	13.09

Notes:

Core BIS

In 2009-10 limited travel data was captured. Since then emissions and expenditure relating to rail and bus journeys have been measured, in addition to cars and flights. This is the reason that gross emissions are shown to be higher in 2011-12, despite significant reductions in electricity and gas usage across the estate.

Estate rationalisation is realising significant energy savings, such as the exit of Kingsgate House, with staff moved into 1 Victoria Street. We continue to seek to reduce the size of the estate further, the Insolvency Service are moving from their headquarters building into Abbey Orchard Street and ACAS and Skills Funding Agency are sharing space in Leeds.

1 National Measurement Office, UK Atomic Energy Authority, Higher Education Funding Council for England, Natural Environment Research Council, Science and Technology Facilities Council, Medical Research Council, Skills Funding Agency, Student Loans Company, ACAS, Insolvency Service

Consolidated

Although energy usage and emissions are shown to be increasing, this is primarily due to data capture. UK Atomic Energy Authority (UKAEA) only supplied figures for 2011-12, which contributed 86,840 Tonnes to the total gross emissions. In addition, the Natural Environment Research Council (NERC) reported travel emissions figures for the first time which added a further 38,333 Tonnes CO_2e to the total. All BIS bodies are working to minimise energy consumption and improve data capture. Once 2012-13 data is reported, it will enable more reliable comparisons to be made on BIS's overall performance.

Waste

<table>
<tr><th rowspan="2" colspan="3">Waste</th><th colspan="2">2009-10</th><th colspan="2">2010-11</th><th colspan="2">2011-12</th></tr>
<tr><th>BIS Core</th><th>Core + partners</th><th>BIS Core</th><th>Core + partners</th><th>BIS Core</th><th>Core + partners</th></tr>
<tr><td rowspan="8">Non-financial indicators (tonnes)</td><td colspan="2">Total waste</td><td>770</td><td>2,430</td><td>554</td><td>1,847</td><td>417</td><td>94,850</td></tr>
<tr><td>Hazardous waste</td><td>Total</td><td>0.14</td><td>0.14</td><td>0.88</td><td>0.88</td><td>0.35</td><td>1,474</td></tr>
<tr><td rowspan="5">Non-hazardous waste</td><td>Landfill</td><td>2.7</td><td>323</td><td>0.88</td><td>297</td><td>-</td><td>39,090</td></tr>
<tr><td>Reused/ recycled</td><td>507</td><td>1353</td><td>346</td><td>1342</td><td>236</td><td>49,920</td></tr>
<tr><td>Composted</td><td>-</td><td>0.40</td><td>-</td><td>1.10</td><td>15.82</td><td>5,424</td></tr>
<tr><td>Incinerated with energy recovery</td><td>261</td><td>261</td><td>206</td><td>206</td><td>166</td><td>205</td></tr>
<tr><td>Incinerated without energy recovery</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>14.67</td></tr>
<tr><td colspan="8"></td></tr>
<tr><td rowspan="7">Financial indicators (£k)</td><td colspan="2">Total disposal cost</td><td>70.1</td><td>73.5</td><td>77.0</td><td>80.4</td><td>67.1</td><td>886.3</td></tr>
<tr><td colspan="2">Hazardous waste</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>580.5</td></tr>
<tr><td rowspan="5">Non-hazardous waste</td><td>Landfill</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>91.7</td></tr>
<tr><td>Reused/ recycled</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>220.0</td></tr>
<tr><td>Composted</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>0.00</td></tr>
<tr><td>Incinerated with energy recovery</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>3.30</td></tr>
<tr><td>Incinerated without energy recovery</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>0.00</td></tr>
</table>

Notes:

Core BIS

The core Department has reduced its waste arising since 2009-10, which this has been achieved mainly through estate rationalisation. In 2011-12 the waste contractor started using On Board Weighing on its trucks which has highlighted that previously recycling figures had been artificially high.

Waste is recycled as far as possible, with ‘binless offices’ and food waste collection initiatives in place in some offices, to reduce the amount of waste going to landfill and the associated costs. The new total facilities management contract will assist in improving recycling rates and there are requirements for the contractor to minimise waste in their operations as far as possible.

Consolidated

Waste data is the least well captured of all the sustainability indicators and several BIS bodies have not captured this historically, but are now putting processes in place to be able to report on it. However, in some instances, service providers are not able to break down the costs by disposal method.

NERC did not collate waste data in 2009-10 or 2010-11 but, in 2011-12, they reported almost 85,000 tonnes of waste. NERC are using 2011-12 as a baseline and will use this to set reduction targets.

Finite resource consumption

Finite resource consumption			2009-10		2010-11		2011-12	
			BIS Core	Core + partners	BIS Core	Core + partners	BIS Core	Core + partners
Non-financial indicators (‘000m^3)	Water consumption (office estate)	Supplied	37.23	503.50	37.52	412.69	22.06	578.80
		Abstracted	-	-	-	-	-	-
		per FTE	0.010	0.09	0.013	0.08	0.010	0.18
	Water consumption (non-office estate)	Supplied	-	1.70	-	1.90	-	82.50
		Abstracted	-	-	-	-	-	-
Financial indicators (£k)	Water supply costs (office estate)		67.06	585	64.02	487	22.54	1056
	Water supply costs (non-office estate)		-	8.80	-	4.80	-	209.30

Core BIS

Vacating Kingsgate House in March 2011, a year before the lease expiry is the main reason for the reduction in water consumption on the core BIS estate. The cooling system at 1 Victoria Street uses a chilled beam system, and upgrade works on this have increased water usage.

There is a proposal for the chilled beam hoses to be replaced to minimise the leaks that have been experienced during 2011-12.

Consolidated

2011-12 was the first year in which NERC, UKAEA and STFC reported their water consumption, which has contributed to the increase in consumption and associated expenditure. Many BIS bodies have automatic metering to enable water consumption to be monitored remotely, which allows leaks and unnecessary consumption to be identified and faults to be resolved. When refurbishments are carried out on the estate, the Government Buying Standards are used to enable low water-consuming products to be specified.

Notes on the Sustainability Report

This report has been prepared in accordance with guidelines laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at www.financial-reporting.gov.uk.

The greenhouse gas emissions were calculated (from the raw data) using DEFRA/DECC conversion factors (http://archive.defra.gov.uk/environment/business/reporting/pdf/110707-guidelines-ghg-conversion-factors.pdf).

Organisations within scope of this report:

- Core BIS
- UK Atomic Energy Authority
- Student Loans Company
- Skills Funding Agency
- National Measurement Office
- Natural Environment Research Council
- Insolvency Service
- Higher Education Funding Council for England
- Advisory, Conciliation and Arbitration Service
- Medical Research Council
- Science and Technology Facilities Council

Remuneration Report

Remuneration Policy

The remuneration arrangements for Senior Civil Servants are set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

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

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

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

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

Performance and Reward

The Senior Civil Service (SCS) pay system consists of relative performance assessments. The highest performing individuals in BIS were awarded a non-consolidated performance reward for their performance against objectives in 2010-11 which was paid in 2011-12. These awards varied in amount within an overall cost envelope set by the Senior Salaries Review Body and approved by the Government. In accordance with the 2011 Review Body recommendations no base pay awards were made to the SCS in 2011-12.

Further information about the performance and reward arrangement for Senior Civil Servants can be found at
http://www.civilservice.gov.uk/recruitment/working/pay-and-reward/scs-pay.

The table below shows the number of SCS staff in the core Department by pay range as at 31 March 2012. Bonuses are not included and salary ranges represent full-time equivalent rates. These pay ranges cover those staff employed on open-ended and fixed term contracts.

Pay Range	No of SCS staff within range as at 31 March 2012	No of SCS staff within range as at 31 March 2011
Below £55,000	-	-
£55,000 – £59,999	15	15
£60,000 – £64,999	27	30
£65,000 – £69,999	36	39
£70,000 – £74,999	28	31
£75,000 – £79,999	14	17
£80,000 – £84,999	16	20
£85,000 – £89,999	10	12
£90,000 – £94,999	10	11
£95,000 – £99,999	8	8
£100,000 – £104,999	5	8
£105,000 – £109,999	4	2
£110,000 – £114,999	3	2
£115,000 – £119,999	9	11
£120,000 – £124,999	1	2
£125,000 – £129,999	1	1
£130,000 – £134,999	1	-
£135,000 – £139,999	3	2
£140,000 – £144,999	2	-
£145,000 – £149,999	-	-
£150,000 – £154,999	-	1
£155,000 – £159,999	1	1
£160,000 – £164,999	3	3
£165,000 – £169,999	1	1
£170,000 – £174,999	1	-
£175,000 – £179,999	-	-
£180,000 – £184,999	1	1
£185,000 – £189,999	1	1
£190,000 – £194,999	-	-
£195,000 – £199,999	-	1
£200,000 – £204,999	-	-
£205,000 – £209,999	-	-
TOTAL	201	220

The remuneration of the Senior Civil Servants who are not members of the Management Board is determined by the Departmental Performance and Development Committee. The Members of the Committee for 2011-12 were[1]:

Martin Donnelly	BIS Permanent Secretary
Philip Rutnam	Director General, Business and Skills (left BIS 3 April 2012 to go to Department for Transport as Permanent Secretary)
Howard Orme	Director General, Finance and Commercial
Rachel Sandby-Thomas	The Solicitor and Director General Legal, People and Communications
Tera Allas	Director General, Economics, Strategy and Better Regulation
Stephen Lovegrove	Chief Executive, Shareholder Executive
Bernadette Kelly	Director General, Market Frameworks
Nick Baird	Chief Executive, UK Trade & Investment (from 1 September 2011)

The Committee's Terms of Reference are to:

- ensure the SCS are rewarded fairly and differentially according to their contribution to the Department;
- authorise decisions on individual pay awards;
- ensure the average cost increases are within centrally determined budgets;
- monitor pay outcomes and identify SCS members needing extra help and support to improve performance;
- comment on the quality of managers' evidence and recommendations; and
- report to the Cabinet Office.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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

Further information about the work of the Civil Service Commissioners can be found at; www.civilservicecommissioners.org.uk

- Philip Rutnam was appointed on a three year contract commencing 23 March 2009. His contract was extended until 22 March 2013 during 2011-12. The notice period for the employee is three months. For the employer the notice period is six months or a period, if less, equal to the unexpired part of the fixed term contract. Philip Rutnam transferred his appointment on 3 April 2012 to take up the post of Permanent Secretary to the Department of Transport.
- Professor Sir Adrian Smith was appointed on a four year contract commencing 1 September 2008. The notice period for the employee and the employer is six months.

1 BIS Director General responsibilities changed on 8 May 2012. The new structure is reflected in the "Our Management Team" section at the front of the Annual Report.

Salary and Pension entitlements for Ministers of the Core Department

The remuneration of Ministers is determined in accordance with the provisions of the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991. The salary and pension entitlements of the Ministers of the Department for Business, Innovation and Skills for the year ending 31 March 2012 were as follows:

Audited Information

	Accrued pension at age 65 at 31 March 2012 £000	Real Increase in pension at age 65 £000	CETV at 31 March 2012 £000	CETV at 31 March 2011[2] £000	Real increase in CETV £000	Ministerial salary received 2011-12 £	Ministerial salary received 2010-11 £
Secretary of State							
Rt Hon Dr Vince Cable (from 12 May 2010)[3]	0-5	0-2.5	51	23	19	68,827	61,056
Ministers of State							
Lord Green of Hurstpierpoint (from 10 January 2011)[4]	-	-	-	-	-	-	-
John Hayes MP (from 13 May 2010)[5]	0-5	0-2.5	30	17	7	33,002	29,187
Mark Prisk MP (from 13 May 2010)[5]	0-5	0-2.5	23	11	6	33,002	29,187
Rt Hon David Willetts MP (from 13 May 2010)[5]	0-5	0-2.5	44	31	8	33,002	29,187
Rt Hon Greg Clark MP (from 16 July 2011)[6]	-	-	-	-	-	-	-
Parliamentary Under-Secretaries of State							
Norman Lamb MP (from 3 Feb 2012)[7]	0-5	0-2.5	16 [10]	15	1	2,308	-
Rt Hon Edward Davey MP (from 14 May 2010 to 2 Feb 2012)[8]	0-5	0-2.5	14 [11]	8	3	21,722	20,894
Baroness Wilcox (from 14 May 2010)[9]	0-5	0-2.5	55	27	19	72,470	63,898
Note: None of the Ministers of the Department received any benefits-in-kind during the year							

2 The actuarial factors used to calculate the CETVs were changed in 2011-12. The CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors, for consistency. The CETV at 31 March 2011 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

3 The full year equivalent is £68,827 in 2010-11.

4 Elected not to draw a Ministerial salary and is not a member of the Parliamentary Contribution Pension Fund.

5 The full year equivalent is £33,002 in 2010-11.

6 Salary and pension details can be found in the 2011-12 Department for Communities and Local Government's accounts.

7 The full year equivalent is £27,694 in 2011-12.

8 The full year equivalent is £23,697 in 2010-11 and in 2011-12.

9 The full year equivalent is £68,710 in 2010-11.

10 CETV as at 3 February 2012.

11 CETV as at 2 February 2012.

Salary and Pension entitlements for the senior managers of the Department

The salary and pension entitlements of the most senior managers of the Department for Business, Innovation and Skills are set out in the table below. As well as the current members of the BIS Management Board, this table also includes the former members who either left the department during the year or ceased to be a member.

Audited Information

	Accrued pension at age 60 as at 31/03/12 and related lump sum £000	**Real increase in pension and related lump sum at age 60 £000**	**CETV at 31/03/12 £000**	**CETV at 31/03/11[2] £000**	**Real increase in CETV £000**	**Salary 2011-12 £000**	**Bonus payments 2011-12 £000**	**Salary 2010-11 £000**	**Bonus payments 2010-11 £000**
Martin Donnelly	60-65 plus lump sum of 185-190	2.5-5 plus lump sum of 10-12.5	1,191	1,028	75	160-165	-	70-75 (160-165 full year equivalent)	-
Howard Orme	10-15	0-2.5	208	162	29	160-165	10-15	160-165	5-10
Rachel Sandby-Thomas	35-40 plus lump sum of 45-50	2.5-5 plus lump sum of 0-2.5	541	460	39	130-135	-	120-125	10-15
Susan Haird (up to 31 August 2011)	50-55 plus lump sum of 160-165	0-2.5 plus lump sum of 5-7.5	1,158	1,099	37	50-55 (125-130 full year equivalent)	0-5	30-35 (125-130 full year equivalent)	-
Bernadette Kelly	35-40 plus lump sum of 110-115	0-2.5	604	564	-	110-115 (115-120 full year equivalent)	10-15	110-115 (115-120 full year equivalent)	-
Stephen Lovegrove	10-15	0-2.5	192	153	23	185-190	10-15	185-190	15-20
Philip Rutnam [12]	45-50	0-2.5	735	666	24	180-185	10-15	180-185	10-15
Professor Sir Adrian Smith	10-15	2.5-5	212	148	47	160-165	10-15	160-165	10-15
Tera Allas (from 1 January 2011)	15-20	0-2.5	185	145	24	115-120	-	25-30 (115-120 full year equivalent)	-
Nick Baird (from 1 September 2011)[13]	-	-	-	-	-	-	-	-	-
Band of highest paid director's Total Remuneration	-	-	-	-	-	200-205	-	220-225[14]	-
Median Total Remuneration	-	-	-	-	-	34,655	-	33,779	-
Ratio	-	-	-	-	-	5.8	-	6.6	-

12 The pension includes a preserved pension award.

13 Salary and pension details can be found in the 2011-12 Foreign and Commonwealth Office's Accounts, of which £80K – £85K relates to the period when Nick Baird was a director of the Core Department.

14 Band of highest paid director's Total Remuneration for 2010-11 relates to full year equivalent for a director who left the Department in 2010-11.

Unaudited Information

Notes:

- The information relates only to the Management Board members of the Core Department. Similar information relating to the Chief Executives and most senior managers of the executive agencies and other bodies of the BIS family is given in the separate accounts of those bodies.
- 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Core 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 (£65,738 from 1 April 2010) 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 Core Department and is therefore shown in full in the figures above.
- Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2011-12 relate to performance in 2010-11 and the comparative bonuses reported for 2010-11 relate to the performance in 2009-10.
- None of the most senior managers of the Core Department received any benefits-in-kind during the year.
- Where senior managers left during the course of the year, their CETV closing balance will be as at their leaving date.
- There have been no salary increases in 2011-12, other than where senior managers have changed their responsibilities.

Ministerial pensions

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

Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of member contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office from age 65. Pensions are re-valued annually in line with Pensions Increase legislation. From 1 April 2009 members pay contributions of 5.9% of their Ministerial salary if they have opted for the 1/60th accrual rate, 7.9% of salary if they have opted for the 1/50th accrual rate or 11.9% of salary 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 as advised by the Government Actuary. This is currently 28.7% of the Ministerial salary. Increases to member and Exchequer contributions will apply from 1 April 2012.

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

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2012. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office

No senior managers have received compensation for loss of office.

Pay Multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's permanent workforce.

The banded remuneration of the highest paid director in the Department for Business, Innovation and Skills in the financial year 2011-12 was £200,000 – £205,000 (2010-11: £220,000 – £225,000).

In 2011-12 nil (2010-11 nil employees) received remuneration in excess of the highest paid director. Remuneration ranged from £15,098 to £202,500 (2010-11: £14,865 – £222,500).

Total remuneration includes full year equivalent salary, non-consolidated performance related pay, benefits in kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

Audited Information

Fees paid to Non-Executive Board Members

Below are the fees paid to the Non-Executive Board members for their role on the Core Department's Management Board. The total payments for the year to each person were in the following ranges:

Non-executive member	Fees for 2011-12 £000	Fees for 2010-11 £000
Sir Andrew Witty[15]	-	-
Dr Brian Woods-Scawen CBE	10-15	10-15
Professor Dame Julia King DBE	10-15	10-15

Martin Donnelly
Principal Accounting Officer and Permanent Secretary
3 September 2012

15 Sir Andrew Witty has chosen not to be remunerated

Financial Overview

Foreword from the Director General, Finance and Commercial

The major public service reforms announced as part of Spending Review 2010 provide the context for the financial challenges for all departments. BIS is contributing £4 billion of savings from areas such as higher and further education. We have made good progress in setting these reforms in motion, as you will read elsewhere in this report.

Alongside these major policy reforms, we have committed to a 40% reduction in our administration budget, and have made strong progress in 2011-12 through significant reshaping of BIS and our partner organisations. Across the BIS family, further sustainable savings are being found from joining up and simplifying our corporate services: this programme is expected to produce £364 million savings by 2014-15, which we are on track to deliver.

We've taken big steps to improve the profile and quality of financial management across the BIS family. We have introduced an in-depth mid year review of the department's financial forecasts and performance and made senior managers across the BIS family more accountable for financial performance. This drives good financial management throughout the organisation and ensures that finance is at the heart of policy and operational decision making. We have also worked with HM Treasury colleagues to increase the accuracy of BIS's cash planning and forecasting.

The following pages set out our detailed financial information for 2011-12, alongside the two prior years. This is the first time that our accounts include consolidated financials from all partner organisations assigned to BIS under HM Treasury's Designation Order. This shift – part of the Government's Clear Line of Sight project – aligns our financial reporting with the way in which we manage our budgets.

The project has addressed some long standing financial reporting and policy issues within Government. We are now working to embed and speed up planning and reporting processes.

Financial Review

Introduction

BIS is making a significant contribution to the Government's plan to tackle the fiscal deficit over the Spending Review period.	We are doing this by: • Reducing programme expenditure by 25%, by implementing major policy reforms • Halving capital expenditure • Reducing administration costs by 40% across the BIS family

We are delivering savings from restructuring the organisation.	To meet our savings goals, we need to reduce our running costs. We have achieved a great deal in this area. The main elements from changes to date are: • Closure of the Regional Development Agencies will save £174 million per year • Restructure of the core Department will reduce pay costs by £30 million per year • Restructure of the Skills Funding Agency will reduce pay costs by £16 million per year

We are also delivering savings in our corporate services.	We are on track to deliver £364 million savings by 2014-15, through our Corporate Services Portfolio which includes all of our largest partner organisations. Reductions to our cost base in 2011-12 included: • £15 million savings on the BIS estate • £40 million cashable savings from procurement, including publicity and advertising, ICT and mobile telephony

We will realise savings from major policy reforms over future years of the Spending Review.	Significant programme savings will be delivered through: • Higher education funding reform, from 2012-13 onwards that will move greater responsibility for student finance from the state to the individuals who benefit • Further education funding reform, reducing the resource budget by 25% over the Spending Review • Efficiencies in science and research of £324 million, which will be reinvested in the sector

Total BIS expenditure in 2011-12 was £25.2 billion. This was lower than the Estimate for a variety of reasons outlined below.	Our accounts show a variance of £2.4 billion, against a total of £27.6 billion of funds made available by Parliament.

There was an underlying underspend of £328 million.	• The largest single item of this (£114 million) resulted from closing down and ceasing Regional Development Agency operations more quickly than planned.

Student loans contributed significantly to the remaining variance, the majority of which was contingency to cover potential movement in the value of the student loan book.	• There are two main elements of student loans which have an impact on BIS finances: the outlay of the loans themselves each year, and the value of the loans previously issued for which Government awaits repayment i.e. the loan book. Macroeconomic conditions have a big impact on the value of the loan book.

A further £661 million variance was from unused provisions and working capital requirements for the Post Office which were not fully drawn down.	• BIS provides short-term loans to Post Office Ltd, to support its daily in-branch working capital needs. The loan balance fluctuates daily, for example as social benefits are drawn. This has contributed £511 million to BIS's variance in 2011-12. • A further £150 million variance in this type of expenditure was due to unused provisions.

Our balance sheet is growing.	• Key changes in 2011-12 were: • Increased value of the student loan book, from £25 billion to £28 billion • Transfer of £89 million assets and £48 million liabilities to the core Department from the Regional Development Agencies • Gained part ownership of a polar satellite (£59 million), as a result of Met Office joining the BIS family (see Note 39 for financial impact of 2011-12 machinery of government changes)

A number of financial risks remain over the Spending Review period.	• Higher education: risks around managing reforms to higher education funding, which will move greater responsibility for student finance from the state to the individuals who benefit from education. (see page 74) • Royal Mail: risks around maximising the benefits for the taxpayer from seeking an injection of private sector capital, whilst safeguarding the future of the universal postal service. (see page 74) • Green Investment Bank: risks around establishing an investment bank to play a major role in the UK's transition to a green economy (see page 75)

Detailed Financial Review

The Department's audited consolidated accounts in chapter 7 include the gross expenditure and income of all the bodies included in HM Treasury's Designation Order laid in January 2012 (see Note 41 for a full list) – rather than the core Department plus executive agencies, as in previous years. Our trading funds are now the main partners not consolidated. With minor exceptions, these partner organisations also produce their own accounts. The Department is ultimately responsible for these resources and the bodies who spend them. As described in Annex A, the alignment project has changed the face of Departmental accounts.

BIS's budget comprises two types of expenditure:

- Departmental Expenditure Limit (DEL): firm, planned budgets set for multi-year periods
- Annually Managed Expenditure (AME): volatile, or demand-led budgets.

Some terminology is explained at Annex A.

In common with other central Government bodies, the Department's consolidated accounts are audited by the National Audit Office on behalf of the Comptroller & Auditor General. This section provides the Department's financial review of the year, which gives further analysis of some of the key information in the consolidated accounts.

This Section reviews BIS's finances for 2011-12 and acts as a commentary to the Primary Statements found in the accounts. It analyses the performance of the consolidated Department in the context of the accounts, and compares the Department's outturn to its final Estimate.

All 2010-11 figures have been restated to account for machinery of government changes and the inclusion of BIS's partner organisations' accounts under the Clear Line of Sight project.

The Primary Statements in the consolidated accounts comprise:

- the Statement of Parliamentary Supply
- the Consolidated Statement of Comprehensive Net Expenditure
- the Consolidated Statement of Financial Position
- the Consolidated Statement of Cash Flows
- the Consolidated Statement of Changes in Taxpayers' Equity.

Statement of Parliamentary Supply

This is the primary statement for which BIS is accountable to Parliament. It records the net resource outturn compared to Estimate and only includes expenditure and income allowable against the Estimate. Explanation of why the outturn in 2011-12 was different from the Estimate is given below.

£'000						**2011-12**		**2010-11**
	Estimate			**Outturn**			**Voted outturn compared with Estimate: saving / (excess)**	**Outturn**
	Voted	**Non-Voted**	**Total**	**Voted**	**Non-Voted**	**Total**		**Total**
Total Resource	20,207,935	-	20,207,935	18,590,908	-	18,590,908	1,617,027	20,684,714
Total Capital	7,408,231	-	7,408,231	6,622,117	-	6,622,117	786,114	6,108,155
Total	**27,616,166**	**-**	**27,616,166**	**25,213,025**	**-**	**25,213,025**	**2,403,141**	**26,792,869**

Net resource outturn

The net resource outturn (DEL and AME spend less income) of £18,591 million compares to a final Estimate of £20,208 million, resulting in an underspend of £1,617 million. The prime causes of the underspend relate to the quantum of the student loan impairment (£993 million) for which the DEL budget included significant contingency; an underspend by the Technology Strategy Board (£57 million); AME non cash in respect of student loans (£110 million); AME non cash movements in provisions (£150 million); an AME underspend on the Redundancy Payments Service (£47 million); and DEL administration costs (£84 million). There are both DEL and AME budgets for Student Loans.

Variance between DEL resource outturn and Estimate

As shown in the following table, the net resource DEL outturn of £20,011 million compares to a final Estimate of £21,368 million resulting in an underspend of £1,357 million. The most significant reasons (where the variance is greater than £0.5 million and 10% of the Estimate) for the net resource DEL underspend are given below. The disclosure here is based on note 2.1 to the Accounts. A further analysis of net outturns is included in the Core Tables in Annex B.

£'000							2011-12	2010-11
	Estimate			Outturn			Voted outturn compared with Estimate: saving / (excess)	Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
Departmental Expenditure Limit								
– Resource	21,367,629	-	21,367,629	20,011,046	-	20,011,046	1,356,583	21,662,517
– Capital	1,210,844	-	1,210,844	1,153,191	-	1,153,191	57,653	1,949,988

The Estimate lines do not entirely match the way in which BIS structures its budget delivery internally. As shown in Note 6, this is through a Group structure rather than being divided between core Departmental functions and partner organisations as in the Estimate lines. To enable the most efficient use of budgets, BIS has maintained flexibility within Groups between the core and NDPB lines of the Estimate. The outturns against Estimate lines are therefore considered together below.

The elimination of intra-Group transactions has also had an impact on spend by Estimate line as the effect is to move the expenditure to the recipient of intra-Group funding rather than being shown in the Estimate line of the funder.

Professional support (Estimate line C)

- Net outturn was £602 million (65%) less than Estimate. As 2011-12 was the first year of the single administration budget throughout the Departmental Group, the administration budget within the Estimate was retained within this central line, but was allocated out to the individual partner organisations. This accounts for £588 million of the underspend (of which £495 million was spent in other Estimate lines). The net underspend on administration was £84 million, of which £47 million resulted from the efficient closure of the Regional Development Agencies. The balance of £37 million was largely as a result of restructuring across BIS and its partner organisations.

Innovation, Enterprise and Business (Estimate lines A and H)

- Net outturn in line A was £49 million (26%) less than Estimate. This line includes core BIS expenditure on business programmes such as the residual elements of the Regional Development Agencies (which accounts for £42 million of the underspend), Launch Investment, innovation programmes including the Space Agency, and other Business Programmes (which account for the residual underspend). During the year, the costs relating to the Green Investment Bank were also incorporated in this Estimate function.

- Net outturn in line H was £123 million (23%) more than Estimate, of which £127 million relates to administrative expenditure for which the budget is in Estimate line C and £33 million funded by Estimate line A. This Estimate line included the original budgets for the Regional Development Agencies, Capital for Enterprise and the Technology Strategy Board.

Free and Fair markets (Estimate lines B and I)

- Net outturn in line B was £53 million (83%) more than Estimate. This includes £27 million funding for the debt advice project which it was agreed that BIS would provide from within its wider budget. It was also agreed later in the financial year that the Citizens' Advice Bureau should be given an additional £4 million and the Insolvency Service an additional £2 million from emerging underspends elsewhere in BIS budgets. Unbudgeted payments amounting to £2.5 million were made in respect of the Icelandic Trawlermen compensation scheme following the findings of the Ombudsman in the matter of the closure of the scheme. £19 million of funding was provided from Estimate line I.
- Net outturn in line I was £8 million (11%) more than Estimate. This figure comprises £27 million of administrative expenditure covered within Estimate line C. Line I includes expenditure by Acas, Consumer Focus and the Competition Commission.

Government as Shareholder (Estimate lines D and M)

- Net outturn in line D was £30 million (15%) less than Estimate due to the receipt of income from higher dividends than included in the Estimate from the Met Office and Ordnance Survey, public corporations which were transferred into BIS during the year under a machinery of government transfer. This Estimate function includes expenditure on the Royal Mail and Post Office.
- Net outturn in line M was £11 million (100%) less than Estimate as the UK Atomic Energy Authority which was to be funded from this line has been reported within Estimate line E as part of a group restructure within BIS.

Science and Research (Estimate lines E and J)

- Net outturn in line E was £120 million (29%) less than Estimate. £39 million of this was due to underspending by the Research Councils, partly due to savings made through restructure and higher than expected income generation. The remainder relates to smaller underspends in other science areas.
- Net outturn in line J was £130 million (3%) more than Estimate. This includes administration expenditure of £97 million covered by budget within line C. The balance of £33 million was covered by underspends in function line E.

Higher Education (Estimate lines F and K)

- Net outturn in line F was £1,058 million (17%) less than Estimate, £993 million of which was in relation to the non cash budget for impairments made to the value of the student loan book calculated using the latest available economic forecasts. A Reserve claim was made to cover the estimated impairment which included a measured estimate of the impact of potential changes in the Office for Budget Responsibility's (OBR) forecasts of macroeconomic data over the period until finalisation of BIS's accounts. Macroeconomic forecasts have been volatile over recent years and it was important to take a prudent view of potential changes between the OBR forecasts issued in November and those issued in March to ensure that the Department did not breach its Parliamentary Estimate. This is a non cash budget and drawing down additional funding at the Estimate has no impact on the Department's cash position. In the event, the full element of contingency was not utilised. A further £56 million of the underspend was due to the recovery of student grant overpayments.

- Net outturn in line K was £178 million (4%) more than Estimate. This includes the redeployment of £59 million of administration costs which relate to HEFCE and the Student Loan Company which are covered by budget within Estimate line C. £118 million of the overspend relates to HEFCE Teaching and Research, reflecting the planned utilisation of additional funds as agreed between partner organisations, allocated from other Estimate lines, specifically line E, to assist with the timing of funding in the current academic year. In effect, we used additional funds allocated from other Estimate lines to rephase grant between financial years within the same total funding due to universities in the current academic year. This generates more flexibility for BIS to deal with any potential pressures or changing priorities next financial year. The balance of the apparent overspend is as a result of intra-Group transactions which move the reported spend to the receiving body.

Further Education (Estimate lines G and L)

- Net outturn in line G was £146 million (18%) more than Estimate and the net outturn in Estimate line L was £126 million less than Estimate, resulting in a net overspend of £20 million. However, Estimate line L includes administration expenditure of £150 million covered by budget within line C. The net total underspend of the two lines is therefore £130 million. This is mainly the result of: intra-Group transactions between the Skills Funding Agency and other partner organisations, principally, the Construction Industry Training Board (c£41 million) for which the expenditure became categorised as AME and the Regional Development Agencies (c£5 million); £13 million resulting from the inclusion of a body not previously within BIS's boundary (the £13 million could only be spent by that body and not by BIS); £6 million on the Teaching and Learning programme and £11 million from other Further Education programmes. The balance of the underspend was redeployed to programmes within other Estimate lines.

Variance between DEL capital outturn and Estimate

As shown in the table, the net capital DEL outturn of £1,153 million compares to a final Estimate of £1,211 million resulting in an underspend of £58 million. The most significant reasons (where the variance is greater than £0.5 million and 10% of the Estimate) for the net capital DEL underspend are given below. The disclosure here is based on note 2.2 to the Accounts. A further analysis of net outturns is included in the Core Tables in Annex B.

Innovation, Enterprise and Business (Estimate lines A and H)

- Net outturn in line A was £92 million (118%) less than Estimate. This line includes income from other government departments in respect of the Regional Development Agencies (for which the related expenditure is in line H), this accounts for £27 million of the underspend. It also includes Launch Investment income and related expenditure which was underspent by £14 million, and £24 million of slippage in Grants for Business Investment, a capital investment scheme aimed at encouraging businesses to invest in land and buildings, plant and machinery to support expansion and modernisation across England. The balance of the underspend relates to other Business Programmes. £13 million of the underspend was used to fund line H.
- Net outturn in line H was £13 million (27%) more than Estimate and funded by line A.

Free and Fair markets (Estimate line B)

- Net outturn in line B was £5 million (68%) less than Estimate. This was due to reduced capital expenditure by the Insolvency Service.

Professional support (Estimate line C)

- Net outturn was £1 million (16%) less than Estimate due to savings made on central capital projects.

Government as Shareholder (Estimate line D)

- Net outturn in line D was £1 million less than Estimate due to the receipt of loan repayments from the Met Office.

Science and Research (Estimate lines E and J)

- Net outturn in line E was £56 million (162%) less than Estimate which was spent in line J. This includes the receipt of £31 million in co-funding from the Department of Health for the development of the Francis Crick Institute.
- Net outturn in line J was £87 million (13%) more than Estimate, the balance of funding (£31 million) was provided by line A.

Higher Education (Estimate lines F and K)

- Net outturn in line F was £4 million (100%) less than Estimate and was used to fund line K and the net outturn in line K was £5 million (6%) more than Estimate funded by line F.

Further Education (Estimate lines G and L)

- Net outturn in line G was £2 million (37%) less than Estimate with an underspend on other further education programmes and the net outturn in Estimate line L was £2 million less than Estimate in relation to capital grants paid to the private sector.

Year-on-year DEL resource outturn

The net resource DEL outturn for 2011-12 (as shown in the Statement of Parliamentary Supply) was £20,011 million. This is a decrease of £1,652 million compared to the outturn for 2010-11 of £21,663 million.

The decrease was mainly the result of notional (non cash) costs in respect of impairments and changes to assumptions made to the value of the student loan book which amounted to £3,284 million in 2010-11 and £2,205 million in 2011-12 (a reduction of £1,079 million). A non cash Reserve claim totalling £2.9 billion was made in 2011-12 (£2.7 billion in 2010-11) to cover further impairment of the value of the student loan book which was largely due to economic factors, mainly the continuing unusually low interest rates. The amount of interest charged to students is capped at base rate plus 1% (instead of RPI) so at times of low interest rates, there is an additional cost to government as future cash flows will be lower. The modelling also provides for the impact in future years. There was also a reduction of expenditure by HEFCE amounting to £453 million, and a significant decrease by the Skills Funding Agency of £250 million.

Year-on-year DEL capital outturn

The net capital DEL outturn amounted to £1,153 million compared to the restated net total of £1,950 million in 2010-11, a decrease of £797 million. The decrease reflects the reduction in capital budgets across the Spending Review period which has particularly affected both the Higher and Further education sectors (£500 million) and the Research Councils (£100 million).

£'000	2011-12							2010-11
	Estimate			Outturn			Voted outturn compared with Estimate: saving / (excess)	Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
Annually Managed Expenditure								
– Resource	(1,159,694)	-	(1,159,694)	(1,420,138)	-	(1,420,138)	260,444	(977,803)
– Capital	6,197,387	-	6,197,387	5,468,926	-	5,468,926	728,461	4,158,167

Year-on-year AME outturn

The net resource AME outturn for 2011-12 (as shown in the Statement of Parliamentary Supply) was a net income of £1,420 million. This is an increase of £442 million compared to the outturn for 2010-11 of a net income of £978 million. Resource AME mainly comprises notional income relating to student loans. The increase was mainly the result of increased notional (non cash) interest relating to student loans of £326 million and an exceptional bad debt write off in 2010-11 of £97 million, with the balance being due to changes in provisions.

The net capital AME outturn amounted to £5,469 million compared to the 2010-11 net total of £4,158 million, an increase of £1,311 million. The increase was mainly due to a rise in the net value of student loans made in the year of £5,223 million compared to £4,422 million in 2010-11 (this includes capitalised interest of £566 million in 2011-12 compared to £247 million in 2010-11) and an increase of £468 million in the net value of borrowing during the year against the Post Office working capital loan (£239 million compared to a net repayment of £229 million in 2010-11).

Variance between AME resource and capital outturns and Estimate

As explained elsewhere, AME budgets are volatile and therefore difficult to accurately forecast. Variances between resource AME outturns and the figures in the Estimate, a total of £260 million, are mainly due to: reduced non cash usage in respect of the student loan debt sale (£106 million); less usage of AME non cash provisions than forecast (£150 million); and lower than expected costs of the Redundancy Payments Service (£47 million) offset by overspends including impairments relating to the Regional Development Agencies (£36 million) and Paternity Pay (£6 million).

Variances between capital AME outturns and the figures in the Estimate, a total of £728 million, are mainly due to two elements. The first is the volume of usage of the working capital loan provided to Post Office Ltd, to support its daily in-branch working capital needs for which the total borrowing less repayments across the year amounted to £239 million rather than the estimated £750 million, an underspend of £511 million. The second relates to Student Loans where the sum of new loans made plus capitalised interest less repayments resulted in an underspend of £220 million.

Cash

The net cash requirement for 2011-12 was £22,531 million, a decrease of £786 million, compared to £23,317 million in 2010-11 due to a decrease in operating costs.

Administration

The net DEL resource outturn includes administration costs amounting to £812 million compared to £903 million in 2010-11, a decrease of £91 million as a result of the closure of the Regional Development Agencies and some restructuring across BIS and its partner organisations.

Consolidated Statement of Comprehensive Net Expenditure

£'000		2011-12			2010-11 (restated)	
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Net Operating Costs for the period	18,995,332	19,374,927	19,597,105	22,187,682	22,585,261	22,107,490

The Consolidated Statement of Comprehensive Net Expenditure includes all operating income and expenditure relating to the consolidated bodies on an accruals accounting basis, including that which sits outside the Estimate. The net operating cost for 2011-12 was £19,597 million, a decrease of £2,510 million compared to £22,107 million for 2010-11.

The differences between net operating cost and net resource outturn are disclosed in Note 3.1 to the Accounts. The main difference relates to capital grants which are treated as resource in terms of operating expenditure and capital in terms of the Parliamentary Supply outturn. The Department is reporting administration expenditure of £777 million in the Consolidated Statement of Comprehensive Net Expenditure compared to £812 million in the Statement of Parliamentary Supply. This is because payments from provisions that are only a statement of financial position movement in accounting terms are treated as costs in terms of the Parliamentary Supply outturn.

Operating income includes £31 million of dividends declared by: the Met Office (£8 million); Ordnance Survey (£17 million); Companies House (£2 million) and the UK Intellectual Property Office (£4 million) representing the return on investment of Public Dividend Capital (PDC). It is calculated as a return of 3.5% on the average capital employed, except in the case of UK Intellectual Property Office which uses a rounded-up rate of return of 4%.

Total expenditure on consultancy (including all BIS's partner organisations), according to definitions issued by the Office of Government Commerce, amounted to £66 million in 2011-12 (£75 million in 2010-11). £27 million of Departmental expenditure on consultancy is recorded under Administration costs (£33 million in 2010-11). Expenditure by the core Department has increased from £7 million in 2010-11 to £11.6 million in 2011-12. The increase relates to the creation of the Green Investment Bank, the restructuring of Royal Mail and other Shareholder Executive related work which amounted to £6.8 million.

Total expenditure on research and development amounted to £143 million in 2011-12 (£148 million in 2010-11).

Spend on staff substitution/interim management amounted to £67 million (£80 million in 2010-11).

Total expenditure on advertising and publicity amounted to £19 million in 2011-12 (£18 million in 2010-11). The small increase resulted from expenditure on the Student Finance roadshow which provided information on the changes being made to the provision of student loans and other student financing.

Consolidated Statement of Financial Position

The Department has a substantial and complex Statement of Financial Position. The valuation of assets and liabilities in our accounts can vary considerably and can be influenced by circumstances beyond the Department's immediate control. The consolidation of the assets and liabilities of thirty seven partner organisations into BIS's Statement of Financial Position has made the value and type of assets even more varied, and has extended the scope of the Board's responsibilities for managing risks relating to the Statement of Financial Position. At 31 March 2012 the Department's net assets were £33 billion.

Significant accounting judgements

Student loans

BIS's Statement of Financial Position is dominated by the value of the student loan book, which accounts for £28,069 million of the total £30,495 million of 'other financial assets'. This loan book is valued based on anticipated future repayments measured at today's rates.

The value of the loan book has increased since last year due to the issue of £6 billion of new loans in the period. However, the valuation is also impacted by a number of macro economic assumptions used in our modelling that are reviewed annually. The major risk to student loan repayments arises when there is an economic downturn and a reduction in growth. Where there is a negative impact on earnings growth, the risk is that graduate earnings may not reach the levels predicted when student loans were issued. This can lengthen the time period before loans are in repayment and extend the repayment period, both of which impact on the carrying value of the loans in the accounts. It can also lead to an increase in the provision for future write offs against loans as it increases the likelihood that some graduates may not repay their loans in full by the end of the loan period.

The risk of the Government recovering the real value of student loans issued is further exacerbated when the Bank of England base rate is low and the rate of inflation is comparatively high, because the base rate cap comes into operation. The cap arises because students are charged interest equivalent to the rate of inflation, or the Bank of England base rate plus 1%; whichever is the lower. As such, when the base rate cap is in operation, interest on loans is charged at a lower rate than inflation. Details of the impairments made to the loan book in this financial year are set out in Note 20.1 to the Accounts.

Government is continuing to examine the possibility of selling part of the student loan book. Any sale is subject to confirmation that this would provide value for money. These accounts present the student loans portfolio valued on the basis that they will continue to be held by the Department until such time as a decision to sell the assets has been made. This is consistent with prior years and reflects the requirements of HM Treasury's Financial Reporting Manual. Should sales take place in 2012-13 or subsequently, it will be necessary to re-assess the carrying value in accordance with the relevant accounting standards.

Royal Mail

Government is currently the 100% shareholder of Royal Mail Group and BIS's Statement of Financial Position shows a holding value of £430 million. BIS also acts as lender to Royal Mail, with approximately £1.7 billion of debt facilities extended to the company, £1.4 billion of which originated from the National Loans Fund. To date, the Department has not considered impairment of the investment necessary but continues to keep the performance of the group under review.

During 2011-12 the Department also provided debt financing for Post Office Ltd, a core Royal Mail operating subsidiary, to help fund daily in-branch working capital needs via a revolving loan facility of up to £1.15 billion. The outstanding balance for this loan was £499 million at 31 March 2012. The Department's Estimate includes a net annual figure of £750 million (comprising gross figures of £7,750 million loans less £7,000 million repayments) to facilitate the majority of the cash required to service the revolving loan. A subsidy payment of £180 million was also paid by the Department to Post Office Ltd in 2011-12, the final part of a £1.7billion package of support for the network for the period up to the end of March 2012.

The Government has implemented changes to the regulatory framework for postal services from 1 October 2011 and has taken on Royal Mail's historic pension deficit as at 1 April 2012 (as well as the bulk of the pension plan assets). The pension liability transferred to government is estimated at £32 billion.

The Department has continued to monitor the ongoing performance of Royal Mail and its impact on the Department's finances. The Department has been preparing for a future sale of shares to the private sector in order to secure the future viability of the Universal Service, whilst minimising the cost and risk to Government.

Assets

The Departmental Group had total assets of £39,449 million in 2011-12 compared to £36,835 million in 2010-11. The main reason for the £2,614 million increase is the value of the student loan book which is £3,115 million higher, offset by a reduction in cash and cash equivalents of £720 million and other smaller amounts.

£'000	31 March 2012			31 March 2011 (restated)			1 April 2010 (restated)		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Total non-current assets	**30,689,466**	**30,799,101**	**33,945,074**	**27,587,859**	**27,800,319**	**30,940,579**	**25,830,807**	**25,939,968**	**29,092,395**
Total current assets	**4,050,315**	**4,200,294**	**5,503,505**	**3,887,372**	**3,958,816**	**5,894,216**	**3,455,274**	**3,659,488**	**5,152,822**
Total assets	**34,739,781**	**34,999,395**	**39,448,579**	**31,475,231**	**31,759,135**	**36,834,795**	**29,286,081**	**29,599,456**	**34,245,217**

The following provides a summary of significant assets, further to Student Loans and investments and financing relating to Royal Mail, which are held on BIS's Statement of Financial Position:

- **Investments in public bodies**
  - BIS has 50,000 shares in British Nuclear Fuels Ltd (BNFL), a public limited company wholly owned by Government with a focus on UK nuclear clean-up, with a value of £50 thousand. Responsibility for BNFL's nuclear liabilities was transferred to the Nuclear Decommissioning Authority in 2004. The final closure of the company is underway.
  - BIS has 49,901 shares in Capital for Enterprise Limited (CfEL), with a value of £1 per share, and provides cash funding to CfEL as grant-in-aid. CfEL has two subsidiaries that are within the Departmental Group, Capital for Enterprise GP Ltd (CfE GP Ltd) and Capital for Enterprise Fund Managers Ltd (CfE FM Ltd). These subsdiaries were set up to manage the Department's equity investment funds and Loan Guarantee programmes.

- **Public Dividend Capital**
  - BIS has public dividend capital investments in Companies House (£16 million) and the UK Intellectual Property Office (£6 million).
  - Following a machinery of government change in 2011-12, BIS also has public dividend investments in the Met Office (£59 million) and Ordnance Survey (£34 million).
- **Launch Investments**
  - The Department's portfolio of Launch Investment contracts represents investments made in the development of aerospace products in the context of support provided to the aerospace industry. The investment is repayable to the Department at a real rate of return, usually via levies on subsequent sales of the products developed. During 2011-12, the value of the investment decreased by £137 million from £1,900 million at the end of 2010-11 to £1,763 million at the end of 2011-12 mainly as a result of new investments offset by repayment of £329 million of previous investments.
- **Venture Capital Funds**
  - The value of BIS's Venture Capital Funds increased from £131 million in 2010-11 to £156 million at the end of 2011-12. The largest funds and their values as at 31 March 2012 are: Enterprise Capital Funds £92 million; Capital for Enterprise Fund £24 million; and the Community Development Venture Funds £13 million.
- **Investment in Joint Ventures and Associates within the Departmental Group**
  - STFC has interests of £307 million in Diamond Light Source Limited, a venture with the Wellcome Trust Limited and £25 million in the Institut Laue-Langevin, a research centre located in France that makes use of subatomic particles.
  - MRC has an interest of £55 million in UKCMRI Ltd, a planned biomedical research centre.
- **Cash and Receivables**
  - The total of cash and receivables at 31 March 2012 amounted to £3,301 million.
- **NESTA**
  - NESTA holds investments in gilts, deposits, equities, property bonds and private equities. The fair value of of these investments is £282 million at 31 March 2012.

Liabilities

The Departmental Group had total current liabilities of £3,792 million in 2011-12 compared with £4,592 million in 2010-11. The main reason for the £800 million decrease was a reduction in the total payables for the Department.

£'000	31 March 2012			31 March 2011 (restated)			1 April 2010 (restated)		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Total current liabilities	(2,278,099)	(2,378,295)	(3,791,718)	(2,544,191)	(2,621,279)	(4,591,846)	(1,962,675)	(2,033,206)	(4,119,541)
Total non-current liabilities	(2,053,481)	(2,100,735)	(2,487,640)	(2,066,999)	(2,100,012)	(2,479,131)	(1,646,731)	(1,691,129)	(2,084,374)

The following provides a summary of significant liabilities which are held on BIS's Statement of Financial Position:

- **Provisions**
  - Total provisions in 2011-12 amount to £1,050 million (£1,062 million in 2010-11). Further detail relating to the provisions is contained in Note 28 of the Accounts and the accounts of BIS's partner organisations.
- **Financial Guarantees**
  - Total financial guarantees amount to £267 million in 2011-12 comprising £84 million of current guarantees and £183 million of non current guarantees as in Note 31 of the Accounts.
- **Other Financial Liabilities**
  - The Student Loan debt sale subsidy of £218 million at 31 March 2012 (£191 million at 31 March 2011) represents the additional costs to the Department arising from the subsidy given by Government to the purchaser of the debts so that the terms to students can be maintained (see Note 32 to the Accounts for further information).
- **Trade and Other Payables**
  - At 31 March 2012 the total payables due in one year for the Departmental Group amounted to £3,586 million compared to £4,399 million at 31 March 2011. The main reasons for the £813 million decrease were: accruals and deferred income (£383 million); other payables (£199 million) and the amount of unspent Supply funding (£353 million). These decreases resulted from the overall reduction in expenditure in general and specifically the closure of the Regional Development Agencies. There was an offsetting £160 million movement in tuition fee loans.

Revaluation Reserves

The revaluation reserve, which records gains/losses on the revaluation of assets in the period, stands at £1,039 million at 31 March 2012, compared to £1,006 million at 31 March 2011, an increase of £33 million. The increase is mainly due to net changes to the value of the revaluation reserve in respect of the Launch Investment portfolio, which increased by £54 million reflecting the sales of aerospace products in which past investment was made.

Consolidated Statement of Cash Flows

Cash forecasting

BIS has continued to improve its cash management. In 2010-11 the Department was placed 10th in HM Treasury's League table for the accuracy of forecasting net payment flows with an annual average variance of 4.9%. The result for 2011-12 improved significantly to an annual average of 1.43% achieving 4th place in the Treasury League table.

Net cash requirement

The Consolidated Statement of Cash Flows includes the net cash outflow from operating activities, capital expenditure and financial investment, receipts and payments to the Consolidated Fund and financing, resulting in the net increase or decrease in the Department's cash in-year. The Department also has to estimate how much cash it is going to need in the year (the net cash requirement). The amount of cash required to fund the Department's activities during 2011-12 was £22,531 million compared to an Estimate of £24,290 million, an underspend of £1,760 million, as shown in the Statement of Parliamentary Supply. There was a decrease in the cash balance of £717 million compared with an increase of £787 million in 2010-11. The majority of the underspend against the Estimate in 2011-12 was due to:

- An underspend in resource of £1,617 million (as shown in the Statement of Parliamentary Supply) less non cash elements of £1,214 million (principally in relation to student loans), resulting in a reduction of cash amounting to £403 million.
- An underspend in capital of £786 million, of which £511 million was as a result of the way in which the working capital loan is made available to the Post Office Ltd, a £220 million underspend in respect of student loans and an underspend of £55 million in other capital budgets.

Consolidated Statement of Changes in Taxpayers' Equity

This Statement includes the changes to the level of Taxpayers' Equity reflected in the General Fund, plus the unrealised element of revaluations to fixed assets and investments.

Reconciling Estimates, Budgets and Accounts

Financial Review

At the end of 2011-12 whilst there is full alignment between the Department's Estimate and budget, there remain some different boundaries between these and the Accounts. Note 3.1 details how the Net Resource Outturn (voted by Parliament), shown in the Statement of Parliamentary Supply reconciles to the Net Operating Cost, which is shown in the Consolidated Statement of Comprehensive Net Expenditure in the Accounts on page 85. The principal adjustment is the treatment of capital grants which are treated as capital in the Estimate and budget and resource in the Accounts.

Other information

Pension liabilities

The Department's staff can become members of one of the Principal Civil Service Pension Schemes (PCSPS). The Department's employer's contributions into the Schemes are reflected in the Accounts within Staff Costs. The PCSPS are unfunded multi-employer defined benefit schemes and the Department is consequently unable to identify its share of the underlying assets and liabilities. There is, therefore, no reflection of the Schemes on the Department's Statement of Financial Position although some smaller funded and unfunded schemes are recognised. Further details can be found in note 1.21 to the Accounts.

Payment of suppliers

The Department's policy is to comply with the Institute of Credit Management's Prompt Payment Code, of which the Department is an approved signatory. Whilst the Department's standard terms and conditions for the supply of goods or services specify payment within 30 days of receipt of a valid invoice the Department aims to pay all valid invoices within 5 working days of receipt. In 2011-12 the core Department paid 99.6% (2010-11 97.9%) of undisputed invoices within the 30 day target and 95% of undisputed invoices within 5 working days (95.7% paid within 10 working days in 2010-11).

The proportion of the aggregate amount owed to Trade Payables at the year end compared with the aggregate amount invoiced by suppliers during the financial year in terms of days equalled 1.2 days.

Charging Policy

BIS provides only a limited number of services within the core Department for which it charges fees. Any such fees are set to comply with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. The Insolvency Service sets its fees to recover costs. It has a range of fees covering three areas: case administration, where fees reflect the average costs of administering bankruptcy cases and compulsory company liquidation cases and also the average cost of completing debt relief orders; insolvency practitioner regulation, where fees include the cost of authorising and monitoring insolvency practitioners and registering individual voluntary arrangements; and estate accounting where fees reflect the cost of financial transactions on insolvency cases using the Insolvency Services Account. Details of charging policies relating to partner organisations may be found in their published accounts.

Charitable Donations

BIS did not make any charitable donations. Details of charitable donations made by BIS's partner organisations may be found in their published accounts.

Events after the Reporting Period

Please see note 37 of the Consolidated Accounts for information on events after the reporting period.

Auditors

These financial statements have been audited, under the Government Resources and Accounts Act 2000, by the Comptroller and Auditor General (C&AG), who is appointed under statute and reports to Parliament. His certificate and report is on pages 82 to 83. The external audit cost of the Departmental Group was £3,449,000 comprising £1,107,000 notional and £2,342,000 cash.

Disclosure of Audit Information

As Accounting Officer, as far as I am aware there is no relevant audit information of which the Department's auditors are unaware. I have taken all of the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

Martin Donnelly
Principal Accounting Officer and Permanent Secretary
3 September 2012

Consolidated Accounts

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Department for Business, Innovation and Skills to prepare, for each financial year, consolidated accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the Department (inclusive of its executive agencies) and its sponsored non-departmental and other arms length public bodies designated by order made under the GRAA by Statutory Instrument 2011 no 723, as amended by Statutory Instrument 2011 no 3004 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed in Note 41 to the accounts).

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, changes in taxpayers' equity and cash flows of the Departmental Group for the financial year.

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

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non departmental and other arms length public bodies;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department for Business Innovation and Skills. The Accounting Officer of the Department has also appointed the Chief Executives or equivalents of its sponsored non-departmental and other arms length public bodies as Accounting Officers of those bodies.

The Accounting Officer of the Department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation, within the accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department for Business, Innovation and Skills or non-departmental or other arms length public body for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

Governance Statement

Introduction

This is the first Governance Statement for the Department for Business, Innovation and Skills. It sets out the governance structures, risk management and internal control procedures that have operated within BIS during the financial year 2011-12 and up to the date of the Approval of the Annual Report and Accounts, and accords to HM Treasury guidance. It also integrates information about the Department's partner organisations that are material and included in the Department's Consolidated Accounts for 2011-12.

BIS has undergone significant changes since its creation in June 2009. Reorganisation began in February 2010, to take advantage of the opportunities presented by policy and corporate centre synergies. This was driven further within the core Department and across the BIS family by the Department's commitment to a 40% reduction of our administration budget over the course of the Spending Review. BIS's governance structures, risk management and internal control procedures have needed to reflect this changing context, and we have made some reforms to adapt to the new requirements of a smaller, leaner departmental family.

BIS's objectives are delivered through our network of over 50 partner organisations[1]. In order to ensure effective delivery, BIS continued to strengthen links and coordination with partner organisations, providing support and exercising an increased level of scrutiny to ensure that their governance structures and accountabilities are clearer to support the achievement of BIS's overall objectives.

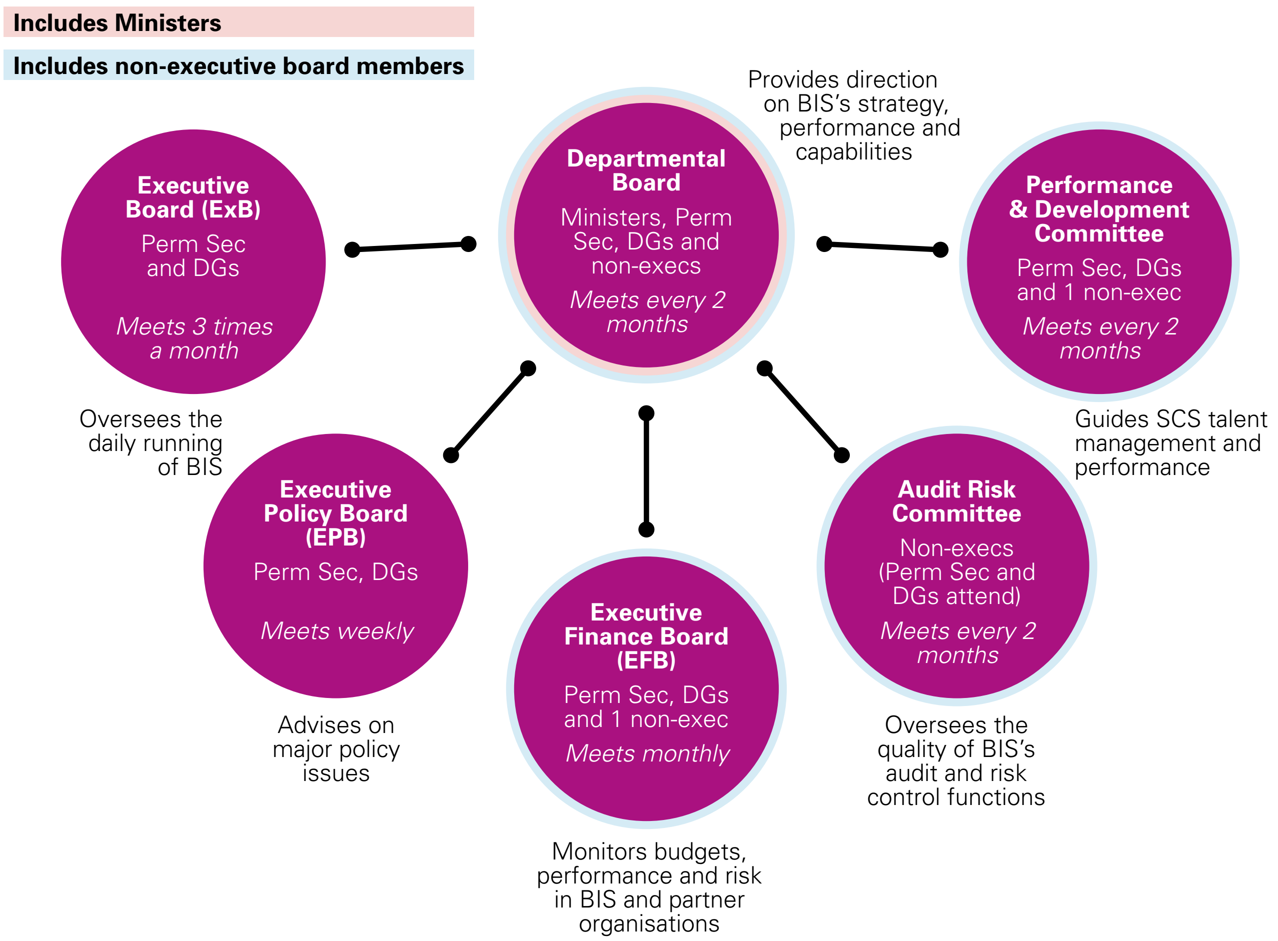
How we have managed BIS

In order to manage the department efficiently, I have been supported by formal governance structures with clear remits. These governance structures are made up of Boards and Committees that are designed to maintain clarity and accountability, and to allow me and other Board and Committee members to make decisions, monitor performance and manage resources and risk. The Boards and Committees monitored delivery against formal plans, and were themselves supported by additional controls such as advisory boards and challenge panels. These provided assurance that proper risk and performance management arrangements were in place.

1 See Annex C for a list of BIS partner organisations. Note 41 lists the organisations consolidated in the 2011-12 BIS account.

BIS governance structures 2011-12

BIS governance structures, March 2011 – April 2012



The **Departmental Board** provided strategic and operational leadership of the Department with responsibility for performance; strategy and learning; resources and change; capability; and risk.

The **Audit and Risk Committee** provided assurance on the quality of the Department's Accounts, governance structures and risk management arrangements. The Committee's meetings are attended by BIS's Director of Internal Audit and by representatives of the National Audit Office. The Audit and Risk Committee also conducted two Accounting Judgements surgeries, to review accounting judgements being made by management in relation to issues such as closure of the Regional Development Agencies (RDAs), student loan valuations, the Royal Mail valuation and the Green Investment Bank. The surgeries provided assurance to the Departmental Board that appropriate accounting judgements are being made by the Department.

The Departmental Board delegated some responsibilities to the BIS management team, which set up the following structures with remits covering;

- **Executive Board:** operational management of BIS, and shaping the strategic direction of the Department. The decisions of the Executive Board were reviewed regularly by the Departmental Board.
- **Executive Finance Board:** performance, risk and financial control within the whole BIS family, taking expert input from a Non-executive Director.
- **Executive Policy Board:** collective advice to Ministers from senior officials on major policy issues. Officials from other government departments were invited where appropriate.

- **Performance and Development Committee:** guidance for SCS talent management and performance.

Changes to governance structures since April 2012

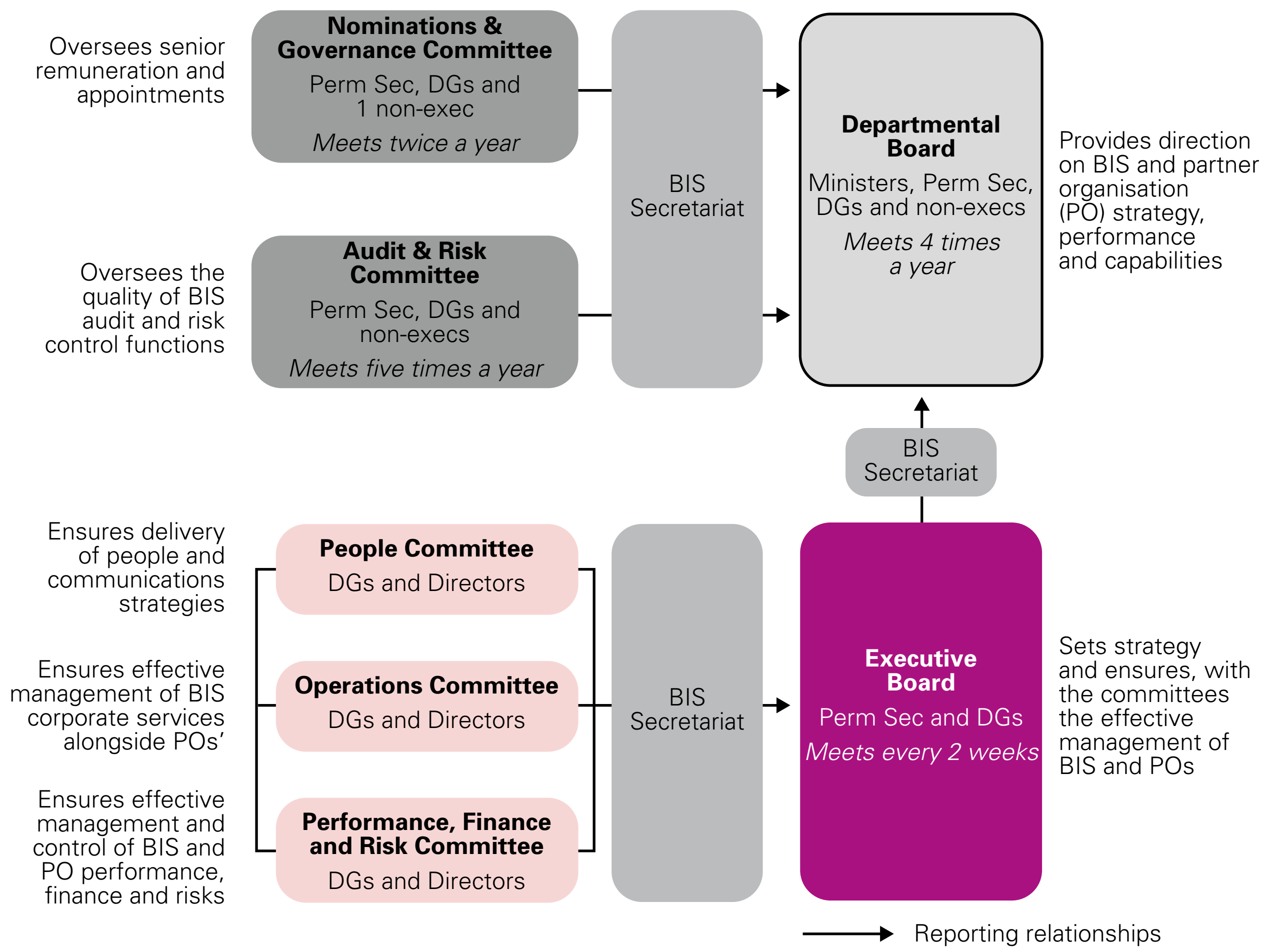
Since April 2012, BIS's Departmental Board has established a **Nominations and Governance Committee**, in line with Government requirements, which: scrutinises systems for the identification and development of talent; ensures performance is incentivised; and advises on the effectiveness of BIS's governance structures.

The BIS executive governance structures were reviewed during the 2011-12 financial year. This review had three objectives:

- Give more senior staff greater opportunity to drive the direction of BIS
- Free up the Board's time to focus on strategic issues and have more direct engagement with staff across BIS
- Increase transparency around decision making within BIS

New structures, building from these objectives, came into force on 2 April 2012. Within these, the **Executive Board** delegates more decision-making and running of the department to three Committees – **People, Operations,** and **Performance, Finance and Risk.** These Committees are chaired by directors general, and draw their membership from BIS directors. The creation of the Performance, Finance and Risk Committee, in particular, ensures that maximum benefit can be gained by integrating risk management with operational planning, performance and financial management and thus enhancing our risk management capability.

BIS governance structures from April 2012



The detailed membership of the Departmental Board and its Committees, as well as membership of the Executive Board and other corporate governance information, is available at http://www.bis.gov.uk/about/governance.

Board appointments

Members of the Departmental Board and its Committees who are senior civil servants are appointed in accordance with the Civil Service Management Code. The exceptions are Ministers and Non-executive Directors. Non-executive Directors are recruited through fair and open competition. Their biographies are available at http://www.bis.gov.uk/about/governance/non-executive-board.

Appointments to partner organisation Boards are made by Ministers, in accordance with *Commissioner for Public Appointments Code of Practice for Ministerial Appointments to Public Bodies.*

Board performance and effectiveness

The Departmental Board met four times in 2011-12. At each of its meetings, the Departmental Board considered aspects of growth. Specific discussions addressed: influencing across government to secure positive outcomes for growth; building better links between BIS policies to drive growth; boosting trade and the UK's international reputation; and fitting broader growth policy with industrial strategy. Growth will continue to be at the top of BIS's Departmental Board agenda in 2012-13.

The Departmental Board engaged helpfully with the challenges from the core Department's change programme, and Professor Dame Julia King DBE led the Department's Capability Review. The Board also considered BIS's prioritisation of internal resources to deliver on Ministerial and governmental expectations, and will continue examining this in 2012-13.

The Departmental Board also considered financial and reputational risk and performance issues across the BIS family. The Departmental Board had confidence in BIS's ability to identify and manage risk. To add greater value, the Departmental Board have agreed that in 2012-13 they will give even more prominence on their agendas to the consideration of risks and their key mitigating factors.

In March 2012, the Secretary of State commissioned Sir Andrew Witty, BIS's lead Non-executive Director, to carry out the first evaluation of the Departmental Board's effectiveness. This fulfilled a requirement set out in the Corporate Governance Code (*Corporate governance in central government departments: code of good practice* – July 2011). Sir Andrew considered that the Departmental Board has performed to an 'average' standard during its first year. Although Departmental Board's effectiveness is improving over time, the review identified four specific areas for improvement, which the Departmental Board agreed with:

- Role: the purpose of the Departmental Board needs clarification, and it should emphasise its focus on strategic issues. Management issues should be handled by the Executive Board, with regular input from Non-executive Directors.
- Engagement: There is scope for greater Ministerial engagement with the Departmental Board. Resolution of the Departmental Board role will help, but full commitment from the Ministerial team is required.
- Focus: Departmental Board papers should be fewer and more focussed, generating proper and full discussion of the issues by the Departmental Board.
- Risk: while BIS has an effective risk register and extremely competent finance leadership, the Departmental Board should have a more explicit exposure to detailed information about risk.

In response to Sir Andrew's recommendations, and to improve effectiveness, we have agreed a revised set of terms of reference for the Departmental Board, in use from June 2012. These are narrower than those set out in the Code. However, Sir Andrew and I both have confidence that the spirit of the Code's design is being met through the Departmental Board's work, and our Non-Executives' "out of Board Room" engagement.

BIS's compliance with the Corporate Governance Code

BIS has carried out its own assessment of its compliance with Cabinet Office's Code. I have concluded that BIS is fully compliant with the spirit of the Code, and broadly compliant with all of its principles. The attendance records of all Board members during the reporting period are given below.

BIS Board and Committee attendance, 1 April 2011 – 31 March 2012

Board and Committee Attendance for 1 April 2011 to 31 March 2012						
	Meetings attended per board member out of meetings eligible to attend					
Name of Board Member	**Dept'al Board**	**Executive Board**	**Executive Policy Board**	**Executive Finance Board**	**Performance & Dev't Committee**	**Audit & Risk Committee**
Rt Hon Vince Cable	**3/4**					
Rt Hon David Willets	**4/4**					
Lord Green	**1/4**					
Mark Prisk	**3/4**					
Rt Hon Greg Clark	**0/1**					
Rt Hon Edward Davey	**3/3**					
Andrew Witty	**3/4**					
Prof. Dame Julia King DBE	**4/4**					
Brian Woods-Scawen[2]	**1/4**			--		**1/5**
Bryan Jackson	-					**3/5**
Alan Aubrey	-					**5/5**
Hunada Nouss	-					**4/5**
Martin Donnelly	**4/4**	**20/27**	**18/22**	**6/7**	**5/5**	**5/5** (standing attendee)
Howard Orme	**4/4**	**20/27**	**20/22**	**7/7**	**5/5**	**4/5** (standing attendee)
Tera Allas	**4/4**	**21/27**	**18/22**	**3/7**	**5/5**	
Bernadette Kelly	**4/4**	**25/27**	**18/22**	**5/7**	**5/5**	
Rachel Sandby-Thomas	**4/4**	**24/27**	**18/22**	**6/7**	**4/5**	
Susan Haird[3]	**1/2**	**5/8**	**8/12**	**0/3**	**0/1**	
Nick Baird[4]	**1/2**	**4/19**	**4/11**	**0/4**	**0/4**	
Stephen Lovegrove	**4/4**	**19/27**	**13/22**	**4/7**	**3/5**	
Philip Rutnam	**4/4**	**21/27**	**17/22**	**6/7**	**5/5**	
Sir Adrian Smith	**4/4**	**25/27**	**18/22**	**6/7**	**5/5**	

Key

Ministers
Management
Non-Executive Directors

2 Brian Woods-Scawen was prevented from attending meetings since spring of 2011 due to ill health and stepped down after the end of 2011-12. During his absence, Alan Aubrey chaired the Audit & Risk Committee. Since April 2012 Alan has held temporary membership of the Departmental Board, joining as a full member in June 2012.

3 Susan Haird acted as interim Chief Executive of UK Trade & Investment before the appointment of Nick Baird as the permanent post holder in September 2011.

4 Nick Baird works jointly for BIS and the FCO. The nature of his trade and investment role frequently requires him to work abroad, which has led to a lower attendance rate at Boards and Committees.

Risk Management

Approach to risk

The Department's approach is to assign risks to those best placed to manage them, whilst maintaining clear accountability. A corporate performance and risk team acts as a central point for advice and guidance on effective risk management. The team also coordinates the Top Level Risk Register, which is the route by which significant risks are escalated to senior management and the Departmental Board. Risks for escalation to the Top Level Risk Register are proposed at all working levels of the Department – principally through monthly reports from departmental groups – but only those risks that could have a significant impact at a departmental level are included. Risks that can and should be managed at group or partner organisation level remain with the business and are subject to their own assurance and scrutinising processes including governance statements that inform this one.

A panel of directors from across the Department met monthly in 2011-12 to challenge the risks proposed for escalation to the Top Level Risk Register, and to identify cross cutting and emerging risks. Recommendations from this Directors' Challenge Panel were considered by the Executive Finance Board as they reviewed proposed changes to the Top Level Risk Register and escalated significant issues for Executive Board consideration. The Executive Finance Board had oversight of the key issues and discussed a number of areas in depth over the year.

Since April 2012, the Performance, Finance and Risk Committee has replaced the role of the Executive Finance Board in this area, and has taken on oversight of departmental risks on behalf of the Executive Board.

Overview of Risk Management Process

Significant strategic risks 2011-12 and key mitigating factors

Regional Development Agencies

The closure of the Regional Development Agencies (RDAs) within a demanding timeline presented financial, reputational and operational risks for the Department. Key areas of risk included: maintaining appropriate financial management; successful transfer of assets and liabilities to successor bodies whilst protecting value for money; proper information security and knowledge transfer; and management of staff departures and transfers throughout the closure process.

BIS set up the National Transition Board to oversee the orderly closure of those RDA functions being brought to an end, and the transition of responsibility for continuing activities to successor bodies. The National Transition Board was an effective vehicle for bringing together interested parties such as the Department for Communities and Local Government, HM Treasury, Home and Communities Agency and RDA representatives, to resolve points of contention or uncertainty. The NAO attended as an observer. A peer review process was also set up to promote dialogue and joint working between RDAs and BIS, to coordinate a joint response to risks identified and the sharing of good practice.

Operational closure was achieved on 31 March 2012; therefore the closure programme has now passed the most critical stage. However, there are still challenges to resolve, including dealing with any residual budgets, assets and liabilities, embedding knowledge transferred and closing the final 2012-13 accounts.

Significant reform of higher and further education policies

The Government is making a number of significant changes to higher and further education policies. We are reforming the way in which higher education is funded and, at the same time, we are making changes to further education funding through the introduction of fee loans.

The degree and pace of change has placed pressures on our delivery partners including the Higher Education Funding Council for England, the Skills Funding Agency and the Student Loans Company. For example, there is a risk that the Student Loans Company will not be able to deliver all of the required changes to higher education loans and prepare to implement further education loans successfully, whilst continuing to deliver a high standard of service with their existing system. To address this risk, BIS and Student Loans Company internal audit teams have been jointly involved in a Capability and Capacity Review of the SLC, which reported to the BIS Higher Education Programme Board. Additional resources and support have been given to the Student Loans Company and Ministers are informed of progress.

It is difficult to predict precisely how prospective students will react to the changes in higher education, including higher tuition fees. BIS has asked HEFCE for "an initial assessment, by December 2012 of how the new funding arrangements are affecting the behaviour and choices of students and institutions". This will enable HEFCE to provide BIS with information on any unforeseen consequences of the new approach to funding higher education

Royal Mail and Post Office Ltd

BIS made significant progress in 2011-12 towards introducing private sector capital into Royal Mail, by clearing many of the obstacles to a sale of shares in the company. One of the key aspects of this was relieving the company of its significant pension deficit, which required State Aid approval from the European Commission by the end of the financial year. Achieving timely State Aid approval was the key risk for successful delivery of this reform in 2011-12. In a separate case, BIS sought European Commission approval for its £1.34 billion support package for Post Office Ltd which was also required by the end of the 2011-12, to secure continued funding for the network. BIS worked to mitigate these risks through direct engagement with the Commission, and contingency plans were formulated should approval not be achieved.

Both State Aid cases were approved in March 2012, putting us in a position to proceed with the next stage for planned reforms to both businesses. Ongoing risk centres on Royal Mail's ability to continue to improve its operational and financial performance, which the Department continues to challenge and monitor.

Green Investment Bank

The Department is establishing a Green Investment Bank (GIB) to accelerate private sector investment in the green economy. The main risks are around ensuring that the GIB has the appropriate incentives for long term financial success, whilst protecting the Exchequer. For example, the GIB will need to operate at the edge of difficult markets, providing financial solutions where there is a need for capital that is additional to private sector capacity. BIS officials have been working to develop and secure the necessary financial flexibility and other operational independence requirements.

Risks to delivering growth

As the Department for Growth, BIS provides leadership and coordination across Whitehall to drive pro-growth policies and respond to economic shocks when they occur. By working with HM Treasury and providing support to other government departments and within BIS, the Department ensures that the Government's position is consistent and co-ordinated. The ongoing situation in the euro zone presents a significant risk to the growth agenda as it could lead both to change in the Government's fiscal strategy and amendments to the Department's budget levels. More specifically, adverse economic conditions such as inflationary pressures may have a direct financial impact on several BIS-funded sectors such as further education, higher education and science and research. To mitigate this, the Department analyses events in the macro economy and monitors business sentiment to consider the potential impact both on BIS policies and the Government-wide commitment to driving growth in the economy.

Data Security

The BIS organisational changes have reduced the level of resource dedicated to information assurance. To address this, a process of rebuilding capability is underway and improvements to the assurance processes have been made. In addition, a BIS Security Board was established in September 2011, to tackle specific security and fraud issues across the BIS family, integrate the various cross government requirements for our operations and to share knowledge and best practice. The Board meets ten times annually and reports to the Audit and Risk Committee.

In line with Cabinet Office requirements, the Department conducted a review of security risk management, against the Government's Security Policy Framework, which was validated by BIS's internal audit team. No areas of concern regarding BIS's policies and procedures for security of information were identified, although some further improvements could be made.

Following the RDA closures, BIS will become legally responsible for significant volumes of information. An information transfer of this size and complexity is unprecedented in BIS, and we are acting to mitigate related risks. The Security Board will oversee any issues arising and provide assurance.

There have been no significant lapses of data security, within the core Department or partner organisations within the accounting boundary, during the 2011-12 financial year required to be reported in this statement.

Other Key Governance Activities during the year

Clear Line of Sight project

Consolidating an unprecedented number of partner organisations for the first time into the BIS annual accounts under the Clear Line of Sight project has aligned our financial reporting with the way that we manage our budgets, and has presented an opportunity to improve the quality of both financial reporting and financial management across the BIS family. The full list of partner organisations consolidated can be found at Note 41. There have also been significant challenges for all the partner organisations involved, including those that have been undergoing internal reform at the same time, as well as for BIS teams building entirely new processes. I am pleased that we have tackled these and succeeded in laying an unqualified first set of consolidated BIS accounts. The Clear Line of Sight Governance Group has met monthly to deal with any issues arising and I have met with the Comptroller and Auditor General to oversee overall progress.

Transparency Agenda

BIS has continued to promote transparency across the BIS family in 2011-12, and has published over 80 sets of data on salary, expenses, procurement, performance and other requirements. Specific examples from the BIS family during 2011-12 include the establishment of the Public Data Group from three executive agencies – Ordnance Survey, Met Office and Land Registry; publication of Apprenticeship data; Companies House's launch of universal resource identifiers for registered companies; and development of a transparency gateway by the Research Councils.

A BIS Transparency Board was established to oversee delivery of our transparency commitments, which was noted as an example of good practice in the National Audit Office report, *Implementing Transparency*. It meets monthly to set direction, review progress and identify risks. The Board's current focus is on improving the consistency and quality of data sets published by the BIS family, and on evaluating the costs and benefits of the published data.

Machinery of Government changes

BIS has been subject to a number of inter-departmental transfers of functions in 2011-12, including:

- Government Property Unit transferred from BIS to Cabinet Office on 18 July 2011
- Many functions from the Regional Development Agencies transferred to the Homes and Communities Agency on 19 September 2011
- Responsibility for competition and policy issues relating to media, broadcasting, digital and telecoms sectors transferred to the Department for Culture, Media and Sport on 18 January 2011. Affected staff moved out of BIS offices on 1 April 2011
- The UK Space Agency was created as an executive agency of BIS on 1 April 2011
- Three other executive agencies joined BIS on 18 July 2011: the Met Office from the Ministry of Defence; Ordnance Survey from the Department for Communities and Local Government; Land Registry from the Ministry of Justice.

BIS worked closely with the relevant bodies and with all affected staff and their trade union representatives to resolve any issues openly and fairly, and to deal with the practical issues around budgeting, IT and accommodation where necessary.

Restructuring the Department

The core Department has undergone significant restructuring in 2011-12, to support the delivery of challenging savings in expenditure on administration. It was implemented quickly to reduce costs and uncertainty for staff. The process presented a significant management challenge, but has resulted in a more efficient and more flexible organisation, with fewer layers of line management and greater personal accountability.

BIS has also reviewed its partner organisations as part of the cross-government review of public bodies that commenced in 2010 to deliver efficiencies. This has resulted in 26 being abolished, merged, or otherwise structurally reformed.

Moving to shared corporate services

In a further move to deliver efficiencies, the Department is working to join up and simplify corporate services across the BIS family. We have formalised plans for nine organisations to move to the shared service platform run by the RCUK Shared Service Centre, with further organisations planned to transfer over the Spending Review period. The Department is working closely with the trade unions and those staff directly affected by the change to ensure that, for those people transferring to the SSC, the transition is as smooth as possible.

BIS has put in place governance structures, including an Assurance Board and appointing a new Chief Executive Officer for the RCUK Shared Service Centre to provide a stable platform for the transition. This takes on board recommendations made by the NAO in their report, *Shared Services in the Research Councils*. The performance of the Shared Service Centre has improved significantly during 2011-12 and the businesses are on track to be deemed fully stable by October 2012. Also, a Corporate Services Executive has been established during 2011-12 to provide leadership and coordination and drive efficiencies in all corporate service functions.

Tax arrangements review

The Government's recent review of the tax arrangements of public sector appointees highlighted the possibility for artificial arrangements to enable tax avoidance, such as by the use of personal service companies. As part of this review, the BIS family identified 380 individuals engaged off-payroll as of 31 January 2012, where the cost is in excess of £58,200 per annum, or its equivalent. This data has now been published on the BIS website.

The results and recommendations of the review were published on 23 May 2012, including measures for Departments to implement by September 2012: all senior appointments are expected to be on payroll other than in exceptional circumstances; those earning over £58,200 and in post for more than six months, are expected either to be on payroll, or to provide an assurance that tax is paid in full. In response, the BIS family is currently reviewing its off-payroll staff, and expects to implement the new guidance in full within the required timeframe.

Ministerial directions

There were no Ministerial directions given in 2011-12.

Governance of partner organisations

The Department ensures that its partner organisations have robust governance structures and that there is clear accountability for finance, risk and performance. This involves regular reporting of performance against delivery plans, and regular dialogue on emerging policies, carried out through formal and informal meetings, and attendance at Board discussions.

We set up a number of forums to ensure information flows between the department and partner organisations, and between different partner organisations works. A Partners Engagement Group was formed with representation from eight partners and the department to provide strategic direction for collective relationships between BIS and partner organisations and to provide a channel for feedback from partner organisations. Partners represented on the Partners Engagement Group each take responsibility for liaising with other partner organisations and this has led to improved communication.

A revised framework has been established to consistently address risks and performance issues across the BIS family, and to improve contingency planning. Partner organisations, with support from their sponsor teams within the core Department, conducted self-assessments of their risk profile and capability in April 2011, using the framework drawn up by the Partner Organisation Governance Board (see below). A weighting was given to the residual risk of each partner organisation combined with the ability of the organisation to address issues. The outcome shaped the level of oversight that the core department takes over the partner organisation. Those organisations with a lower risk rating have greater freedom to operate independently. Organisations considered to carry a higher risk are required to operate under greater scrutiny from the core Department.

Additional governance controls such as the Partner Organisations Governance Board and the Senior Remuneration Oversight Committee have been established to advise ministers and senior management on partner organisation issues across the BIS family.

Partner Organisations Governance Board

In order to support our partner organisations, The Partner Organisation Governance Board was set up to provide strategic advice and oversight over the BIS family. It met monthly, chaired by the Director General for Finance and Commercial and consisted of Directors from across BIS and partner organisations. In 2011-12, the Board has overseen the production of a new Performance and Governance Manual and the associated assessment process. Having agreed the strategic framework for partner organisations, it was agreed to close the Board in spring 2012. The remaining roles of embedding best practice and overseeing the partner organisation assessment process are being taken forward by a separate panel.

Partner organisations assessments

We conducted a strategic assessment of partner organisations performance in November 2011 to review policy delivery and identify specific areas for improvement. As a result of these assessments, Joint Action Plans were drawn up between the core Department and each partner organisation, to drive improvements in performance. A panel consisting of the Director General for Finance and Commercial, the Director of Internal Audit and a Director from Shareholder Executive has been set up to review progress against these Action Plans.

Triennial Reviews

The Department has planned a programme of detailed reviews of partner organisations for the period 2011-14. The first of these began the last quarter of 2011-12 in February and March 2012, reviewing ACAS and the Industrial Development Advisory Board. Reviews of Technology Strategy Board and Low Pay Commission commenced in July 2012, and Capital for Enterprise Limited will follow in October 2012.

Senior Remuneration Oversight Committee

Senior Remuneration Oversight Committee (SROC) advises Ministers and senior management to ensure that there is a consistent and defensible framework for remuneration across the BIS family. SROC guides policies on the payment of salaries, fees and bonuses across the BIS family, and has established a panel to moderate partner organisation self-assessments of their management complexity. The committee meets monthly and is chaired by the Director General for Finance and Commercial. It consists of four directors general, two directors and partner organisations' sponsors will also be invited to attend the Committee to present any proposals.

Review of effectiveness

An annual review of the effectiveness of the Department's governance structures, risk management and internal control has been conducted, informed by management officials, BIS's internal audit team, external auditors, and other governance reports.

Group statements on Governance, Risk Management and Internal Control

Each of my directors general conducted a review in-year and provided me with a Statement on Governance, Risk Management and Internal Control for their areas of responsibility. The Head of Governance reviewed each Statement and the Director of Internal Audit discussed key findings with relevant directors general. Any common themes arising were discussed with me.

Assurance statements from partner organisations

The Department's partner organisations within the departmental Clear Line of Sight boundary were also commissioned to follow a similar approach and to conduct a review of their governance, risk management and internal control taking into account their specific nature and size of operations. They each prepared and submitted a copy of their Governance Statements to BIS. The Governance Statements from each partner organisation allowed me to prepare this departmental Governance Statement that takes into account the overall assurance on governance, risk management and the internal control environment of the entire BIS family.

Managing Risk of Financial Loss

BIS has carried out the Managing Risk of Financial Loss review, a cross-government initiative to encourage Departments to embed a systematic approach to assessing the risk of financial loss arising from financial operations. The government model required Financial Process Assessments to be carried out for five financial processes: payroll, grants, procurement, funding through grant in aid payments and expenses. BIS prioritised partner organisations which accounted for the majority of its funding, and those handling more than £20 million. Issues highlighted in the review include: the opportunity to embed Managing Risk of Financial Loss principles in the move to shared services; there should be a champion to raise awareness; and it should be embedded at the early stages when developing new policies and business planning. For each of the five processes, an Organisational Capability Assessment was conducted and Action Plans for core BIS and each of the partner organisations involved have been developed to be embedded in financial management processes, as part of our overall strategy.

The Capability Review

The core Department completed an internal review to assess its capability against the criteria of Leadership, Delivery and Strategy. BIS assessed itself as Amber-Green overall, described as having "identified capability gaps, is already making improvements in capability, is expected to improve further in the short term through practical actions". Plans are in place across the organisation to improve capability and these have started to deliver improvements. The Department published a Capability Action Plan in response to the review, in March 2012.

Internal Audit Annual Report

The Director of Internal Audit has provided me with an Annual Report which incorporates his opinion on the Department's system of governance, risk management and internal control. This opinion takes account of the residual risk carried by the Department during 2011-12 and has been informed by a variety of internal and external reviews of the Department. Of three possible opinion ratings – Satisfactory, Improvement Required and Unsatisfactory – the rating given by the Auditor for BIS in 2011-12 is Improvement Required. Areas of particular challenge for BIS highlighted by the Director of Internal Audit included: shared service developments; higher education reform including Student Loans Company capacity and capability; compliance with information risk requirements; financial management risks presented by a significant programme of reform and, potential tensions between partner organisation and BIS arising from the development of a more centralised approach to control being driven across Government.

I accept this assessment and we have either implemented or are working to implement the suggested improvements.

National Audit Office reports

The National Audit Office produced a number of value for money reports in 2011-12, including: *Shared Services in the Research Councils,* and *Apprenticeships.* BIS is making improvements in light of the recommendations from these reports and those made by the Public Accounts Committee.

Another vital report was *Reducing the Burden of Bureaucracy in the Further Education Sector,* for which the Department agreed with the PAC recommendations. BIS has written to the Public Accounts Committee to explain its responsibility for bringing together the drive to reduce bureaucracy across the whole FE sector, how safeguards on the use of public funds will be maintained alongside the changes it is implementing and how the accountability framework operates.

The NAO published their report into BIS financial management on 12 July 2012. It commended BIS for keeping its financial management on track during a period of substantial organisational change, but warned that the Department will have to manage a much tighter financial position following the 2010 Spending Review. The report noted that BIS has worked hard over the last 18 months to improve its financial management, and current practices have enabled it to keep its day-to-day financial management on track. Looking forwards to the substantial challenges ahead, the report considered the implementation of a number of change programmes aimed at integrating financial management across the department and its partner organisations. The outcomes of some of these are as yet unclear and the NAO has identified key areas for action. These include improving the quality of information available to support decision-making, strengthening cross-department arrangements for scrutinising investment proposals, and improving sponsorship of partner organisations. BIS has fully accepted these recommendations and is addressing these issues through its workplan.

Accountability Systems Statements

Departments that provide grants to and oversee services run by local government are required to produce Accountability Systems statements and a summary of it in the Governance Statement. While BIS does not directly provide grants to local government bodies, some of our partner organisations in the higher and further education sectors provide grants to colleges and institutions. BIS has not sought to produce an Accountability Systems Statement as the diverse nature of BIS' activities would have made it impractical. Our approach has been to provide clarity in specific policy areas where this is helpful. We plan to develop a framework in 2012-13 setting out our current funding system for these policy areas including how I, as Principal Accounting Officer, gain assurance that resources are being used properly and in line with *Managing Public Money.*

Accounts qualifications

Four of our partner organisations within the Department's accounting boundary have had their accounts qualified by the National Audit Office in 2011-12. None of the qualifications have an impact on BIS's consolidated accounts.

The East of England Development Agency's accounts for 2011-12 have been qualified due to making ex-gratia payments totalling £51,000 to staff without formal approval from BIS and Cabinet Office. This does not have a material impact on the consolidated BIS accounts due to the value of the ex-gratia payments. BIS will take steps to raise awareness of the requirements of Managing Public Money in relation to ex-gratia payments across the BIS family, to minimise the risk of such activity in the future.

The Skills Funding Agency's accounts have been qualified with a 'disagreement opinion' for 2011-12, under International Accounting Standard 27 (IAS 27) *Consolidated and Separate Financial Statements,* relating to its non-consolidation of further education colleges. Due to reforms in the further education sector during 2011-12, which have changed the control framework, it is not expected that the Skills Funding Agency accounts will be qualified in 2012-13.

The Biotechnology and Biological Sciences Research Council's accounts for 2011-12 have received a qualified audit opinion as it has not prepared group financial statements which consolidate the results of two sponsored Institutes. Under IAS 27, these Institutes should have been consolidated because the Biotechnology and Biological Sciences Research Council had control over them. It is not expected that the Biotechnology and Biological Sciences Research Council's accounts will be qualified in 2012-13.

The Medical Research Council's accounts for 2011-12 have received a qualified audit opinion as it has not prepared group financial statements which consolidate the results of Medical Research Council Technology Ltd. Under IAS 27, Medical Research Council Technology Ltd should have been consolidated until 31 January 2012 because the Medical Research Council controlled the company, until changes to the control framework took effect in January 2012. It is not expected that the Medical Research Council's accounts will be qualified in 2012-13.

The above IAS 27 qualifications do not have an impact on the BIS consolidated accounts. Under the Department's boundary, there is no requirement to consolidate the related further education colleges and the Biotechnology and Biological Sciences Research Council's institutes. Medical Research Council Technology Ltd was consolidated in BIS's accounts.

I have considered the evidence provided with regards to the production of the Annual Governance Statement and the independent advice and assurance provided by the Audit and Risk Committee. I conclude that the Department has satisfactory governance and risk management systems with effective plans to ensure continuous improvement.

Mat Donnelly

Martin Donnelly
Principal Accounting Officer and Permanent Secretary
3 September 2012

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

I certify that I have audited the financial statements of the Department for Business, Innovation and Skills and of its Departmental Group for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2011. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2012 and of the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Chapters 1, 2, 4 and 6 within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
6 September 2012

Primary Statements

Statement of Parliamentary Supply

Summary of Resource and Capital Outturn 2011-12

£'000		2011-12							2010-11 restated
		Estimate			Outturn			Voted outturn compared with Estimate: saving / (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
Departmental Expenditure Limit									
– Resource	2.1	21,367,629	-	21,367,629	20,011,046	-	20,011,046	1,356,583	21,662,517
– Capital	2.2	1,210,844	-	1,210,844	1,153,191	-	1,153,191	57,653	1,949,988
Annually Managed Expenditure									
– Resource	2.1	(1,159,694)	-	(1,159,694)	(1,420,138)	-	(1,420,138)	260,444	(977,803)
– Capital	2.2	6,197,387	-	6,197,387	5,468,926	-	5,468,926	728,461	4,158,167
Total Budget		27,616,166	-	27,616,166	25,213,025	-	25,213,025	2,403,141	26,792,869
Non-Budget									
– Resource		-	-	-	-	-	-	-	-
Total		**27,616,166**	**-**	**27,616,166**	**25,213,025**	**-**	**25,213,025**	**2,403,141**	**26,792,869**
Total Resource	2.1	20,207,935	-	20,207,935	18,590,908	-	18,590,908	1,617,027	20,684,714
Total Capital	2.2	7,408,231	-	7,408,231	6,622,117	-	6,622,117	786,114	6,108,155
Total		**27,616,166**	**-**	**27,616,166**	**25,213,025**	**-**	**25,213,025**	**2,403,141**	**26,792,869**

Net Cash Requirement 2011-12

£'000		2011-12		2011-12	2010-11 restated
	Note	Estimate	Outturn	Voted outturn compared with Estimate: saving / (excess)	Outturn
Net cash requirement	4	**24,290,328**	**22,530,648**	1,759,680	**23,316,624**

Administration Costs 2011-12

£'000		2011-12 Estimate	2011-12 Outturn		2010-11 Outturn
Total Administration costs		**896,136**	**812,267**		**903,070**

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

Explanations of variances between Estimate and outturn are given in the Financial Overview in chapter 6 of the Annual Report and Accounts.

The Notes on pages 94 to 230 form part of these Accounts.

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2012

£'000	Note	2011-12			Restated 2010-11		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Administration costs							
Staff costs	7	161,543	170,579	469,323	173,455	180,948	543,329
Other costs	8	147,753	157,145	379,402	130,438	140,051	404,987
Income	11	(37,372)	(44,256)	(71,629)	(18,967)	(28,798)	(69,750)
Total administration costs		*271,924*	*283,468*	*777,096*	*284,926*	*292,201*	*878,566*
Programme expenditure							
Staff costs	7	2,316	71,316	638,466	4,711	89,331	663,241
Other costs	9	7,060,572	7,470,433	22,807,760	8,110,164	8,589,056	25,963,009
Income	11	(3,578,983)	(3,689,793)	(4,591,306)	(3,785,972)	(3,959,180)	(5,347,919)
Special dividend (BNFL plc)	11	-	-	-	(32,000)	(32,000)	(32,000)
Public Dividend Capital dividends	11	(30,745)	(30,745)	(30,745)	(18,489)	(18,489)	(18,489)
less minority interest	9	-	-	(4,166)	-	-	1,082
Grant in aid to NDPBs	9	15,270,248	15,270,248	-	17,624,342	17,624,342	-
Total programme costs		*18,723,408*	*19,091,459*	*18,820,009*	*21,902,756*	*22,293,060*	*21,228,924*
Net Operating Costs for the period	3.1	**18,995,332**	**19,374,927**	**19,597,105**	**22,187,682**	**22,585,261**	**22,107,490**
Total expenditure		22,642,432	23,139,721	24,290,785	26,043,110	26,623,728	27,575,648
Total income		(3,647,100)	(3,764,794)	(4,693,680)	(3,855,428)	(4,038,467)	(5,468,158)
Net Operating Costs for the period	3.1	**18,995,332**	**19,374,927**	**19,597,105**	**22,187,682**	**22,585,261**	**22,107,490**
Other Comprehensive Net Expenditure							
Net (gain)/loss on:							
– revaluation of property, plant and equipment		-	(3,889)	(127,081)	-	(2,910)	(74,209)
– revaluation of intangible assets		-	-	(33,988)	-	-	(12,409)
– revaluation of investments		16,902	16,902	3,952	(56,376)	(56,376)	(61,594)
– actuarial (gains) and losses		-	-	51,117	-	-	59,040
– other movements in fair value		(14)	22,693	28,051	-	(21,645)	(35,437)
Total other comprehensive net expenditure		**16,888**	**35,706**	**(77,949)**	**(56,376)**	**(80,931)**	**(124,609)**
Total comprehensive expenditure for the period		**19,012,220**	**19,410,633**	**19,519,156**	**22,131,306**	**22,504,330**	**21,982,881**

Included in net operating costs for 2011-12 is £367 million of net expenditure relating to the discontinued operations of the Regional Development Agencies (2010-11: £899 million) and £5 million of net income relating to the discontinued operations of Ufl Ltd (2010-11: £9 million).

The Notes on pages 94 to 230 form part of these Accounts.

Consolidated Statement of Financial Position

as at 31 March 2012

£'000		31 March 2012			31 March 2011 (restated)			1 April 2010 (restated)		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Non-current assets:										
Property, plant and equipment	13	112,865	297,414	2,354,284	118,916	303,978	2,249,691	126,267	314,248	2,118,217
Investment properties	14	-	-	41,287	-	-	37,877	-	-	52,920
Intangible assets	15	2,511	11,267	264,871	3,354	15,012	271,231	4,579	16,806	287,150
Investment and loans in public bodies	18	2,087,127	2,087,127	2,087,127	2,025,304	2,025,304	2,047,790	1,666,302	1,666,302	1,673,464
Other financial assets	20	28,339,375	28,339,375	28,647,386	25,284,671	25,284,671	25,715,336	23,895,345	23,895,345	24,327,656
Derivative financial instruments	17	-	(538)	4,184	-	13,498	20,544	-	-	-
Investment in joint ventures and associates	19	(11,446)	(11,446)	391,602	-	-	345,043	-	-	347,428
Trade and other receivables	23	159,034	75,902	154,333	155,614	157,856	253,067	138,314	47,267	285,560
Total non-current assets		***30,689,466***	***30,799,101***	***33,945,074***	***27,587,859***	***27,800,319***	***30,940,579***	***25,830,807***	***25,939,968***	***29,092,395***
Current assets:										
Inventories	22	258	258	298	-	-	36,322	-	52	70,076
Non current assets held for sale	24	-	-	4,661	-	-	12,172	-	-	5,472
Trade and other receivables	23	1,422,220	1,505,847	1,986,190	1,125,791	1,157,995	1,847,838	1,160,891	1,348,749	1,892,252
Investments and loans in public bodies	25	499,166	499,166	499,166	261,271	261,271	261,271	527,364	527,364	527,364
Other financial assets	20	1,713,000	1,713,000	1,848,037	1,700,000	1,700,000	1,840,153	1,450,000	1,450,000	1,563,118
Derivative financial instruments	17	14	(510)	4,856	-	8,147	16,547	-	-	1,654
Cash and cash equivalents	26	415,657	482,533	1,160,297	800,310	831,403	1,879,913	317,019	333,323	1,092,886
Total current assets		***4,050,315***	***4,200,294***	***5,503,505***	***3,887,372***	***3,958,816***	***5,894,216***	***3,455,274***	***3,659,488***	***5,152,822***
Total assets		**34,739,781**	**34,999,395**	**39,448,579**	**31,475,231**	**31,759,135**	**36,834,795**	**29,286,081**	**29,599,456**	**34,245,217**
Current liabilities:										
Trade and other payables	27	(2,137,374)	(2,234,121)	(3,585,968)	(2,422,272)	(2,496,271)	(4,399,381)	(1,790,321)	(1,857,559)	(3,884,120)
Provisions	28	(53,154)	(56,603)	(102,706)	(58,276)	(61,365)	(120,490)	(43,606)	(46,899)	(106,656)
Financial guarantees	31	(82,762)	(82,762)	(84,044)	(54,519)	(54,519)	(55,853)	(105,316)	(105,316)	(105,316)
Other financial liabilities	32	(4,809)	(4,809)	(4,809)	(9,124)	(9,124)	(9,124)	(23,432)	(23,432)	(23,432)
Current tax liability	29	-	-	(14,191)	-	-	(6,998)	-	-	(17)
Total current liabilities		***(2,278,099)***	***(2,378,295)***	***(3,791,718)***	***(2,544,191)***	***(2,621,279)***	***(4,591,846)***	***(1,962,675)***	***(2,033,206)***	***(4,119,541)***

£'000		31 March 2012			31 March 2011 (restated)			1 April 2010 (restated)		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Non-current assets plus/ less net current assets/ liabilities		**32,461,682**	**32,621,100**	**35,656,861**	**28,931,040**	**29,137,856**	**32,242,949**	**27,323,406**	**27,566,250**	**30,125,676**
Non-current Liabilities:										
Trade and other payables	27	(1,100,090)	(1,100,090)	(1,140,922)	(1,100,307)	(1,101,392)	(1,149,337)	(809,066)	(821,809)	(862,967)
Provisions	28	(587,444)	(634,698)	(947,744)	(570,725)	(602,653)	(941,411)	(428,388)	(460,043)	(806,255)
Financial guarantees	31	(153,166)	(153,166)	(183,289)	(213,917)	(213,917)	(244,128)	(162,402)	(162,402)	(193,810)
Retirement benefit obligations	30	-	-	6,375	-	-	51,542	-	-	44,891
Other financial liabilities	32	(212,781)	(212,781)	(212,781)	(182,050)	(182,050)	(182,050)	(246,875)	(246,875)	(246,875)
Deferred tax liability	29	-	-	(9,279)	-	-	(13,747)	-	-	(19,358)
Total non-current liabilities		***(2,053,481)***	***(2,100,735)***	***(2,487,640)***	***(2,066,999)***	***(2,100,012)***	***(2,479,131)***	***(1,646,731)***	***(1,691,129)***	***(2,084,374)***
Total assets less liabilities		**30,408,201**	**30,520,365**	**33,169,221**	**26,864,041**	**27,037,844**	**29,763,818**	**25,676,675**	**25,875,121**	**28,041,302**
Taxpayers' equity and other reserves:										
General fund		30,243,966	30,318,275	31,948,907	26,680,019	26,795,759	28,612,644	25,546,117	25,708,387	27,089,430
Revaluation reserve		164,235	202,090	1,039,349	184,022	242,085	1,006,018	130,558	166,734	856,120
Charitable funds		-	-	180,896	-	-	140,921	-	-	92,599
Minority interest		-	-	69	-	-	4,235	-	-	3,153
Total equity		**30,408,201**	**30,520,365**	**33,169,221**	**26,864,041**	**27,037,844**	**29,763,818**	**25,676,675**	**25,875,121**	**28,041,302**

Martin Donnelly
Principal Accounting Officer and Permanent Secretary
3 September 2012

The Notes on pages 94 to 230 form part of these Accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2012

	Note	2011-12 £'000	Restated 2010-11 £'000
Cash flows from operating activities			
Net operating cost	3.1	(19,597,105)	(22,107,490)
Adjustments for non-cash expenditure	10	4,159,179	5,099,769
Adjustment for non-cash programme income	11	(2,206,859)	(1,862,155)
Adjustment for non-cash pension costs		31,838	(49,195)
Decrease in inventories	22	36,024	33,754
Less movements in inventories relating to items not passing through the Statement of Comprehensive Net Expenditure		(15,489)	(50,371)
(Increase)/decrease in trade and other receivables	23	(39,618)	76,907
Less movements in receivables relating to items not passing through the Consolidated Statement of Comprehensive Net Expenditure		71,402	(185,508)
Less movements in receivables relating to Design Council transfers		(972)	-
Increase/(decrease) in trade and other payables	27	(821,828)	801,631
Less movements in payables relating to items not passing through the Consolidated Statement of Comprehensive Net Expenditure		340,796	(772,158)
Less movements in payables relating to Design Council transfers		1,683	-
Use of provisions	28	(114,841)	(110,651)
Financial guarantees called in	31	(59,795)	(64,463)
Financial liabilities realised	32	(1,414)	(10,437)
Non-cash expenditure funded by the National Insurance Fund	9	357,531	396,341
Payments for unfunded pensions	30	(205)	(241)
Increase in current tax liability	29	7,193	6,981
decrease in deferred tax liability	29	(4,468)	(5,611)
Less movements in deferred tax relating to items not passing through the Consolidated Statement of Comprehensive Net Expenditure		(189)	-
Net cash outflow from operating activities		***(17,857,137)***	***(18,802,897)***
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(273,956)	(232,427)
Purchase of intangible assets	13	(2,583)	(23,890)
Proceeds of disposal of property, plant and equipment	13	60,356	46,840
Proceeds of disposal of investment property		-	22,006
Proceeds of disposal of intangible assets	13	3,874	1,337
Proceeds of disposal of assets held for sale		9,532	3,979
Loan redeemed from Post Office Limited	25	5,194,000	7,006,000
Repayments of other current loans and investments		1,271	8,364
Repayments of other non current loans	18	1,826	-
Repayment of student loans		1,160,806	1,540,147
Venture capital fund redemptions	20	11,784	7,853
Launch investment receipts		309,833	134,342
Repayments of other loans and investments		458,357	227,715
Launch investments loans issued		(62,345)	(100,121)
Venture capital fund investments		(43,965)	(39,318)
Student loans issued	20	(5,968,409)	(5,578,241)
Investment in joint ventures and associates	19	(78,406)	(27,356)
Public Dividend Capital issued	18	(6,700)	(25,000)

	Note	2011-12 £'000	Restated 2010-11 £'000
Loans made to Post Office Limited	25	(5,433,000)	(6,777,000)
Loans to other public sector bodies	18	(8,532)	(15,324)
Other investments and loans made		(355,448)	(250,202)
Net cash outflow from investing activities		***(5,021,705)***	***(4,070,296)***
Cash flows from financing activities			
From Consolidated Fund (supply) – current year		22,177,388	23,875,172
Interest received from Royal Mail on NLF loan		(46,580)	(42,123)
Interest paid to NLF on loan to Royal Mail		46,580	42,123
From the National Insurance Fund	9	357,531	396,341
Payments to the National Insurance Fund (RPS)		(357,531)	(396,341)
Loans received from the National Loans Fund		-	390,000
Repayment of loans from the National Loans Fund		-	(120,000)
Loans received from the National Loans Fund on lent to Royal Mail		-	(390,000)
Repayment of National Loans Fund loans by Royal Mail	25	-	120,000
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		(2,665)	(3,875)
Net Financing		***22,174,723***	***23,871,297***
Net increase /(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(704,119)**	**998,104**
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		35,597	5,773
Payments of amounts due to the Consolidated Fund		(31,207)	(216,850)
Payments of amounts due to the Consolidated Fund for prior year		(17,357)	-
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(717,086)**	**787,027**
Cash and cash equivalents at the beginning of the period	26	**1,879,913**	**1,092,886**
Transfer out of Design Council		(2,530)	-
Restated cash and cash equivalents opening balance		**1,877,383**	**1,092,886**
Cash and cash equivalents at the end of the period	26	**1,160,297**	**1,879,913**

The Notes on pages 94 to 230 form part of these Accounts.

Statement of Changes in Taxpayers' Equity (Core Department)

for the year ended 31 March 2012

							Core Department
	Note	General Fund £'000	Revaluation Reserve £'000	Taxpayers' equity £'000	Charitable Funds – Restricted / Endowment £'000	Charitable Funds – unrestricted £'000	Total Reserves £'000
Balance at 31 March 2010 (restated)		25,546,117	130,558	25,676,675			25,676,675
Balance at 1 April 2010		**25,546,117**	**130,558**	**25,676,675**	**-**	**-**	**25,676,675**
Net parliamentary funding – drawn down		23,875,172	-	23,875,172			23,875,172
Agency funding		(338,284)	-	(338,284)			(338,284)
Net parliamentary funding – deemed		208,021	-	208,021			208,021
National Insurance Fund- RPS	9	396,341	-	396,341			396,341
Supply (payable)/receivable adjustment	27	(751,778)	-	(751,778)			(751,778)
Operating income payable to the Consolidated Fund		(21,210)	-	(21,210)			(21,210)
Increase in RPS Receivables	23	15,528	-	15,528			15,528
Net operating costs for the year		(22,187,682)	-	(22,187,682)			(22,187,682)
Non-Cash Adjustments:							
Auditors' remuneration	8	420	-	420			420
Movements in Reserves:							
Transfer of liabilities		(36,938)	-	(36,938)			(36,938)
Working capital loan to INSS written off		(28,600)	-	(28,600)			(28,600)
Other Comprehensive Net Expenditure for the year		-	56,376	56,376			56,376
Transfers between reserves		2,912	(2,912)	-			-
Restated Balance at 31 March 2011		**26,680,019**	**184,022**	**26,864,041**	**-**	**-**	**26,864,041**
Net parliamentary funding – drawn down		22,177,388	-	22,177,388			22,177,388
Agency funding		(372,408)	-	(372,408)			(372,408)
Net parliamentary funding – deemed		751,778	-	751,778			751,778
National Insurance Fund- RPS	9	357,531	-	357,531			357,531
Supply (payable)/receivable adjustment	27	(362,736)	-	(362,736)			(362,736)
Increase in RPS Receivables	23	4,039	-	4,039			4,039
Net operating costs for the year		(18,995,332)	-	(18,995,332)			(18,995,332)
Non-Cash Adjustments:							
Auditors' remuneration	8	788	-	788			788
Movements in Reserves:							
Other Comprehensive Net Expenditure for the year		-	(16,888)	(16,888)			(16,888)
Transfers between reserves		2,899	(2,899)	-			-
Balance at 31 March 2012		**30,243,966**	**164,235**	**30,408,201**	**-**	**-**	**30,408,201**

The balance at 31 March 2010 has been re-presented to reflect machinery of government changes.

Consolidated Statement of Changes in Taxpayers' Equity (Core Department and Agencies)

for the year ended 31 March 2012

							Core + Agencies
	Note	General Fund £'000	Revaluation Reserve £'000	Taxpayers' equity £'000	Charitable Funds – Restricted / Endowment £'000	Charitable Funds – unrestricted £'000	Total Reserves £'000
Balance at 31 March 2010 (restated)		25,481,072	167,460	25,648,532			25,648,532
Changes in departmental boundary		227,315	(726)	226,589			226,589
Restated balance at 1 April 2010		**25,708,387**	**166,734**	**25,875,121**	**-**	**-**	**25,875,121**
Net parliamentary funding – drawn down		23,875,172	-	23,875,172			23,875,172
Net parliamentary funding – deemed		224,325	-	224,325			224,325
National Insurance Fund-RPS	9	396,341	-	396,341			396,341
Supply (payable)/receivable adjustment	27	(782,871)	-	(782,871)			(782,871)
Operating income payable to the Consolidated Fund		(21,210)	-	(21,210)			(21,210)
Increase in RPS Receivables	23	15,528	-	15,528			15,528
Net operating costs for the year		(22,585,261)	-	(22,585,261)			(22,585,261)
Non-Cash Adjustments:							
Auditors' remuneration	8	566	-	566			566
Movements in Reserves:							
Transfer of liabilities		(36,938)	-	(36,938)			(36,938)
Working capital loan to INSS written off		8,971	-	8,971			8,971
INSS adjustment to General Fund		(12,831)	-	(12,831)			(12,831)
Other Comprehensive Net Expenditure for the year		-	80,931	80,931			80,931
Transfers between reserves		5,580	(5,580)	-			-
Restated Balance at 31 March 2011		**26,795,759**	**242,085**	**27,037,844**	**-**	**-**	**27,037,844**
Net parliamentary funding – drawn down		22,177,388	-	22,177,388			22,177,388
Net parliamentary funding – deemed		782,871	-	782,871			782,871
National Insurance Fund- RPS	9	357,531	-	357,531			357,531
Supply (payable)/receivable adjustment	27	(429,612)	-	(429,612)			(429,612)
Increase in RPS Receivables	23	4,039	-	4,039			4,039
Net operating costs for the year		(19,374,927)	-	(19,374,927)			(19,374,927)
Non-Cash Adjustments:							
Auditors' remuneration	8	937	-	937			937
Movements in Reserves:							
Other Comprehensive Net Expenditure for the year		-	(35,706)	(35,706)			(35,706)
Transfers between reserves		4,289	(4,289)	-			-
Balance at 31 March 2012		**30,318,275**	**202,090**	**30,520,365**	**-**	**-**	**30,520,365**

The balance at 31 March 2010 has been re-presented to reflect machinery of government changes. The changes in the departmental boundary arise from the reclassification of the Skills Funding Agency and ACAS from agencies to NDPBs.

Consolidated Statement of Changes in Taxpayers' Equity (Departmental Group)

for the year ended 31 March 2012

	Note	General Fund £'000	Revaluation Reserve £'000	Taxpayers' equity £'000	Charitable Funds – Restricted / Endowment £'000	Charitable Funds – unrestricted £'000	Minority interest £'000	Total Reserves £'000
Balance at 31 March 2010 (restated)		**25,481,072**	**167,460**	**25,648,532**	**-**	**-**	**-**	**25,648,532**
Changes in Accounting policy and clear line of sight changes		1,608,358	688,660	2,297,018	10,097	82,502	3,153	2,392,770
Restated balance at 1 April 2010		**27,089,430**	**856,120**	**27,945,550**	**10,097**	**82,502**	**3,153**	**28,041,302**
Net parliamentary funding – drawn down		23,875,172	-	23,875,172	-	-	-	23,875,172
Net parliamentary funding – deemed		224,325	-	224,325	-	-	-	224,325
National Insurance Fund – RPS	9	396,341	-	396,341	-	-	-	396,341
Supply (payable)/receivable adjustment	27	(782,871)	-	(782,871)	-	-	-	(782,871)
Income payable to the Consolidated Fund		(21,210)	-	(21,210)	-	-	-	(21,210)
Increase in RPS Receivables	23	15,528	-	15,528	-	-	-	15,528
Net operating costs for the year		(22,107,490)	-	(22,107,490)	-	-	-	(22,107,490)
Non-Cash Adjustments:								
Auditors' remuneration	8	764	-	764	-	-	-	764
Movements in Reserves:								
Transfer of liabilities		(36,938)	-	(36,938)	-	-	-	(36,938)
Working capital loan to INSS written off		8,971	-	8,971	-	-	-	8,971
INSS adjustment to General Fund		(12,831)	-	(12,831)	-	-	-	(12,831)
Other Comprehensive Net Expenditure for the year		(59,040)	183,649	124,609	-	-	-	124,609
Transfers between reserves		4,961	(53,283)	(48,322)	25	48,297	-	-
Other movements		17,532	-	17,532	-	-	-	17,532
Minority interest		-	-	-	-	-	1,082	1,082
Movement in intellectual property		-	19,532	19,532	-	-	-	19,532
Restated Balance at 31 March 2011		**28,612,644**	**1,006,018**	**29,618,662**	**10,122**	**130,799**	**4,235**	**29,763,818**
Transfer out of Design Council		(1,969)	-	(1,969)	-	-	-	(1,969)
Restated Balance at 1 April 2011		**28,610,675**	**1,006,018**	**29,616,693**	**10,122**	**130,799**	**4,235**	**29,761,849**

	Note	General Fund £'000	Revaluation Reserve £'000	Taxpayers' equity £'000	Charitable Funds – Restricted / Endowment £'000	Charitable Funds – unrestricted £'000	Minority interest £'000	Total Reserves £'000
Net parliamentary funding – drawn down		22,177,388	-	22,177,388	-	-	-	22,177,388
Net parliamentary funding – deemed		782,871	-	782,871	-	-	-	782,871
National Insurance Fund – RPS	9	357,531	-	357,531	-	-	-	357,531
Supply (payable)/receivable adjustment	27	(429,612)	-	(429,612)	-	-	-	(429,612)
Increase in RPS Receivables	23	4,039	-	4,039	-	-	-	4,039
Net operating costs for the year		(19,597,105)	-	(19,597,105)	-	-	-	(19,597,105)
Non-Cash Adjustments:								
Auditors' remuneration	8	1,107	-	1,107	-	-	-	1,107
Movements in Reserves:								
Other Comprehensive Net Expenditure for the year		(51,117)	129,066	77,949	-	-	-	77,949
Transfers between reserves		77,142	(117,123)	(39,981)	707	39,274	-	-
Other movements		15,988	-	15,988	-	-	-	15,988
Restricted reserve other movements		-	-	-	(155)	320	-	165
Minority interest		-	-	-	-	-	(4,166)	(4,166)
Transfer to Statement of Comprehensive Net Expenditure		-	-	-	(171)	-	-	(171)
Movement in intellectual property		-	21,388	21,388	-	-	-	21,388
Balance at 31 March 2012		**31,948,907**	**1,039,349**	**32,988,256**	**10,503**	**170,393**	**69**	**33,169,221**

The balance at 31 March 2010 has been re-presented to reflect machinery of government changes.

The General Fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items. The Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to property, plant and equipment, intangible assets and other financial assets (see Notes 13, 14, 15, 17, 20 and 24). The balance on the Revaluation Reserve for the Core Department at 31 March 2012 is solely in respect of revaluations to investments and derivative contracts. Restricted charitable funds can only be used for the purposes for which they were given. Unrestricted charitable funds available to an individual charity can be used at the discretion of the trustees or management in accordance with the stated objectives of the charity.

The Notes on pages 94 to 230 form part of these Accounts.

Notes

1. Statement of accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the 2011-12 *Government Financial Reporting Manual (FReM)* issued by HM Treasury, as set out in a statutory Accounts Direction issued pursuant to section 5(2) of the Government Resources and Accounts Act 2000. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the *FReM* permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Department for Business, Innovation and Skills for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Departmental Group are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

In addition to the primary statements prepared under IFRS, the *FReM* also requires the Departmental Group to prepare an additional primary statement. The *Statement of Parliamentary Supply* and supporting notes show Outturn against Estimate in terms of the Resource and Capital budgets and non budget expenditure and the Net Cash Requirement.

1.2 Accounting convention

These Accounts have been prepared under the historical cost convention modified to account for the revaluation of non-current assets, financial assets and financial liabilities, except for investments in public sector bodies which are carried at historical cost in accordance with *FReM*.

1.3 Presentational currency

The Accounts are presented in pounds sterling and all values are rounded to the nearest thousand pound (£'000). The functional currency of the Departmental Group is pounds sterling.

1.4 Basis of consolidation

These Accounts comprise a consolidation of the Core Department, Departmental Agencies and those other Arm's Length Bodies, including special purpose entities which fall within the departmental boundary as defined in the *FReM* and make up the 'Departmental Group'. Transactions between entities included in the consolidation are eliminated.

The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics (ONS) to determine the sector classification of the relevant sponsored bodies.

Except where legislation requires otherwise, executive non-departmental and similar public bodies that satisfy the IAS 27, IAS 28, IAS 31 and SIC 12 criteria for consolidation as subsidiary undertakings, associated undertakings or joint ventures will be accounted for in accordance with IAS 27, IAS 28 and IAS 31 only if they are designated for consolidation by order of the Treasury under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.

The Accounts include Non-Departmental bodies and other designated bodies preparing financial statements in accordance with the *FReM*, limited companies preparing financial statements in accordance with the Companies Act 2006 and charitable institutions preparing financial statements in accordance with the "Statement of Recommended Practice: Accounting for Charities" ('the consolidated bodies'). For those bodies that do not prepare accounts on an IFRS basis adjustments are made to consolidate their accounts on an IFRS basis where appropriate.

Where an entity is designated for consolidation by order of the Treasury under statutory instrument, then the body will be consolidated within the Department on a line by line basis where material. The results of these entities are included in the consolidated bodies' Statement of Comprehensive Net Expenditure from the date of acquisition, or in the case of disposals, up to the effective date of disposal.

Investments in the entities consolidated are valued at cost less provision for impairment in accordance with the principles of IAS 39 *Financial Instruments: Recognition and Measurement*.

The reporting period for the Accounts is the financial year ended 31 March. There are three bodies within the Departmental Group preparing financial statements to a different reporting date to the Core Department. The Construction Industry Training Board (CITB–ConstructionSkills) and the Engineering Construction Training Board prepare financial statements as at 31 December, and University for Industry Charitable Trust Limited (UCT) prepare financial statements as at 31 July. Where material, the financial information for these entities has been adjusted for any transactions or events that have occurred since their most recent financial year end and that are significant for the Department's Consolidated Accounts.

A list of all those entities included within the Departmental Group, together with details of their status, is given at Note 41.

1.5 Tangible Non Current Assets

Property, plant and equipment

Property, plant and equipment are accounted for in accordance with the *FReM* and IAS 16 *Property, plant and equipment*. The Departmental Group includes property, plant and equipment at cost or at revaluation.

The Core Department has opted to value property, plant and equipment on a depreciated historical cost basis, as a proxy for current cost. This is considered to be an estimate of fair value.

The consolidated bodies' property, plant and equipment are carried at fair value or depreciated historic cost which is used as a proxy for fair value. Some of these bodies restate non-current assets to current cost using indices.

The Core Department's capitalisation threshold for property, plant and equipment is £3,000, except for furniture assets, where all expenditure in one financial year is pooled and capitalised and IT hardware, where a 'pack' of equipment purchased under the Core Department's Flexible Computing Programme (FCP), with a cost in excess of £3,000, is capitalised as one asset.

The consolidated bodies revalue freehold land and buildings on an existing use basis or on a depreciated historical cost basis for specialist properties using professional valuations. They continue to restate to current cost in the intervening years based on indices.

The capitalisation thresholds for the consolidated bodies range from £100 to £10,000.

Revaluation

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve in taxpayers' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve unless there is a clear consumption of economic benefit. All other decreases are charged to the Consolidated Statement of Comprehensive Net Expenditure.

Valuations are carried out in accordance with best practice as contained in the Statement of Asset Valuation Practice and Guidance Notes (3rd Edition) published by the Royal Institution of Chartered Surveyors.

Depreciation

Assets under Construction are not depreciated until the asset is brought into use.

Non-current assets held for sale are not depreciated. Depreciation ceases at the date an item of property, plant and equipment is classified as an asset held for sale.

Property, plant and equipment are depreciated at rates calculated to write them down to their estimated residual value on a straight line basis over their estimated useful lives. Estimated useful lives are reviewed on an annual basis and adjusted where appropriate.

A full year's depreciation charge is provided in the year of acquisition and none in the year of disposal.

For the Core Department's furniture, fixtures and fittings, an asset pool is maintained. Replacements on a one-to-one basis for assets in the pool are charged directly to the Statement of Comprehensive Net Expenditure in the year of replacement. Major enhancements or additions to the pool are capitalised as assets. The pooled assets are depreciated on a straight line basis.

Freehold land is not depreciated and other assets across the Core Department and consolidated bodies are normally depreciated over the following periods:

Leasehold land	20 – 60 years
Freehold buildings	20 – 62 years
Agricultural buildings	Up to 60 years
Antarctic Ice Stations	Up to 35 years or valuer's estimates of remaining useful life
Dwellings	Up to 60 years
Long Leasehold buildings	Up to 60 years, or period of lease
Short Leaseholds	Term of lease
Historic leaseholds	Residual term of lease
Leasehold improvements	Shorter of estimated remaining useful economic life, or outstanding term of lease
Ships	Minimum of 20 years
Aircraft	Minimum of 15 years
Office machinery	3 – 15 years
Plant and machinery	3 – 30 years
Computer equipment	2 – 10 years
Furniture, fixtures and fittings	3 – 10 years
Transport equipment	2 –10 years

Component accounting
Property, plant and equipment may have component parts with different useful lives. In accordance with the provisions of IAS 16 *Property, plant and equipment*, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Heritage assets
These assets comprise the National Physical Laboratory Museum and Archives and some UK primary standard weights and measures held by the National Measurement Office (NMO). In the absence of a market for these assets fair value is derived using a valuation technique. Additional information is provided in the accounts of the NMO.

1.6 Intangible Non Current Assets
Intangible assets are capitalised if it is probable that future economic benefits attributable to the asset will flow to the Department and the cost of the asset can be measured reliably. Intangible assets are carried at fair value less any subsequent accumulated amortisation and any subsequent accumulated impairment loss in accordance with the *FReM* and IAS 38 *Intangible Assets*. Where no active market exists and the asset is income generating, it is revalued to the lower of depreciated replacement cost and value in use, using a valuation technique. Where there is no value in use depreciated replacement cost is used. These measures are a proxy for fair value.

Software licences
Where computer software licences are purchased and have a useful life in excess of one year, they are capitalised as intangible assets in accordance with IAS 38 *Intangible Assets*. The licences are revalued each year using relevant published indices and are amortised over the shorter of the term of the licence and the useful economic life. These licences are amortised on a straight line basis over the useful economic life (between three to ten years).

Internally developed software
Internally developed software is capitalised in accordance with IAS 38 *Intangible Assets* when it is not an integral part of computer hardware, it is separately identifiable and the cost can be measured reliably. Software is amortised on a straight line basis over the useful life of the development (between 3 and 10 years) from the date the system is brought into use.

Website development costs
The cost of developing websites that deliver services are capitalised in accordance with IAS 38 *Intangible Assets*. Where website development costs are capitalised, they are amortised on a straight line basis over the useful life of the asset (currently two to five years). Other website development costs are expensed in the Consolidated Statement of Comprehensive Net Expenditure in the period in which the cost is incurred.

Patents, licences and royalties
The values of patents, licences and royalties are capitalised as intangible assets based on their expected income streams. Income from these patents, licences and royalties is generated from agreements between companies engaged in the commercial exploitation of the inventions. The values of these intangible assets are amortised over the period these agreements are in force, including a full year's amortisation charge in the year of valuation. For most cases, this is between 7 and 15 years and such assets are not capitalised until income streams are reasonably certain. Income streams are reviewed each year. Any surplus or deficit is recognised in the Consolidated Statement of Comprehensive Net Expenditure.

MRCT's patents are accounted for under UK GAAP and are not capitalised in their own accounts. Where they meet the criteria for capitalisation, under IFRS, they are capitalised on consolidation.

1.7 Impairments of property, plant and equipment and intangible assets
At each year end, the Departmental Group reviews the carrying amounts of its property, plant and equipment and intangible assets, to determine whether there is any impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use is assumed to equal the cost of replacing the service potential provided by the asset. Impairment losses are charged to the Consolidated Statement of Net Comprehensive Expenditure.

1.8 Non current assets held for sale
Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the sale and completion is expected within one year from the date of classification. Non current assets held for sale are stated at the lower of the carrying amount and fair value less costs to sell.

1.9 Investment Properties
In accordance with IAS 40 *Investment Properties*, any investment property recognised is held only for the purpose of earning rental income or for capital appreciation. In accordance with the FReM investment property is carried at fair value representing open market value determined annually by external qualified independent valuers. Changes in fair values are recognised in the Consolidated Statement of Comprehensive Net Expenditure.

1.10 Associates and Joint Ventures
IAS 28 *Accounting for Investments in Associates* applies to investments where a component has significant influence but not control or joint control over the entity. A holding of 20% or more of the voting power (directly or through subsidiaries) will indicate significant influence unless it can be clearly demonstrated otherwise. Associates are accounted for under the equity method of accounting in accordance with IAS 28.

Where an investment is classified as a joint venture in accordance with IAS 31 *Interests in Joint Ventures*, the investment in the joint venture is accounted for under the equity method of accounting in accordance with IAS 31.

Under the equity method of accounting, an equity investment in an associate or joint venture is initially recorded at cost and is subsequently adjusted to reflect the investors' share of the net profit or loss of the associate or joint venture.

1.11 Financial instruments
The Departmental Group recognises and measures financial instruments in accordance with IAS 39 Financial Instruments: Recognition and Measurement as interpreted by the *FReM.*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Core Department and the consolidated bodies become a party to the contractual provisions of an instrument.

Financial assets and liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case transaction costs are charged to operating costs.

The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments. The fair value of financial instruments which are not traded in an active market is determined using generally accepted valuation techniques, including estimated discounted cash flows.

Financial assets are derecognised when the rights to receive future cash flows have expired or are transferred and the Core Department or the consolidated bodies has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Financial assets

The Departmental Group's financial assets have been classified into the following three categories, which are determined at initial recognition:

- Held-to-maturity investments
- Loans and receivables
- Available-for-sale assets.

Held-to-maturity investments

These are non derivative financial assets with fixed or determinable payments and fixed maturity that the Departmental Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost in accordance with IAS 39. Held to maturity investments are held by UKAEA and consist of bank term deposits with a maturity in excess of three months.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments, originated or acquired, that are not traded in an active market. They are included in current assets, except for maturities greater than 12 months after the Consolidated Statement of Financial Position date. These are classified as non-current assets.

Loans and receivables, held by the Departmental Group comprise cash and cash equivalents, receivables and loans, including student loans. After initial recognition, they are carried at amortised cost in accordance with IAS 39. More information about the measurement techniques used to determine the carrying value of student loans is provided in Note 20.1.

Recognition of student loans issued and repayments

The Core Department's accounting policy is to recognise an addition to the student loan book once the Student Loans Company (SLC) has issued the loan to the student. For maintenance loans, students are entitled, if eligible, to receive a loan instalment from SLC, for each term of the academic year that they are in attendance at a Higher Education Institution (HEI). At the Consolidated Statement of Financial Position date, the Core Department has no obligation to fund the maintenance loan payment for the summer term, therefore there is no requirement to recognise a receivable in the accounts. For tuition fee loans, the Core Department recognises a receivable once it has an obligation to pay the tuition fee, for the academic year, on behalf of the student to the HEI. This obligation arises ninety days after the start of the academic year if the student has been in attendance for that period. The receivable is then amortised and impaired as if it was an addition to the student loan book, with a charge to expenditure to reflect the cost to the Government of issuing the loans.

Student loan repayments are collected by the SLC and Her Majesty's Revenue and Customs (HMRC). For repayments made via the SLC, the Core Department recognises the repayment when the SLC has received the cash and updated the borrower record. For repayments collected via the tax system, the Core Department recognises the amounts which HMRC estimate as being due to the Core Department for the financial year.

Loans and receivables relating to other public bodies

The Department carries loans and receivables relating to other public bodies at historical cost in accordance with the *FReM*. All other loans and receivables are carried at amortised cost. If the time value of money is significant, the Department uses the effective interest rate method. Gains and losses are recognised in the Consolidated Statement of Comprehensive Net Expenditure when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Bank overdraft amounts are included within trade and other payables in the Consolidated Statement of Financial Position.

Amounts due to the Core Department and payable to the Consolidated Fund are carried at historical cost in accordance with the *FReM*.

When an asset is deemed to be impaired or derecognised, the associated gains and losses are recognised in the Consolidated Statement of Comprehensive Net Expenditure.

Available-for-sale assets

Available for sale assets are non derivative financial assets designated as such or not classified in any of the other three categories of financial assets. After initial recognition, these financial assets are carried at fair value. Available-for-sale assets, held by the Core Department, comprise Launch Investments, Venture Capital Funds, Venture Capital Loan Funds and Ordinary Shares. The consolidated bodies hold equity investments, securities, investment funds deposits and gilts.

More information about the measurement techniques used to determine their carrying value in the Accounts is provided in Note 16 and Note 20.4.

Gains and losses in fair value are recognised directly to equity except for impairment losses. Impairment losses are recognised in the Consolidated Statement of Comprehensive Net Expenditure. On derecognition, the cumulative gain or loss previously recognised in equity is recognised in the Consolidated Statement of Comprehensive Net Expenditure.

The Core Department carries Ordinary Shares and Public Dividend Capital (PDC) in other public bodies at historical cost in accordance with the *FReM*.

Impairments of financial assets

The Core Department and the consolidated bodies assess at the end of each reporting period whether there is objective evidence that loans and receivables or available for sale assets are impaired. Evidence of impairment arises where there is observable data indicating that there is a measurable decrease in the estimated future cash flows from holding financial assets. For loans and receivables, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest rate method. The amount of the loss is recognised in the Consolidated Statement of Comprehensive Net Expenditure.

Gains and losses on available for sale assets are recognised as a separate component of Taxpayers' Equity until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in equity is included in the Consolidated Statement of Comprehensive Net Expenditure. The impairment is measured as the difference between the carrying amount and the new fair value.

Financial liabilities

The Departmental Group's financial liabilities have been classified as other financial liabilities at initial recognition. These comprise trade and other payables and the student loan debt sale subsidy. The student loan debt sale subsidy arises from a previous sale of student loans because the government continues to subsidise the purchaser of the debt.

The Departmental Group carries payables with other public bodies, including amounts payable to the Consolidated Fund at historical cost, in accordance with the *FReM*. Since these balances are expected to be settled within twelve months of the reporting date, there is no material difference between fair value, amortised cost and historical cost. All other financial liabilities are measured at amortised cost, after initial recognition and if the time value of money is significant, the Departmental Group uses the effective interest rate method.

Derivative financial instruments

Derivative financial instruments comprise forward contracts held to hedge the Departmental Group's exposure to foreign currency risk. They are designated as cash flow hedges, where the effective portion of changes in the fair value are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Comprehensive Net Expenditure. Amounts accumulated in equity are recycled in the Consolidated Statement of Comprehensive Net Expenditure in the periods when the hedged item affects the Consolidated Statement of Comprehensive Net Expenditure. The effectiveness of the arrangement is measured throughout the life of each contract.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled to the Consolidated Statement of Comprehensive Net Expenditure.

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the Accounts at fair value on the date that the guarantee was given in accordance with IAS 39: *Financial Instruments: Recognition and Measurement*. At each Consolidated Statement of Financial Position date, they are subsequently re-measured at the higher of the amount determined in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognised, less when appropriate, cumulative amortisation.

The Core Department currently has a number of financial guarantees provided under the Small Firms Loan Guarantee Scheme; the Enterprise Finance Guarantee; guarantees given in relation to the UK High Technology Fund, the Export Enterprise Finance Guarantee and the Automotive Assistance Package Guarantee. In addition, the Skills Funding Agency, an NDPB of the Department has Professional and Career Development Loan Guarantees. More information is provided in Note 31 to these Accounts.

1.12 Inventories

Inventories are valued at the lower of cost or net realisable value. Inventories of finished goods and goods for resale are valued at cost, or where materially different, current replacement cost. A net realisable valuation is used only when they either cannot or will not be used. Work in progress is valued at the lower of cost and net realisable value.

1.13 Provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Core Department and the consolidated bodies make provision for liabilities and charges where, at the Consolidated Statement of Financial Position date, a present legal or constructive obligation exists (i.e. a present obligation arising from past events), the outflow of resources will be required to settle the obligation is probable and a reasonable estimate of the obligation can be made.

Where the time value of money is material, the Core Department and the consolidated bodies discount provisions to present value using HM Treasury's real discount rate of 2.2%, except for early departure provisions where HM Treasury's pension rate is used for discounting. Each year the financing charges in the Consolidated Statement of Comprehensive Net Expenditure include the amortisation of one year's discount so that liabilities are shown at current price levels.

Decommissioning costs are recognised in full as soon as the obligation exists i.e. when the technical facility has been commissioned. When the obligation incurred gives access to future economic benefits an asset is recognised in the Consolidated Statement of Financial Position with corresponding depreciation being charged to the Consolidated Statement of Comprehensive Net Expenditure over the useful life of the asset. A specific provision is established to cover the current value of the expected future costs of decommissioning the asset.

1.14 Research and development

Expenditure on research and development is charged to the Consolidated Statement of Comprehensive Net Expenditure in the year in which it is incurred, unless it meets the criteria set out under IAS 38 *Intangible Assets*, in which case it is capitalised.

1.15 Operating income

Operating income is income that relates directly to the operating activities of the Core Department and its consolidated bodies and is measured at the fair value of consideration received or receivable. It is recorded net of trade discounts; value added tax and other taxes. It comprises, principally, fees, levy income and charges for services provided, on a full cost basis to external customers, public sector repayment work, dividends and special dividends. It also includes other income such as income arising from investments. Following the recent Alignment Project changes, Parliament now votes income that may be retained by the Department. The Department and its consolidating bodies may retain this income subject to annual limits agreed with HM Treasury and offset it against expenditure. If the Department receives income that is either not voted by Parliament or exceeds the aggregate annual limit by more than 20%, this excess income must be returned to the Consolidated Fund.

Levy income is collected under statute by the Construction Industry Training Board (CITB-ConstructionSkills) and the Engineering Construction Industry Training Board (ECITB). The Chief Secretary to the Treasury has approved both bodies to retain this levy income to offset against their expenditure; therefore the Exchequer has no right of access to these funds. These arrangements are subject to periodic review. Levy income is recognised in the year in which it is raised.

1.16 Deferred income

Deferred income relates to payments received in advance of the accounting period to which they relate or where grant conditions have not yet been met. The deferred income is released to the Consolidated Statement of Comprehensive Net Expenditure in the period to which it relates.

1.17 Administration and programme expenditure and income

The Consolidated Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. Administration costs reflect the costs of running the Department, as defined under the Administration Cost-Control Regime, together with the associated operating income. Income is analysed in the Notes between that which, under the Regime, is allowed to be offset against gross administration costs in determining the outturn against the Administration Cost Limit, and that which is not. Programme costs reflect non-administration costs, including payments of grant-in-aid, grants and other disbursements by the Core Department, in support of policy initiatives.

1.18 Grants payable and receivable

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

- Grants for Higher Education

Funding to Higher Education Institutions (HEIs) administered by HEFCE is recognised as grants at payment dates agreed with the organisations concerned. HEFCE grants are paid on agreed profiles and as such no accruals are recognised at the reporting date. The exception to this is the holdback of institutional basic grant where a debt arises at the point where there is sufficient certainty over the value of the resulting funding adjustment. These adjustments could result in a net receivable or payable balance at year end. The period over which a holdback recovery is made can be up to five years. HEFCE also recognises recoverable grants at the dates agreed with the organisations concerned and are recovered through planned deductions from future profile payments. Where there is not sufficient certainty over recoverability, grants are accounted for as in-year expenditure.

- Grants for Further Education

Grants to Further Education Institutions (FEIs) administered by the Skills Funding Agency are for Recurrent Programmes and Capital Programmes. Recurrent Programmes include Teaching and Learning elements (incorporating the Adult Skills Budget) and are accounted for as follows:

- Training grants are either recognised on the basis of providers' actual delivery or as they are paid in line with an agreed profile.
- Advances of funding to colleges are included in receivables if they remain outstanding at the Consolidated Statement of Financial Position date

- Adult Safeguarded Learning is accounted for on the basis of utilisation of funds paid to local authorities. A receivable is recognised at each year-end representing the amount of unspent funds.
- For Learner Support funds payments for a particular academic term are accounted for in the period to which they relate and specific grant payments are accounted for when they are paid..

Capital programmes are recognised in the financial year that the funding is fully approved.

Student grants

Student grants are recognised when the entitlement to grants is met, students are in attendance at the HEI for the relevant term, and have applied for the grant. The entitlement is based on a set of eligibility criteria, including the level of household income. Factors, including changes to household income, can lead to adjustments in the level of grant students are entitled to. Where overpayments are made, action is taken to deduct overpayments from future grant payments, or obtain repayments of the amounts overpaid. The Core Department records grant overpayments as receivables and creates a doubtful debt provision for the amount of overpayments which it estimates may not be recovered.

Ownership of equipment purchased by research grant

Equipment that has been purchased by a grantee with research grant funds supplied by a consolidating body belongs to that institution and the consolidating body does not recognise this equipment in their Statement of Financial Position. However, through the conditions of the grant the component body reserves the right to determine how such equipment shall be disposed of and how any disposal proceeds are to be utilised.

European Funding Grants

European Funding Grants in respect of revenue and capital expenditure are recognised as income in the Consolidated Statement of Comprehensive Net Expenditure when there is reasonable assurance that there are no conditions attached, or that any such conditions have been complied with and it’s certain that the grants will be received.

1.19 Insurance

As public bodies, the Core Department and the consolidated bodies do not generally insure. However, certain consolidated bodies have decided, with the agreement of the Core Department, that risks relating to certain commercial contracts should be commercially insured. Insurance premiums are charged to the Consolidated Statement of Comprehensive Net Expenditure.

1.20 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currencies at the Consolidated Statement of Financial Position date are retranslated at the rates of exchange ruling at that date. These translation differences are recognised in the Consolidated Statement of Comprehensive Net Expenditure.

1.21 Pensions

- Funded pension schemes

SLC and MRC operate defined benefit plans. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of these defined benefit pensions plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair values of plan assets (at bid price) are deducted. The liability discount rate is the yield at the Statement of Financial Position data on AA credit rated bonds. The calculations are performed by qualified actuaries using the projected unit credit method. When the calculation results in a benefit the recognised asset is limited to the present value of the benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements. Actuarial gains and losses that arise are recognised in the period they occur through the Statement of Other Comprehensive Expenditure.

- Unfunded pension schemes

Principal Civil Service Pension Schemes (PCSPS)

A number of the employees of the Core Department and the consolidated bodies are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) as described in Note 7. The defined benefit schemes are unfunded. The bodies within the Departmental Group recognise the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the Schemes, the Departmental Group recognises the contributions payable for one year.

Contributions to the defined benefit pension scheme are charged to the Consolidated Statement of Comprehensive Net Expenditure in accordance with actuarial recommendations so as to spread the cost of the pensions over the employees' expected working lives.

Other unfunded defined benefit pension schemes

The employees of some of the consolidated bodies are members of other unfunded defined benefit pension schemes, but the participating employers are unable to identify their share of the underlying liability. Employer contributions to the defined benefit schemes are charged to the Consolidated Statement of Comprehensive Net Expenditure in the period to which they relate. The pension liability is calculated using actuarial assumptions. These schemes are:

- Homes and Communities Agency Scheme (previously The English Partnerships Pension Scheme)
- North East Development Agency Retirement Benefit Scheme (NEDARBS), a contributory defined benefit scheme
- The "By Analogy" scheme for Chairs past and present of the Regional Development Agencies similar to the PCSPS Scheme
- The "By Analogy" scheme for Chairs past and present of the Competition Commission similar to the PCSPS Scheme
- The "By Analogy" scheme for Chairs past and present of Consumer Focus similar to the PCSPS Scheme
- Research Councils Pension Scheme (RCPS)
- The Universities Superannuation Scheme (USS)
- Teacher's Pension Scheme
- Partnership Pension Scheme (SWRDA).

The by analogy scheme for the Regional Development Agencies is recognised as a provision as described in Note 28. The by analogy schemes for Competition Commission and Consumer Focus are accounted for under IAS 19 *Employee Benefits* as described in Note 30.

Other defined benefit schemes

- The ITB Pension Fund is a defined benefit scheme. The actuarial value of the scheme assets and liabilities are based on FRS 17 methodologies. As the proportion of assets and funding level attributable to CITB–ConstructionSkills and ECITB are not separately identified, in accordance with FRS 17 relating to multi-employer schemes, the Scheme has been accounted for as a defined contribution scheme.

Further details of these pension schemes can be found in the financial statements of the pension scheme.

1.22 Early departure costs

The Core Department and its consolidated bodies are required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. In accordance with IAS 19 *Employee Benefits*, the Departmental Group provides in full for this cost when an early retirement programme has been announced and is binding. Early departure costs are discounted using HM Treasury's current pension rate.

1.23 Employee benefits

In accordance with IAS 19 *Employee benefits*, an entity is required to recognise short term employee benefits when an employee has rendered service in exchange for those benefits. Included in the Accounts is an accrual for the outstanding employee paid holiday entitlement at 31 March 2012.

1.24 Taxation

The Core Department is exempt from income and corporation tax by way of its Crown exemption.

Some of the consolidated bodies are subject to Corporation Tax on their interest receivable and analogous income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to the tax payable in respect of previous years.

Deferred tax, where applicable, is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax liabilities are not discounted.

Value Added Tax (VAT) is accounted for in the Accounts, in that amounts are shown net of VAT except:

- Irrecoverable VAT is charged to the Consolidated Statement of Comprehensive Net Expenditure, and included under the relevant expenditure heading
- Irrecoverable VAT on the purchase of an asset is included in additions.

The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within other receivables and payables within the Consolidated Statement of Financial Position.

1.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals due under operating leases are charged to the Consolidated Statement of Comprehensive Net Expenditure over the lease term on a straight-line basis unless another systematic basis is more appropriate, in accordance with IAS 17 *Leases*. The amounts payable in the future, under these operating lease arrangements, which are disclosed in Note 33.2 are not discounted.

Lease incentives are accounted for over the life of the lease agreement.

1.26 Finance leases

Where assets are financed by leasing agreements that transfer substantially all of the risks and rewards incidental to ownership ("finance leases"), the assets are treated as if they had been purchased outright at the present value of the total rentals payable during the primary period of the lease. The corresponding leasing commitments are shown as obligations to the lessor. Charges are made to the Consolidated Statement of Comprehensive Net Expenditure in respect of:

- Depreciation, which is charged on a straight line basis over the useful economic life of the asset
- The total finance charge, which is allocated over the primary period of the lease using the sum of digits method.

Finance leases are recognised at inception at the lower of fair value or the present value of the minimum lease payments, each determined at the inception of the lease. Where a component body is the lessor of an operating lease, amounts due under the operating lease are treated as amounts receivable and reported as receivables.

1.27 Inter-Departmental transfers of functions: Restatement of prior year comparatives

Machinery of Government changes, which involve the merger or the transfer of functions, or responsibility of one part of the public service sector to another, are accounted for using merger accounting in accordance with the *FReM*. They are outside the scope of IFRS 3 *Business Combinations*, as central Government bodies are deemed to be under common control.

Merger accounting requires the restatement of the opening Consolidated Statement of Financial Position and the prior year's Statement of Comprehensive Net Expenditure, the Statement of Cash Flows and associated Notes to the Accounts. Where appropriate, the presentation of the Notes to the Accounts has also been changed in order to reflect a consistent approach to the disclosures.

The Machinery of Government changes, included in the Group's 2011-12 Accounts, relate to:

- The transfer of the Government Property Unit with responsibility for property efficiency from the Core Department to Cabinet Office
- The creation of the UK Space Agency (UKSA), an executive agency of the Department, with responsibility for policy on Space programmes. UKSA has been created by transferring functions from the Core Department, Natural Environment Research Council (NERC), Science and Technology Facilities Council (STFC), Technology Strategy Board (TSB) and the Department for Environment, Food and Rural Affairs

- The transfer of the responsibility for competition and policy issues relating to the media, broadcasting, digital and telecoms sectors to the Core Department for Culture, Media and Sport (DCMS)
- Responsibility for the following entities has also transferred to the Core Department:
  - The Meteorological Office, a trading fund, from the Ministry of Defence
  - Ordnance Survey, a trading fund, from the Department for Communities and Local Government
- The transfer of functions to the Homes and Communities Agency (HCA), an NDPB of the Department of Communities and Local Government from the Regional Development Agencies.

The impact on the prior year comparatives is disclosed in Note 39 to these Accounts.

1.28 Acquisition accounting for transfers

The Regional Development Agencies (RDAs) are being wound up under the Public Bodies Bill. Apart from the transfers under merger accounting, all other transfers from the RDAs have been accounted for using acquisition accounting.

Where the consideration received for an asset is less than fair value the transferring body records a loss on disposal and the receiving body records a gain on acquisition. Where a liability is transferred, the transferring body records a gain on disposal and the receiving entity a corresponding loss on acquisition. The receiving entity will take the corresponding loss or gain on acquisition to their Statement of Comprehensive Net Expenditure.

1.29 Service concessions (PPP/PFI)

PFI transactions that meet the definition of a service concession arrangement are accounted for in accordance with the *FReM.* The service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (IFRIC 12.3).

1.30 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Core Department discloses for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*. These comprise:

- Items over £250,000, (or lower where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement
- All items (whether or not they arise in the normal course of business) over £250,000 (or lower where required by specific statute or where material in the context of the Accounts), which are required by the *FReM* to be noted in the Accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.31 Reporting by operating segment

The Core Department reports income and expenditure by segment, in accordance with IFRS 8: *Operating Segments*. Operating segments are components about which separate financial information is available and is evaluated regularly by the chief operating decision maker. The BIS Management Board, which is responsible for allocating resources and assessing the financial performance of the Department's business, has been identified as the chief operating decision maker. The Core Department has determined that separate business groups responsible for delivering its objectives are reportable segments. Information reported in the accounts is consistent with the internal reporting provided monthly to the Management Board, which is used internally for regularly evaluating operating segment performance. Income and expenditure directly associated with each segment is provided in Note 6 to these accounts.

Assets and Liabilities are not segmented for management information purposes and thus are not disclosed in the account.

1.32 Estimation techniques used and key judgements

The preparation of the Department's consolidated financial statements requires management of the Core Department and the consolidated bodies to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying value of the asset or liability. Where applicable these uncertainties are disclosed in the Notes to the Accounts.

In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Volatility resulting from fluctuations in the macroeconomic indicators used in models, for example, Office for Budget Responsibility (OBR) short-term and long-term Retail Price Index forecasts, base rates and average earnings growth for student loans and Gross Domestic Product for financial guarantees (Notes 16 and 31 refer).
- Fluctuations in the fair values of assets, particularly with respect to Launch Investments, where an econometric model is used to determine estimated future cash flows and includes a number of assumptions, including economic growth indicators (Note 16 refers).
- Management's judgements with regard to the impairment of assets (Notes 8, 9, 13 and 15 refer). The value of the Departmental Group's property, plant and equipment and intangibles is estimated based on the period over which the assets are expected to be available for use. Such estimation is based on experience with similar assets and practices of similar businesses. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on the use of an asset. An increase in the estimated useful life of any item of property, plant and equipment and intangibles would decrease the recorded operating expense and increase non-current assets.

- Management's assumptions about the number of debtor employers with saleable assets and the degree of difficulty in realising these assets and therefore in calculating the Redundancy Payments Service receivable (Note 23 refers).
- The uncertainty surrounding HEFCE's Inherited Staff Liabilities as the value of the provision is derived from an actuarial valuation of a sample of the underlying population, and is updated periodically to include movements in mortality and discount rates.
- The uncertainty surrounding the calculation of decommissioning costs which are based on estimates of the current cost of the work to be undertaken, assumptions regarding inflation rates, VAT changes and the timing of the decommissioning. To reduce the risk of material misstatement the estimates and assumptions are reviewed annually.
- Fluctuations in the fair value of financial liabilities/ guarantees measured using modelling techniques; (Notes 31 and 32 refer).

1.33 Changes in accounting policy

- Clear Line of Sight

In accordance with the 2011-12 *FReM*, the Department is required to consolidate its NDPBs and other bodies' expenditure and income into the Department's Estimates and Accounts, where they are within the departmental boundary, from 2011-12. The Departmental boundary is similar to the concept of a group under generally accepted accounting practice and is set in accordance with the Office for National Statistics classification of a body. The primary statements and disclosure notes to these accounts have been restated to include the Group's results.

- Government Grant Reserve and Donated Assets Reserve

The option to recognise donated assets (IAS 16 *Property, plant and equipment*) and Capital Government Grants (IAS 20 *Government Grants*) received in reserves has been removed from the *FReM* in 2011-12.

The *FReM* has interpreted IAS 20 and SIC 10 for the public sector context and states:

- The option provided in IAS 20 to offset the government grant against the cost of the asset has been withdrawn.
- The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant or donation, including lottery funding, the funding element is recognised as income and taken through the Consolidated Statement of Comprehensive Net Expenditure. To defer this income, a specific condition must be imposed by the funder.

HM Treasury have indicated that these changes should be accounted for as a change in accounting policy and, as such, and where material, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, states that "all comparative amounts should be adjusted to show the results and financial position of prior period as if the new accounting policy had always applied."

- Change of accounting policy with respect to the recognition of some grant funding previously shown as financing.

In the current reporting period accounting policies within the Departmental Group have been changed such that grant income received by bodies within the departmental boundary other than the Core Department will be recognised as either:

- income where the Partner organisation has a beneficial interest/ suffers the risks of a principal, or
- negative expenditure where the partner organisation is acting as agent.

As a result where the above applies the bodies within the Departmental Group have made adjustments to the opening balances of each affected component of equity (e.g. general reserves) for the earliest period presented which in this case is 2010-11 and have presented a Statement of Financial Position as at 1 April 2010. As a result of these changes £120 million, previously accounted for through reserves in 2010-11, is now accounted for as income in the Consolidated Statement of Comprehensive Net Expenditure.

- NDPB administration expenditure

In 2011-12 administration budgets were set for the Department, its agencies and non-departmental public bodies (NDPBs). For the majority of NDPBs this was the first period that administration budgets had been set by the Department. In accordance with HM Treasury guidance comparative amounts have been restated.

1.34 Changes to IFRS and the FReM

1.34.1 Changes to IFRS

The Departmental Group provides disclosure that it has not yet applied a new accounting standard and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new standard will have on the Accounts.

The following new standards will be adopted by the Departmental Group in full, when they are adopted by the *FReM*, unless the requirements are interpreted or adapted by the *FReM*:

- IAS 12 *Income taxes* has been amended to provide guidance on the measurement of deferred tax liabilities arising on the revaluation of investment properties. Application of the revised standard is not expected to have a material effect on the Departmental Group Accounts.
- IFRS 7: *Financial Instruments: Disclosures*, two amendments are due to come into effect in 2012-13 and 2013-14 respectively. The first deals with disclosures concerning transfers of financial assets where the transferor retains some continuing involvement with the asset and the second deals with disclosures concerning netting arrangements. These changes are not expected to have a material impact on the Departmental Group Accounts.
- IFRS 9: *Financial instruments,* will replace IAS 39 *Financial Instruments*: Recognition and Measurement in its entirety. IFRS 9 is expected to improve and simplify the reporting of financial instruments. The new standard will be effective for accounting periods beginning on or after 1 January 2013 subject to EU endorsement. Earlier application is permitted. The standard is part of a wider project to replace IAS 39 and it is not clear what the impact of the introduction of this standard will have on the Departmental Group.
- IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* cover the definition of and accounting treatment required for subsidiaries and jointly controlled operations. Within Central Government, consolidation boundaries are determined by HM Treasury based upon the Office for National Statistics' sector classification. These classifications do not recognise the concept of an operation controlled jointly across different sectors. The application of this standard is not expected to have a material impact on the Departmental Group.
- IFRS 12 *Disclosure of Interests in Other Entities* requires disclosure of arrangements where the reporting entity owns a majority of shares but does not consolidate and arrangements where the reporting entity owns more than 20% of shares but does not equity account, and vice versa. This standard should not give rise to any accounting changes, but will result in additional disclosure.

- IFRS 13 *Fair Value Measurement* sets out an IFRS framework for measuring fair value. This standard has not received EU endorsement, so the effective date remains uncertain. It seems likely that the standard will increase the disclosures required for non-financial items held at fair value, such as property, plant and equipment. As the Departmental Group's most material category of assets held at fair value is in relation to financial instruments and the guidance on fair value measurement for such assets is already clearly defined, the application of IFRS 13 is not expected to have a material impact on the Departmental Group Accounts.

1.34.2 Changes to the FReM

In accordance with the 2012-13 *FReM*, only Public Dividend Capital should be reported at historical cost less any impairment. Loans and formal investments in other public bodies that do not meet the criteria for consolidation should be reported in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

1.34.3 Changes to the Designation Order for inclusion of bodies in the Departmental Group

In 2011-12 the following changes were made to the designation order:

- ONS reclassified the Design Council to the private sector. It has been disposed of through reserves and is not consolidated into the Department's 2011-12 accounts.
- Estuary Management Company Ltd, NorwePP Limited, Rural Regeneration Cumbria Ltd and South East England Properties Ltd, formerly subsidiaries of the RDAs, were disposed of during 2010-11.

The following changes were made to the designation order in 2012-13:

- ONS have reclassified the British Hallmarking Council from a public corporation to a public sector body. British Hallmarking Council has assets and liabilities of less than £1 million.
- ONS have reclassified Diamond Light Source from a joint venture to a public sector body. It will be included in the Group consolidation from 2012-13 onwards. In 2011-12 it is accounted for as a Joint Venture by the Science and Technology Facilities Council using the equity accounting method as permitted by IAS 31.
- Wave Hub Limited was created in December 2011. It will be consolidated into the Department's accounts from 2012-13 onwards. Wave Hub Limited has assets and liabilities of less than £1 million.
- Ufl Ltd was sold by the Ufl Charitable Trust (UCT) to a private equity house, LDC, in November 2011, and now operates as an independent training provider. The sale was a complete break from central Government control and ownership. Ufl Charitable Trust (UCT), the organisation which formerly owned and oversaw the management of Ufl Ltd, remains in existence as an independent body, and was reclassified into the private sector from March 2012. Neither of these bodies will be included in the 2012-13 Designation Order.
- The following bodies were wound up in 2011-12 and as a result will no longer be included in the designation order:
- North East Regional Aggregation Body LLP
- Local Better Regulation Office
  - The Regional Development Agencies have withdrawn from the following bodies and they will no longer be included in the designation order:
  - Enterprise Development North East Limited
  - North East Regional Investment Fund Partner Limited

- North East Regional Investment Fund Three Limited
- East Kent Spatial Development Company (Limited)
- Ryde Business Park Management Company Limited

2. Net Outturn

2.1 Analysis of net resource outturn by section

										2011-12 £'000	2010-11 £'000
								Outturn		Estimate	Outturn
			Administration			Programme					
		Gross	Income	Net	Gross	Income	Net	Total	Net Total	Net total compared with Estimate	Total
Spending in Departmental Expenditure Limit											
Voted											
A	Innovation, Enterprise and Business	1,525	-	1,525	447,100	(306,118)	140,982	142,507	191,505	48,998	(204,185)
B	Free and Fair Markets	(110)	-	(110)	223,059	(105,431)	117,628	117,518	64,116	(53,402)	139,444
C	Professional Support	354,707	(43,979)	310,728	9,312	(564)	8,748	319,476	921,224	601,748	341,702
D	Government as Shareholder	-	-	-	189,701	(24,673)	165,028	165,028	194,925	29,897	223,395
E	Science and Research	39,938	-	39,938	259,462	-	259,462	299,400	419,406	120,006	324,657
F	Higher Education	-	-	-	5,289,356	(69,239)	5,220,117	5,220,117	6,278,067	1,057,950	5,966,474
G	Further Education	-	-	-	60,352	(708,231)	(647,879)	(647,879)	(793,880)	(146,001)	3,687,928
H	Innovation, Enterprise and Business (NDPB) net	127,484	-	127,484	543,410	-	543,410	670,894	547,524	(123,370)	1,001,096
I	Free and Fair Markets (NDPB) net	26,638	-	26,638	55,167	-	55,167	81,805	73,651	(8,154)	35,209
J	Science and Research (NDPB) net	96,697	-	96,697	4,465,557	-	4,465,557	4,562,254	4,432,381	(129,873)	4,496,397
K	Higher Education (NDPB) net	58,773	-	58,773	4,832,248	-	4,832,248	4,891,021	4,712,874	(178,147)	5,338,467
L	Further Education (NDPB) net	150,351	-	150,351	4,038,601	-	4,038,601	4,188,952	4,314,769	125,817	285,892
M	Government as Shareholder (NDPB) net	243	-	243	(290)	-	(290)	(47)	11,067	11,114	26,041
Total spending in Departmental Expenditure Limit		**856,246**	**(43,979)**	**812,267**	**20,413,035**	**(1,214,256)**	**19,198,779**	**20,011,046**	**21,367,629**	**1,356,583**	**21,662,517**
Annually Managed Expenditure											
Voted											
N	Innovation, Enterprise and Business	-	-	-	(76,132)	(370)	(76,502)	(76,502)	(64,876)	11,626	(775)
O	Free and Fair Markets	-	-	-	447,835	956	448,791	448,791	479,988	31,197	548,595
P	Science Research Councils	-	-	-	49,928	-	49,928	49,928	38,173	(11,755)	32,587

										2011-12 £'000	2010-11 £'000
								Outturn		Estimate	Outturn
		Administration			Programme						
		Gross	Income	Net	Gross	Income	Net	Total	Net Total	Net total compared with Estimate	Total
Q	Higher Education	-	-	-	(1,277,031)	(565,655)	(1,842,686)	(1,842,686)	(1,737,134)	105,552	(1,628,329)
R	Further Education	-	-	-	(888)	-	(888)	(888)	(28)	860	(4,082)
S	Professional Support	-	-	-	8,015	-	8,015	8,015	(44,364)	(52,379)	26,319
T	Government as Shareholder	-	-	-	3,471	(2,732)	739	739	8,084	7,345	10,084
U	Innovation, Enterprise and Business (NDPB) net	-	-	-	38,935	-	38,935	38,935	129,247	90,312	65,884
V	Government as Shareholder (NDPB) net	-	-	-	-	-	-	-	(4,400)	(4,400)	(4,684)
W	Free and Fair Markets (NDPB) net	-	-	-	(1,842)	-	(1,842)	(1,842)	4,869	6,711	(970)
X	Science and Research (NDPB) net	-	-	-	(10,785)	-	(10,785)	(10,785)	71,581	82,366	(31,476)
Y	Higher Education (NDPB) net	-	-	-	(21,731)	-	(21,731)	(21,731)	(19,970)	1,761	(2,087)
Z	Further Education (NDPB) net	-	-	-	(12,112)	-	(12,112)	(12,112)	(20,864)	(8,752)	11,131
Total spending in Annually Managed Expenditure[1]		**-**	**-**	**-**	**(852,337)**	**(567,801)**	**(1,420,138)**	**(1,420,138)**	**(1,159,694)**	**260,444**	**(977,803)**
Non-budget		-	-	-	-	-	-	-	-	-	-
Total[2]		**856,246**	**(43,979)**	**812,267**	**19,560,698**	**(1,782,057)**	**17,778,641**	**18,590,908**	**20,207,935**	**1,617,027**	**20,684,714**

1 The gross resource AME figure is negative as it includes effective interest on student loans (the unwinding of the discount and interest capitalised). Effective interest is treated as income in the Accounts and expenditure in terms of the Estimate.

2 The most significant variances between 2010-11 and 2011-12 are as a result of the Skills Funding Agency having moved from Estimate Lines G and R in 2010-11 to Estimate Lines L and Z in 2011-12.

2.2. Analysis of net capital outturn by section

						2011-12 £'000	2010-11 £'000
				Outturn		Estimate	Outturn
		Gross	Income	Net	Net	Net total compared with Estimate	Net
Spending in Departmental Expenditure Limit							
Voted							
A	Innovation, Enterprise and Business	415,660	(585,343)	(169,683)	(77,808)	91,875	(250,817)
B	Free and Fair Markets	2,465	-	2,465	7,600	5,135	(886)
C	Professional Support	8,372	(1,239)	7,133	8,500	1,367	10,318
D	Government as Shareholder	-	(1,105)	(1,105)	-	1,105	-
E	Science and Research	10,681	(31,887)	(21,206)	34,426	55,632	21,596
F	Higher Education	(3,210)	(324)	(3,534)	-	3,534	34,384
G	Further Education	3,210	-	3,210	5,110	1,900	652,523
H	Innovation, Enterprise and Business (NDPB) net	59,859	-	59,859	47,170	(12,689)	402,313
I	Free and Fair Markets (NDPB) net	1,586	-	1,586	1,600	14	916
J	Science and Research (NDPB) net	777,147	-	777,147	689,756	(87,391)	873,707
K	Higher Education (NDPB) net	100,709	-	100,709	95,400	(5,309)	215,010
L	Further Education (NDPB) net	396,610	-	396,610	399,090	2,480	5,897
M	Government as Shareholder (NDPB) net	-	-	-	-	-	(14,973)
Total spending in Departmental Expenditure Limit		**1,773,089**	**(619,898)**	**1,153,191**	**1,210,844**	**57,653**	**1,949,988**
Annually Managed Expenditure							
Voted							
N	Innovation, Enterprise and Business	-	-	-	-	-	-
O	Free and Fair Markets	-	-	-	-	-	-
P	Science Research Councils	-	-	-	-	-	-
Q	Higher Education	6,534,023	(1,311,433)	5,222,590	5,443,000	220,410	4,418,017
R	Further Education	-	-	-	-	-	-
S	Professional Support	-	-	-	-	-	-
T	Government as Shareholder	5,433,000	(5,194,000)	239,000	750,000	511,000	(261,000)
U	Innovation, Enterprise and Business (NDPB) net	115	-	115	-	(115)	119
V	Government as Shareholder (NDPB) net	-	-	-	-	-	-
W	Free and Fair Markets (NDPB) net	-	-	-	-	-	-
X	Science and Research (NDPB) net	-	-	-	-	-	-
Y	Higher Education (NDPB) net	-	-	-	-	-	-
Z	Further Education (NDPB) net	7,221	-	7,221	4,387	(2,834)	1,031
Total spending in Annually Managed Expenditure		**11,974,359**	**(6,505,433)**	**5,468,926**	**6,197,387**	**728,461**	**4,158,167**
Non-budget		-	-	-	-	-	-
Total		**13,747,448**	**(7,125,331)**	**6,622,117**	**7,408,231**	**786,114**	**6,108,155**

Explanations of the variation between Estimate and Outturn are given in the Financial Overview in chapter 6 of the Annual Report and Accounts.

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

3.1 Reconciliation of net resource outturn to net operating cost

		Note	2011-12 £'000 Outturn	Restated 2010-11 £'000 Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget	2	18,590,908	20,684,714
			18,590,908	**20,684,714**
Add:	Capital grants		1,103,409	1,518,097
	Other:			
	Utilisation of Financial Guarantees	31	59,795	64,463
	Impact of intra group transactions		10,816	-
	Other differences		538	410
Less:	Amortisation of Financial Guarantees	11	(27,433)	(20,417)
	Royal Mail shareholder loan interest	11	(45,255)	(40,529)
	Launch investments realised	11	(88,026)	(99,248)
	Other:			
	Adjustments for components not consolidated		(581)	-
	Adjustments for components with different reporting dates		(2,151)	-
	Items where budgetary treatment is not resource		(3,000)	-
	Other differences		(1,915)	-
Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure			**19,597,105**	**22,107,490**

3.2 Outturn against final Administration Budget and Administration net operating costs

	Note	2011-12 £'000	2010-11 (restated) £'000
Estimate – Administration costs limit		896,136	322,669
CLoS adjustment		-	580,401
Revised Estimate		**896,136**	**903,070**
Outturn – Gross Administration Costs	2	856,246	972,820
Outturn – Gross Income relating to administration costs	2	(43,979)	(69,750)
Outturn – Net administration costs		812,267	903,070
Reconciliation to operating costs:			
Less:			
Provisions utilised		(34,209)	(24,504)
Other differences		(962)	-
Administration Net Operating Costs		**777,096**	**878,566**

4. Reconciliation of Consolidated Statement of Cash Flows to Net Cash Requirement

	Note	2011-12 £'000	2010-11 (restated) £'000
Net cash requirement – Core Department and agencies		(22,530,648)	(23,316,624)
From the Consolidated Fund (Supply) – current year		22,177,388	23,875,172
From the Consolidated Fund (Supply) – prior year		-	-
Amounts due to the Consolidated Fund received and not paid over		52,921	48,531
Amounts due to the Consolidated Fund received in prior year and paid over		(48,531)	(108,999)
Increase/(decrease) in cash held by Core Department and Agencies	26	(348,870)	498,080
Add: increase/(decrease) in cash held by arms length bodies	26	(368,216)	288,947
Net increase/(decrease) in cash held by Departmental Group	26	**(717,086)**	**787,027**

5. Income payable to the Consolidated Fund

5.1 Analysis of income payable to the Consolidated Fund

In addition to income retained, the following income is payable to the Consolidated Fund (cash receipts being shown in italics):

	Outturn 2011-12 £'000		Outturn 2010-11 (restated) £'000	
	Income	*Receipts*	Income	*Receipts*
Operating income outside the ambit of the Estimate	34,908	*35,597*	5,050	*5,773*
Total income payable to the Consolidated Fund	**34,908**	***35,597***	**5,050**	***5,773***

5.2 Consolidated Fund Income

Consolidated Fund income shown in Note 5.1 above does not include any amounts collected by the Core Department where it was acting as agent for the Consolidated Fund rather than as principal.

6. Reporting by operating segment

The Core Department reports its expenditure by operating segment in accordance with IFRS 8 *Operating Segments.*

The Core Department's operations are organised and managed separately according to the nature of its business with each reportable segment representing a business or corporate unit providing funding for different programmes. No operating segments have been aggregated.

The Core Department has organised its activities under the following business and management groups:

- Knowledge and Innovation Group, reporting expenditure on:
  - Science and Research including the Government Office for Science and the Research Councils
  - Innovation including the Technology Strategy Board and National Measurement Office
  - Higher Education including the Higher Education Funding Council for England

- UKSA
- UK Atomic Energy Authority
- Public Data Corporations customer function (in respect of the Met Office and Ordnance Survey)

- Business and Skills Group, reporting expenditure on various initiatives to assist business and enterprise and improve adult skills including:
  - Regional Development Agencies
  - Automotive Assistance Programme
  - Enterprise Fund and Enterprise Capital Fund
  - Skills Funding Agency including Learner and Employer Responsive programmes
  - Launch investments
  - Green Investment Bank
- Market Frameworks Group, reporting expenditure on:
  - Debt Advice Project
  - Citizen's Advice National bodies
  - Consumer Support
  - Acas
  - INSS
- Chief Economic Adviser and Better Regulation Executive reporting expenditure on:
  - Local Better Regulation Office (which ceased to operate at the end of 2011-12)
- Shareholder Executive reporting expenditure on:
  - Post Office and Royal Mail
  - the Met Office and Ordnance Survey (other than the customer function)
- Office of Manpower Economics
- UK Trade & Investment (UKTI) administration expenditure
- Ministerial and Parliamentary Support Team
- Legal, People and Communications reporting expenditure on Legal Group, Human Resources and Communications Group
- Finance and Commercial Group reporting expenditure on finance programmes and corporate services

This segmental presentation is consistent with the information provided to the Core Department's Board, where decisions with regard to resource allocation and financial performance are made.

Finance and Commercial Group includes the central costs of running the Core Department, such as accommodation, facilities management, telecommunications costs and depreciation.

Changes in reportable segments

The income, expenditure and capital reported against reportable segments for 2010-11 has been restated to reflect changes in responsibilities, including those arising from the Machinery of Government Changes detailed in Note 39.

Net expenditure reported to the Board as at 31 March 2012

Expenditure by segment is reported to the Board using separate tables for Administration, Programme, Capital and Annually Managed Expenditure (AME), as shown below. A summary combining the administration, programme and capital expenditure by segment has also been included below.

(a) Administration

Administration resource outturn by Group for the period ending 31 March 2012

Group	2011-12 Net expenditure £m	2010-11 (restated) Net expenditure £m
Knowledge & Innovation	8	17
Government Office for Science	4	4
Knowledge & Innovation Partner Organisations	223	243
Business & Skills	32	38
Business & Skills Partner Organisations	252	305
Market Frameworks	30	26
Market Frameworks Partner Organisations	29	24
Economics, Strategy & Better Regulation	11	15
Economics, Strategy & Better Regulation Partner Organisations	1	2
Shareholder Executive	8	8
Office of Manpower Economics	2	2
UKTI	38	38
Ministerial and Parliamentary Support Team	6	6
Legal, People & Communications	27	45
Finance & Commercial	136	114
Total	**807**	**887**
Of which:		
Core Department	302	313
Agencies, NDPBs and other designated bodies	505	574
Total	**807**	**887**

(b) Programme

Programme DEL resource outturn by Group for the period ending 31 March 2012

Group	2011-12			2010-11 (restated)		
	Near cash £m	Non cash £m	Net expenditure £m	Near cash £m	Non cash £m	Net expenditure £m
Knowledge & Innovation	11,576	3,743	15,319	11,888	4,181	16,069
Business & Skills	3,599	(42)	3,557	3,905	64	3,969
Market Frameworks	148	23	171	145	4	149
Economics, Strategy & Better Regulation	3	-	3	3	-	3
Shareholder Executive	168	-	168	241	-	241
Legal, People & Communications	3	-	3	22	-	22
Finance & Commercial	10	(5)	5	10	-	10
Total	**15,507**	**3,719**	**19,226**	**16,214**	**4,249**	**20,463**

(c) Capital

Capital DEL outturn by Group for the period ending 31 March 2012

Group	2011-12 Net expenditure £m	2010-11 (restated) Net expenditure £m
Knowledge & Innovation	929	1,212
Business & Skills	244	776
Market Frameworks	4	(1)
Shareholder Executive	(1)	1
Finance & Commercial	5	5
Total	**1,181**	**1,993**

(d) Annually Managed Expenditure (AME)

Annually managed expenditure outturn by Group for the period ending 31 March 2012

Group	2011-12			2010-11 (restated)		
	AME Programme	AME Capital	Total AME expenditure	AME Programme	AME Capital	Total AME expenditure
Knowledge & Innovation	(1,808)	5,223	3,415	(1,248)	4,418	3,170
Business & Skills	(107)	5	(102)	10	1	11
Market Frameworks	447	-	447	543	-	543
Shareholder Executive	1	239	240	9	(261)	(252)
Finance & Commercial	5	-	5	21	-	21
Total	**(1,462)**	**5,467**	**4,005**	**(665)**	**4,158**	**3,493**

(e) Summary

Summary of outturn by Group for the period ending 31 March 2012

Group	2011-12 Net expenditure £m	2010-11 (restated) Net expenditure £m
Knowledge & Innovation	19,898	20,715
Business & Skills	3,983	5,099
Market Frameworks	681	741
Economics, Strategy & Better Regulation	15	20
Shareholder Executive	415	(2)
Office of Manpower Economics	2	2
UKTI	38	38
Ministerial and Parliamentary Support Team	6	6
Legal, People & Communications	30	67
Finance & Commercial	151	150
Total	**25,219**	**26,836**

6.1 Reconciliation between Operating Segments and the Consolidated Statement of Comprehensive Net Expenditure

	Knowledge & Innovation £m	Business & Skills £m	Market Frameworks £m	Economics, Strategy & BR £m	Shareholder Executive £m	Office of Manpower Economics £m	UKTI £m	MPST £m	Legal, People & Comms £m	Finance & Commercial £m	Total £m
2011-12											
Total net expenditure per summary of operating cost by reporting segment	19,898	3,983	681	15	415	2	38	6	30	151	**25,219**
Less Capital DEL and AME expenditure	(6,152)	(249)	(4)	-	(238)	-	-	-	-	(5)	**(6,648)**
Total net operating costs by reporting segment	**13,746**	**3,734**	**677**	**15**	**177**	**2**	**38**	**6**	**30**	**146**	**18,571**
Reconciling items:											
Income											
Amortisation of Financial Guarantees	-	(27)	-	-	-	-	-	-	-	-	**(27)**
Royal Mail shareholder loan interest	-	-	-	-	(45)	-	-	-	-	-	**(45)**
Launch investments realised	-	(88)	-	-	-	-	-	-	-	-	**(88)**
Adjustments for components with different reporting dates	-	(2)	-	-	-	-	-	-	-	-	**(2)**
Expenditure											
Capital grants	622	501	-	-	-	-	-	-	-	-	**1,123**
Elimination of intra-group capital grant transactions	(13)	(8)	-	-	-	-	-	-	-	-	**(21)**
Non-supply expenditure	-	-	1	-	-	-	-	-	-	-	**1**
Utilisation of Financial Guarantees	-	60	-	-	-	-	-	-	-	-	**60**
Investment revaluations not included in end year segmental reporting	-	7	-	-	-	-	-	-	-	-	**7**
Elimination of intra-group transactions	11	7	-	-	-	-	-	-	-	-	**18**
Total net expenditure per Consolidated Statement of Comprehensive Net Expenditure	**14,366**	**4,184**	**678**	**15**	**132**	**2**	**38**	**6**	**30**	**146**	**19,597**
2010-11											
Total net expenditure per summary of operating cost by reporting segment	20,715	5,099	741	20	(2)	2	38	6	67	150	**26,836**
Less Capital DEL and AME expenditure	(5,630)	(777)	1	-	260	-	-	-	-	(5)	**(6,151)**
Total net operating costs by reporting segment	**15,085**	**4,322**	**742**	**20**	**258**	**2**	**38**	**6**	**67**	**145**	**20,685**
Reconciling items:											

	Knowledge & Innovation £m	Business & Skills £m	Market Frameworks £m	Economics, Strategy & BR £m	Shareholder Executive £m	Office of Manpower Economics £m	UKTI £m	MPST £m	Legal, People & Comms £m	Finance & Commercial £m	Total £m
Income											
Amortisation of Financial Guarantees	-	(20)	-	-	-	-	-	-	-	-	**(20)**
Launch investments realised	-	(99)	-	-	-	-	-	-	-	-	**(99)**
Royal Mail shareholder loan interest	-	-	-	-	(41)	-	-	-	-	-	**(41)**
Expenditure											
Capital grants	793	725	-	-	-	-	-	-	-	-	**1,518**
Non-supply expenditure	11	(1)	-	-	-	-	-	-	-	-	**10**
Utilisation of Financial Guarantees	-	64	-	-	-	-	-	-	-	-	**64**
Other differences	-	(10)	-	-	-	-	-	-	-	-	**(10)**
Total net expenditure per Consolidated Statement of Comprehensive Net Expenditure	**15,889**	**4,981**	**742**	**20**	**217**	**2**	**38**	**6**	**67**	**145**	**22,107**

6.2 Reconciliation between Operating Segments and Statement of Parliamentary Supply

	Knowledge & Innovation	Business & Skills	Market Frameworks	Economics, Strategy & BR	Shareholder Executive	Office of Manpower Economics	UKTI	MPST	Legal, People & Comms	Finance & Commercial	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2011-12											
Total net expenditure per summary of costs by reporting segment	19,898	3,983	681	15	415	2	38	6	30	151	**25,219**
Reconciling items:											
Expenditure											
Adjustment to provisions costs not included in segmental reporting	-	(4)	-	-	-	-	-	-	-	-	**(4)**
Elimination of intra-Group transactions	(3)	1	-	-	-	-	-	-	-	-	**(2)**
Total net outturn per Statement of Parliamentary Supply	**19,895**	**3,980**	**681**	**15**	**415**	**2**	**38**	**6**	**30**	**151**	**25,213**
2010-11											
Total net expenditure per summary of costs by reporting segment	20,715	5,099	741	20	(2)	2	38	6	67	150	**26,836**
Reconciling items:											
Expenditure											
Other differences	-	10	-	-	-	-	-	-	-	-	**10**
Elimination of intra-Group transactions	116	(168)	(1)	-	-	-	-	-	-	-	**(53)**
Total net outturn per Statement of Parliamentary Supply	**20,831**	**4,941**	**740**	**20**	**(2)**	**2**	**38**	**6**	**67**	**150**	**26,793**

7. Staff numbers and related costs

Staff costs comprise:					**2011-12 £'000**	**(Restated) 2010-11 £'000**
	Permanently employed staff	**Others**	**Ministers**	**Special Advisers**	**Total**	**Total**
Wages and salaries	808,565	66,900	250	142	875,857	1,024,206
Social security costs	73,574	216	46	13	73,849	73,299
Other pension costs*	159,757	234	-	-	159,991	111,439
Sub total	**1,041,896**	**67,350**	**296**	**155**	**1,109,697**	**1,208,944**
Less recoveries in respect of outward secondments	(1,908)	-	-	-	(1,908)	(2,374)
Total net costs	**1,039,988**	**67,350**	**296**	**155**	**1,107,789**	**1,206,570**
Of which:						
Core Department	**157,750**	**5,658**	**296**	**155**	**163,859**	**178,166**
Agencies	**76,623**	**1,413**	**-**	**-**	**78,036**	**92,113**
NDPBs and other designated bodies	**805,615**	**60,279**	**-**	**-**	**865,894**	**936,291**
Total net costs**	**1,039,988**	**67,350**	**296**	**155**	**1,107,789**	**1,206,570**
Of which:			**2011-12**			**2010-11**
	Core Department	**Core Department and Agencies**	**Departmental group**	**Core Department**	**Core Department and Agencies**	**Departmental group**
Admin	**161,543**	**170,579**	**469,323**	**173,455**	**180,948**	**543,329**
Programme	**2,316**	**71,316**	**638,466**	**4,711**	**89,331**	**663,241**
Total net costs	**163,859**	**241,895**	**1,107,789**	**178,166**	**270,279**	**1,206,570**

* Other pension employer contributions in 2010-11 included past service costs. This was a one-off adjustment in 2010-11 as a result of the government announcement in June 2010 that future pension increases would be based on Consumer Price Index (CPI), rather than the Retail Price Index (RPI). Further details can be found in the accounts of the Department's NDPBs and other designated bodies

** Of the total net costs, £4,437,153 has been charged to capital and 32 employees in the Departmental Group are engaged in capital projects.

Staff costs include an accrual for holiday pay in accordance with IAS 19.

Principal Civil Service Pension Scheme (PCSPS)

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit Scheme, but the participating employers within the Departmental Group are unable to identify their share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the Accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2011-12, employers' contributions of £66,902,738 were payable to the PCSPS (2010-11: £82,348,611) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands (the rates in 2010-11 were in the same range). For 2011-12, the employers' contributions payable to the PCSPS were split across the Group as follows:

	2011-12	2010-11
Core Department	24,704,949	27,613,385
Agencies	11,340,914	13,109,411
NDPBs and other designated bodies	30,856,875	41,625,815
Total	**66,902,738**	**82,348,611**

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £3,324,164 (2010-11: £1,467,416) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (the rates in 2010-11 were the same) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of 0.8% (2010-11: also 0.8%) of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. The contributions due to the partnership pension providers at the Statement of Financial Position date were £1,536,594 (2010-11: £409,457) and £111,880 of contributions were prepaid at that date (2010-11: £11,852).

The Scheme's Actuary reviews employer contributions usually every four years following a full Scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

In 2011-12, 7 persons (2010-11: 6 persons) across the group retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £8,422 (2010-11: £137,809).

Other Pension Schemes

Employer contributions to other pension schemes in the year amounted to £83,264,923 (2010-11: £84,945,361). Employer contributions include employers' contributions, current service costs and where appropriate past service costs of funded pension schemes. Further details can be found in the accounts of the Department's NDPBs and other designated bodies. A list of these bodies is provided in Note 41.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as shown in the table below. These figures include those working in the Core Department as well as in Agencies and other bodies included within the Consolidated Departmental Account.

Number of staff by Group	Permanent employed staff	Others	Ministers	Special Advisers	2011-12 Total	Restated 2010-11 Total
Knowledge & Innovation	13,126	642	-	-	**13,768**	**14,550**
Business & Skills	4,707	168	-	-	**4,875**	**6,698**
Market Frameworks	3,837	230	-	-	**4,067**	**4,730**
Economics, Strategy & Better Regulation	207	6	-	-	**213**	**161**
Shareholder Executive	97	19	-	-	**116**	**28**
Office of Manpower Economics	29	-	-	-	**29**	**31**
Ministerial & Parliamentary Support Team	104	27	6	3	**140**	**118**
Legal, People & Communications	411	30	-	-	**441**	**496**
Finance & Commercial	276	16	-	-	**292**	**324**
UKTI	572	12	-	-	**584**	**592**
Total	**23,366**	**1,150**	**6**	**3**	**24,525**	**27,728**
Of which:						
Core Department	3,084	162	6	3	**3,255**	**3,373**
Agencies	2,350	148	-	-	**2,498**	**3,029**
NDPBs and other designated bodies	17,932	840	-	-	**18,772**	**21,326**
Total	**23,366**	**1,150**	**6**	**3**	**24,525**	**27,728**

Staff Receivables

At 31 March 2012 1,865 (31 March 2011: 1,920) employees of the Core Department and its consolidated bodies were in receipt of advances of travel loans (e.g. advances for season tickets, car parking permits, purchase of bicycles) and housing loans, repayable to the employer. The staff receivable amount is disclosed in Note 23.

7.1 Reporting of Civil Service and other compensation schemes – exit packages

Exit packages: Departmental Group

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Less than £10,000	59	192	207	275	266	467
£10,000 – £25,000	147	577	674	651	821	1,228
£25,000 – £50,000	100	75	601	546	701	621
£50,000 – £100,000	27	33	341	378	368	411
£100,000 – £150,000	5	9	60	138	65	147
£150,000 – £200,000	-	4	34	46	34	50
More than £200,000	1	13	9	29	10	42
Total number of exit packages	**339**	**903**	**1,926**	**2,063**	**2,265**	**2,966**
Of which:						
Core department	14	-	237	329	251	329
Agencies	-	-	67	470	67	470
NDPBs and other designated bodies	325	903	1,622	1,264	1,947	2,167
Total number of exit packages	**339**	**903**	**1,926**	**2,063**	**2,265**	**2,966**
Total cost (£)	**8,892,037**	**15,815,809**	**55,593,786**	**91,225,776**	**64,485,823**	**107,041,585**
Of which:						
Core department	301,307	-	15,052,792	27,169,651	15,354,099	27,169,651
Agencies	-	-	1,700,971	17,257,276	1,700,971	17,257,276
NDPBs and other designated bodies	8,590,730	15,815,809	38,840,023	46,798,849	47,430,753	62,614,658
Total	**8,892,037**	**15,815,809**	**55,593,786**	**91,225,776**	**64,485,823**	**107,041,585**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Departmental Group has agreed early retirements, the additional costs are met by the Departmental Group and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

8. Other Administration Costs

	Note	2011-12 £'000			Restated 2010-11 £'000		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Rentals under operating leases:							
Plant and machinery		507	604	3,985	1,076	1,155	4,511
Other		15,570	16,786	39,133	21,279	22,798	50,213
PFI service charges		21,967	21,967	21,967	21,019	21,019	21,019
PFI contract adjustment		16,698	16,698	16,698	-	-	-
Accommodation		26,435	27,991	48,704	22,758	23,867	52,157
Interest charges		-	-	52	-	-	38
Bank charges		18	22	453	20	38	392
Professional services		11,876	10,425	20,138	11,591	11,697	19,115
Consultancy		9,133	9,375	27,097	5,843	5,574	32,984
IT support		11,100	14,322	56,388	8,685	10,603	47,480
Training and other staff costs		6,918	7,399	16,124	2,422	2,826	25,012
Severance payments		4,720	4,720	5,383	9,000	9,000	18,162
Travel and subsistence		5,868	6,329	17,059	5,191	5,608	18,024
Facilities management contract		1,819	1,819	2,134	1,712	1,712	1,860
Telecommunications services		2,242	2,381	8,527	1,937	2,116	9,350
Postage and freight		568	722	1,363	681	909	1,905
Hire of conference facilities		1,058	1,071	1,723	1,136	1,143	1,801
Catering services		428	439	1,750	446	465	1,551
Advertising and publicity		844	904	2,919	939	995	4,482
Research and development		109	109	170	38	38	117
Auditors' remuneration and expenses		-	-	2,162	-	-	2,074
Other		565	2,674	16,377	529	3,759	14,670
		138,443	**146,757**	**310,306**	**116,302**	**125,322**	**326,917**
Non-cash expenditure		9,310	10,388	69,096	14,136	14,729	78,070
Total other administration costs		**147,753**	**157,145**	**379,402**	**130,438**	**140,051**	**404,987**

Non-cash expenditure is analysed as follows:

	Note	2011-12 £'000			Restated 2010-11 £'000		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Depreciation	13	6,844	7,651	15,122	10,622	11,007	22,091
Amortisation	15	843	965	31,668	1,175	1,219	32,601
Impairment of property plant and equipment		-	-	3,228	-	-	1,968
Reversal of impairment of investments		-	-	(33)	-	-	-
Impairment of intangible assets		-	-	8	-	-	-
Impairment of assets held for sale		-	-	239	-	-	-
Impairment of inventories		-	-	-	-	-	1,200
Loss/(gain) on derecognition of assets		-	-	137	-	-	(880)
Revaluation of property, plant and equipment		-	-	-	-	-	341
Revaluation of intangible assets		-	-	2,795	-	-	(128)
Profit on disposal of property, plant and equipment		-	-	(139)	-	-	(1)
Loss on disposal of property, plant and equipment		835	835	10,263	1,910	1,928	1,929
Loss on disposal of intangibles		-	-	4,663	9	9	15,199
Loss on sale of investments		-	-	-	-	-	1,489
Profit on sale of investments		-	-	(27)	-	-	-
Auditors' remuneration and expenses		788	937	1,107	420	566	764
Specific bad debt write off		-	-	15	-	-	-
Movement in provision for bad debts		-	-	-	-	-	1,457
Interest on pension liabilities		-	-	50	-	-	40
Total non-cash expenditure		**9,310**	**10,388**	**69,096**	**14,136**	**14,729**	**78,070**

Auditors' remuneration

Core Department

During the year the Core Department did not purchase any non-audit services from its auditor, the National Audit Office. The non-cash auditors' remuneration of £788,000 represents the cost of the audit of the 2011-12 group accounts, which includes the audit of the 2010-11 restatement on a Clear Line of Sight basis.

Agencies

During the year the Departmental Group's Agencies did not purchase any non-audit services from their auditor, the National Audit Office. Details of the non-cash auditors' remuneration of £149,000 can be found in the accounts of the individual agencies.

NDPBs and other designated bodies

The non-cash auditors' remuneration of £170,000 relates to the audit of the Skills Funding Agency.

The cash remuneration of £2,161,914 relates to the statutory audit of NDPBs and other designated bodies, with a further £47,000 in respect of non-audit work. Of this £95,650 was payable to auditors other than the NAO. Further details can be obtained from the accounts of the NDPBs and other designated bodies.

9. Programme Costs

				2011-12 £'000			Restated 2010-11 £'000
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Grant in aid		15,270,248	15,270,248	-	17,624,342	17,624,342	-
Other grants		2,631,846	2,679,410	16,698,119	2,766,298	2,782,833	18,874,208
Redundancy Payments Service		357,531	357,531	357,531	396,341	396,341	396,341
Subsidies to other bodies		-	-	33,045	-	-	61,358
Outsourced programme management		10,237	10,237	18,253	29,956	29,956	31,949
Paternity and adoption pay		84,575	84,575	84,575	57,039	57,039	57,039
Investigation costs		-	12,162	12,276	-	17,180	19,984
Purchase of geographic and mapping information		94,248	94,248	94,248	45,282	45,282	45,282
International subscriptions		21,844	221,751	344,022	32,815	249,364	361,693
Interest on NLF loans on-lent to Royal Mail Holdings plc		47,860	47,860	47,860	42,123	42,123	42,123
EU Division payments		-	-	-	33,048	33,048	33,048
Research and development		10,976	65,689	142,789	12,594	66,898	148,308
Severance payments		16,000	17,572	90,339	10,582	24,009	50,842
IT costs		4,508	11,755	36,004	9,123	20,829	55,020
Advertising and publicity		2,402	2,559	15,749	585	706	13,985
Consultancy		2,495	8,103	39,382	1,198	7,205	42,319
Accommodation		(80)	17,987	137,718	488	19,709	140,037
Net loss/ (gain) on foreign exchange		(119)	85	1,285	(170)	(170)	1,578
Charges under finance leases		-	-	922	-	86	1,028
Auditors' remuneration		-	-	180	-	-	838
Interest on overdrafts		-	-	-	-	-	15
Rental under operating leases – plant and machinery		8	479	3,419	5	489	3,795

	Note	2011-12 £'000			Restated 2010-11 £'000		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Media and design services		2,265	2,306	3,112	11,946	11,948	13,591
Sponsorship		1,000	1,062	5,842	1,898	1,901	9,163
Enforcement		8,687	8,085	8,085	7,248	7,248	7,248
Administration of grants and awards		5,987	5,987	15,389	5,097	5,097	19,021
Contributions to other programmes		9,384	11,392	11,218	3,658	4,174	3,995
Legal costs		2,166	2,240	4,650	2,699	2,699	5,787
Project management costs		247	247	22,701	581	594	34,827
Purchase of scientific equipment		-	819	30,041	-	-	23,708
Telecommunications costs		2,063	2,751	20,265	4	902	15,804
Postage and freight		-	862	10,296	11	927	9,514
Travel and subsistence		475	1,570	41,773	1,273	2,569	39,561
Printing and stationery		136	718	8,177	13	1,632	13,438
Equipment support for the Public Weather Service and polar satellites		77,002	77,002	77,002	76,221	76,221	76,221
Other		3,262	6,186	297,244	8,091	11,018	289,724
		18,667,253	**19,023,478**	**18,713,511**	**21,180,389**	**21,544,199**	**20,942,392**
Non-cash expenditure		3,663,567	3,717,203	4,090,083	4,554,117	4,669,199	5,021,699
Total other programme costs		**22,330,820**	**22,740,681**	**22,803,594**	**25,734,506**	**26,213,398**	**25,964,091**

Auditors' remuneration

NDPBs and other designated bodies

The auditors' remuneration of £179,964 is in respect of the statutory audit of NDPBs and other designated bodies, with a further £2,500 in respect of non-audit work. Of this amount £39,841 was payable to auditors other than the NAO. Further details can be found in the accounts of the NDPBs and other designated bodies.

Redundancy Payments Scheme

The Core Department is responsible for the approval and processing of claims under the Redundancy Payment Scheme (RPS), which is financed from the National Insurance Fund. Redundancy payments are made from the National Insurance (NI) Fund to employees whose employers have failed to make payments due or who were insolvent. The scheme is administered by the Insolvency Service (INSS) who have a service level agreement with HM Revenue and Customs. Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during 2011-12 was £2,712 (2010-11: £2,771). An average amount of £1,283 was paid during 2011-12 for RP2 (2010-11: £1,289).

There is associated income related to this Scheme arising from two sources:

- Solvent Recovery – where monies are recovered over a period of up to three years from companies, setting up a standing order, that are continuing to trade but would not be able to do so if they had to meet the full costs of redundancy payments at that time; and
- Insolvent Recovery – the Core Department becomes a creditor receiving a dividend if there are sufficient funds on the winding up of the company.

Expenditure in respect of RPS in 2011-12 totalled £407 million (2010-11: £445 million) against income of £49 million (2010-11: £49 million), the net of which is disclosed in this note.

Non-cash expenditure is analysed as follows:

				2011-12 £'000			**Restated 2010-11 £'000**
	Note	**Core Department**	**Core Department and Agencies**	**Departmental Group**	**Core Department**	**Core Department and Agencies**	**Departmental Group**
Depreciation	13	6,744	17,291	140,098	6,811	17,119	133,673
Amortisation	15	-	2,092	44,064	-	1,370	33,206
Revaluation of assets:							
Property, plant and equipment		-	-	(89)	-	583	(7,005)
Intangible assets		-	-	-	-	-	46
Investment properties		-	-	(965)	-	-	(687)
Assets held for sale		-	-	135	-	-	(1,157)
Other investments and financial assets		-	-	(10,537)	-	-	(895)
Profits on disposal of assets:							
Property, plant and equipment		-	-	(1,094)	-	-	(446)
Investment property		-	-	-	-	-	(6,276)
Assets held for sale		-	-	(1,559)	-	-	-
Other investments		-	-	(40,900)	-	-	(7,145)
Losses on disposal of assets:							
Property, plant and equipment		-	131	3,473	-	578	729
Other investments		-	-	1,417	-	-	-
Inventories		-	-	-	-	-	5,068
Profit on acquisition of assets from RDAs	40	(107,215)	(107,215)	-	-	-	-
Loss on acquisition of liabilities from RDAs	40	65,970	65,970	-	-	-	-
Share of loss on joint ventures and associates		806	806	27,896	-	-	24,594
Impairment of assets:							
Property, plant and equipment		-	1,065	29,872	-	-	15,885
Intangible assets		-	1,327	6,370	-	-	(21)
Investments		28,975	28,975	48,809	20,134	20,134	29,148
Inventories		-	-	12,137	-	-	42,469
Interest on pension liabilities		-	-	48,107	-	-	45,393
Bad debt write off		5	16,562	21,010	28	96,762	96,620
Movement in bad debt provision		2,019	2,150	36,022	-	-	277

Non-cash expenditure is analysed as follows:

		2011-12 £'000			Restated 2010-11 £'000		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Movement in bad debt provision for student grants		31,166	31,166	31,166	24,591	24,591	24,591
Movement in minority interest		-	-	(4,166)	-	-	1,082
Student loans:							
Policy write-off impairment charge for year		696,490	696,490	696,490	678,110	678,110	678,110
Amortisation of loans issued	20	1,236,383	1,236,383	1,236,383	1,021,639	1,021,639	1,021,639
Tuition fee loan accrual adjustment		92,748	92,748	92,748	76,862	76,862	76,862
Base rate cap impairment	20	512,525	512,525	512,525	503,485	503,485	503,485
Movement in base rate cap impairment provision	20	53,667	53,667	53,667	979,622	979,622	979,622
Changes in assumptions and modelling	20	942,244	942,244	942,244	1,123,146	1,123,146	1,123,146
HMRC employer recoveries written off	35	376	376	376	888	888	888
Financial guarantee premium income:							
Movement in bad debt provision		(1,231)	(1,231)	(1,231)	14,675	14,675	14,675
Student loan debt sale subsidy:							
Unwinding of discount	32	4,206	4,206	4,206	5,947	5,947	5,947
Provided for /(released)	32	23,624	23,624	23,624	(74,643)	(74,643)	(74,643)
Provisions:							
Provided for / (released)	28	49,405	71,191	104,812	164,080	169,589	243,479
Financial guarantees:							
Provided for / (released)		24,660	24,660	32,973	8,742	8,742	19,340
Total non-cash expenditure		**3,663,567**	**3,717,203**	**4,090,083**	**4,554,117**	**4,669,199**	**5,021,699**

10. Administration and Programme non-cash costs summary

The total for non cash costs in Note 8 (other Administration costs) and Note 9 (other Programme costs) is as follows:

		2011-12 £'000			2010-11 £'000		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Auditors' remuneration	8,9	788	937	1,107	420	566	764
Depreciation and amortisation	8,9	14,431	27,999	230,952	18,608	30,715	221,571
Loss on disposal of property, plant and equipment	8,9	835	966	13,736	1,910	2,506	2,658
Loss on disposal of Intangibles	8,9	-	-	4,663	9	9	15,199
Profit on disposal of property, plant and equipment	8,9	-	-	(1,233)	-	-	(447)
Profit on disposal of assets held for sale	8,9	-	-	(1,559)	-	-	-

	Note	2011-12 £'000			2010-11 £'000		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Profit on acquisition of assets from RDAs	9, 40	(107,215)	(107,215)	-	-	-	-
Loss on acquisition of liabilities from RDAs	9, 40	65,970	65,970	-	-	-	-
Share of loss of associates and joint ventures	8,9	806	806	27,896	-	-	24,594
Loss on disposal of other investments	8,9	-	-	1,417	-	-	1,489
Profit on disposal of other investments	8,9	-	-	(40,927)	-	-	(7,145)
Profit on disposal of investment property	8,9	-	-	-	-	-	(6,276)
Loss on disposal of inventories	8,9	-	-	-	-	-	5,068
Revaluation of non-current assets	8,9	-	-	(8,661)	-	583	(9,485)
Impairments	8,9	28,975	31,367	100,630	20,134	20,134	90,649
Movement in bad debt provision	8,9	31,954	32,085	65,957	39,266	39,266	41,000
Bad debt write off	8,9	5	16,562	21,025	28	96,762	96,620
Interest on pension liabilities	8,9	-	-	48,157	-	-	45,433
Movement in minority interest	9	-	-	(4,166)	-	-	1,082
Loss on derecognition of assets	8	-	-	137	-	-	(880)
Student loans	9	3,534,433	3,534,433	3,534,433	4,383,752	4,383,752	4,383,752
Student loan debt sale subsidy	9	4,206	4,206	4,206	5,947	5,947	5,947
Debt sale provided (released in year)	9	23,624	23,624	23,624	(74,643)	(74,643)	(74,643)
Movements in provisions	9	74,065	95,851	137,785	172,822	178,331	262,819
Total		**3,672,877**	**3,727,591**	**4,159,179**	**4,568,253**	**4,683,928**	**5,099,769**

11. Income

	Note	2011-12 £'000			Restated 2010-11 £'000		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Administration Income:							
Fees and charges from external customers:							
Recoveries of conference and catering costs		1,683	1,670	1,616	1,413	1,401	1,371
Fee income		302	9,502	10,026	385	10,272	10,808
Receipts for legal services		3,247	3,247	3,247	671	671	671
Other recoveries		4,407	3,037	17,342	947	904	16,001
Other fees and charges receivable from other Departments		27,299	26,466	18,774	15,484	15,483	8,340
Sale of goods and services		-	-	2,487	-	-	10,491

	Note	2011-12 £'000 Core Department	2011-12 £'000 Core Department and Agencies	2011-12 £'000 Departmental Group	Restated 2010-11 £'000 Core Department	Restated 2010-11 £'000 Core Department and Agencies	Restated 2010-11 £'000 Departmental Group
Bank interest		-	-	1,209	-	-	896
Other administration income		434	334	16,928	67	67	21,172
Total Administration Income		***37,372***	***44,256***	***71,629***	***18,967***	***28,798***	***69,750***
Programme Income:							
Funding from other Government Departments for:							
RDAs /LDA		499,818	499,818	499,818	1,014,345	1,014,345	1,014,345
UKCES		1,394	1,394	1,394	3,020	3,020	3,020
LSIS		-	-	-	16,949	16,949	16,949
HEFCE		-	-	-	823	823	823
European Union funding		43	43	187,548	1,156	1,156	668,666
Skills Funding Agency		770,717	770,717	770,717	802,174	802,174	802,174
Other income from other Government Departments		7,121	8,941	8,941	15,498	15,498	15,498
Programme fee income		-	-	103,406	-	-	116,674
Capital grant receipts		-	-	32,477	-	-	33,715
Pension contributions		-	-	67	-	-	19
Investment property rental income		-	-	6,295	-	-	4,693
Sales of goods and services		-	-	189,045	-	-	115,215
Industry Training Boards (ITBs) levy income		-	-	179,163	-	-	192,094
CITB-CS awarding body Income		-	-	33,767	-	-	33,907
Ordnance survey income		-	-	-	20,861	20,861	20,861
Grants recorded as income (from the public sector)		-	-	12,325	-	-	33,290
Grants recorded as income (from the private sector)		-	-	57,089	-	-	86,240
Dividend income: Public Dividend Capital		30,745	30,745	30,745	18,489	18,489	18,489
Special dividend (BNFL)		-	-	-	32,000	32,000	32,000
Other dividend income		-	-	2,136	-	-	2,376
Bank interest		-	-	1,097	-	-	1,013
Interest on loans advanced to IPO		110	110	110	126	126	126
Interest received from private and voluntary sector		-	-	3,014	-	-	3,226
Interest received from loan to Post Office Ltd		2,732	2,732	2,732	1,592	1,592	1,592
Interest on Met Office loan		7	7	7	95	95	95
Other interest receivable		6	6	11,599	171	171	9,265
INSS receipts		-	92,795	92,795	-	148,547	148,547
NPL rental income		-	12,834	12,834	-	10,231	10,231
Student grant recoveries		56,273	56,273	56,273	45,035	45,035	45,035
Consumer Focus Recoveries		7,089	7,089	7,089	7,377	7,377	7,377

	Note	2011-12 £'000			Restated 2010-11 £'000		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Interest received on NLF loan on-lent to Royal Mail		47,860	47,860	47,860	42,123	42,123	42,123
Other income		55,928	58,291	64,849	19,102	28,643	56,575
Non cash:							
Student loans capitalised interest		565,655	565,655	565,655	246,574	246,574	246,574
Launch investment income realised	3.1	88,026	88,026	88,026	99,248	99,248	99,248
Amortisation of financial guarantees	3.1	27,433	27,433	27,433	20,417	20,417	20,417
Effective interest – launch investments		66,505	66,505	66,505	60,034	60,034	60,034
Effective interest – student loans		1,334,989	1,334,989	1,334,989	1,328,101	1,328,101	1,328,101
Effective interest – financial guarantees		2,022	2,022	2,022	622	622	622
Effective interest – fee income (INSS)		-	998	998	-	4,889	4,889
Deferred income		-	-	12,465	-	-	2,441
Funded pension scheme expected return on assets		-	-	60,714	-	-	58,292
Release from reserves		-	-	2,797	-	-	1,008
Interest receivable from Royal Mail shareholder loan	3.1	45,255	45,255	45,255	40,529	40,529	40,529
Total non-cash		***2,129,885***	***2,130,883***	***2,206,859***	***1,795,525***	***1,800,414***	***1,862,155***
Total programme income		***3,609,728***	***3,720,538***	***4,622,051***	***3,836,461***	***4,009,669***	***5,398,408***
Total operating income		**3,647,100**	**3,764,794**	**4,693,680**	**3,855,428**	**4,038,467**	**5,468,158**

Dividend income for 2011-12 relating to Public Dividend Capital includes dividends of £4 million from UKIPO (2010-11: £2 million), £17 million from Ordnance Survey (2010-11: £6 million), £8 million from Met Office (2010-11: £8 million) and £2 million from Companies House (2010-11: £2 million).

12. Discontinued operations

During the reporting period, the Regional Development Agencies and Ufl Charitable Trust (UCT) disclosed discontinued operations in their own accounts, as required by IFRS 5. However, these have not been disclosed as discontinued operations for the Departmental Group as the value of discontinued operations within the Departmental Group is not considered to represent a significant percentage of net expenditure and the Core Department will continue to operate in the geographical areas previously covered by the RDAs and Ufl Limited.

A number of RDA operations have been disposed of in year and fall under the definition of 'discontinued' in their own financial statements. This includes work in relation to Inward Investment, various projects in respect of business support and many other grant programmes and projects including the Manufacturing Advisory Service. Ufl Ltd was sold by UCT to a private equity house on 4 October 2011 for £36.3 million, and now operates as an independent training provider. The sale was a complete break from Central Government control and ownership.

Included within the Statement of Comprehensive Net Expenditure for 2011-12 is £367 million of net expenditure relating to the discontinued operations of the Regional Development Agencies (2010-11: £899 million) and £5 million of net income relating to the discontinued operations of Ufl Ltd (2010-11: £9 million).

The net cash outflow from discontinued operations was £223 million in 2011-12 (2010-11: £43 million). This comprised operating cash outflows of £472 million (2010-11: £983 million), investing cash inflows of £12 million (2010-11: £4 million) and financing cash inflows of £238 million (2010-11: £937 million).

13. Property, plant and equipment

Consolidated 2011-12	Land £'000	Freehold Buildings £'000	Dwellings £'000	Leasehold Improvements £'000	Information Technology £'000	Plant and Machinery £'000	Furniture, Fixtures and Fittings £'000	Transport Equipment £'000	Assets under Construction £'000	Total £'000
Cost or valuation (restated)										
At 31 March 2011	213,139	1,443,506	36,167	54,556	187,477	1,279,765	63,639	241,020	543,744	4,063,013
Transfer out of Design Council	-	-	-	(2,756)	(329)	-	(503)	-	-	(3,588)
Restated balance at 1 April 2011	213,139	1,443,506	36,167	51,800	187,148	1,279,765	63,136	241,020	543,744	4,059,425
Additions	-	17,135	1,614	103	19,386	31,443	1,524	1,282	203,060	275,547
Disposals	(1,850)	(141,875)	(184)	(16,333)	(39,081)	(77,329)	(30,151)	(3,146)	-	(309,949)
Impairments	(2,227)	(29,502)	-	-	(990)	(2,562)	(59)	(1)	(5,033)	(40,374)
Transfers	-	-	(651)	-	-	(6,630)	(22)	-	(40,204)	(47,507)
Reclassifications	-	(39,947)	-	99,354	18,451	26,760	(124)	-	(69,270)	35,224
Revaluations	3,508	50,367	1,930	2,662	233	242	59	3,414	54,053	116,468
At 31 March 2012	**212,570**	**1,299,684**	**38,876**	**137,586**	**185,147**	**1,251,689**	**34,363**	**242,569**	**686,350**	**4,088,834**
Depreciation (restated)										
At 31 March 2011	(5,799)	(691,322)	(3,751)	(23,408)	(147,286)	(753,682)	(39,142)	(148,932)	-	(1,813,322)
Transfer out of Design Council	-	-	-	2,504	270	-	471	-	-	3,245
Restated balance at 1 April 2011	(5,799)	(691,322)	(3,751)	(20,904)	(147,016)	(753,682)	(38,671)	(148,932)	-	(1,810,077)
Charged in year	(303)	(34,632)	(1,099)	(8,024)	(28,197)	(68,343)	(5,659)	(8,963)	-	(155,220)
Disposals	197	65,101	161	13,375	37,266	72,509	21,227	2,906	-	212,742
Impairments	-	15,302	-	-	(121)	(7,014)	(582)	(67)	-	7,518
Transfers	-	-	-	-	-	-	18	-	-	18
Reclassifications	(175)	31,349	-	(26,905)	30	(4,322)	46	-	-	23
Revaluations	(134)	(20,583)	-	(695)	3,133	29,836	(67)	(1,044)	-	10,446
At 31 March 2012	**(6,214)**	**(634,785)**	**(4,689)**	**(43,153)**	**(134,905)**	**(731,016)**	**(23,688)**	**(156,100)**	**-**	**(1,734,550)**
Carrying amount at 31 March 2011	**207,340**	**752,184**	**32,416**	**31,148**	**40,191**	**526,083**	**24,497**	**92,088**	**543,744**	**2,249,691**
Carrying amount at 31 March 2012	**206,356**	**664,899**	**34,187**	**94,433**	**50,242**	**520,673**	**10,675**	**86,469**	**686,350**	**2,354,284**
Asset financing:										
Owned	191,881	664,899	34,187	94,433	48,619	520,673	10,675	67,959	686,350	2,319,676
Finance leased	14,475	-	-	-	934	-	-	18,510	-	33,919

Consolidated 2011-12	Land £'000	Freehold Buildings £'000	Dwellings £'000	Leasehold Improvements £'000	Information Technology £'000	Plant and Machinery £'000	Furniture, Fixtures and Fittings £'000	Transport Equipment £'000	Assets under Construction £'000	Total £'000
On balance sheet (SoFP) PFI and other service concession arrangements	-	-	-	-	689	-	-	-	-	689
Carrying amount at 31 March 2012	**206,356**	**664,899**	**34,187**	**94,433**	**50,242**	**520,673**	**10,675**	**86,469**	**686,350**	**2,354,284**
Of the total:										
Department	-	-	-	14,326	10,046	59,142	1,402	-	27,949	112,865
Agencies	9,302	97,904	-	-	2,016	74,408	133	1	785	184,549
NDPBs and other designated bodies	197,054	566,995	34,187	80,107	38,180	387,123	9,140	86,468	657,616	2,056,870
Carrying amount at 31 March 2012	**206,356**	**664,899**	**34,187**	**94,433**	**50,242**	**520,673**	**10,675**	**86,469**	**686,350**	**2,354,284**

Consolidated 2010-11	Land £'000	Freehold Buildings £'000	Dwellings £'000	Leasehold Improvements £'000	Information Technology £'000	Plant and Machinery £'000	Furniture, Fixtures and Fittings £'000	Transport Equipment £'000	Assets under Construction £'000	Total £'000
Cost or valuation (restated)										
At 1 April 2010	192,475	1,436,949	35,953	53,548	194,827	1,286,337	68,508	197,754	438,274	3,904,625
Additions	3	23,440	208	133	15,395	35,549	2,163	4,922	170,962	252,775
Disposals	(949)	(8,578)	(154)	(4,911)	(11,822)	(111,939)	(7,907)	(2,651)	(8,944)	(157,855)
Impairments	(702)	(34,498)	(1,332)	-	(986)	971	(564)	(1)	(232)	(37,344)
Transfers	(3,310)	(7,586)	-	-	(2,449)	-	(231)	-	(352)	(13,928)
Reclassifications	117	31,349	-	5,936	920	42,122	1,646	325	(82,123)	292
Revaluations	25,505	2,430	1,492	(150)	(8,408)	26,725	24	40,671	26,159	114,448
At 31 March 2011	**213,139**	**1,443,506**	**36,167**	**54,556**	**187,477**	**1,279,765**	**63,639**	**241,020**	**543,744**	**4,063,013**
Depreciation (restated)										
At 1 April 2010	(2,835)	(694,079)	(2,871)	(19,983)	(137,503)	(785,394)	(41,293)	(102,450)	-	(1,786,408)
Charged in year	(132)	(34,496)	(916)	(6,458)	(31,284)	(68,697)	(5,820)	(7,961)	-	(155,764)
Disposals	-	5,730	12	2,994	11,099	109,651	7,624	940	-	138,050
Impairments	-	19,738	18	-	595	(960)	100	-	-	19,491
Reclassifications	-	2,092	-	-	2,271	-	530	-	-	4,893
Transfers	-	(68)	-	-	(1,142)	(493)	(385)	(33)	-	(2,121)
Revaluations	(2,832)	9,761	6	39	8,678	(7,789)	102	(39,428)	-	(31,463)

Consolidated 2010-11	Land £'000	Freehold Buildings £'000	Dwellings £'000	Leasehold Improvements £'000	Information Technology £'000	Plant and Machinery £'000	Furniture, Fixtures and Fittings £'000	Transport Equipment £'000	Assets under Construction £'000	Total £'000
At 31 March 2011	**(5,799)**	**(691,322)**	**(3,751)**	**(23,408)**	**(147,286)**	**(753,682)**	**(39,142)**	**(148,932)**	**-**	**(1,813,322)**
Carrying amount at 1 April 2010	**189,640**	**742,870**	**33,082**	**33,565**	**57,324**	**500,943**	**27,215**	**95,304**	**438,274**	**2,118,217**
Carrying amount at 31 March 2011	**207,340**	**752,184**	**32,416**	**31,148**	**40,191**	**526,083**	**24,497**	**92,088**	**543,744**	**2,249,691**
Asset financing:										
Owned	191,732	752,184	32,416	31,148	33,247	526,083	24,497	72,440	526,883	2,190,630
Finance leased	15,608	-	-	-	736	-	-	19,648	16,861	52,853
On balance sheet (SoFP) PFI and other service concession arrangements	-	-	-	-	6,208	-	-	-	-	6,208
Carrying amount at 31 March 2011	**207,340**	**752,184**	**32,416**	**31,148**	**40,191**	**526,083**	**24,497**	**92,088**	**543,744**	**2,249,691**
Of the total:										
Department	-	-	-	20,103	1,669	65,901	1,923	-	29,320	118,916
Agencies	9,302	92,932	-	856	5,173	75,755	132	2	910	185,062
NDPBs and other designated bodies	198,038	659,252	32,416	10,189	33,349	384,427	22,442	92,086	513,514	1,945,713
Carrying amount at 31 March 2011	**207,340**	**752,184**	**32,416**	**31,148**	**40,191**	**526,083**	**24,497**	**92,088**	**543,744**	**2,249,691**
Carrying amount at 1 April 2010	**189,640**	**742,870**	**33,082**	**33,565**	**57,324**	**500,943**	**27,215**	**95,304**	**438,274**	**2,118,217**
Of the total:										
Department	-	-	-	21,055	5,567	72,644	1,466	-	25,535	126,267
Agencies	8,859	94,515	-	1,028	8,524	69,049	151	2	5,853	187,981
NDPBs and other designated bodies	180,781	648,355	33,082	11,482	43,233	359,250	25,598	95,302	406,886	1,803,969
Carrying amount at 1 April 2010	**189,640**	**742,870**	**33,082**	**33,565**	**57,324**	**500,943**	**27,215**	**95,304**	**438,274**	**2,118,217**

Assets held by the Core Department

Following the Machinery of Government change in which responsibility for the Met Office was transferred from the MoD to BIS, the Core Department became responsible for the first generation polar satellite programme. The UK's share of the first generation polar satellite has been capitalised as part of Plant & Machinery. The carrying value at 31 March 2012 is £59 million (2010-11: £66 million).

Further information about the assets of the Agencies, NDPBs and other designated bodies can be found in the individual bodies' accounts.

Assets under construction

At 31 March 2012 MRC had assets under construction (AuC) of £274 million (2010-11: £246 million). The most significant of these assets relates to the new building for the Laboratory of Molecular Biology (LMB).

At 31 March 2012, STFC had AuC of £109 million (2010-11: £58 million) including the upgrade of the Centre of Excellence in Computational Science and Engineering's computing infrastructure and the replacement and upgrade of elements of the ISIS Target Station.

NERC had AuC of £106 million (2010-11: £68 million). The most significant of these relate to the Halley V1 Antarctic Base and the Discovery research ship replacement.

BBSRC has AuC of £93 million (2010-11: £68 million), including the construction of the Institute of Animal Health's new development at Pirbright, to replace the existing ageing facilities.

Reconciliation of cash payments to additions

The total property, plant and equipment and intangible asset additions as disclosed in Notes 13 and 15, amounting to £321 million (2010-11 restated: £307 million), can be reconciled to the cash payments made during the year as follows:

	Note	**2011-12 £'000**	**2010-11 £'000**
Cash payments made to purchase:			
Property, plant and equipment		273,956	232,427
Intangible assets		2,583	23,890
		276,539	**256,317**
Movement in payables		-	(6)
Accrued expenditure		22,981	29,105
Intellectual property rights to reserves		21,388	21,119
Additions, as disclosed in Notes 13 and 15	13, 15	**320,908**	**306,535**

Reconciliation of cash receipts to disposals

The total property, plant and equipment and intangible asset disposals as disclosed in notes 13 and 15, amounting to £106 million (2010-11 restated: £36 million) can be reconciled to the cash receipts for the year as follows:

	Note	2011-12 £'000	2010-11 £'000
Cash receipts from disposal of:			
Property, plant and equipment		60,356	46,840
Intangible assets		3,874	1,337
		64,230	**48,177**
Non cash profit or loss on disposal	10	17,166	17,410
Movement in receivables		24,368	(29,246)
Disposal of assets, as disclosed in Notes 13 and 15	13, 15	**105,764**	**36,341**

13.1 The carrying amount of land and buildings comprises:

	31 March 2012		31 March 2011		1 April 2010	
	Land £'000	Buildings £'000	Land £'000	Buildings £'000	Land £'000	Buildings £'000
Freehold	191,881	664,899	191,732	752,184	173,830	742,870
Leasehold	14,475	-	15,608	-	15,810	-
Total	**206,356**	**664,899**	**207,340**	**752,184**	**189,640**	**742,870**

Land and Buildings

As at 31 March 2012, the Core Department did not own any land and buildings.

The professional valuation of land and buildings undertaken within the Departmental Group's Agencies, NDPBs and other designated bodies, were prepared in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation Standards (6th Edition) the 'Red Book'. Unless otherwise stated land and buildings are professionally revalued every five years and where appropriate, in the intervening period relevant indices are used. Further information can be found in the financial statements of the individual bodies' accounts.

14. Investment properties

	Note	£'000		
		Core Department	Core Department and Agencies	Departmental Group
Balance at 1 April 2010 (restated)		**-**	**-**	**52,920**
Revaluation		-	-	687
Disposal		-	-	(15,730)
Balance at 1 April 2011 (restated)		**-**	**-**	**37,877**
Revaluation		-	-	965
Reclassification		-	-	2,445
Balance at 31 March 2012		**-**	**-**	**41,287**

Investment properties are held by UK Atomic Energy Authority and TSB either for rental yields or capital appreciation.

The TSB properties were transferred from the North East RDA as at 30 March 2012. They were transferred at fair value for no consideration into inventories (Note 22 refers) and were subsequently reclassified as investment properties in accordance with IAS 40. For the period ended 31 March 2012 no amounts were recognised in the Consolidated Statement of Comprehensive Net Expenditure for these investment properties.

The UK Atomic Energy Authority properties were valued at fair value at 28 February 2011 by independent valuers. The valuations were undertaken by the Valuation Office in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. This valuation has been adopted at the reporting date on the grounds that there were no material changes between the valuation date and the reporting date.

The rental income recognised in the Consolidated Statement of Comprehensive Net Expenditure for the UK Atomic Energy Authority properties amounted to £2,042,000 in 2011-12 (2010-11: £1,825,000).

15. Intangible Assets

Consolidated 2011-12	**Assets under Construction £'000**	**Information Technology £'000**	**Software Licences £'000**	**Website £'000**	**Development Expenditure £'000**	**Patents £'000**	**Total £'000**
Cost or Valuation							
At 1 April 2011	12,272	150,967	40,339	2,053	1,764	282,414	489,809
Additions	20,043	2,660	1,270	-	-	21,388	45,361
Disposals	-	(25,842)	(23,609)	(1,758)	-	-	(51,209)
Impairments	-	(7,275)	(8)	-	-	-	(7,283)
Transfers	(21,668)	21,420	5,197	-	-	-	4,949
Revaluations	-	(21)	351	-	-	33,649	33,979
At 31 March 2012	**10,647**	**141,909**	**23,540**	**295**	**1,764**	**337,451**	**515,606**
Amortisation							
At 1 April 2011	-	(66,815)	(34,599)	(1,866)	(831)	(114,467)	(218,578)
Charged in year	-	(33,484)	(4,067)	(21)	(414)	(37,746)	(75,732)
Disposals	-	17,747	23,147	1,758	-	-	42,652
Impairments	-	905	-	-	-	-	905
Transfers	-	2	7	-	-	-	9
Revaluations	-	213	(204)	-	-	-	9
At 31 March 2012	**-**	**(81,432)**	**(15,716)**	**(129)**	**(1,245)**	**(152,213)**	**(250,735)**
Carrying amount at 31 March 2011	**12,272**	**84,152**	**5,740**	**187**	**933**	**167,947**	**271,231**
Carrying amount at 31 March 2012	**10,647**	**60,477**	**7,824**	**166**	**519**	**185,238**	**264,871**
Asset financing:							
Owned	10,647	60,477	7,824	166	519	185,238	264,871
Carrying amount at 31 March 2012	**10,647**	**60,477**	**7,824**	**166**	**519**	**185,238**	**264,871**
Of the total:							
Core Department	-	2,511	-	-	-	-	2,511
Agencies	4	8,391	361	-	-	-	8,756
NDPBs and other designated bodies	10,643	49,575	7,463	166	519	185,238	253,604
Carrying amount at 31 March 2012	**10,647**	**60,477**	**7,824**	**166**	**519**	**185,238**	**264,871**

Consolidated 2010-11	Assets under Construction £'000	Information Technology £'000	Software Licences £'000	Website £'000	Development Expenditure £'000	Patents £'000	Total £'000
Cost or Valuation							
At 1 April 2010 (restated)	23,288	143,814	40,694	1,879	1,764	250,473	461,912
Additions	9,440	20,145	3,221	174	-	20,780	53,760
Disposals	(118)	(34,730)	(1,787)	-	-	(1,248)	(37,883)
Impairments	-	-	(6)	-	-	-	(6)
Transfers	(20,338)	21,575	(1,208)	-	-	-	29
Revaluations	-	163	(575)	-	-	12,409	11,997
At 31 March 2011	**12,272**	**150,967**	**40,339**	**2,053**	**1,764**	**282,414**	**489,809**
Amortisation							
At 1 April 2010 (restated)	**-**	**(52,961)**	**(32,925)**	**(1,822)**	**(416)**	**(86,638)**	**(174,762)**
Charged in year	-	(33,265)	(4,254)	(44)	(415)	(27,829)	**(65,807)**
Disposals	-	19,705	1,642	-	-	-	**21,347**
Impairments	-	16	11	-	-	-	**27**
Transfers	-	(169)	421	-	-	-	**252**
Revaluations	-	(141)	506	-	-	-	**365**
At 31 March 2011	**-**	**(66,815)**	**(34,599)**	**(1,866)**	**(831)**	**(114,467)**	**(218,578)**
Carrying amount at 1 April 2010	**23,288**	**90,853**	**7,769**	**57**	**1,348**	**163,835**	**287,150**
Carrying amount at 31 March 2011	**12,272**	**84,152**	**5,740**	**187**	**933**	**167,947**	**271,231**
Asset financing:							
Owned	12,272	84,152	5,740	187	933	167,947	271,231
Carrying amount at 31 March 2011	**12,272**	**84,152**	**5,740**	**187**	**933**	**167,947**	**271,231**
Of the total:							
Core Department	2,131	1,223	-	-	-	-	**3,354**
Agencies	26	10,768	864	-	-	-	**11,658**
NDPBs and other designated bodies	10,115	72,161	4,876	187	933	167,947	**256,219**
Carrying amount at 31 March 2011	**12,272**	**84,152**	**5,740**	**187**	**933**	**167,947**	**271,231**
Carrying amount at 1 April 2010	**23,288**	**90,853**	**7,769**	**57**	**1,348**	**163,835**	**287,150**
Of the total:							
Core Department	3,004	1,575	-	-	-	-	**4,579**
Agencies	10,395	-	1,832	-	-	-	**12,227**
NDPBs and other designated bodies	9,889	89,278	5,937	57	1,348	163,835	**270,344**
Carrying amount at 1 April 2010	**23,288**	**90,853**	**7,769**	**57**	**1,348**	**163,835**	**287,150**

All software licences are acquired separately. All Information Technology (IT) assets are internally generated.

Internally generated IT assets are initially classified as assets under construction and are not amortised until they are commissioned, at which time they are re-classified as IT. RCUK SSC holds £41 million (31 March 2011: £46 million) of internally developed software in connection with the development of the Shared Service Centre delivery platform.

As at 31 March 2012 MRC had patents and licences valued at £142 million (31 March 2011: £125 million) which were internally generated. These patents and licenses represent the capitalised future royalty income streams from the licensing of intellectual rights to commercial organisations. The majority of the patents and licenses relate to the production of monoclonal antibodies.

As at 31 March 2012 the Skills Funding Agency had intangible assets valued at £68 million (31 March 2011: £73 million). These mainly comprise computer software systems developed exclusively for the entity.

16. Financial instruments

The carrying amounts of financial instruments in each of the IAS 39 categories are as follows:

		31 March 2012 £'000			Restated 31 March 2011 £'000			Restated 1 April 2010 £'000		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Financial assets										
Loans and receivables:										
Cash and cash equivalents	26	415,657	482,533	1,160,297	800,310	831,403	1,879,913	317,019	333,323	1,092,886
Receivables		1,363,818	1,332,451	1,607,155	1,133,461	1,214,497	1,616,249	1,072,932	1,103,481	1,600,653
Loans		2,138,973	2,138,973	2,138,973	1,856,152	1,856,152	1,878,638	1,763,243	1,763,243	1,770,405
Student loans	20	28,068,877	28,068,877	28,068,877	24,953,970	24,953,970	24,953,970	23,513,855	23,513,855	23,513,855
Other financial assets		21,132	21,132	298,320	-	-	323,894	-	-	311,838
Total loans and receivables		**32,008,457**	**32,043,966**	**33,273,622**	**28,743,893**	**28,856,022**	**30,652,664**	**26,667,049**	**26,713,902**	**28,289,637**
Available for Sale:										
Launch Investments	20	1,762,744	1,762,744	1,762,744	1,900,154	1,900,154	1,900,154	1,715,252	1,715,252	1,715,252
Venture Capital Funds (VCF)	20	155,925	155,925	155,925	130,547	130,547	130,547	116,238	116,238	116,238
Venture Capital Loan Funds (VCLF)	20	43,697	43,697	43,697	-	-	61,181	-	-	64,946
Ordinary Shares	18	430,423	430,423	430,423	430,423	430,423	430,423	430,423	430,423	430,423
Other investments		16,897	16,897	168,294	-	-	166,004	-	-	128,862
Total available for sale		**2,409,686**	**2,409,686**	**2,561,083**	**2,461,124**	**2,461,124**	**2,688,309**	**2,261,913**	**2,261,913**	**2,455,721**
Derivatives:										
Forward contracts		14	(1,048)	9,040	-	21,645	37,091	-	-	1,654
Total derivatives		**14**	**(1,048)**	**9,040**	**-**	**21,645**	**37,091**	**-**	**-**	**1,654**
Held to maturity:										
Other investments		-	-	14,463	-	-	19,739	-	-	39,783
Total held to maturity		**-**	**-**	**14,463**	**-**	**-**	**19,739**	**-**	**-**	**39,783**
Financial liabilities										
Financial Guarantees										
Small Firms Loan Guarantee Scheme (SFLGS)		44,706	44,706	44,706	69,031	69,031	69,031	131,984	131,984	131,984

	Note	31 March 2012 £'000			Restated 31 March 2011 £'000			Restated 1 April 2010 £'000		
		Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Enterprise Finance Guarantee (EFG)		165,108	165,108	165,108	161,746	161,746	161,746	118,546	118,546	118,546
Professional and Career Development Loan Guarantees (PCDLs)		-	-	31,405	-	-	31,545	-	-	31,408
Other		26,114	26,114	26,114	37,659	37,659	37,659	17,188	17,188	17,188
Total financial guarantees	31	**235,928**	**235,928**	**267,333**	**268,436**	**268,436**	**299,981**	**267,718**	**267,718**	**299,126**
Other Financial Liabilities										
Debt sale subsidy	32	217,590	217,590	217,590	191,174	191,174	191,174	270,307	270,307	270,307
Payables		1,566,884	1,671,724	2,875,483	1,331,249	1,531,214	3,179,148	353,606	1,403,158	3,309,800
Total other financial liabilities		**1,784,474**	**1,889,314**	**3,093,073**	**1,522,423**	**1,722,388**	**3,370,322**	**623,913**	**1,673,465**	**3,580,107**

The majority of financial instruments are held by the Core Department.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The amounts disclosed above as payables and receivables therefore exclude any assets or liabilities which do not arise from a contractual arrangement. Payable and receivable transactions with the Core Department and its Agencies and other Government departments are excluded, as Government departments are all part of the same legal entity.

IFRS 7 Financial Instruments: Disclosure requires the disclosure of information which will allow users of these financial statements to evaluate the significance of financial instruments on the Group's financial performance and position and the nature and extent of the Group's exposure to risks arising from financial instruments.

As the cash requirements of the Departmental Group are largely met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size.

The Departmental Group is however exposed to some forms of credit, liquidity and market risk via specific programmes and activities undertaken in pursuance of the Group's objectives.

Credit risk

Credit Risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Significant credit risks can be summarised as follows:

- Launch Investments – Investee companies may not perform as expected and the Core Department may not recover its initial investment in whole or in part. The Core Department seeks to offset this low probability risk by analysing the financial health of any applicant at the time of application for launch investment and reviewing financial health as part of the programme monitoring activity. In addition, contracts aim to contain provisions which will (as a minimum) not disadvantage the Core Department compared to other creditors in the event of a corporate failure. The Core Department takes steps to monitor the payments that become due to the companies under launch investment contracts to ensure they comply with the terms of the contracts. Finally, the contracts also require the company's auditors to confirm that all payments made to the Core Department have been made correctly and to identify any errors made.
- Student Loans – Eligible students can get student loans regardless of their credit rating. This increases the risk that some loans will not be repaid. The Core Department estimates the percentage of loans which will not be repaid and impairs the loan asset when the loans are paid out. Further detail on student loans credit risk is given in Note 20.
- Venture Capital Funds and Venture Capital Loan Funds – Investee companies may not perform as expected and the Departmental Group may not recover its initial investment. The Departmental Group minimises the risk, by using Capital for Enterprise Limited (CfEL), an asset management business, and a delivery partner within the Departmental Group to monitor the overall performance of the Funds and to secure value for the Departmental Group as an investor. This includes a full evaluation of each business case submitted prior to committing funds.
- Financial Guarantees – Through the various loan guarantee schemes the Core Department is exposed to the risk that a recipient of the loan may default and the lending institution will call upon the Core Department to honour its guarantee. The Core Department minimises the credit risk for its most significant guarantees, the EFG and legacy SFLG Scheme, by using the participating banks to determine whether any potential lender applying for a loan is commercially viable. Furthermore, any losses suffered on these loans are shared between the Department and the lending institution as detailed in Note 31. The EFG is also subject to a cap which limits the Core Department's exposure to 9.75% of the facilities guaranteed. Prior to entering into the AAP guarantee the beneficiary company was assessed using a professional credit appraisal. This will be followed up with quarterly credit assessments throughout the duration of the loan to ensure no deterioration in credit risk. In the wider group, the Skills Funding Agency also minimises credit risk by using the participating banks to determine whether Professional Career Development Loans (PCDLs) are commercially viable.

The Departmental Group's total maximum exposure to credit risk as at 31 March 2012 is £46,570 million (31 March 2011: £41,537 million). The risk of non-payment is reflected in the carrying amounts of the assets and liabilities, where the Department is exposed to credit risk.

Market risk

Market Risk is the risk that fair values and future cash flows will fluctuate due to changes in market prices. Market risk generally comprises of:

Foreign Currency risk

The Core Department is responsible for funding the UK contribution to the EUMETSAT Polar System (EPS) in Euros and has entered into forward contracts to mitigate the exchange rate risk. The Core Department is also exposed to a small amount of currency risk with respect to Launch Investments as there are a number of older contracts of relatively low value which it ultimately receives in pounds sterling but were originally denominated in US dollars. Therefore exchange rate risk exists but is minimal in the context of the overall Launch Investment portfolio. Otherwise the Core Department's exposure to foreign currency risk during the year was insignificant. Foreign currency income was negligible, and foreign currency expenditure was a small percentage of total expenditure (less than 1%).

The UKSA, STFC and BBSRC are also subject to foreign currency risk. UKSA pays an annual subscription in Euros to the European Space Agency (ESA), and STFC pays an annual subscription in Swiss Francs to CERN, the European Organisation for Nuclear Research, and pays annual subscriptions in Euros to ILL, ESRF and ESO. BBSRC is due to receive a fixed amount of funding from the Bill and Melinda Gates Fund in US dollars in the period 2012 to 2014. These entities also use forward contracts (agreements to purchase foreign currency at a specified date at a price agreed on the date the contract is entered into), to hedge the exchange rate risk.

Within the Departmental Group all material assets and liabilities are denominated in pounds sterling.

Further information about derivative forward contracts can be found in note 17.

Interest Rate risk

The Core Department does not invest or access funds from commercial sources, but it is exposed to interest rate risk with respect to, the SFLGS, the EFG and student loans. For SFLG and EFG, to minimise the risk of default due to interest rate rises, coupled with a downturn in the economy, the Core Department relies on the lenders assessment using best commercial practice to manage the risk of default. For student loans, the Core Department relies on short term assumptions up to 2017 and long term assumptions after 2017 to determine the impact of interest rate changes both on the borrower's ability to pay, and the Core Department's forecasts of future payment streams. The impact of the interest rate risk on student loans is factored into the carrying value as the student loan repayment model calculates the impact of interest rate rises on expected future cash flows. The interest rate cap is of particular significance when in operation because the expectation is that interest will be added using RPI rather than the base rate plus 1%. More information about the effect of the base rate cap and the quantitative impact on the carrying value of student loans can be found in Note 20.1.

In addition, within the Departmental Group, the UK Atomic Energy Authority, NESTA, FRC and UfiCT are exposed to minimal interest rate risk where cash and short term deposits are held with commercial banks. CITB-ConstructionSkills is also subject to minor interest rate risk in relation to its investments.

Other Market risk

The Core Department is exposed to wider risks relating to the performance of the economy as a whole. The main risks resulting from a downward movement in the economy include failures of investee companies under the VCF schemes and loan defaults under the Core Department's WCS, SFLGS, EFG and AAP Schemes and negative impacts on the Core Department's Launch Investments income and valuations from the potential resultant decrease in demand in the aerospace industry. The other main risks resulting from a downward movement in the economy relate to the potential increase in borrowers unemployment impacting on their ability to repay the Core Department's student loans. This downward movement in the economy also impacts the Core Department's student loans due to the potential resultant negative impact on graduate earnings growth and thus lengthening the time period before loans are in repayment and extending the repayment period. This may impact the carrying value in the accounts. It can also lead to an increase in the required provision for write offs as it increases the likelihood that some graduates may not repay their loans in full by the end of the loan period.

The risk of the Government recovering the real value of student loans issued is further exacerbated when the Bank of England base rate is low and the rate of inflation is comparatively high, because the base rate cap comes into operation. Additional information on the risks relating to student loan repayments are contained in Note 20.

NESTA is exposed to equity price risk due to its investment of a portion of its endowment assets in publicly listed equity investments. NESTA minimises the risk by investing for the medium to long term, diversifying its equity investments and by monitoring performance regularly.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. In common with other Government departments, the future financing of its liabilities is to be met by future grants of Supply, voted annually by Parliament. There is no reason to believe that future approvals will not be forthcoming, therefore, on this basis the Core Department and its Agencies are not exposed to liquidity risks.

Most of the Group Bodies are funded by grant in aid. CITB-ConstructionSkills and ECITB's income is raised by a statutory levy. There is no reason to believe that these funding streams will not be forthcoming in the future, therefore, these organisations are not exposed to liquidity risk.

NESTA is funded by means of an endowment rather than through grant or grant in aid funding. Their liquidity objective is to maintain an appropriate balance between their operating cash requirements and minimising the need to sell financial assets (e.g. gilts) prior to maturity and thereby reducing the risk of loss on disposal. NESTA's management is satisfied that this funding arrangement does not expose it to significant liquidity risks.

Information about the Departmental Group's objectives, policies and processes for managing and measuring risk can be found in the Governance Statement.

17. Derivative financial instruments

	31 March 2012 £'000			31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Balance at 1 April	**-**	**21,645**	**37,091**	**-**	**-**	**1,654**
Additions	14	14	(75)	-	21,645	37,091
Redemptions	-	(8,147)	(16,547)	-	-	(1,654)
Revaluations	-	(14,560)	(11,429)	-	-	-
Balance at 31 March	**14**	**(1,048)**	**9,040**	**-**	**21,645**	**37,091**

Analysed between current and non current:									
	31 March 2012 £'000			31 March 2011 £'000			1 April 2010 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Current	14	(510)	4,856	-	8,147	16,547	-	-	1,654
Non current	-	(538)	4,184	-	13,498	20,544	-	-	-
Total	**14**	**(1,048)**	**9,040**	**-**	**21,645**	**37,091**	**-**	**-**	**1,654**

The Core Department, UKSA, STFC and BBSRC use derivatives to hedge the risk of foreign exchange movements on future cash flows. These derivative contracts have been designated as cash flow hedges. At the reporting date the hedges meet the IAS 39 effectiveness criteria.

Forward contracts

Core Department

Following a Machinery of Government change that brought the Met Office into BIS from the MoD, the Core Department has assumed the responsibility for funding the UK contribution to the EUMETSAT Polar System (EPS), in Euros. This contribution is part of a shared agreement to cover the costs of a generation of polar satellites used for meteorological purposes in accordance with Article 12 of the EUMETSAT Financial Rules. In order to mitigate the risk of exchange rate movements, the Core Department has entered into three forward contracts for amounts payable in 2012-13. These contracts cover all of the contributions payable in May and September 2012 and 80% of the contributions payable in January 2013.

The three forward contracts commenced on 22 March 2012, and will reach settlement between 27 April 2012 and 16 January 2013. The total cost of these contracts was £8,959,000, and fair value as at 31 March 2012 was £8,973,000. Therefore the total movement on the fair value reserve as at 31 March 2012 was £14,000.

Agencies

- UKSA

UKSA pays an annual subscription to the European Space Agency (ESA) in Euros. UKSA has entered into eight forward contracts for subscriptions payable up to 2014. These contracts cover 90% of the annual subscription payable to ESA during 2012 and 60% of the annual subscriptions payable in 2013 and 2014.

These contracts commenced on 15 December 2010, and will reach settlement between 1 June 2012 and 1 October 2014. The total cost of the contracts was £306,537,000, and fair value as at 31 March 2012 was £305,476,000. There has therefore been a negative movement on the fair value reserve as at 31 March 2012 of £1,061,000.

NDPBs and other designated bodies

- STFC

STFC pays an annual subscription in Swiss Francs to CERN, the European Organisation for Nuclear Research and pays annual subscriptions in Euros to ILL, ESRF and ESO. STFC has entered into 31 forward contracts for amounts payable up to 2015. 22 of these contracts relate to the purchase of Euros, whilst the remaining nine relate to the purchase of Swiss Francs. These contracts cover 90% of the annual subscriptions in the period 2012 to 2015.

The 22 forward contracts relating to the purchase of Euros commenced on 10 December 2010, and will reach settlement between 2 April 2012 and 2 February 2015. The total cost of these contracts was £105,609,000, and fair value as at 31 March 2012 was £105,533,000. There has therefore been a negative movement on the fair value reserve as at 31 March 2012 of £76,000.

Five of the nine forward contracts relating to the purchase of Swiss Francs commenced on 9 December 2010, and will reach settlement between 13 April 2012 and 11 April 2014. The remaining four Swiss Francs forward contracts commenced on 2 March 2012 and will reach settlement between 12 April 2013 and 5 January 2015. The total cost of these contracts was £266,278,000, and the fair value as at 31 March 2012 was £278,060,000. Therefore the total movement on the fair value reserve as at 31 March 2012 was £11,782,000.

- BBSRC

BBSRC are due to receive funding from the Bill and Melinda Gates Fund in US dollars in the period 2012 to 2014. In order to mitigate the risk of exchange rate movements, BBSRC has entered into 3 forward contracts with regard to the amounts payable up to 2014.

The three forward contracts commenced on 24 November 2011, and will reach settlement between 24 May 2012 and 24 May 2014.The total cost of these contracts was £3,819,000, and the fair value as at 31 March 2012 was £3,757,000. There has therefore been a negative movement on the fair value reserve as at 31 March 2012 of £62,000.

18. Investments and loans in other public sector bodies

	Ordinary Shares £'000	Public Dividend Capital £'000	Other Loans and Investments £'000	Total £'000
Balance at 1 April 2010 (restated)	**430,423**	**95,081**	**1,147,960**	**1,673,464**
Additions	-	25,000	315,324	**340,324**
Disposals	-	-	-	**-**
Repayments	-	-	-	**-**
Interest capitalised	-	-	40,273	**40,273**
Impairments	-	(5,000)	-	**(5,000)**
Revaluations	-	-	-	**-**
Loans repayable within 12 months transferred to current assets	-	-	(1,271)	**(1,271)**
Balance at 31 March 2011 (restated)	**430,423**	**115,081**	**1,502,286**	**2,047,790**
Reclassification	-	-	(10,587)	**(10,587)**
Additions	-	6,700	8,532	**15,232**
Repayments	-	-	(1,826)	**(1,826)**
Interest capitalised	-	-	45,092	**45,092**
Impairments	-	(6,700)	(9,857)	**(16,557)**
Revaluations	-	-	8,149	**8,149**
Loans repayable within 12 months transferred to current assets	-	-	(166)	**(166)**
Balance at 31 March 2012	**430,423**	**115,081**	**1,541,623**	**2,087,127**

18.1 Ordinary Shares

	British Nuclear Fuels Limited £'000	Royal Mail Holdings plc £'000	CfEL Ltd £'000	Total £'000
Balance at 1 April 2010	**50**	**430,323**	**50**	**430,423**
Additions	**-**	**-**	**-**	-
Disposals	**-**	**-**	**-**	-
Impairments	**-**	**-**	**-**	-
Balance at 31 March 2011	**50**	**430,323**	**50**	**430,423**
Additions	-	-	-	**-**
Disposals	-	-	-	**-**
Impairments	-	-	-	**-**
Balance at 31 March 2012	**50**	**430,323**	**50**	**430,423**

Ordinary shares are held by the Core Department

In accordance with the FReM, ordinary shares are carried at historical cost less any provision for impairment.

The Government holds 50,000 ordinary shares in British Nuclear Fuels Limited (BNFL) at a nominal value of £1 each. The Secretary of State for Business, Innovation and Skills owns 49,999 ordinary shares and the Treasury Solicitor holds one ordinary share. Following the establishment of the Nuclear Decommissioning Authority in 2005, British Nuclear Fuels plc held those parts of BNFL that did not pass to the Nuclear Decommissioning Authority (NDA), including, inter alia, British Nuclear Group Sellafield Limited (formerly British Nuclear Fuels). British Nuclear Fuels plc progressively divested all its businesses and ran down its corporate centre, and in December 2008 re-registered as a private company with the name *British Nuclear Fuels Limited*. The last business interest transferred out of the group in May 2009, and BNFL has no remaining operational activities or staff. All that remains is the efficient handling of its remaining assets and liabilities prior to a winding up of the company. The timing of the winding up depends on the outcome of discussions regarding the handling of the remaining assets and liabilities.

The Government owns 100% of the shares in Royal Mail Holdings plc. The Secretary of State for Business, Innovation and Skills owns 50,004 ordinary shares and the Treasury Solicitor holds one ordinary share. The Secretary of State also owns one Special Share, relating to certain areas for which Special Shareholder's consent is required (see Note 18.4). The Core Department undertakes an annual review of the value of its holding in Royal Mail.

Capital for Enterprise Limited (CfEL) manages the Core Department's equity investment funds and loan guarantee programmes. The Core Department owns 49,901 shares and provides cash funding as Grant in Aid. CfEL has two wholly owned subsidiaries: Capital for Enterprise GP Ltd (CfE GP) and also the Capital for Enterprise Fund Managers Ltd (CfE FM Ltd) which facilitate co-investment with the private sector through the Capital for Enterprise Fund.

The Core Department holds five shares with a nominal value of £1 in the Student Loans Company Limited.

The Core Department holds one share with a nominal value of £1 in Wave Hub Co Ltd.

18.2 Public Dividend Capital (PDC)

	British Shipbuilders £'000	Companies House £'000	UKIPO £'000	Ordnance Survey £'000	Met Office £'000	Total £'000
Balance at 1 April 2010 (restated)	**-**	**15,889**	**6,325**	**14,000**	**58,867**	**95,081**
Additions	5,000	-	-	20,000	-	**25,000**
Impairments	(5,000)	-	-	-	-	**(5,000)**
Balance at 31 March 2011 (restated)	**-**	**15,889**	**6,325**	**34,000**	**58,867**	**115,081**
Additions	6,700	-	-	-	-	**6,700**
Impairments	(6,700)	-	-	-	-	**(6,700)**
Balance at 31 March 2012	**-**	**15,889**	**6,325**	**34,000**	**58,867**	**115,081**

Public Dividend Capital is held by the Core Department.

In accordance with the FReM, Public Dividend Capital (PDC) is carried at historical cost less any impairment.

The British Shipbuilders Corporation requires equity injections to maintain its solvency. The Core Department makes payments of PDC to allow the Corporation to discharge its liabilities under the Aircraft and Shipbuilding Industries Act 1977. Consequently, the PDC has been fully impaired. The Core Department expects to continue to make equity injections to maintain the Corporation's solvency, in accordance with the statement to Parliament of July 1988, until the corporation is abolished. The abolition date depends on the timing of the actions resulting from the Public Bodies Act, including the consultation process. The historic cost of PDC payments made as at 31 March 2012 is £1,635,769,000 (£1,629,069,000 at 31 March 2011).

18.3 Share of net assets and results of bodies outside the consolidation boundary

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

	British Shipbuilders £'000	Companies House £'000	British Nuclear Fuels Ltd £'000	Royal Mail £'000	Ordnance Survey £'000	Met Office £'000	UKIPO £'000
Net Assets/ (Liabilities) at 31 March 2011	(164,197)	61,095	342,700	(3,107,000)	112,024	197,397	74,292
Turnover	-	66,562	-	9,006,000	129,380	196,118	66,641
Surplus/profit (deficit/ loss) for the year before financing	(48,489)	7,741	-	60,000	10,846	9,422	11,100
Net Assets / (Liabilities) at 31 March 2012	(206,146)	65,896	343,200	(1,269,000)	127,905	211,841	84,243
Turnover	-	66,116	-	9,352,000	141,759	196,212	71,880
Surplus/profit (deficit/loss) for the year before financing	(45,013)	7,660	-	301,000	31,923	9,126	13,799

Notes:

- British Shipbuilders information for 2011-12 and 2010-11 is derived from their audited accounts. British Shipbuilder's Accounts were prepared in accordance with UK GAAP.
- Companies House information for 2011-12 and 2010-11 is derived from their audited accounts. The accounts were prepared on an IFRS basis, in accordance with the requirements of the *FReM*.
- British Nuclear Fuels Limited (BNFL) information for 2011-12 is derived from their draft Annual Accounts. For 2010-11 the information is derived from their audited accounts. The accounts were prepared on an IFRS basis and on a break-up basis, reflecting that, following the sale or distribution of all its operating assets, BNFL is a company with no full-time staff and sufficient assets to meet the liabilities arising from the various business disposals until the final closure of the company.
- Royal Mail Holdings plc information for 2011-12 and 2010-11 is derived from their audited accounts. Royal Mail's Accounts were prepared in accordance with International IFRS.
- UK Intellectual Property Office (UKIPO) information for 2011-12 and 2010-11 is derived from their audited accounts. The accounts were prepared on an IFRS basis, in accordance with the requirements of the *FReM*.
- Ordnance Survey information for 2011-12 and 2010-11 is derived from their audited accounts. The accounts are prepared on an IFRS basis in accordance with the Government Trading Funds Act 1973 and the requirements of the *FReM*.
- Met Office information for 2011-12 and 2010-11 is derived from their audited accounts. The accounts were prepared in accordance with the Government Trading Funds Act 1973 and the requirements of the *FReM*.

18.4 Special Shares

The Secretary of State holds one Special Share in each of the entities listed below. The list is a summary and does not purport to be a comprehensive record of the terms of each respective shareholding. Further details can be obtained from the annual report and financial statements of each body.

The Core Department does not recognise the special or 'golden' shares on its Statement of Financial Position in accordance with paragraph 9.2.7 (b) of the FReM.

Body in which Share is held and type and value of Share	Terms of Shareholding
Royal Mail Holdings plc *£1 Special Rights Preference Share*	• Created in January 2001 • It may be redeemed at any time by the shareholder • The consent of the shareholder is required for a number of decisions, including: – Appointing the Chairman of the company, and the remainder of the Board (after consulting the Chairman) – Setting (and approving any material changes in) the remuneration packages of the Directors – Borrowing in excess of certain pre-set limits (as agreed with the HM Treasury) – Adopting and implementing the company's strategic plan – Disposing of substantial assets of the business or any universal service provider or network subsidiary or substantial parts of the business of such subsidiaries – Voluntary winding-up of any subsidiary – Varying certain of the company's Articles of Association, including the rights of the special shareholder.
BAE Systems plc *£1 Special Rights Preference Share*	• Created in 1985 (but subsequently amended) • No time limit • Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company • Requires a simple majority of the Board and the Chief Executive to be British • Requires any Executive Chairman to be British and, if both the Chairman and Deputy Chairman are non-executives, requires at least one of them to be British.
Rolls Royce Holdings plc *£1 Special Rights Non-Voting Share*	• Created in 1987 (but subsequently amended and transferred to Rolls-Royce Holdings plc)) • No time limit • Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company • Requires a simple majority of the Board to be British • Allows either the Chairman or the Chief Executive to be either an EU or US citizen provided that the other is a British citizen • Provides for a veto over the material disposal of assets of the group • Provides for a veto for a proposed voluntary winding up.

18.5 Other investments and loans

	Royal Mail Holdings plc NLF Loans £'000	Royal Mail shareholder loan £'000	UKIPO loans £'000	Met Office loans £'000	Other loans £'000	North West Business Link £'000	Business Link West Midlands £'000	Directions Finningley £'000	NW VCF LLP Agency £'000	Total £'000
Balance as at 1 April 2010	**800,000**	**336,528**	**1,165**	**1,105**	**9,162**	**-**	**-**	**-**	**-**	**1,147,960**
Additions	300,000	-	-	-	15,324	-	-	-	-	**315,324**
Interest capitalised	-	40,273	-	-	-	-	-	-	-	**40,273**
Loans repayable within 12 months transferred to current assets	-	-	(166)	(1,105)	-	-	-	-	-	**(1,271)**
Balance as at 31 March 2011	**1,100,000**	**376,801**	**999**	**-**	**24,486**	**-**	**-**	**-**	**-**	**1,502,286**
Transfers in	-	-	-	-	-	-	-	-	-	**-**
Reclassification	-	-	-	-	(28,809)	4,626	4,607	3,881	5,108	**(10,587)**
Additions	-	-	-	-	8,532	-	-	-	-	**8,532**
Redemptions	-	-	-	-	(1,826)	-	-	-	-	**(1,826)**
Interest capitalised	-	45,092	-	-	-	-	-	-	-	**45,092**
Impairments	-	-	-	-	(8,532)	-	-	-	(1,325)	**(9,857)**
Revaluations	-	-	-	-	8,149	-	-	-	-	**8,149**
Loans repayable within 12 months transferred to current assets	-	-	(166)	-	-	-	-	-	-	**(166)**
Balance as at 31 March 2012	**1,100,000**	**421,893**	**833**	**-**	**2,000**	**4,626**	**4,607**	**3,881**	**3,783**	**1,541,623**

During the reporting period a loan of £29 million transferred from one of the RDAs to the Core Department. To harmonise accounting treatment the Core Department reclassified the loan as a financial asset and transferred it to note 20.4. In addition investments in North West Business Link, Business Link West Midlands, Directions Finningley and NW VCLF HF LLP, which were transferred in from the RDAs as other financial assets were reclassified as other investments in the public sector. The net impact of these reclassifications on Note 18.5 is a reduction of £11 million. All of the RDA transfers in and subsequent reclassifications are shown in Note 40. Following the transfers in at 31 March 2012 all investments and loans are held by the Core Department.

At 31 March 2012 other investments and loans are held by the Core Department.

Royal Mail Loans

- Royal Mail Holdings plc NLF Loans

A £600 million NLF long-term interest rollover facility was made available to Royal Mail as part of the financing framework for Royal Mail, announced in 2007, to assist with transformation and modernisation. The company has utilised the full £600 million of this facility. A £300 million NLF revolving loan facility was also made available as part of this framework. The outstanding balance for the revolving facility as at 31 March 2012 was nil. Both of these facilities mature in March 2014.

A £500 million NLF loan was advanced to Royal Mail in February 2001, primarily to assist it with the acquisition of General Logistics Systems (GLS). The facility comprises twenty tranches of £25 million, which mature individually at periods between March 2021 and September 2025.

- Royal Mail shareholder loan

A £300 million shareholder loan was advanced to Royal Mail in March 2009, which also formed part of the financing framework announced in 2007. The loan matures in March 2016 and interest accruing on the loan is capitalised once a year.

In accordance with the FReM, loans to Royal Mail are valued at historic cost. Further details on the Royal Mail Holdings plc's NLF loan facilities can be found in the Financial Overview in chapter 5 of the Annual Report and Accounts.

UKIPO loan

In 1992, the Core Department advanced two loans amounting to £4 million to the UKIPO, repayable over 26 years, in 52 instalments of principal amounting to £166,000 per annum. The balance at 31 March 2012 due for repayment after more than one year is £833,000. The amounts falling due within one year (£166,000) are disclosed in Note 25.

Other

- Investment in NW VCLF HF LLP

The North West RDA transferred its 99.9% interest, in the North West Venture Capital Loan Fund (NW VCLF HF), a Limited Liability Partnership (LLP), to the Core Department on 30 September 2011 for no consideration. The fair value at the date of transfer was £5 million, which is recorded as an investment in the Core Department's accounts. NW VCLF HF LLP has loan and equity investments in SMEs in the Northwest region. The fair value is derived from its latest accounts.

The minority interest was transferred to CfEL, a body consolidated into these accounts.

- Investment in Directions Finningley (DF)

Yorkshire Forward transferred its 51% interest in Directions Finningley (DF), a Community Interest company to the Core Department on 30 March 2012 for no consideration. The fair value at the date of transfer was £4 million. DF is an Aviation and Airport Academy based at Robin Hood Airport near Doncaster. It provides a centre of excellence for airport and aviation training facilities.

- Investments in Business Links

The RDAs' interests in the remaining Business Links transferred to the Core Department on 30 March 2012 for no consideration. The North West and West Midlands Business Links were transferred at fair value, which amounted to £5 million in both cases. The Business Link service was closed in November 2011 and the solvent Member's Voluntary Liquidation has started.

18.6 Partnership arrangements

The Departmental Group is a partner in the Energy Technology Institute. This partnership is funded via the Technology Strategy Board and the Engineering and Physical Sciences Research Council, and the contributions are disclosed in the accounts of those bodies.

19. Investments in Joint Ventures and Associates

	31 March 2012			31 March 2011		
	Core Department £'000	Core Department and Agencies £'000	Departmental Group £'000	Core Department £'000	Core Department and Agencies £'000	Departmental Group £'000
Balance at 1 April	**-**	**-**	**345,043**	**-**	**-**	**347,428**
Transfers in	(10,640)	(10,640)	-	-	-	-
Additions	-	-	78,406	-	-	27,356
Disposals	-	-	(2,386)	-	-	(1,278)
Revaluations	(806)	(806)	(29,461)	-	-	(28,463)
Balance at 31 March	**(11,446)**	**(11,446)**	**391,602**	**-**	**-**	**345,043**

19.1 Investments in Joint Ventures

	Digital Region Ltd (DRL) £'000	Total Core Department £'000	Agencies £'000	Total Core & Agencies £'000	NDPBs and other designated bodies £'000	Total Departmental Group £'000
Balance at 1 April 2010	**-**	**-**	**-**	**-**	**332,776**	**332,776**
Additions	-	**-**	-	**-**	27,356	**27,356**
Revaluations	-	**-**	-	**-**	(24,952)	**(24,952)**
Disposals	-	**-**	-	**-**	(124)	**(124)**
Balance at 31 March 2011	**-**	**-**	**-**	**-**	**335,056**	**335,056**
Transfers in	(18,358)	**(18,358)**	-	**(18,358)**	18,358	**-**
Additions	-	**-**	-	**-**	78,406	**78,406**
Dividends	-	**-**	-	**-**	-	**-**
Revaluations	-	**-**	-	**-**	(28,170)	**(28,170)**
Disposals	-	**-**	-	**-**	(1,140)	**(1,140)**
Balance at 31 March 2012	**(18,358)**	**(18,358)**	**-**	**(18,358)**	**402,510**	**384,152**

The analysis below provides further details of the most significant joint ventures entered into by the Departmental Group:

Name of Undertaking	BIS participating body	Percentage Interest %	Share of Net Assets 31 March 2012 £'000	Share of Net Assets 31 March 2011 £'000	Share of (Profit)/ Loss 2011-12 £'000	Share of (Profit)/ Loss 2010-11 £'000
Digital Region	Core Department	50	(18,358)	(5,041)	(12,601)	(4,622)
Diamond Light Source Limited	STFC	86	307,141	300,352	(22,664)	(20,463)
ILL	STFC	25	25,411	26,870	-	-
UKCMRI LTD	MRC	47	55,118	8,894	-	-
Total Departmental Group joint ventures			**369,312**	**331,075**	**(35,265)**	**(25,085)**

The operating results, assets and liabilities of joint ventures are reflected in the Departmental Group's Financial Statements under the equity method of accounting in accordance with IAS 31. Under the equity method of accounting, an equity investment in an associate or joint venture is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the joint venture or associate.

Digital Region Ltd (DRL)

Digital Region is a project providing South Yorkshire with improved broadband coverage in the UK. The project is being coordinated by *Digital Region Limited*, which was owned by Yorkshire Forward and the four local authorities that encompass South Yorkshire: Sheffield City Council, Barnsley Metropolitan Borough Council, Doncaster Metropolitan Borough Council and Rotherham Metropolitan Borough Council. Digital Region has built a 350 mile fibre optic network across the entire region. Yorkshire Forward's interest in DRL was transferred to the Core Department on 30 March 2012. There is currently uncertainty around the project and the ability of DRL to meet its future obligations. The negative investment reflects the Department's share of the entity's liabilities.

Diamond Light Source Ltd (DLSL) (registered in England, registration number 4375679)

This STFC joint venture is with the Wellcome Trust Limited and was established for the construction and operation of the Diamond facility, a third generation, medium energy, synchrotron radiation source. STFC's shareholding in DLSL at 31 March 2011 is 361,402,425 ordinary shares of £1 each and 35,668,561 redeemable preference shares of £1 each. The purpose of the redeemable preference shares was to provide for the funding of irrecoverable VAT incurred during the construction and operation of the Synchrotron facility. Shares may be redeemed at par only to the extent that any VAT previously deemed to be irrecoverable is refunded to the company or upon the winding up of the company. STFC holds 86% of the DLSL share capital but has a 50% controlling interest.

Institut Laue Langevin (ILL)

STFC as the UK representative is one of three associate members and shareholders of the ILL alongside the French and German Foreign Ministries. STFC holds 50 shares in ILL (33%). The shares are not publicly traded and currently have no open market value. STFC's investment in ILL is carried at historic cost and has not subsequently been adjusted to reflect the investor's share of the net profit or loss of the associate in accordance with IAS 31. The ILL is a research centre located in France that makes use of subatomic particles to study the structure and behaviour of all kinds of materials in microscopic detail. STFC has a shareholding of 33% but has a 25% share of net assets, as this share is based on the percentage funding contribution rather than the shareholding.

UKCMRI Ltd

In 2007, the MRC joined with Cancer Research UK, the Wellcome Trust and University College London (UCL) to form a consortium to set up a new joint research institute in Central London – the UK Centre for Medical Research and Innovation (UKCMRI) (to be known as The Francis Crick Institute). The Institute is a charity limited by shares. The funding of the project has been by capital contributions leading to shares. During the year Kings College London and Imperial College of Science Technology and Medicine have become new participants in the joint venture. During the reporting period MRC exchanged assets under construction relating to the Crick Institute, amounting to £46 million, for shares in the Institute.

19.2 Investments in Associates

	Partnership Investment Fund £'000	South Yorkshire Investment Partnership £'000	Total Core Department £'000	Agencies £'000	Total Core and Agencies £'000	NDPBs £'000	Total Departmental Group £'000
Balance at 1 April 2010	**-**	**-**	**-**	**-**	**-**	**14,652**	**14,652**
Revaluations	-	-	**-**	-	**-**	(3,511)	**(3,511)**
Disposal	-	-	**-**	-	**-**	(1,154)	**(1,154)**
Balance at 31 March 2011	**-**	**-**	**-**	**-**	**-**	**9,987**	**9,987**
Transfers in	1,208	6,510	**7,718**	-	**7,718**	(7,718)	**-**
Revaluations	(243)	(563)	**(806)**	-	**(806)**	(485)	**(1,291)**
Disposal	-	-	**-**	-	**-**	(1,246)	**(1,246)**
Balance at 31 March 2012	**965**	**5,947**	**6,912**	**-**	**6,912**	**538**	**7,450**

The analysis below provides further details of the most significant associates recognised by the Departmental Group.

Name of Undertaking	BIS participating body	Percentage Interest %	Share of Net Assets 31 March 2012 £'000	Share of Net Assets 31 March 2011 £'000	Share of (Profit)/ Loss 2011-12 £'000	Share of (Profit)/ Loss 2010-11 £'000
Core Department associates:						
South Yorkshire Investment Fund Limited	Core Department	33	6,510	6,495	403	809
Partnership Investment Fund	Core Department	33	1,208	2,068	53	65
Total Departmental Group associates			**7,718**	**8,563**	**456**	**874**

The operating results, assets and liabilities of associates are reflected in the Departmental Group's financial statements under the equity method of accounting in accordance with IAS 28.

South Yorkshire Investment Fund Limited.

Yorkshire Forward's interest in the South Yorkshire Investment Fund Limited transferred to the Core Department on 1 January 2012 with fair value net assets of £6 million. The South Yorkshire Investment Fund Limited was set up to promote economic growth providing seed corn finance, loan and equity linked investments, ranging from £15,000 to £3 million. The European Regional Development Fund (ERDF) provided funding which allowed the Fund to support a wide range of sectors.

Partnership Investment Fund

Yorkshire Forward's interest in the Partnership Investment Fund transferred to the Core Department on 1 January 2012 with fair value net assets of £1 million. The Partnership Investment Fund was established in 2004 to enable small and medium sized businesses (SMEs) and social enterprises in Yorkshire, the Humber and North Lincolnshire access to gap funding by way of equity or loan finance. The fund comprised investments from UK and European government agencies as well as investments from YFM group. Follow on funding was provided by Yorkshire Forward at the beginning of 2009.

Other investments in associates where the share of net assets or liabilities and profit / loss is nil are: JISC Advance (HEFCE), JISC Collections (HEFCE), North West Business Finance Limited (Core Department) and Roslin Biocentre (BBSRC).

20. Other financial assets

		31 March 2012 £'000			31 March 2011 £'000		
	Note	**Core Department**	**Core Department and Agencies**	**Departmental Group**	**Core Department**	**Core Department and Agencies**	**Departmental Group**
Balance at 1 April		**26,984,671**	**26,984,671**	**27,555,489**	**25,345,345**	**25,345,345**	**25,890,774**
Transfers in		47,951	47,951	-	-	-	-
Reclassifications		10,928	10,928	10,928	-	-	-
Additions		6,088,716	6,088,716	6,451,332	5,717,680	5,717,680	5,967,882
Amortisation of issued loans		(1,236,383)	(1,236,383)	(1,236,383)	(1,021,639)	(1,021,639)	(1,021,639)
Disposals		-	-	-	-	-	-
Repayments		(1,652,200)	(1,652,200)	(2,071,047)	(1,543,850)	(1,543,850)	(1,765,986)
Capitalised interest		565,655	565,655	565,655	246,574	246,574	246,574
Effective interest		1,401,494	1,401,494	1,401,494	1,388,135	1,388,135	1,388,350
Revaluations		67,608	67,608	55,342	155,624	155,624	161,816
Impairments		(19,735)	(19,735)	(31,057)	(15,134)	(15,134)	(24,218)
Write offs		(24,812)	(24,812)	(24,812)	(16,439)	(16,439)	(16,439)
Other losses		(1,363)	(1,363)	(1,363)	-	-	-
Base rate cap impairment		(512,525)	(512,525)	(512,525)	(503,485)	(503,485)	(503,485)
Base rate cap impairment provision		(53,667)	(53,667)	(53,667)	(979,622)	(979,622)	(979,622)
Movement in Policy write-off impairment		(671,678)	(671,678)	(671,678)	(661,671)	(661,671)	(661,671)
Changes in assumptions and modelling		(942,244)	(942,244)	(942,244)	(1,123,146)	(1,123,146)	(1,123,146)
Other		(41)	(41)	(41)	(3,701)	(3,701)	(3,701)
Balance at 31 March		**30,052,375**	**30,052,375**	**30,495,423**	**26,984,671**	**26,984,671**	**27,555,489**

Other financial assets analysed between current and non-current assets:

	31 March 2012 £'000			31 March 2011 £'000			1 April 2010 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Due within twelve months	1,713,000	1,713,000	1,848,037	1,700,000	1,700,000	1,840,153	1,450,000	1,450,000	1,563,118
Due after twelve months	28,339,375	28,339,375	28,647,386	25,284,671	25,284,671	25,715,336	23,895,345	23,895,345	24,327,656
Total	**30,052,375**	**30,052,375**	**30,495,423**	**26,984,671**	**26,984,671**	**27,555,489**	**25,345,345**	**25,345,345**	**25,890,774**

20.1 Student Loans

	31 March 2012 £'000			31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Balance at 1 April	**24,953,970**	**24,953,970**	**24,953,970**	**23,513,855**	**23,513,855**	**23,513,855**
Additions	5,968,409	5,968,409	5,968,409	5,578,241	5,578,241	5,578,241
Amortisation	(1,236,383)	(1,236,383)	(1,236,383)	(1,021,639)	(1,021,639)	(1,021,639)
Repayments	(1,311,433)	(1,311,433)	(1,311,433)	(1,403,098)	(1,403,098)	(1,403,098)
Capitalised interest	565,655	565,655	565,655	246,574	246,574	246,574
Effective interest	1,334,989	1,334,989	1,334,989	1,328,101	1,328,101	1,328,101
Write offs	(24,812)	(24,812)	(24,812)	(16,439)	(16,439)	(16,439)
Other losses	(1,363)	(1,363)	(1,363)	-	-	-
Base rate cap impairment	(512,525)	(512,525)	(512,525)	(503,485)	(503,485)	(503,485)
Provision for base rate cap impairment	(53,667)	(53,667)	(53,667)	(979,622)	(979,622)	(979,622)
Movement in policy write-off impairment	(671,678)	(671,678)	(671,678)	(661,671)	(661,671)	(661,671)
Changes in assumptions and modelling	(942,244)	(942,244)	(942,244)	(1,123,146)	(1,123,146)	(1,123,146)
Other	(41)	(41)	(41)	(3,701)	(3,701)	(3,701)
Total	**28,068,877**	**28,068,877**	**28,068,877**	**24,953,970**	**24,953,970**	**24,953,970**

Student loans are held by the Core Department.

In accordance with IAS 39, student loans are classified as Loans and Receivables and are recorded in the Accounts at amortised cost.

Student loans are currently issued under Section 22 of the Teaching and Higher Education (THE) Act 1998. They were first issued in 1990-91. The Core Department initially issued mortgage style loans, which required borrowers to repay a fixed amount each year until the loan was repaid with repayments being collected by the Student Loans Company. From 1998-99 onwards the Core Department has issued income contingent loans where repayments are calculated as a percentage of earnings in excess of a threshold (currently £15,000) and are collected by HMRC through the tax system.

Measurement and carrying values

Student loans are held at amortised cost. This involves the gross value of the loans issued being discounted to net present value using the effective interest rate. The effective interest rate for student loans is RPI plus 2.2%, which is the HMT discount rate. The Treasury has directed the Core Department to use this rate for student loans as this is the Government's long term cost of borrowing.

The value of student loans issued is also reduced based on an estimate of the future cost of policy write offs ("policy write off impairment"). This reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student.

The Core Department considers that the carrying value as described above is a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions. A valuation technique is used to estimate the present value of future cash flows, and the outputs of this modelling provide the basis for the net present value calculations and the estimate of irrecoverable amounts due to policy decisions.

The Core Department uses the latest Office for Budget Responsibility (OBR) short term and long-term forecasts for RPI, base rates and average earnings growth to model borrower earnings growth, loan interest, discounting and uplifting the repayment threshold.

Subsidised loans

Student loans are subsidised as students are only charged interest equivalent to the rate of inflation, or Bank of England base rate plus 1%, whichever is the lower ('the base rate cap'). The Core Department estimates the future cash flows arising from repayments, and discounts these at 2.2% plus RPI to represent the Government's cost of borrowing and therefore to determine the current value of the loans. The Core Department increases the accumulated amortisation based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions. More information on these assumptions is given below.

Assurance over the carrying value

Each year the Core Department compares the carrying value in the Accounts with the latest outputs from the student loan repayment model, which is re-run using current assumptions. If there is a significant difference, the Core Department undertakes a review to determine the reasons for the variance. The Core Department would only adjust the carrying value if there was sufficient evidence to suggest that the divergence constituted a permanent reduction in the carrying value of the asset.

Base Rate cap adjustments

During 2011-12, an adjustment was made to the carrying value to reflect the fact that the future cash flows have been permanently impaired due to the base rate cap continuing to be effective. The value is impaired because the interest received will be lower than the RPI assumed in the forecast in prior years. As a result the Core Department recognised an additional impairment of £513 million and an increase in the provision for the effect of the base rate cap in future years of £54 million. The impairment is calculated by computing the value of the revised future cash flows using the original effective interest rate, and comparing this to the computed value using the same effective interest rate but with an assumed interest charge to borrowers of RPI i.e. assuming the base rate cap does not exist.

Movement in base rate cap provision

	£'000
Balance at 31 March 2011	**(979,622)**
Increase in the year	(566,192)
Utilisation	512,525
Movement in the year	**(53,667)**
Balance at 31 March 2012	**(1,033,289)**

Changes in assumptions and modelling

An adjustment was also made to the carrying amount of income contingent loans to reflect the change in the modelling of future cash flows from using new long-term forecasts published by the OBR in July and November 2011. The assumptions were changed in the OBR's Fiscal Sustainability report (http://budgetresponsibility.independent.gov.uk/pubs/FSR2011.pdf) in July 2011, where there were changes to long term assumptions for RPI, RPIX and earnings growth. In November 2011, the OBR's Economic and Fiscal Outlook report (http://budgetresponsibility.independent.gov.uk/pubs/Autumn2011EFO_web_version138469072346.pdf) made further changes to the long term forecasts for RPI and RPIX. These changes led to an impairment of £537 million.

Revised short term forecasts of base rates, RPI and earnings published by the OBR's Economic and Fiscal Outlook in March 2012, (excluding the impact on the base rate cap), led to an impairment of the carrying amount of £58 million. In addition, improvements to the student loan repayment model led to an impairment of £101 million.

During the year the Core Department revised the model which forecasts the repayments of mortgage style loans, to reflect the aged status of the loan book. The revised model uses past observed probabilities to forecast the likelihood of borrowers moving between repayment, deferment and overdue states. It provides a more accurate picture of expected repayments and has led to a reduction in the net present value of expected future cash flows of £246 million.

Policy write off impairment

The student loan policy write-off impairment provision reflects the future cost of loans which could not be recovered due to the death of the student, their income not reaching the income threshold, or other causes. Each year the Core Department estimates the future cost of policy write offs based on a percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student Loans Company.

Policy write off impairment value

	£'000
Balance at 1 April 2010	**(2,311,392)**
Increase in the year	(678,110)
Interest added/unwinding	(101,700)
Loans written off in the year	16,439
Movement in the year	**(763,371)**
Balance at 31 March 2011	**(3,074,763)**
Increase in the year	(696,490)
Interest added/unwinding	(162,962)
Loans written off in the year	24,812
Movement in the year	**(834,640)**
Balance at 31 March 2012	**(3,909,403)**

The movement in policy write-off impairment of £671,678 thousand (31 March 2011: £661,671 thousand) in Note 20.1 comprises the increase in the year less loans written off in the year. The interest added/unwinding is included in effective interest in Note 20.1.

The estimates underpinning these impairments are based on a forecasting model (the Student Loan Repayment model) which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour and estimates the likely repayments of student loans. The valuation is based on a set of simulated borrower profiles, derived from a complex set of assumptions, including earnings on graduation and their likely earnings growth over the life of the loan (which could be 25 years or longer). Any changes to these assumptions could have an impact on the value of the loan book included in these Accounts. As described below, the model is long term in nature, but the Core Department now uses the latest short-term Office of Budget Responsibility (OBR) RPI and average earnings growth forecasts for the modelling of borrower earnings growth, loan interest, discounting and uplifting the repayment threshold.

The modelling is highly complex and involves forecasting repayment cash flows over 25 years into the future for over 3.8 million borrowers. The cash flows are dependent on the incomes of individual borrowers over their repayment periods and many other factors such as voluntary repayment behaviour. Income distributions for past graduates and projections of earnings growth provide us with a basis for simulating these future borrower incomes but they remain uncertain. Recent economic conditions also increase the level of uncertainty. The potential for modelling outputs to vary from the actual cash flows in either the short or long-term is significant.

The assumptions used are formally reviewed by the Core Department each year and the amounts provided reflect the Core Department's current estimate as at 31 March 2012.

Key assumptions used to calculate the student loan balance at 31 March 2012

The key assumptions that impact on the value of the loan book are the discount rate used, and assumptions made about graduate earnings and the base rate cap.

Discount rate

To value the future cash flows, the Core Department has used the HM Treasury's long-term discount rate of 2.2% plus RPI, which represents the Government's cost of capital. If the discount rate applied was greater than 2.2% the fair value of the student loans on issue would be lower than the values calculated on the basis applied here. For example, an increase in the discount rate to 2.3% would lead to a reduction in the value of the loan book of approximately £200 million. The relationship between the discount rate and the carrying value of the loan book is not linear, and further increases in the discount rate would have smaller additional impacts.

Graduate earnings and employment

The Student Loan Repayment model assumes short-term average nominal earnings growth will be in line with OBR forecasts until 2017-18. Future real earnings growth (net of RPI inflation) is then assumed to be 1.2 percentage points from 2021-22, as this is the long-term forecast, with a linear change from the 2017-18 value each year up to 2020-21. If real earnings growth was 0.5 percentage points lower than assumed in every year, this would lead to a reduction in the value of the loan book of approximately £400 million. The relationship between the earnings growth and the carrying value of the loan book is not linear and further decreases in long-term earnings growth would have greater additional impacts.

The model assumes future graduate income distributions will be similar to those of past graduates and are based on historical Labour Force Survey data. If these income profiles were 5% lower than previously assumed in every year, this would lead to a reduction in the value of the loan book of approximately £400 million. The relationship between the level of earnings and the carrying value of the loan book is not linear and further decreases in long-term earnings would have greater additional impacts.

Base Rate Cap

The model assumes that Bank of England base rates will be in line with OBR forecasts up to 2017-18. The base rate cap is therefore currently assumed to continue to apply until 2018. If base rates were 0.5pp lower than forecast each year until 2017-18 this would lead to a reduction in the value of the loan book of approximately £500 million. The relationship between the base rate assumptions and the carrying value of the book is not linear and the impact of any changes also depends on the relative difference between the base rates and RPI.

Other assumptions

There are a number of other assumptions used in the modelling, but changing these to other reasonable outcomes does not have a significant impact on the value of the loan book. It should be noted that many of the assumptions are independent of each other and could change at the same time. However, changes in earnings, unemployment and other macroeconomic factors would only have a significant impact on the value of the loan book if they were long term.

Risk

Credit Risk

The Core Department has a statutory obligation to issue student loans and seek repayments in line with legislation. The Core Department is not permitted to withhold loans on the basis of poor credit rating nor is it able to seek collateral. The Core Department is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by Her Majesty's Revenue & Customs (HMRC) as part of the tax collection process. The Core Department models the impact of non-repayment when providing for the policy write-off impairment.

There are two types of student loan; "mortgage style", which is paid back to the Student Loans Company in monthly instalments once a certain earnings threshold has been crossed, and "income-contingent", whereby a percentage of income above the earnings threshold is collected by HMRC via the Pay As You Earn or Self Assessment processes. At 31 March 2012, the face value of "mortgage-style" loans was £768 million (31 March 2011: £787 million), whereas income-contingent loans represent £38,787 million or 98% (31 March 2011: £33,546 million or 98%) of the outstanding loan book.

Management of credit risk

The Core Department works together with the SLC and HMRC to manage the collection of student loan repayments and manage the associated credit risks.

There is a Memorandum of Understanding in place between the Core Department, the SLC who administer the loan books, and HMRC. This sets out the responsibilities of all the parties and contains performance targets and indicators, which are revised annually.

The Accounting Officers of HMRC and the SLC report quarterly to the Core Department's Accounting Officer on progress towards the agreed targets and performance indicators.

Interest Rate Risk

Income contingent loans are repayable at the same interest rate as the RPI as at March each year, with the proviso that the interest rate can never be more than 1% above the Bank of England base rate. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. This can lead to a risk in forecasting the amount of interest payable. Furthermore, if the UK continues to experience interest rates that are lower than RPI and, therefore, the interest rate cap reoccurs with frequency, the future cash flows will be impaired as the modelling assumes that interest is added in line with RPI. The Core Department has assessed the risk of further impairment in the short term (up to 2018) to be £1,033 million, which has been provided for as at 31 March 2012.

Mortgage style student loans debt recovery and arrears

Mortgage style loans were provided to students until academic year 1997/98, when they were replaced by income contingent loans. Borrowers whose income exceeds the repayment threshold, which is set at 85% of average earnings, are required to repay a fixed instalment each month. Borrowers who earn less than the repayment threshold are eligible to apply to the SLC for deferment of repayments for one year at a time. The application must be supported by evidence of the borrower's income. The main risks around repayments are from borrowers who do not apply for deferment of repayments, who apply late or who fail to maintain contact with the SLC.

If repayments due are not made and deferment has not been granted, the borrower falls into arrears. The value of payments in arrears as at 31 March 2012 was £193 million (31 March 2011: £199 million). During the year £ 54 million was repaid (31 March 2011: £66 million), including £12 million of repayments of arrears to 31 March 2012 (31 March 2011: £12 million).

Potential Sale of Student Loans

The Government is continuing to assess how best to manage its holding of current and future loans, including the potential to realise value for the taxpayer from a sale of its portfolio.

These Accounts present the student loans portfolio valued on the basis that they will continue to be held by the Core Department until such time as a decision to sell the assets has been made. The valuation basis reflects the requirements of IAS 39 to hold the loans at amortised cost. Should sales take place in 2012-13 or subsequently, it will be necessary to re-assess the basis for the carrying value, in accordance with the relevant Accounting Standards.

20.2 Launch Investments

	31 March 2012 £'000			31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Balance at 1 April	**1,900,154**	**1,900,154**	**1,900,154**	**1,715,252**	**1,715,252**	**1,715,252**
Additions	71,342	71,342	71,342	100,121	100,121	100,121
Amortisation	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Repayments	(328,983)	(328,983)	(328,983)	(132,899)	(132,899)	(132,899)
Effective interest	66,505	66,505	66,505	60,034	60,034	60,034
Revaluations	53,726	53,726	53,726	157,646	157,646	157,646
Impairments	-	-	-	-	-	-
Balance at 31 March	**1,762,744**	**1,762,744**	**1,762,744**	**1,900,154**	**1,900,154**	**1,900,154**

Launch Investments are held by the Core Department.

The Core Department has determined that repayable launch investments are to be classified as 'available for sale financial assets' and measured at fair value, in accordance with IAS 39.

The Core Department, under the 1982 Civil Aviation Act, provides repayable launch investment to companies for a proportion of non-recurring eligible design and development costs on civil aerospace projects. Each project supported is covered by separate contractual terms and conditions. Under these contracts, periodic repayments become due when products are sold. The portfolio of existing investments is valued twice annually and the valuations are based on forecast annual income, arising under each contract.

Measurement and carrying values

Repayable launch investment contracts are initially recognised at fair value which is the transaction price. This is in accordance with IAS 39 which explains that the best estimate of fair value at initial recognition of a financial instrument that is not quoted in an active market, is not evidenced by or based on other observable market transactions, is the transaction price. After initial recognition, the value is the discounted forecast value of future income streams. The value of future income streams is predominantly based on the Core Department's view of the applicable programme's performance in the global market over the period of the contract's life.

The Core Department uses an econometric model to forecast global air traffic growth to estimate the overall long-term demand for aircraft and then an aircraft supply model which provides a forecast of deliveries for individual aircraft types. The model uses drivers such as airline fleet evolution over time and economic growth. The key input data sources are: ICAO (International Civil Aviation Organisation), IATA (International Air Transport Association), A4A (Airlines 4 America), AEA (Association of European Airlines), APAA (Asia Pacific Airlines Association), IMF (International Monetary Fund) GDP forecasts, Ascend Online Fleets and the Avsoft ACAS database. The market forecast outputs are benchmarked with external sources to ensure fitness for purpose, using publicly available forecasts, subscription services and through discussions with experts in the industry. The market forecast model's ultimate outputs (aircraft deliveries) are included in the income forecast valuation where appropriate according to the nature of individual contracts.

Other valuation variables include inflation measures – or proxies (such as RPI, RPIX, gilt rates and GDP deflators). Some contracts entitle the Core Department to a share of aircraft or engine spare part and support income, and the valuation of these contracts is based on analysis of past income streams and forecasts of future deliveries. The forecast income streams are adjusted by inflation (2.65%) and are discounted to present value using HM Treasury's discount rate for financial assets of 3.5%.

The carrying value of launch investments is influenced by the interaction of key drivers such as deliveries and economic variable; the Core Department uses Monte Carlo simulation to simulate this. The Core Department considers that the carrying value is a reasonable approximation of the fair value of launch investments.

Where the valuation exceeds historical cost, increases in value are taken to the revaluation reserve and are released to Consolidated Statement of Comprehensive Net Expenditure, as investments are realised. Any permanent diminution in value is charged to the Consolidated Statement of Comprehensive Net Expenditure. Fluctuations in fair value are adjusted through the revaluation reserve. The balance on the Revaluation Reserve pertaining to launch investments was £139 million at 31 March 2012 (31 March 2011: £171 million).

The value of the investments at 31 March 2012 was £1,763 million (31 March 2011: £1,900 million). The historic cost valuation of the portfolio at 31 March 2012 was £995 million (31 March 2011: £1,164 million).

Sensitivity analysis

The Core Department has developed a Monte-Carlo based approach which uses the software package @Risk to assess the impact of uncertainty on forecast income and overall contract values and enhance the robustness of our valuation process of key contracts. Uncertainties are addressed by constructing different scenarios for the key drivers and then assigning probabilities to these scenarios. In this way we can implement a Monte-Carlo simulation of the contracts. The key variables can include: programme delays, production levels, market shares, entry into service and out of service dates and economic variables.

The contracts are highly complex and generally distinct from each other in their terms and structure, yet there are cases of significant interdependencies between contracts and correlations between variables. The Core Department uses a 'Monte-Carlo' based approach to simulate the financial models, thereby allowing the relationship between the key drivers and the value of the portfolio to be examined. The model is iterated thousands of times to produce distributions of income for each contract and thus the overall portfolio.

Each iteration of the model produces an income forecast. These are collated and used to form an income distribution. It is from this distribution that the value of the portfolio (above) is calculated. The distribution is also used to derive a confidence interval. This interval allows an assessment of the potential volatility around the portfolio's valuation. The Core Department has selected to use a 90% confidence interval (CI); this captures 90% of all the iterations outputted from the model. Thus, there is a 90% probability that the mean falls within this range. The lower and upper confidence limits which define this CI were £1,580 million and £1,929 million respectively, at 31 March 2012.

Risk

Market Risk

This constitutes the largest area of potential risk in the portfolio as the primary method of the calculation of income streams is based on the forecasts of aircraft or engine deliveries. The Core Department uses internal analysis, company information and third party information to forecast deliveries and ultimately future income on each investment over the life of the investment period. Deliveries in the short term are driven by variables which include manufacturer production plans, market cycles, customer demand and availability of financing. Medium and longer-term deliveries will be affected by overall market growth and the market attractiveness of an aircraft programme. A negative shift in outlook may result in the Core Department not being able to recover its investment in whole or in part, although once deliveries have commenced some level of income is usually due to the Core Department. The Core Department aims to minimise risk of under-recovery of investments by carrying out a full evaluation of each business case submitted for launch investment support and by monitoring programmes for the substantive life of the contracts to allow it to assess exposure to risks (such as project risk, market risk and technical risk).

Interest Rate Risk

A number of the contracts use retail price indexes (RPI and RPIX) or other surrogates as a tool to inflate the value of income due to the Core Department over time. As such there is a risk relating to the forecasting of these indexes and surrogates within the valuation, although we estimate that the risk is low and impact relatively minor.

Foreign Exchange Risk

The aerospace sector is US Dollar denominated and the Core Department has a number of older contracts of relatively low value which it ultimately receives in pounds sterling but are initially based in US Dollars. Therefore exchange rate risk exists but is minimal in the context of the overall portfolio.

Credit Risk

Company failure could result in the Core Department's investment not being recovered in whole or in part. The Core Department seeks to offset this low probability risk by analysing the financial health of any applicant at the time of application for launch investment and reviewing financial health as part of the programme monitoring activity. In addition, contracts aim to contain provisions which will (as a minimum) not disadvantage the Core Department compared to other creditors in the event of a corporate failure. The Core Department takes steps to monitor the payments that become due to companies under launch investment contracts to ensure they comply with the terms of the contracts. Finally, the contracts also require the company's auditors to confirm that all payments have been made correctly and to identify any errors made.

Other Risk

The Core Department's investments are exposed to wider risks such as economic downturns or market shocks from natural or non-natural events. These risks may adversely impact the value and timing of the income received by the Core Department. The Core Department seeks to manage this risk by actively monitoring such events when they arise to assess any potential impact.

20.3 Venture Capital Funds

	Regional Venture Capital Funds £'000	Early Growth Fund £'000	Community Development Venture funds £'000	Enterprise Capital Funds £'000	Aspire Fund £'000	Capital for Enterprise Fund £'000	UKIIF £'000	Total £'000
Balance at 1 April 2010	**4,511**	**19,941**	**11,530**	**48,797**	**1,709**	**29,750**	**-**	**116,238**
Additions	-	119	745	21,791	953	9,554	6,156	**39,318**
Redemptions	-	-	(3,225)	(1,082)	(16)	(3,530)	-	**(7,853)**
Revaluations	5,283	(2,063)	4,241	(1,976)	69	(7,527)	(49)	**(2,022)**
Impairments	(817)	(5,634)	(893)	(6,153)	-	(267)	(1,370)	**(15,134)**
Balance at 31 March 2011	**8,977**	**12,363**	**12,398**	**61,377**	**2,715**	**27,980**	**4,737**	**130,547**
Additions	-	35	345	31,037	483	3,058	9,007	**43,965**
Redemptions	-	-	(212)	(6,884)	-	(4,688)	-	**(11,784)**
Revaluations	(2,772)	(2,776)	823	10,180	(505)	7,646	(1,084)	**11,512**
Impairments	(2,798)	(39)	-	(3,967)	-	(10,423)	(1,088)	**(18,315)**
Balance at 31 March 2012	**3,407**	**9,583**	**13,354**	**91,743**	**2,693**	**23,573**	**11,572**	**155,925**

Venture Capital Funds are held by the Core Department.

The Core Department has determined that the Venture Capital Funds are classified as 'available for sale financial assets' and measured at fair value in accordance with IAS 39.

Venture Capital Fund investments support private sector led venture capital to stimulate private investment into early stage small and medium size enterprises (SME) businesses as follows:

Regional Venture Capital Funds (RVCF)

RVCFs were established in 2001-02 as an England-wide programme to provide risk capital in amounts up to £500,000 to small and medium size enterprises (SMEs) that demonstrate growth potential. The funds are managed by experienced venture capital professionals, making commercial returns. The objective was to have at least one viable commercial fund in each of the nine English regions which increase the amount of equity gap venture capital available to SMEs and which does not displace any existing funding activity in this sector. All nine funds have ceased making initial investments and all the government funds have been drawn down, however Fund Managers are still able to make follow on investments from other committed monies. The value of the Core Department's interest in these funds at 31 March 2012 is £3 million (31 March 2011: £9 million).

In the event of erosion in the fund's capital base the Core Department's investment suffers first. Government funds are subordinated to reduce the risk to other investors in the light of historically less attractive returns from this sector. This is done to attract other investors to invest in this 'equity gap' sector.

Early Growth Funds (EGF)

This programme was established in 2002-03 to encourage risk funding for start-ups and growth firms, to increase the availability of small amounts of risk capital of on average £50,000 for innovative and knowledge intensive businesses and businesses in other growth areas. Fund managers make all of the investment decisions and will be looking to make a commercial return on investments. The period of the initial investment has now closed but follow on investments will be made. The value of the Core Department's interest in the funds as at 31 March 2012 is £10 million (31 March 2011: £12 million).

Community Development Venture Funds (CDVF)

The CDVF, launched in 2002-03, is a £40 million venture capital fund aimed to widen and deepen the provisions of venture capital finance and entrepreneurial support to viable Small and Medium Sized Enterprises (SMEs) capable of growth that are located in, and have economic links with, the 25% most disadvantaged wards in England. Of the £40 million capital investment available to the fund, £20 million is Government investment, alongside private sector investors through pound for pound matched funding. The funds range of investment can be from £100,000 up to £2 million. The initial investment period ended in May 2009 and in September 2012 the fund will be reviewed. At this point the fund will either be wound up or the fund life will be extended for a further two years as is provided for in the Limited Partnership Agreement, in order to maximise the returns to investors from the fund. If wound up, all investments will be redeemed and the assets distributed to investors. The value of the Core Department's interest in the funds as at 31 March 2012 is £13 million (31 March 2011: £12 million).

Enterprise Capital Funds (ECF)

The ECF, first launched in 2006-07, was established to address a market weakness in the provision of equity finance to SMEs. Government funding is used alongside private sector funds to create funds that operate within the equity gap, targeting investments up to £2 million that have the potential to provide a commercial return. The Core Department has made a commitment to allocate £200 million to the ECF programme in the four year period until 31 March 2015. Ten funds have had ECF funding allocated to them in 2011-12. The value of the Core Department's interest in the funds at 31 March 2012 is £92 million (31 March 2011: £61 million).

Aspire

The Aspire fund is a co-investment fund that became operational in November 2008 and made its first investment in July 2009. It was established to provide equity investments of up to £2 million (as a total investment round) to women-led SME businesses. £12.5 million has been made available by the Government. The Government investment will at least be matched by the private sector. The value of the Core Department's investments at 31 March 2012 is £3 million (31 March 2011: £3 million).

Capital for Enterprise Fund (CfEF)

The CfEF was announced in January 2009 and become operational in April 2009. CfEF supports viable business with equity or mezzanine investment aimed at releasing and sustaining growth. The purpose of the fund is to provide equity and quasi equity of between £200,000 and £2 million where the business has exhausted its borrowing capacity with lenders. The fund will provide £75 million of equity or mezzanine funding of which £50 million has been committed by Government. The value of the Core Department's investments as at 31 March 2012 is £24 million (31 March 2011: £28 million).

UK Innovation Investment Fund

The UK Innovation Investment Fund (UKIIF) was announced in June 2009 to drive economic growth and create highly-skilled jobs by enabling investment in growing small businesses start-ups and spin-outs in key technology areas such as life sciences, low carbon, digital technologies and advanced manufacturing. UKIIF became fully operational in February 2010, however the value of the Core Department's investment as at 31 March 2010 was nil. The funds are managed by two private sector fund managers – Hermes GPE and the European Investment Fund. The two funds raised £175 million of private investment, leading to a combined total of £325 million to invest, including the Government's £150 million cornerstone investment, which is being invested on the same terms as the private investors. The value of the Core Department's investments as at 31 March 2012 is £12 million (31 March 2011: £5 million).

Measurement and carrying amounts

The Venture Capital Funds are initially recognised at fair value, which is the transaction price. This is in accordance with IAS 39 which explains that the best estimate of fair value at initial recognition of a financial instrument that is not quoted in an active market, is not evidenced by or based on other observable market transactions, is the transaction price. After initial recognition the carrying value is based upon the valuations prepared by the fund managers. They are taken from the most recent set of annual Accounts for each of the funds and, where available, updated with interim fund manager valuations. All Venture Capital Funds are valued in accordance with the International Private Equity and Venture Capital Guidelines.

The Core Department considers that the carrying value is a reasonable approximation of the fair value of these investments.

The impairment of the Venture Capital Funds during 2011-12 of £18 million (2010-11: £15 million), considered a permanent diminution, is based upon a downward revaluation of the funds at 31 March 2012. Movements in fair value are adjusted though the revaluation reserve. The balance on the revaluation reserve pertaining to Venture Capital Funds was £23 million as at 31 March 2012 (31 March 2011: £13 million).

Risks

The Core Department is exposed to credit risk because the investee companies may not perform as expected and the Core Department may not recover its investment. The Core Department minimises the risk by using Capital for Enterprise Limited (CfEL), an asset management business, and a delivery partner of the Core Department, to carry out a full evaluation of each business case submitted.

20.4 Other loans and investments

	Venture Capital Loan Funds £'000	Other investment funds £'000	Gilts £'000	Private sector loans £'000	Equity investments £'000	Managed Funds £'000	Term deposits £'000	Other investments £'000	Total £'000
Balance at 1 April 2010	**64,946**	**17,667**	**246,240**	**17,414**	**83,463**	**23,977**	**20,000**	**71,721**	**545,428**
Transfers in	-	-	-	-	-	-	-	-	**-**
Additions	5,741	-	35,000	7,445	96,154	24,336	35,000	46,526	**250,202**
Redemptions	(4,257)	(2,100)	(94,309)	(8,128)	(46,361)	(14,519)	-	(52,462)	**(222,136)**
Revaluations	36	(863)	(1,041)	519	6,259	(16)	-	1,299	**6,193**
Impairments	(5,285)	-	-	(47)	(3,729)	-	-	(23)	**(9,084)**
Unwinding discount	-	-	-	215	-	-	-	-	**215**
Balance at 31 March 2011	**61,181**	**14,704**	**185,890**	**17,418**	**135,786**	**33,778**	**55,000**	**67,061**	**570,818**
Transfers in	-	-	-	28,321	-	-	-	(28,321)	**-**
Reclassifications	(13,506)	-	-	-	-	-	-	24,434	**10,928**
Additions	1,727	-	-	17,391	24,345	12,164	152,000	159,989	**367,616**
Redemptions	(3,983)	13	(72,861)	(17,045)	(500)	(7,824)	(162,000)	(154,647)	**(418,847)**
Revaluations	4,687	1,062	15,279	(30,620)	(304)	61	-	(61)	**(9,896)**
Impairments	(6,409)	-	(3,490)	(232)	(2,361)	-	-	(250)	**(12,742)**
Balance at 31 March 2012	**43,697**	**15,779**	**124,818**	**15,233**	**156,966**	**38,179**	**45,000**	**68,205**	**507,877**
Of the total:									
Core Department	43,697	15,779	-	5,354	-	-	-	-	**64,830**
Agencies	-	-	-	-	-	-	-	-	**-**
NDPBs and other designated bodies	-	-	124,818	9,879	156,966	38,179	45,000	68,205	**443,047**
Balance at 31 March 2012	**43,697**	**15,779**	**124,818**	**15,233**	**156,966**	**38,179**	**45,000**	**68,205**	**507,877**

The analysis above details the Other Loans and Investments held by the Departmental Group as at 31 March 2012. Venture Capital Loan Funds and other Investment Funds are held by the Core Department. Gilts, Equity Investments, Managed Funds, Term Deposits and other investments are held by the NDPBs and other designated bodies. Private Sector Loans include loans issued by both the Core Department and NDPBs and other designated bodies. The Agencies of the Department do not hold any assets of this type.

During the reporting period £48 million of loans and investments transferred from the RDAs to the Core Department. To harmonise accounting treatment, the Core Department reclassified loans and debtors amounting to £29 million to other financial assets in Note 20.4. In addition investments in North West Business Link, Business Link West Midlands, Directions Finningley and NW VCLF HF LLP, amounting to £18 million were reclassified as other investments in the public sector and transferred to Note 18.5. The net impact of these reclassifications on Note 20.4 is an increase of £11 million. All of the RDA transfers in and subsequent reclassifications are shown in Note 40.

Venture Capital Loan Funds (VCLFs)

The Department has determined that the VCLFs are to be classified as 'available for sale financial assets' and measured at fair value in accordance with IAS 39.

These limited partnerships were set up by the RDAs to provide funding in the form of loans and equity to small and medium sized businesses (SMEs) to stimulate sustainable economic growth across the regions. They were transferred to the Core Department for nil consideration. The VCLF balance includes the following schemes:

- North West Venture Capital Loan Funds are limited partnerships which provide funding, in the form of loans and equity, to small businesses in the North West region. After recovery of the loan investment, the Department is entitled to a return on investments equivalent to its interest in the fund. The Core Department has loan investments in the North West Business Investment Scheme, the North West Seed Fund and the Rising Stars Growth Fund. The Transitional Loan Fund (TLF) was established to provide loans to SMEs in the East Midlands region to obtain finance for working capital in the absence of conventional sources. Funding is available to companies with a viable business plan that can demonstrate the capability to service the borrowing required. The value of the Department's investments as at 31 March 2012 is £19 million.
- West Midland Venture Capital Loan Funds are schemes where the Core Department has loan investments in the Advantage Enterprise and Innovation Fund, the Mercia Seed Fund 2, the Early Advantage Fund and the Exceed Partnership Fund. The value of the Department's investments as at 31 March 2012 is £25 million.

Other investment loan funds

The balance comprises the following significant investments:

- Finance Yorkshire: YF transferred its 10% interest in Finance Yorkshire to the Core Department on 30 March 2012. Finance Yorkshire is a £90 million regional venture capital and loan fund, supported by the Core Department, the ERDF and the European Investment Bank. The fund supports business growth by providing access to finance for companies across the region in the form of seed corn finance, business loans and equity linked investments ranging from £15,000 to £2 million for businesses in or relocating to Yorkshire and the Humber region. The fair value of the Core Department's investment as at 31 March 2012 is £5 million.
- Transitional Loan Fund: On 1 October 2011 EMDA transferred to the Core Department a loan to the Transitional Loan Fund (TLF), the fair value of the loan was £3 million at the date of transfer

and there was no consideration paid. The loan to the TLF is unsecured and has a carrying value of £3 million as at 31 March 2012. EMDA established the TLF to support businesses through the economic downturn, offering loans ranging from £50,000 to £500,000 for a maximum loan period of up to three years, on commercial terms.

- East Midland Early Growth Fund Loan: On 1 October 2011 EMDA transferred to the Core Department a loan to the East Midland Early Growth Fund Ltd (EMEGFL). The fair value of the loan was £3 million at the date of transfer and there was no consideration paid. The loan to the EMEGFL is secured by way of a debenture over the assets of the company and has a carrying value of £3 million as at 31 March 2012. The EMEGFL was established by EMDA to provide financial support to start up companies.
- Advantage Transition Bridge Fund (ATBF): On 1 October 2011 AWM transferred to the Core Department the ATBF, with a fair value of £4 million, for nil consideration. The ATBF is an unsecured long term loan with a carrying value of £5 million as at 31 March 2012.

Gilts

NESTA invests in government gilts and deposits held with the Commissioners for the Reduction of The National Debt in the UK (carried out within the United Kingdom Debt Management Office). A parcel of gilts with a nominal value of £49.6m and unamortised premium paid of £0.9m was sold prior to 31 March 2012, realising £51.2m in cash. This parcel of gilts was of the government's 'non-marketable' variety and was required to be sold prior to the transfer of NESTA's financial assets and liabilities to Nesta Trust on 1 April 2012. The value at 31 March 2012 is £125 million (31 March 2011: £186 million).

Private sector loans

Loans are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Private sector loans are initially recognised at fair value and are subsequently measured and carried at amortised cost, using the effective interest rate method, in accordance with IAS 39. Subsequently the loans are being carried at historic cost as a proxy for amortised cost because the Core Department and its NDPBs and designated bodies have determined that there is no material difference between them.

The most significant private sector loan is the granting of a £22 million loan facility, by the Secretary of State, on 21 July 2011 to a commercial company to support the financing of their development costs. The loan will be drawn down over a four year period up until 31 March 2015 and is due to be repaid by 31 March 2020. Interest is charged at a margin above LIBOR, and the loan is secured by a financial guarantee. The commercial company loan has a carrying value of £5 million as at 31 March 2012.

Equity investments

NESTA holds numerous other investments in equities, property funds, bonds and private equities, which are held separately with commercial investment managers.

The fair value of these investments at 31 March 2012 is £157 million (31 March 2011: £136 million).

Managed Funds and Term Deposits

CITB-ConstructionSkills has listed securities managed by fund managers. The fair value of CITB-ConstructionSkills managed investments at 31 March 2012 is £26 million (31 March 2011: £20 million). It also has term deposits as at 31 March 2012 of £45 million (31 March 2011: £55 million).

ECITB has managed investments consisting of bonds and other fixed interest investments. The fair value of ECITB's investments as at 31 March 2012 is £12 million (31 March 2011: £14 million).

Other investments

The most significant other investments comprise:

- Seed and early stage companies: NESTA Investments has made equity, participating or convertible loan or quasi-equity investments in a portfolio of early-stage, start-up companies, and made contributions to early-stage investment funds. During the year investments were made into new and existing portfolio companies at a total cost of £3.7 million and drawdowns totalling £1.6 million were made on existing commitments on investment funds. At 31 March 2012 NESTA held investments in seed and early stage companies amounting to £23 million (31 March 2011: £22 million).
- MRCT's investments consist of cash and bank deposits; gilt-edged securities; bonds and equities and any other assets that are deemed suitable for the charity. MRCT has managed investments as at 31 March 2012 of £30 million (31 March 2011: £18 million). They are carried at market value, which is considered a reasonable approximation of fair value, in accordance with IAS 39.
- UK Atomic Energy Authority has investments consisting of bonds and other fixed interest investments. The fair value of UKAEA's investments as at 31 March 2012 is £14 million (31 March 2011: £20 million). These investments are classified as Held to Maturity investments in accordance with IAS 39.

Measurement and carrying values of Other Loans and Investments

VCLFs are initially recognised at fair value, which is the transaction price in accordance with IAS 39. After initial recognition the carrying value is based upon the valuations prepared by the fund managers. They are taken from the most recent set of annual Accounts for each of the funds and, where available, updated with interim fund manager valuations. The Core Department considers that the carrying value is a reasonable approximation of the fair value of these investments.

The impairment of the VCLFs during 2011-12 of £6 million is based upon a downward revaluation of the funds at 31 March 2012. Movements arising on the revaluation of VCLFs are reflected in other comprehensive expenditure, except for impairments and reductions in value below historical cost, which are recognised in the Consolidated Statement of Comprehensive Net Expenditure.

Gilts, Equity investments, Managed Funds and Other Investments are carried at fair value.

Investments in seed and early stage companies are at carried fair value in accordance with IAS 39. The fair value of unquoted investments in early stage companies is established by using valuation guidelines produced by the British Venture Capital Association (BVCA). The guidelines set out by the BVCA provide for investments to be carried at cost unless there is information indicating an impairment or sufficiently clear evidence to support an increase in valuation. Valuation of companies at this early stage of development is an inherently volatile and uncertain process. Using the valuation guidelines is considered to be the best approach to estimating fair value at 31 March 2012.

Risks

The Core Department is exposed to credit risk on the VCLF investments because the entity receiving the loan or equity injection may not perform as expected and the Core Department may not recover the funds invested. The Core Department minimises the risk, by using CfEL to actively manage these investments.

The Core Department is exposed to credit risk on Other Investment Funds because the entity receiving the loans may not perform as expected and the Core Department may not recover the funds invested. The Core Department minimises the risk, by ensuring that the loan conditions are adhered to.

Company failure by the borrower would result in the Core Department not being able to recover the full value of the loan. The Core Department has mitigated this by taking security via a guarantee. The interest margin above Libor is also linked to the guarantor's long-term credit rating as assessed by professional rating agencies.

In order to mitigate exposure to interest rate risk related to gilts, the Department has applied a policy of purchasing gilts of five or more years' duration.

For seed and early stage companies, the Department is exposed to market risk because the investments may not perform as expected and as a result the funds invested may not be recovered. The risk is mitigated by using commercial investment managers to oversee the investments in equities, property funds and bonds.

The Department is exposed to market risk on its other investment portfolio because the investments may not perform as expected and as a result the funds invested may not be recovered. The risk is mitigated by using commercial investment managers to oversee the investments in equities, property funds and bonds.

The ECITB's and CITB-ConstructionSkills' investment portfolios are invested in accordance with rules approved by the Secretary of State. These rules only permit investment in a range of high quality fixed interest bearing investments. These rules combined with the use of commercial investment managers helps to mitigate the risk.

MRCT also uses commercial investment managers and ensures that no investment should exceed 10% of the value of the investment portfolio and those investments that account for more than 5% of any portfolio should not, when combined, exceed 40% of the total managed funds.

21. Impairments

During the year the Department impaired its assets to the value of £2,398 million (2010-11: £3,452 million). The total impairment change for the year was charged direct to the Statement of Comprehensive Net Expenditure. The details are as follows:

		2011-12 £'000			Restated 2010-11 £'000		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
British Shipbuilders Public Dividend Capital	18	6,700	6,700	6,700	5,000	5,000	5,000
Venture Capital Funds impairment	20	18,315	18,315	18,315	15,134	15,134	15,134
Movement in student loans policy write off	9, 20	696,490	696,490	696,490	678,110	678,110	678,110
Impairment of assets held for sale	24	-	-	239	-	-	-
Impairment of inventories	8, 9	-	-	12,137	-	-	43,669
Tuition fee loan adjustment	9	92,748	92,748	92,748	76,862	76,862	76,862
Student loan base rate impairment	9, 20	512,525	512,525	512,525	503,485	503,485	503,485
Base rate cap impairment provision	9, 20	53,667	53,667	53,667	979,622	979,622	979,622
Changes to student loans assumptions and modelling	9, 20	942,244	942,244	942,244	1,123,146	1,123,146	1,123,146
Impairment of other investments		3,960	3,960	23,761	-	-	9,014
Property, plant and equipment	8, 9	-	1,065	33,100	-	-	17,853
Intangible assets	15	-	1,327	6,378	-	-	(21)
Total impairments		**2,326,649**	**2,329,041**	**2,398,304**	**3,381,359**	**3,381,359**	**3,451,874**

Further information about these impairments is included in the disclosure notes indicated. The impairment of other investments includes £1,162,193 for 'available for sale assets' which was released from fair value reserves.

22. Inventories

		31 March 2012 £'000			31 March 2011 £'000		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Balance at 1 April		**-**	**-**	**36,322**	**-**	**52**	**70,076**
Transfer in		258	258	-	-	-	-
Additions		-	-	181	-	-	26,769
Disposals		-	-	(21,341)	-	(52)	(15,228)
Impairments	8,9	-	-	(12,137)	-	-	(43,669)
Revaluations		-	-	(282)	-	-	(2,145)
Reclassification		-	-	(2,445)	-	-	519
Carrying amount at 31 March		**258**	**258**	**298**	**-**	**-**	**36,322**

The reduction in inventories is primarily due to the impairments and disposals arising on the winding up of the RDAs.

23. Trade receivables and other current assets

	31 March 2012 £'000			31 March 2011 £'000			1 April 2010 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Amounts falling due within one year:									
Trade receivables	107,394	172,460	328,083	16,424	5,395	184,307	18,694	195,200	494,944
Other receivables:									
Deferred tax asset	-	-	339	-	-	467	-	-	277
Corporation tax	-	-	1,024	-	-	2,457	-	-	29
VAT	14,736	19,026	20,221	9,167	13,189	20,321	7,494	11,826	12,374
Consolidated Fund receivables – non-operating costs	159	159	159	848	848	848	1,570	1,570	1,570
Consolidated Fund receivables – operating costs	-	-	-	19,658	19,658	19,658	15,541	15,541	15,541
Staff receivables	1,019	1,459	2,499	1,125	1,568	2,751	1,410	1,896	2,926
Tuition fee loan receivable	902,822	902,822	902,822	835,947	835,947	835,947	813,921	813,921	813,921
RPS receivables	157,982	157,982	157,982	153,943	153,943	153,943	138,415	138,415	138,415
Other	47,439	46,287	75,294	219	16,983	138,960	39,612	38,995	52,100
Prepayments and accrued income	190,669	205,652	497,767	88,460	110,464	488,179	124,234	131,385	360,155
	1,422,220	**1,505,847**	**1,986,190**	**1,125,791**	**1,157,995**	**1,847,838**	**1,160,891**	**1,348,749**	**1,892,252**
Amounts falling due after more than one year:									
Trade receivables	83,132	-	11,232	72,132	74,373	74,784	91,247	200	11,626
Deposits and advances	-	-	60,715	-	-	86,536	51	51	218,291
Other receivables	75,902	75,902	82,386	83,482	83,483	91,747	47,016	47,016	55,643
Prepayments and accrued income	-	-	-	-	-	-	-	-	-
	159,034	**75,902**	**154,333**	**155,614**	**157,856**	**253,067**	**138,314**	**47,267**	**285,560**
Total Receivables	**1,581,254**	**1,581,749**	**2,140,523**	**1,281,405**	**1,315,851**	**2,100,905**	**1,299,205**	**1,396,016**	**2,177,812**

The tuition fee loan receivable represents the amount of the tuition fee loans to be added to student loans, when payments are made to the institutions, less the interest rate subsidy and write off impairments, which reflect the cost to Government of issuing the loans.

The Redundancy Payment receivable is shown net of an annual impairment.

The impairment is calculated by the Insolvency Service using a model which is approved by HMRC. Up to and including 2009-10 there was a basic five year model based on active debt, payments, receipts and the percentage recovery. A number of issues have arisen recently that have made the current basic model less reliable, namely:

- The Enterprise Act 2004 changed the way preferential debt is recovered
- Software changes have resulted in the model using a pot of all debt over the previous five years rather than active debt which means that there appears to have been some double counting of potential recoveries
- Recent data shows recoveries after more than 20 years albeit on a greatly reducing basis.
- The model was producing a constantly increasing value of recoverable debt which could not be fully explained.

In 2010-11 the model was revised using improved data. The updated model now includes the following:

- A management estimation that 14% of debt incurred each financial year to be recovered over a ten year period
- Recognition that debt will continue to be recovered for the following ten years; therefore all debt over 10 years old is pooled
- Improved software means that receipts can be matched to financial years and rate of recovery recorded annually against forecast recovery figures
- Recognition that the amount of debt recovered increases where payments increase but at a slowing percentage rate
- The model is designed to be updated and reviewed annually including average assumptions used and over/under recoveries on an annual year basis.

The revised model calculates the recoverable as £158 million as at 31 March 2012 (£154 million 2010-11). There is a risk that the estimation of 14% is over optimistic and therefore would result in a downward revision in future years. Additionally the model has been created using only six years of available data with 14 years of data required for a full model to be effective. However, the model is designed to self check against recovery rates and for data available there is only a small annual variation from the 14% target. This variation is not material and therefore does not render the model invalid. The model is also designed to be monitored and amended annually as required. Additionally, reporting is to be run on a monthly basis to ensure early warning of any trends outside the parameters set in the model.

23.1 Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	31 March 2012 £'000	31 March 2011 £'000	(Restated) 1 April 2010 £'000	31 March 2012 £'000	31 March 2011 £'000	(Restated) 1 April 2010 £'000
Balances with:						
Other central government bodies	295,928	290,821	431,315	8,881	10,553	114,934
Local authorities	3,098	9,639	13,733	-	-	7,235
NHS bodies	239	1,205	797	-	-	-
Public corporations and trading funds	11,955	49,971	118,324	-	-	10
Subtotal: Intra-Government balances	*311,220*	*351,636*	*564,169*	*8,881*	*10,553*	*122,179*
Bodies external to government	1,674,970	1,496,202	1,328,083	145,452	242,514	163,381
Total receivable at period end date	**1,986,190**	**1,847,838**	**1,892,252**	**154,333**	**253,067**	**285,560**

24. Non-current assets held for sale

		31 March 2012 £'000			31 March 2011 (restated) £'000		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Net cost or valuation							
At 1 April		**-**	**-**	**12,172**	**-**	**-**	**5,472**
Additions		-	-	654	-	-	11,207
Disposals		-	-	(7,973)	-	-	(3,979)
Impairments	21	-	-	(239)	-	-	-
No longer held for sale but not sold		-	-	-	-	-	(519)
Revaluations		-	-	47	-	-	(9)
Carrying amount at 31 March		**-**	**-**	**4,661**	**-**	**-**	**12,172**

Non-current assets classified as held for sale in accordance with IFRS 5 comprise freehold land and buildings, and leasehold houses which are surplus to requirements and are being actively marketed. The carrying value as at 31 March 2012 represents the expected net disposal proceeds for these assets.

BBSRC is holding an asset which is surplus to requirements and is due to be sold during 2012-13. The carrying value of the property as at 31 March 2012 is £4 million.

CITB-ConstructionSkills' assets held for sale relate to two properties held in Scotland, with a carrying value of £1 million.

25. Investments and loans in public sector bodies: current

	31 March 2012 £'000			Restated 31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Balance at 1 April	**261,271**	**261,271**	**261,271**	**527,364**	**527,364**	**527,364**
Additions	5,433,000	5,433,000	5,433,000	6,867,000	6,867,000	6,867,000
Repayments	(5,195,271)	(5,195,271)	(5,195,271)	(7,134,364)	(7,134,364)	(7,134,364)
Loans repayable within 12 months transferred from non-current assets	166	166	166	1,271	1,271	1,271
Balance at 31 March	**499,166**	**499,166**	**499,166**	**261,271**	**261,271**	**261,271**

Investments and loans above are with the following public sector bodies:						
	Post Office Ltd £'000	Royal Mail Holdings plc NLF Loans £'000	Companies House loan £'000	UKIPO loans £'000	Met Office loan £'000	Total £'000
Balance as at 1 April 2010	489,000	30,000	2,500	166	5,698	**527,364**
Additions	6,777,000	90,000	-	-	-	**6,867,000**
Repayments	(7,006,000)	(120,000)	(2,500)	(166)	(5,698)	**(7,134,364)**
Loans repayable within 12 months transferred from non-current assets	-	-	-	166	1,105	**1,271**
Balance as at 31 March 2011	**260,000**	**-**	**-**	**166**	**1,105**	**261,271**
Additions	5,433,000	-	-	-	-	**5,433,000**
Repayments	(5,194,000)	-	-	(166)	(1,105)	**(5,195,271)**
Loans repayable within 12 months transferred from non-current assets	-	-	-	166	-	**166**
Balance as at 31 March 2012	**499,000**	**-**	**-**	**166**	**-**	**499,166**

Other investments and loans are held by the Core Department.

25.1 Post Office Limited loan

Since October 2003 the Core Department has made available to Post Office Ltd (POL) a revolving loan facility of up to £1.15 billion. This is to help the company fund its daily in-branch working capital requirements to deliver services through the network, such as social benefits payments. The facility matures in March 2016, and the outstanding balance at 31 March 2012 was £499 million (2010-11: £260 million).

25.2 UKIPO loans

In 1992, the Core Department advanced two loans amounting to £4 million to the UKIPO, repayable over 26 years, in 52 instalments of principal. £166,000 has been repaid during 2011-12. The balance outstanding at 31 March 2012 is £999,000 (of which £166,000 is repayable within 12 months). The amounts falling due after more than one year are disclosed in Note 18.

25.3 Met Office loan

Following a Machinery of Government change a loan which was advanced to the Met Office by the MOD was transferred to BIS. During 2009-10 the Met Office borrowed £4 million to finance a new supercomputer. The final repayment was made during 2011-12.

26. Cash and cash equivalents

	31 March 2012 £'000			31 March 2011 (restated) £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Balance as at 31 March	**800,310**	**831,403**	**1,879,913**	**317,019**	**333,323**	**1,092,886**
Transfer out of Design Council	**-**	**-**	**(2,530)**	**-**	**-**	**-**
Restated balance as at 1 April	**800,310**	**831,403**	**1,877,383**	**317,019**	**333,323**	**1,092,886**
Net change in cash balances	(384,653)	(348,870)	(717,086)	483,291	498,080	787,027
Balance as at 31 March	**415,657**	**482,533**	**1,160,297**	**800,310**	**831,403**	**1,879,913**
The following balances were held with:						
The Government Banking Service (GBS)	413,756	425,598	640,112	799,842	808,893	1,122,769
Commercial banks and cash in hand	1,901	56,935	362,154	468	22,510	700,178
Short term investments	-	-	158,031	-	-	56,966
Balance at 31 March	**415,657**	**482,533**	**1,160,297**	**800,310**	**831,403**	**1,879,913**
Less overdraft	-	-	(2,525)	-	-	-
Total	**415,657**	**482,533**	**1,157,772**	**800,310**	**831,403**	**1,879,913**

The core Department does not hold any cash equivalent balances.

Restricted funds

£2 million (2010-11: £1 million) of the balances held relate to the Actuarial Case Cost Fund which may only be used for actuarial disciplinary case costs. £2 million (2010-11: £2 million) relates to the Financial Reporting Review Panel (FRRP), Legal Costs Fund account which may only be used for the purpose of enabling the FRRP to ensure compliance with the accounting requirements of the Companies Act 2006, including applicable Standards, and to investigate departures from those standards and requirements. The FRC may be liable to repay the balance on the Legal Costs Fund to the contributors if it ceases to be authorised by the Secretary of State for the purposes of section 456 of the Companies Act 2006.

Short-term deposits

At 31 March 2012 short term deposits were held with major UK banks by FRC, NESTA and the UK Atomic Energy Authority.

27. Trade payables and other current liabilities

	31 March 2012 £'000			31 March 2011 £'000			1 April 2010 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Amounts falling due within one year:									
Other taxation and social security	36	36	18,333	36	36	16,738	63	63	11,432
Trade payables	50,889	67,960	318,022	42,593	54,602	348,597	13,846	30,394	1,055,764
Tuition fee loan obligation	1,388,958	1,388,958	1,388,958	1,229,333	1,229,333	1,229,333	1,130,446	1,130,446	1,130,446
Other payables	89,852	89,841	215,055	115,748	122,402	408,588	44,157	38,096	198,147
Commercial bank overdraft	-	-	2,525	-	-	-	-	-	-
Accruals and deferred Income	191,823	203,270	1,157,335	213,747	235,369	1,539,816	237,678	274,255	1,102,420
Royal Mail NLF loan	-	-	-	-	-	-	30,000	30,000	30,000
Current part of finance leases	-	315	1,999	-	315	2,095	-	867	2,473
On Balance Sheet (SoFP) PFI and other service concession arrangements contracts	-	1,049	1,049	-	2,306	2,306	-	3,003	3,003
Amounts issued from the Consolidated Fund for supply but not spent at year end	362,736	429,612	429,612	751,778	782,871	782,871	208,021	224,325	224,325
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:									
Received	52,921	52,921	52,921	48,531	48,531	48,531	108,999	108,999	108,999
Receivable – non operating costs	159	159	159	848	848	848	1,570	1,570	1,570
Receivable – operating costs	-	-	-	19,658	19,658	19,658	15,541	15,541	15,541
	2,137,374	**2,234,121**	**3,585,968**	**2,422,272**	**2,496,271**	**4,399,381**	**1,790,321**	**1,857,559**	**3,884,120**
Amounts falling due after more than one year:									
Trade Payables	-	-	84	-	-	424	-	-	412
Other payables, accruals and deferred income	90	90	32,074	307	307	37,349	9,066	18,106	45,806
Finance leases	-	-	8,764	-	36	216	-	348	13,394
Imputed finance lease element of on-balance sheet (SoFP) PFI and other service concession arrangements contracts	-	-	-	-	1,049	11,348	-	3,355	3,355
Royal Mail NLF loans	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	800,000	800,000	800,000
	1,100,090	**1,100,090**	**1,140,922**	**1,100,307**	**1,101,392**	**1,149,337**	**809,066**	**821,809**	**862,967**
Total payables	**3,237,464**	**3,334,211**	**4,726,890**	**3,522,579**	**3,597,663**	**5,548,718**	**2,599,387**	**2,679,368**	**4,747,087**

The tuition fee loan obligation represents the amounts which the Core Department has accrued for the May 2012 payment of tuition fee loans.

27.1 Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Balances with:						
Other central government bodies	678,010	1,115,050	459,590	1,106,085	1,091,584	845,371
Local authorities	21,089	79,537	150,217	-	-	-
NHS bodies	282	802	1,748	-	-	-
Public corporations and trading funds	81,276	6,137	81,384	-	-	-
Subtotal: Intra-Government balances	*780,657*	*1,201,526*	*692,939*	*1,106,085*	*1,091,584*	*845,371*
Bodies external to government	2,805,311	3,197,855	3,191,181	34,837	57,753	17,596
Total payables at period end date	**3,585,968**	**4,399,381**	**3,884,120**	**1,140,922**	**1,149,337**	**862,967**

28. Provisions for Liabilities and Charges

	31 March 2012 £'000			31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Balance at 31 March	**629,001**	**664,018**	**1,061,901**	**471,994**	**506,942**	**912,911**
Transfer out of Design Council	-	-	(194)	-	-	-
Balance at 1 April	**629,001**	**664,018**	**1,061,707**	**471,994**	**506,942**	**912,911**
Transferred in	8,478	8,478	-	36,938	36,938	36,938
Reclassification	1,705	1,705	1,705	-	-	-
Provided in the year	54,700	76,480	118,888	159,260	165,075	238,276
Provisions not required written back	(19,286)	(20,808)	(38,455)	(5,810)	(6,116)	(14,858)
Provisions utilised in the year	(47,991)	(54,091)	(114,841)	(44,011)	(49,451)	(110,651)
Borrowing costs (unwinding of discounts)	13,991	15,519	24,379	10,630	10,630	20,061
Transfer (to)/ from inventories	-	-	(625)	-	-	625
Other movements	-	-	(2,308)	-	-	(21,401)
Balance at 31 March	**640,598**	**691,301**	**1,050,450**	**629,001**	**664,018**	**1,061,901**

The reclassification relates to transfers in from the RDAs for retirement obligations and debtors which were subsequently reclassified as a provisions, to harmonise accounting treatments. All of the RDA transfers in and subsequent reclassifications are shown in Note 40.

Provisions analysed between Current and Non-current:

	31 March 2012 £'000			31 March 2011 (restated) £'000			1 April 2010 (restated) £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Current liabilities	53,154	56,603	102,706	58,276	61,365	120,490	43,606	46,899	106,656
Non current liabilities	587,444	634,698	947,744	570,725	602,653	941,411	428,388	460,043	806,255
Total	**640,598**	**691,301**	**1,050,450**	**629,001**	**664,018**	**1,061,901**	**471,994**	**506,942**	**912,911**

Analysis of expected timing of discounted cash flows

	31 March 2012 £'000			31 March 2011 (restated) £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Not later than one year	53,154	56,603	102,706	58,276	61,365	120,490
Later than one year and not later than five years	179,518	190,243	337,583	170,669	180,735	341,113
Later than five years	407,926	444,455	610,161	400,056	421,918	600,298
Balance at period end date	**640,598**	**691,301**	**1,050,450**	**629,001**	**664,018**	**1,061,901**

Provisions of the Core Department

	British Shipbuilders £'000	Onerous Leases £'000	UK Atomic Energy Authority Decommissioning £'000	Other £'000	Total £'000
Balance at 1 April 2010	**113,054**	**137,383**	**164,387**	**57,170**	**471,994**
Transferred in	-	36,938	-	-	**36,938**
Provided in the year	86,402	37,883	9,176	25,799	**159,260**
Provisions not required written back	(5,734)	-	-	(76)	**(5,810)**
Provisions utilised in the year	-	(28,459)	-	(15,552)	**(44,011)**
Borrowing costs (unwinding of discounts)	2,487	3,200	3,616	1,327	**10,630**
Balance at 31 March 2011	**196,209**	**186,945**	**177,179**	**68,668**	**629,001**
Transferred in	-	-	-	8,478	**8,478**
Reclassification	-	-	-	1,705	**1,705**
Provided in the year	3,934	41,970	6,946	1,850	**54,700**
Provisions not required written back	(6,700)	(3,019)	-	(9,567)	**(19,286)**
Provisions utilised in the year	-	(31,640)	(16)	(16,335)	**(47,991)**
Borrowing costs (unwinding of discounts)	4,317	4,113	3,898	1,663	**13,991**
Balance at 31 March 2012	**197,760**	**198,369**	**188,007**	**56,462**	**640,598**

28.1 British Shipbuilders

British Shipbuilders has liabilities arising from personal injury to former employees resulting from exposure to asbestos during the course of their work. The Core Department has taken on responsibility for the liabilities of the British Shipbuilders Corporation to the extent that they cannot be met from the residual funds of the Corporation. The value of the provision as at 31 March 2012 is £198 million (31 March 2011: £196 million). The undiscounted liability as at 31 March 2012 is £262 million (31 March 2011: £264 million). The current estimate is that the liabilities will extend for up to 30 years.

The Corporation's approach to accounting for the asbestos-related claims against the Corporation and its subsidiaries is to provide for those costs of resolution which are both probable and reliably estimable. A valuation was carried out in December 2010 which identified a range of liabilities from £112 million to £300 million (£149 million to £432 million undiscounted). The provision is based on the central element of the undiscounted revised forecast, discounted at the Treasury rate of 2.2%. Following the passing of The Damages (Scotland) Bill in April 2011, the substantive provisions of the Act came into force on 7 July 2011, resulting in the Department increasing the estimated level of damages awarded for cases.

In the light of significant uncertainty associated with asbestos claims, there can be no guarantee that the assumptions used to estimate the provisions for the cost of resolving asbestos claims will be an accurate prediction of the actual cost that may be incurred and, as a result, the provisions are reviewed by an actuary when a condition changes materially. Further information can be found in the British Shipbuilders' Accounts.

28.2 Onerous Leases

The Core Department has onerous leases in respect of leased offices at 151 Buckingham Palace Road (BPR), 10-18 Victoria Street (10VS), St Mary's House, Sheffield and various leases transferred from LSC in 2010 and the RDAs during 2011-12. The Department provides for these leases in full when the lease becomes onerous by establishing a provision for the estimated payments discounted by the Treasury's discount rate of 2.2% in real terms.

The Core Department has attempted to mitigate any potential losses through subletting against the existing head leases for the buildings, and has sublet BPR and 10VS. However, given market conditions at the time and future forecasts, neither the current nor future potential subleases recover the full costs incurred by BIS. St Mary's House, Sheffield, which was vacated in September 2010, has been mothballed due to the very short term of the lease and the limited prospects of finding a tenant for the building.

As a result of the closure of the RDAs the 12 leasehold properties that transferred to BIS were determined to be surplus to existing and future requirements. This led to an increase in the Core Department's onerous lease provisions amounting to £22 million. All of the onerous leases are being marketed both within Government and on the commercial market, however due to the current economic conditions there has been limited interest, although they have only recently become vacant. The expiry dates for the onerous leases within the Department range from 2012 to 2027.

A proposal is being considered about the possibility of disposing of the former RDA and LSC buildings to a specialist company which primarily deals with surplus buildings.

Following the transfer of the Government Property Unit (GPU) to the Cabinet Office from BIS, as a result of a Machinery of Government change, the Department transferred responsibility for a number of onerous leases with a value of £5 million.

The value of the provision as at 31 March 2012 is £198 million (31 March 2011: £187 million). The undiscounted liability is £220 million (31 March 2011: £207 million).

28.3 UK Atomic Energy Authority Decommissioning

The decommissioning provision represents the estimated costs of decommissioning fusion research facilities at the UK Atomic Energy Authority's Culham site, including the storage, processing and eventual disposal of radioactive wastes. The Core Department retains the liability for these costs.

Calculation of the liabilities is based on the technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are derived from the latest technical knowledge and commercial information available, taking into account current legislation, regulations and Government policy. Summary figures are built up by aggregating detailed estimates for individual liabilities. Allowance is also made for infrastructure costs, which are an appropriate share of site running costs and other overhead costs attributable to plant and buildings. The calculation is reassessed annually, so the estimated liabilities reflect the March 2012 calculation, as shown in the Authority's accounts at 31 March 2012. The best estimate of the cost of the liabilities is discounted at 2.2% to the reporting date and expressed in 2011-12 money values. The value of the provision as at 31 March 2012 is £188 million (31 March 2011: £177 million). The undiscounted cost of the provisions as at 31 March 2012 is £242 million (31 March 2011: £233 million).

Since much of the work required to deal with the liabilities will not be undertaken until well into the future, there is a significant uncertainty as to the amount of the provision. In addition, timing of expenditure on the decommissioning provision is dependent on the closure date of the Joint European Torus (JET) facility which is to be decommissioned.

28.4 Other provisions

This relates to a range of liabilities arising from the Core Department's other Programmes and Administration costs including:

Vosper Gap

In addition to the provisions of former employees of British Shipbuilders as detailed in Note 28.1 above, the Core Department has also assumed responsibility for paying compensation to some of the former employees of British Shipbuilders' subsidiaries for insidious diseases.

When British Shipbuilders' subsidiaries were sold the liability to compensate was expressly transferred to the purchasers. However in certain instances, the liability has been retained. Where valid insurance policies have been identified claimants will pursue the insurers. Where no policies exist, the Core Department agreed that where the employment and exposure occurred during the period of public ownership (1977 until the date of sale), it would make payments to claimants on an ex gratia basis. The undiscounted liability at 31 March 2012 is £9 million (2010-11: £10 million).

The National Dock Labour Board (NDLB)

Responsibility for the National Dock Labour Board (NDLB), which was set up in 1948 and abolished in 1989, rests with the Core Department. Over the past few years a number of former dockers have developed diseases, mainly asbestos related, which they believe arose as a result of their dock work. A test case in the High Court in December 2008 established that the NDLB did owe a duty of care to these dockers. As a result the Core Department recorded a provision in the 2008-09 Accounts to cover future compensation payments. In March 2010 agreement was reached with Zurich Insurance on the coverage of the public liability policies originally taken out by the NDLB. Although it is likely that the majority of cases are now known and cases are now being processed, it is possible that new cases could continue to arise until 2035. Lower than expected settlement costs have resulted in a reduction in the estimate of the outstanding liability. The undiscounted liability as at 31 March 2012 is £3 million (31 March 2011: £8 million).

There are two recent developments that could affect the level of provision required. Firstly, following a case in 2007, the House of Lords ruled that the presence of pleural plaques did not give rise to claims for damages. This ruling has been reversed in Scotland by the passing of an Act in 2009 but this was challenged by the insurance companies involved. The Supreme Court has now ruled that this legislation passed by the Scottish Parliament classifying pleural plaques as a compensable condition should stand, although to date no claims have been paid out in Scotland as the parties involved have agreed in principle to develop a voluntary protocol agreement. In the event that the law in England and Wales is changed as a result of this ruling, then it would have an upward impact on the provision required and this will be reviewed accordingly at such a time in the future.

In addition there have been successful settlement negotiations with third parties that should result in significant contribution payments to the compensation payable by the NDLB. The level to which this will reduce the Core Department's liabilities will only become clear over time as payments start to be made under settlement agreements.

Early Departure Costs

The Group 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 relevant pension fund over the period between early departure and normal retirement date. The provisions are required in order to meet the costs of pension enhancements and under some schemes lump sum payments for departing staff. The liabilities extend for up to ten years. The Group provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury's pension discount rate of 2.8% in real terms. The value of the provisions at 31 March 2012 is £24 million (31 March 2011: £31 million). The undiscounted value of the provision as at 31 March 2012 is £25 million (31 March 2011: £34 million).

UK Atomic Energy Authority Restructuring

The Core Department is responsible for the Authority's restructuring liabilities. The majority of the restructuring provisions represent termination benefits payable under early retirement arrangements to Authority employees who had retired early, or had accepted early retirement, before 31 March 2004. In addition, a smaller provision of £6 million has been made in the Group's 2011-12 accounts, relating to employees who have retired, or accepted early retirement, in 2011-12. These benefits continue at least until the date at which the employee would have reached normal retirement age, and for the duration of the pensioner's life where there is entitlement to enhancements (where enhancements are payable, the provision is calculated using the actuarial assumption of age 76). The restructuring provisions have been discounted at the pension discount rate of 2.8% to the reporting date. The value of the provision as at 31 March 2012 is £18 million (31 March 2011: £21 million). The undiscounted cost of the provisions is £20 million (31 March 2011: £23 million) and the benefits are estimated to be payable over a period up to 25 years.

Pension related provisions of the former staff of the Regional Development Agencies (RDAs)

As part of the process of winding up of the RDAs, Yorkshire Forward, and ONE North East transferred their remaining pension liabilities to the Core Department on 30 March 2012. At 31 March 2012 the value of these provisions is £3 million.

In addition, the RDAs transferred their liabilities to the Core Department in relation to their By Analogy Pension Schemes on 30 March 2012. The By Analogy Pension Schemes provide pensions for the present and former Chairs of the RDAs. The scheme is analogous to the PCSPS. The value of the provision at 31 March 2012 is £1 million.

Provisions of the Agencies

	31 March 2012			31 March 2011 (restated)		
	NPLML pension scheme provisions £'000	Other £'000	Total £'000	NPLML pension scheme provisions £'000	Other £'000	Total £'000
Balance at 1 April	**28,358**	**6,659**	**35,017**	**31,968**	**2,980**	**34,948**
Transferred in	-	-	-	788	5,027	**5,815**
Provided in the year	16,630	5,150	21,780	-	(306)	**(306)**
Provisions not required written back	(552)	(970)	(1,522)	(4,398)	(1,042)	**(5,440)**
Provisions utilised in the year	(2,077)	(4,023)	(6,100)	-	-	**-**
Borrowing costs (unwinding of discounts)	1,528	-	1,528	-	-	**-**
Balance at 31 March	**43,887**	**6,816**	**50,703**	**28,358**	**6,659**	**35,017**

28.5 NMO Pensions provision

The National Measurement Office (NMO) is responsible for any deficit arising on the National Physical Laboratory Management Ltd (NPLML) Pension Scheme when the NPLML contract ends in 2014. Therefore NMO has provided for the liability. As at 31 March 2012 the discounted value of the provision is £44 million (31 March 2011: £28 million).

28.6 Other provisions

INSS Dilapidations

During the reporting period the Insolvency Service reviewed its accommodation operating leases and has considered the risks and uncertainties related to the obligation to settle dilapidations. The Service has therefore provided for dilapidations on all its accommodation operating leases and the undiscounted costs of the onerous lease liability as at 31 March 2012 is £4 million. The discounted costs of the onerous lease liability as at 31 March 2012 is £4 million.

Provisions of NDPBs and other designated bodies

	31 March 2012				31 March 2011			
	HEI staff liabilities £'000	STFC decommissioning £'000	Other £'000	Total £'000	HEI staff liabilities £'000	STFC decommissioning £'000	Other £'000	Total £'000
Balance at 31 March	**262,202**	**49,156**	**86,525**	**397,883**	**282,695**	**31,619**	**91,655**	**405,969**
Transfer out of Design Council	-	-	(194)	**(194)**	-	-	-	**-**
Restated balance at 1 April	**262,202**	**49,156**	**86,331**	**397,689**	**282,695**	**31,619**	**91,655**	**405,969**
Transferred in	-	-	(8,478)	(8,478)	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-
Provided in the year	1,171	-	41,237	42,408	1,307	20,705	51,189	73,201
Provisions not required written back	-	(100)	(17,547)	(17,647)	-	(1,618)	(7,124)	(8,742)
Provisions utilised in the year	(28,757)	(8,249)	(23,744)	(60,750)	(29,998)	(1,988)	(29,214)	(61,200)
Other movements	-	-	(2,933)	(2,933)	-	-	(20,776)	(20,776)
Borrowing costs (unwinding of discounts)	7,342	625	893	8,860	8,198	438	795	9,431
Balance at 31 March	**241,958**	**41,432**	**75,759**	**359,149**	**262,202**	**49,156**	**86,525**	**397,883**

28.7 Higher Education Institutions (HEI) Staff Liabilities

These are certain staff related commitments of Higher Education Institutions (HEIs) that were previously Local Authority (LA) maintained. These liabilities were transferred from LAs to HEIs on incorporation and the Education Reform Act 1988 gave powers to the Polytechnics and Colleges Funding Council (PCFC) to reimburse institutions and LAs for such liabilities. Upon its formation HEFCE assumed the PCFC's main responsibilities and now provides funding for reimbursements as follows:

- Early retirement or redundancy compensation payments
- Protection of salary
- Pension increases under the Local Government Superannuation Scheme for former non teaching staff of institutions formerly funded by the PCFC.

HEFCE has provided for these ongoing reimbursements. As the provision estimate is based on a sample and uses various assumptions, the valuation obtained may vary from that which would be obtained if the data of all pension scheme members was made available to allow a full actuarial valuation. An independent review is undertaken periodically in order to verify the reasonableness of the provision. The value is an estimate based upon a sample of the underlying population, projected payments, mortality rates and other actuarial assumptions. The provision is discounted using HM Treasury's pension discount rate of 2.8%. The value of the provision as at 31 March 2012 is £242 million (31 March 2011: £262 million). The undiscounted value of the provision as at 31 March 2012 is £297 million (31 March 2011: £326 million).

Current assumptions mean payments are expected to continue until at least 2035.

28.8 Science and Technology Facilities Council (STFC) Decommissioning

STFC has in place plans for the decommissioning of the ISIS pulsed neutron source and the associated Second Target Station at the Rutherford Appleton Laboratory at the end of anticipated operating life in 2040. It is also deemed probable that at the end of the life span of STFC's technical facilities at the island sites (Joint Astronomy Centre (JAC) and the Isaac Newton Group of Telescopes (ING), or STFC's earlier withdrawal, there would be a requirement to decommission existing facilities. A provision has been created to cover the identified decommissioning costs.

In 2010-11 STFC, as the UK representative, and the other Associates, was required to sign a letter of commitment undertaking to fund their share of the decommissioning costs of the ILL facility. STFC's share of these costs is 33%. The technical operations element of the provision was re-evaluated in 2007 and updated by ILL Management in 2010. The provision is discounted using HM Treasury's real discount rate of 2.2%. The value of the provision as at 31 March 2012 is £41 million (31 March 2011: £49 million). The undiscounted decommissioning liability for STFC as at 31 March 2012 is £129 million (31 March 2011: £113 million).

28.9 Other provisions

Dilapidations

The provision for dilapidations represents the estimated settlement cost of dilapidations clauses included in property leases. The value of the provision as at 31 March 2012 is £7 million (31 March 2011: £12 million).

MRC – decommissioning

In 31 March 2012 MRC provided £9 million (31 March 2011: Nil) for decommissioning of the Cyclotron at CSC Hammersmith.

NERC – Antarctic Treaty obligations

NERC's Antarctic Treaty obligations require the Council to arrange to remove any of the items from the Antarctic that are no longer used including buildings and their fittings. In 2012-13 the Halley V base will be demolished and removed and a phased redevelopment programme is scheduled to start for the Rothera research station. This will involve the demolition and removal of existing facilities as they are replaced. The provision also covers the demolition and removal costs associated with the expected closures of the Bird Island base in 2030-31, the Signy base in 2031-32 and Halley VI base in 2040-41. The provision is heavily discounted due to over 50% of forecast expenditure not occurring for 20-30 years. The total provision is £6 million.

Career Development Loans

The Skills Funding Agency has a liability to cover interest payments that occur under this programme while the students are undertaking their course. This provision reflects the probable outflow of funds in relation to the cost of covering interest-driven liabilities while the recipients of the loans complete their course. The value of the provision as at 31 March 2012 is £3 million (31 March 2011: £3 million).

29. Current and deferred tax liability

Current tax liability

	31 March 2012 £'000			31 March 2011 (restated) £'000			1 April 2010 (restated) £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Current tax liability	-	-	14,191	-	-	6,998	-	-	17
At 31 March	**-**	**-**	**14,191**	**-**	**-**	**6,998**	**-**	**-**	**17**

Deferred Tax Liability

		31 March 2012 £'000			31 March 2011 £'000		
	Note	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
At 1 April		**-**	**-**	**13,747**	**-**	**-**	**19,358**
Provided in year		-	-	74	-	-	(79)
Provision not required written back		-	-	(4,542)	-	-	(5,532)
At 31 March		**-**	**-**	**9,279**	**-**	**-**	**13,747**

The deferred tax liability is used to provide for corporation tax amounts to be paid in relation to future taxable income. UK Atomic Energy Authority has a deferred tax liability of £9 million (2010-11: £9 million). UK Atomic Energy Authority's future taxable income relates to revaluations on investment properties and land and buildings. Therefore, the amounts will become due only when capital gains are realised through the sale of these assets. EMDA's deferred tax asset of £0.5 million (2010-11: £0.5 million) has been fully recognised, on the basis that it is more likely than not that there will be suitable future taxable profits to offset the underlying timing differences against.

The analysis of the deferred tax asset for the year is as follows:

	£'000		
	Core Department	Core Department and Agencies	Departmental Group
Balance at 1 April 2010 (restated)	-	-	277
Credit / charge to Statement of Comprehensive Net expenditure	-	-	190
Balance at 31 March 2011 (restated)	-	-	467
Credit / charge to Statement of Comprehensive Net expenditure	-	-	3
Balance at 31 March 2012	**-**	**-**	**470**

The UK Atomic Energy Authority did not recognise a deferred tax asset of £3 million (2010-11: £2 million) in respect of tax losses amounting to £12 million (2010-11: £9 million) that can be carried forward and a further £0.1 million of tax depreciation, both of which can be offset against future taxable income. NWDA also did not recognise a deferred tax asset of £44,000 (2010-11: £2 million) in respect of accumulated tax losses. It is not considered probable that taxable profits will arise in the future to utilise these tax losses for either body. For this reason, in accordance with IAS 12, a deferred tax asset has not been recognised.

30. Retirement benefit obligations

	31 March 2012 £'000			31 March 2011 £'000		
	Funded pension schemes	**Unfunded pension schemes**	**Total**	**Funded pension schemes**	**Unfunded pension schemes**	**Total**
Balance at 1 April	**(54,974)**	**3,432**	**(51,542)**	**(48,900)**	**4,009**	**(44,891)**
Transfers in from RDAs	-	-	-	-	-	-
Reclassification	-	(1,091)	(1,091)	-	-	-
Current service cost	24,686	257	24,943	19,695	111	19,806
Transfers into pension schemes	-	2	2	-	-	-
Past service cost	-	-	-	(47,948)	(133)	(48,081)
Interest cost	48,019	57	48,076	45,378	62	45,440
Actuarial gains and (losses)	51,148	(172)	50,976	(3,311)	(379)	(3,690)
Return on assets	(60,714)	-	(60,714)	(58,273)	-	(58,273)
Change in discount rate	-	-	-	62,524	-	62,524
Transfers out	(601)	(36)	(637)	-	-	-
Income from contributions	(20,062)	21	(20,041)	(24,139)	3	(24,136)
Payment of pensions	-	(205)	(205)	-	(241)	(241)
Gains/(losses) on settlement and curtailments	3,658	200	3,858	-	-	-
Balance at 31 March	**(8,840)**	**2,465**	**(6,375)**	**(54,974)**	**3,432**	**(51,542)**

The reclassification relates to a transfer in from the RDAs which was subsequently reclassified as a provision in Note 28, to harmonise accounting treatments. All of the RDA transfers in and subsequent reclassifications are shown in Note 40.

All retirement benefit obligations relate to the NDPBs and other designated bodies. Details of the bodies to which the funded and unfunded pension schemes relate are shown below.

30.1 Funded pension schemes

The Student Loans Company (SLC) operates the SLC Limited Retirement and Death Benefit Scheme for all permanent staff which is a defined benefits scheme that provides benefits based on final pensionable salary. Further details of SLC pension scheme can be found in the accounts of the SLC. The scheme deficit at 31 March 2012 is £4 million (31 March 2011: £13 million deficit).

The Medical Research Council operates the MRC Pension Scheme (MRCPS), a funded pension scheme providing benefits based on service and final pensionable pay at age 65. The MRCPS is a defined benefit scheme. Further details of MRC pension scheme can be found in the accounts of the MRC. The scheme surplus at 31 March 2012 is £13 million (31 March 2011: £67 million).

The assets of the schemes are held separately from the assets of the Departmental Group, being invested by the Trustees of the scheme.

30.2 Unfunded pension schemes

In additions to the funded pension schemes, the NDPBs and other bodies are responsible for the following unfunded schemes, which are accounted for in accordance with IAS 19:

Competition Commission (CC) PCSPS by analogy scheme

Members who are or were Chairperson or Deputy Chairperson of the CC are members of the CC's PSCPS by Analogy scheme, gaining benefits commensurate with their salary and service. This is a defined benefit scheme which is unfunded and non-contributory except in respect of dependants' benefits and additional employee contributions. The CC makes no contribution to the scheme. Instead, it pays pensions to retired members as they become due. The liability at 31 March 2012 is £2 million (31 March 2011: £2 million).

Former Chairmen of the Electricity Consumer Committees' pension scheme

Consumer Focus are responsible for meeting the ongoing pension payments of the former Chairmen of the Electricity Consumer Committees. The scheme is analogous to the PCSPS pension scheme. The pension liability was revalued by the Government Actuary's Department on 31 March 2011. The liability at 31 March 2012 was £0.3 million (31 March 2011: £0.3 million).

Other by Analogy Pension Schemes included in provisions

A number of partner organisations have put in place by Analogy Pension Schemes for their Chairpersons and/or former Chairpersons with the schemes being analogous to the PCSPS pension scheme. The schemes are unfunded and the employer pays benefits as and when they arise. The schemes are subject to regular actuarial valuations by independent, professionally qualified actuaries. These valuations determine the level of contributions required to fund future benefits. The RDAs transferred their liability in relation to these by Analogy Pension Schemes to the Core Department on 30 March 2012. In the Core Department's accounts these liabilities are accounted for as provisions.

Further details of each unfunded pension scheme can be found in the financial statements of the relevant body. Details of the defined contribution pension schemes of the NDPBs and other designated bodies can be found in the relevant bodies' accounts.

31. Financial guarantees

	31 March 2012 £'000			31 March 2011 £'000		
	Core Department	**Core Department and Agencies**	**Departmental Group**	**Core Department**	**Core Department and Agencies**	**Departmental Group**
Balance at 1 April	**268,436**	**268,436**	**299,981**	**267,718**	**267,718**	**299,126**
Provided in year	46,661	46,661	54,974	96,914	96,914	107,512
Financial guarantees not required written back	(3,741)	(3,741)	(3,741)	(25,709)	(25,709)	(25,709)
Guarantees called	(51,342)	(51,342)	(59,795)	(54,002)	(54,002)	(64,463)
Amortisation of financial guarantees	(27,433)	(27,433)	(27,433)	(20,417)	(20,417)	(20,417)
Unwinding of discount	3,347	3,347	3,347	3,932	3,932	3,932
Balance at 31 March	**235,928**	**235,928**	**267,333**	**268,436**	**268,436**	**299,981**

Financial guarantees analysed between current and non-current liabilities

	31 March 2012 £'000			31 March 2011 £'000			1 April 2010 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Current liabilities	82,762	82,762	84,044	54,519	54,519	55,853	105,316	105,316	105,316
Non current liabilities	153,166	153,166	183,289	213,917	213,917	244,128	162,402	162,402	193,810
Total	**235,928**	**235,928**	**267,333**	**268,436**	**268,436**	**299,981**	**267,718**	**267,718**	**299,126**

The Enterprise Finance Guarantee (EFG), Small Firms Loan Guarantees (SFLGs) and Professional and Career Development Loans (PCDLs), and those guarantees included in the category of other, are classified as financial guarantees in accordance with IAS 39. The other guarantees are the UK High Technology Fund Guarantee (UKHTFG), Automotive Assistance Programme (AAP) loan guarantee and the Export Enterprise Finance Guarantee (Export EFG).

Measurement

The SFLGS, EFG, Export EFG and AAP are initially recognised at fair value, which is equal to the premium income over the life of the guarantee. After initial recognition, the individual guarantees are measured at the higher of:

a) The amount determined in accordance with IAS37, (Provisions, Contingent Liabilities and Contingent Assets)

b) The amount initially recognised, which for the Core Department is the value of the premiums over the life of the guarantee.

The premium income is also disclosed as a fee receivable and is discounted where material.

Those guarantees that are not expected to default are carried at fair value and those guarantees that are expected to default are carried at an amount determined in accordance with IAS 37. The fair value is based upon the net present value of premium income. The value of the amounts determined, under IAS 37, is based on the expected value of defaults discounted using HM Treasury's effective interest rate, currently 2.2%, where material.

The UKHTFG is carried at fair value. Fair value is calculated as being the product of the maximum amount payable and the likely risk of a call on the guarantee being made.

Guarantees provided by the Core Department

31.1 Enterprise Finance Guarantee (EFG)

The EFG was introduced in January 2009. In the October 2010 Spending Review (SR), the Government made a commitment to continue the EFG scheme until 2014-15 and, subject to demand, will guarantee up to £2 billion in lending over the four year SR period. The current phase of EFG runs from 1 April 2011 to 31 March 2015. For 2011-12, a total of £600 million was made available. Actual lending under the scheme for 2011-12 as of the end of March 2012, was £301 million.

EFG may be used to facilitate new term loans (either unsecured or partially secured), to transfer long term debt out of an overdraft or to refinance an existing secured loan which would otherwise be withdrawn due to deterioration in the quality of the security. The lending terms for the EFG require a business meets an approved EFG lender's commercial lending criteria, have an annual turnover of up to £41 million and to be seeking a facility of between £1,000 and £1 million. An EFG facility may be for any term of between three months and ten years (except for the invoice finance and overdraft guarantee facilities which operate over maximum terms of three years and two years respectively).

The EFG is available for most business purposes and to businesses in most sectors. However, the EFG is subject to certain restrictions arising from the EU De Minimis State Aid rules, the Industrial Development Act 1982, (which provides the statutory basis for EFG) and also national policy reasons, which are detailed on the Core Department's website.

Measurement

Carrying values

The total value of loans outstanding as at 31 March 2012 is £966 million (31 March 2011: £905 million). The Core Department's total liability is capped at 9.75% of the total amount lent under the scheme. The outstanding liability at any time is calculated as 9.75% of the total lent less the value of claims already settled. At 31 March 2012 the Core Department's maximum exposure was £151 million based on total lending of £1.548 billion.

£44 million of EFG loan offers had been made prior to 31 March 2012 which had yet to be drawn. It is estimated that up to £34 million worth of these loans will ultimately be drawn down by borrowers. At 31 March 2012 the carrying value of the guarantees is £165 million (31 March 2011: £162 million). The total value of the expected defaults, adjusted for claims already made, is £108 million (31 March 2011: £114 million), and the fair value of those guarantees not expected to default is £57 million (31 March 2011: £48 million).

The estimated liability arising from the guarantees outstanding is based on the default probability, the outstanding guaranteed loan balance and the time taken to process the claim. The default probability is determined by using a statistical forecasting model known as 'Cox Regression'. The model predicts the probability of default for each loan period, but the liability is capped to 13% of the overall portfolio therefore reducing the total exposure. This will rise to 20% for 2012-13. The timing of the calls on the guarantees are impacted by the requirement for lenders to undertake all reasonable steps to recover outstanding debt and to realise security before a claim is made. This has led to differences between forecast and actual expenditure.

Risks

Due to the nature of these guarantees, the Core Department is exposed to credit risk as the recipient of the loan may default and the lending bank will call upon the Core Department to honour its guarantee. The Core Department minimises the credit risk by devolving responsibility to the banks to determine whether any business applying for a loan is commercially viable. The banks are required to apply normal commercial practices. To establish that this is the case, the Core Department undertakes an independent audit of the lenders participating in the Scheme. This is done by sampling and checking guarantees granted and defaults arising using recognised statistical sampling and auditing techniques and by auditing individual default claims by exception. In addition, the Core Department also shares the risk on each individual guaranteed facility with the lender in the ratio 75%:25% and limits the risk at the portfolio level because its exposure is capped at 9.75% of the total value of the guaranteed facilities.

In addition, the Core Department is exposed to interest rate risk, as the majority of the loan guarantees are provided against variable rate loans. The banks' usual lending practices mean that fixed rate loans are usually available only for small value short term loans. To minimise the risk of default relating to a rise in interests rates, accompanied by a decline in the economic environment, the Core Department relies on the lenders applying best commercial practice when assessing the risk of default.

Gross Domestic Product

Historical evidence shows that minor changes in GDP do not impact on EFG default rates and therefore adjustments for economic conditions will only apply in exceptional economic conditions.

31.2 Small Firms Loan Guarantee Scheme (SFLGS)

The SFLGS is now a legacy scheme, as it was replaced by the new EFG in January 2009. It was previously the Core Department's main instrument for supporting debt finance for small businesses. By providing a Government backed guarantee, the Scheme enabled lenders to assist small business, with viable business proposals, to gain access to finance where they lacked security or a track record.

Carrying values

The total value of loans outstanding as at 31 March 2012 is £161 million (31 March 2011: £265 million) however, the Core Department's total liability under the Scheme is limited to approximately 75% of the total value of the loans outstanding which is £121 million (31 March 2011: £199 million). At 31 March 2012 the carrying value of the guarantees is £45 million ((31 March 2011: £69 million). The total value of the expected defaults is £18 million (31 March 2011: £38 million), and the fair value of those guarantees not expected to default is £27 million (31 March 2011 £31 million). The amounts outstanding will be utilised over the next seven years, to 2018-19.

The estimated liability arising from the guarantees outstanding is based on the default probability, the outstanding guaranteed loan balance and the time taken to process the claim. The default probability is determined by using a statistical forecasting model known as 'Cox Regression'. The model predicts the probability of default for each loan period.

Risks

Due to the nature of these guarantees, the Core Department is exposed to credit risk as the recipient of the loan may default and the lending bank will call upon the Core Department to honour its guarantee. The Core Department minimised this credit risk, by devolving responsibility to the banks to determine whether any business applying for a loan is commercially viable. The banks were required to apply their normal commercial criteria and practices. To establish that this was the case, the Core Department commissioned periodic independent audits of the participating lenders. A sample of guarantees granted, were examined annually and samples of defaults arising continue to be examined at least annually. The Core Department shares the risk, setting its maximum exposure at 75% of the outstanding balance of the loan at default plus up to six months of interest. The lenders bear the risk on the remaining 25%.

The Core Department is also exposed to interest rate risk, as the majority of the loan guarantees are provided against variable rate loans. The banks usual lending practices mean that fixed rate loans are usually available only for small value, short term loans. To minimise the risk of default relating to a rise in interest rates, accompanied by a decline in the economic environment, the Core Department relies on the lenders applying best commercial practice when assessing the risk of default.

Gross Domestic Product

SFLG is sensitive to large negative changes in GDP. The table below shows the impact on the results generated by the model which predicts defaults, of a 1% fall in GDP on the number and value of loans expected to default. If GDP were to fall by 2% the values would simply be multiplied by two.

	Additional loans expected to default Numbers	Value of loans expected to default £'000
2011-12	29	0.625
2012-13	18	0.341
2013-20	21	0.276
Total	**68**	**1.242**

31.3 Other

UK High Technology Fund

The Core Department has issued a guarantee to investors in the UK High Technology Fund which has been classified as a financial guarantee. In the event of the fund not generating sufficient income to meet the other investors' guaranteed rates of return, the Fund Manager would make a call on the Core Department's share of investment income, resulting in the income being returned to the Fund Manager. The guarantee was due to expire on 30 September 2011, but was extended for a further year to 30 September 2012. There is an option to extend for a further two years on expiry.

Automotive Assistance Programme (AAP)

On 27 January 2009, the then Secretary of State announced the creation of the AAP, to make possible loans and guarantees enabling up to £2.3 billion in lending to Britain's automotive manufacturers and suppliers. Following the signing of an agreement in July 2010, the Core Department provided a guarantee to the European Investment Bank (EIB) for £378 million in respect of a £450 million loan. The loan is due to be repaid by September 2015.

Export Enterprise Finance Guarantee (Export EFG)

The Export Enterprise Finance Guarantee (Export EFG) is a loan guarantee scheme, launched as a pilot in April 2011, to facilitate short term export finance for viable SMEs unable to secure funding from commercial sources due to lack of security. It enables accredited lenders to provide a range of export finance facilities of between £25,001 and £1 million for periods of 3 months to 2 years. The Government provides the lender with a 60% guarantee against each facility subject to an annual claim limit capped at 2.7% of the lenders annual Export EFG loan portfolio.

The Export EFG is self financing as required by EU State Aid rules. All costs are covered by a 3% per annum premium payable in full at the outset of the agreement. In the case of default, and after the realisation of security, the lender can make a claim against the government guarantee up to the annual claim limit.

At 31 March 2012, only 5 loans have been facilitated under Export EFG, to a value of £3m. For that reason, the Export EFG is being integrated into the UK Export Finance product range. This will provide a single point of contact for all Government support short-term export finance products. The process will be concluded in summer 2012.

The total value of loans outstanding at 31 March 2012 is £3m. Due to the annual claim limit, at 31 March 2012 the Core Department's maximum exposure was £78,600 based on total lending of £3m. Due to the self-financing nature of the guarantee, any claim on this amount will be covered by the amount collected in premiums.

Working Capital Scheme and Trade Credit Insurance Scheme

The financial guarantees relating to the Working Capital Scheme expired on 31 July 2011, and the financial guarantees relating to the Trade Credit Insurance Scheme expired on 30 June 2010.

Other financial guarantees: carrying value

At 31 March 2012, the fair value of the Core Departments' other financial guarantees is £26 million (31 March 2011: £33 million), and the total value of the expected defaults is £1 million (31 March 2011: £3 million).

Other financial guarantees: risks

Credit Risk

Due to the nature of the AAP guarantee, the Core Department is exposed to credit risk, which could trigger a call on the guarantee if the business defaults or if other financial covenants set out in the loan agreement are not met. This risk is mitigated by the Core Department assessing the company's credit rating according to professional rating agencies. At 31 March 2012 the likelihood of default was assessed as 2.4%. The loan is also secured on assets.

With respect to the Export EFG the Core Department is exposed to credit risk where the SME may default and the lending bank will then call upon the guarantee. The Core Department mitigates this risk by making the lending banks responsible for ensuring that the SME is commercially viable before agreeing the export finance facilities. Lending banks are required to apply normal commercial lending practices when providing the facility. The banks are subject to periodic independent audits. The Core Department shares the risk by setting its maximum exposure at 60% of the outstanding balance. The lending banks bear the risk on the remaining 40%.

Market Risk

Due to the nature of the UKHTFG, the Core Department is exposed to other market risk, which could trigger a call on the guarantee given if the fund underperforms due to market conditions. The Core Department minimises the risk for the UK High Technology Fund (UKHTF) through its delivery partner, Capital for Enterprise Limited (CfEL), an asset management company. CfEL monitor the overall performance of the UKHTF and, as appropriate, will act to secure value for the Core Department as an investor in the Fund.

Exchange Rate Risk

Facilities that are made in currencies other than sterling will be subject to exchange rate risk. The Core Department has transferred this risk to the lenders as calls on the guarantee are to be made in sterling.

Guarantees provided by the Group

Professional and Career Development Loans provided by the Skills Funding Agency

The Professional and Career Development (PCDLs) programme is administered by the Skills Funding Agency. PCDLs provide loans to students of £300 to £10,000, to enable them to complete a course of study from approved learning providers, lasting up to two years (three years if one year's work experience is included). High street banks provide the loans to students at a rate of interest below what might ordinarily be offered to them in such circumstances – currently 9.9% (2010-11: 12.9%). The Skills Funding Agency is liable for the cost of defaults on these loans and for the interest costs of the loans while the students are in learning and for up to one month after the course of study finishes.

Measurement

Carrying Values

The financial guarantee is carried at an amount determined in accordance with IAS 37 which is calculated as being the product of the maximum amount payable and the likely risk of a call on the guarantee being made. The total value of the loans outstanding as at 31 March 2012 is £209 million (31 March 2011: £210 million) however, the Skills Funding Agency's total liability under the Scheme is capped at 15% of the total loan portfolio advanced since the beginning of the programme and at 31 March 2012 is estimated to be £31 million (31 March 2011: £31 million).

Risks

The Skills Funding Agency is not exposed to interest rate risk as the rate of interest on the loans is fixed (currently 9.9%). The banks' usual lending practices mean that fixed rate loans are usually available for small value short term loans.

Due to the nature of these guarantees, the Skills Funding Agency is exposed to credit risk as the student may default and the lending bank will call upon the Skills Funding Agency to honour its guarantee. The Skills Funding Agency minimises the credit risk and the risk of default relating to an economic downturn by requiring that the lending banks to apply normal commercial criteria and practices when assessing the risk of default.

Further information on the Departmental Group's exposure to financial instrument risk is included in Note 16.

32. Other Financial Liabilities

	Debt sale subsidy £'000
Balance at 1 April 2010	**270,307**
Increase in year	(74,643)
Utilisation in year	(10,437)
Borrowing costs (unwinding of discounts)	5,947
Value at 31 March 2011	**191,174**
Increase/(decrease) in year	23,624
Utilisation in year	(1,414)
Borrowing costs (unwinding of discounts)	4,206
Value at 31 March 2012	**217,590**

Financial liabilities analysed between current and non-current liabilities:

	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Current liabilities	4,809	9,124	23,432
Non current liabilities	212,781	182,050	246,875
Total	**217,590**	**191,174**	**270,307**

The student loan debt sale subsidy is classified as other financial liabilities and is measured at amortised cost in accordance with IAS 39.

The student debt sale subsidy is the additional cost to the Core Department arising from the Government subsidising the purchaser of the debts beyond the cost that the Government would have incurred had the debts remained in the public sector. This liability arose from loan sales in 1998 and 1999. The subsidy will continue until all the loans are extinguished which is expected to be no earlier than 2028, which is the 30 year duration of the first debt sale agreement.

The annual debt sale subsidy payments are calculated according to a formula set out in the debt sale contracts signed in 1998 and 1999. The subsidy consists of two elements. The interest subsidy element of the payment is calculated as Libor plus margin less RPI. Margin is calculated as a percentage of the portfolio with different rates for each contract. The key risk is therefore that the gap between LIBOR and RPI increases. The other key element relates to compensation payable for deferment write offs. Borrowers who earn less than the repayment threshold are eligible to apply for deferment of repayments and under the contracts the Core Department is liable to pay compensation to the purchaser of the debt where this occurs. During the year there were changes to the model which forecasts the repayments of loans in order to reflect the aged status of the loans. The revised model uses past observed probabilities to forecast the likelihood of borrowers moving between repayment, deferment and overdue states. This led to an increase in the liability of £31 million.

There are also small adjustments to the claim for cancelled loans and first losses. The first loss is a risk sharing arrangement for the most overdue sold loans (over two years without a repayment) where subsidy is paid in relation to these loans, up to a cap defined in the contracts.

33. Capital and other Commitments

33.1 Capital Commitments

	31 March 2012 £'000			31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Contracted capital commitments not otherwise included in these financial statements:						
Property, plant and equipment	2,654	2,654	496,751	822	822	752,796
Intangible assets	-	-	3,269	-	400	400
Total	**2,654**	**2,654**	**500,020**	**822**	**1,222**	**753,196**

The most significant commitments in respect of property, plant and equipment comprise:

- £213 million for BBSRC capital projects
- £205 million for MRC commitments for the UKCMRI Ltd project
- £20 million for NERC for the construction of the RRS Discovery replacement ship

33.2 Commitments under leases

33.2.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	31 March 2012 £'000			(Restated) 31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Obligations under operating leases comprise:						
Land:						
Not later than one year	-	18	18	-	38	38
Later than one year and not later than five years	-	3	3	-	-	827
Later than five years	-	27	27	-	-	-
	-	**48**	**48**	**-**	**38**	**865**
Buildings:						
Not later than one year	47,637	54,916	78,452	49,197	57,792	82,054
Later than one year and not later than five years	190,626	212,555	295,345	172,632	202,008	286,762
Later than five years	209,905	229,751	327,413	228,309	260,741	369,383
	448,168	**497,222**	**701,210**	**450,138**	**520,541**	**738,199**
Other:						
Not later than one year	189	3,976	6,441	364	6,089	8,550
Later than one year and not later than five years	465	787	2,639	840	2,464	11,752
Later than five years	-	-	-	-	-	8,338
	654	**4,763**	**9,080**	**1,204**	**8,553**	**28,640**

The Core Department is allowed to sub-lease and can assign leases, subject to the lease provisions. Further information about finance leases and sub-lease arrangements of the Agencies, NDPBs and other designated bodies can be found in the accounts of the relevant bodies.

33.2.2 Finance leases

Total future minimum lease payments under finance leases are given in the tables below for each of the following periods:

	31 March 2012 £'000			(Restated) 31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Obligations under finance leases comprise:						
Not later than one year	-	39	2,524	-	352	3,054
Later than one year and not later than five years	-	-	7,368	-	41	8,327
Later than five years	-	-	3,724	-	-	5,320
	-	**39**	**13,616**	**-**	**393**	**16,701**
Less: interest element	-	(3)	(3,132)	-	(45)	(4,071)
Present value of obligations	**-**	**36**	**10,484**	**-**	**348**	**12,630**

	31 March 2012 £'000			(Restated) 31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Present Value of obligations under finance leases comprise:						
Not later than one year	-	36	1,720	-	310	2,108
Later than one year and not later than five years	-	-	5,390	-	38	5,890
Later than five years	-	-	3,374	-	-	4,632
Total present value of obligations	**-**	**36**	**10,484**	**-**	**348**	**12,630**

The Core Department has not entered into any finance lease arrangements.

Within the Agency boundary, INSS has a finance lease with respect to their system for estate accounting on case administration fees. The lease expires in 2012-13.

NERC has entered into a finance lease arrangement relating to the use of the research ship RSS Ernest Shackleton. Total future minimum lease payments as at 31 March 2012 are £10 million.

33.3 Commitments under PFI contracts and other service concession arrangements

The total payments to which the Departmental Group is committed, analysed by the period in which the commitment expires, is as follows:

33.3.1 Off-balance sheet (SoFP)

	31 March 2012 £'000			(Restated) 31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Not later than one year	15,441	15,441	15,441	20,649	20,649	30,009
Later than one year and not later than five years	15,135	15,135	15,135	41,189	41,189	41,189
Later than five years	-	-	-	-	-	-
Total	**30,576**	**30,576**	**30,576**	**61,838**	**61,838**	**71,198**

The Core Department has entered into a PFI arrangement with Fujitsu Services, the 'Elgar Service PFI Agreement'. The contract was awarded in November 1998 for a period of ten years, extendable for up to a further five years. The contract is now set to expire on 31 March 2014.

In 2009-10 the Core Department re-negotiated the contract in order to remove the majority of the technology refresh element. The Core Department will pay for technology refresh directly from its own capital budgets for the remainder of the contract period.

In 2011-12 the Core Department re-negotiated the contract to eliminate the PFI element obtaining service enhancements in exchange for the payment of the remaining outstanding finance charges. The charges payable for the final two years of the contract will be for service delivery only.

Elgar contract details

The ELGAR contract covers the provision of a wide range of information systems and services to the Core Department, including infrastructure management, IT development, business process re-engineering, and consultancy advice.

Over the two remaining years of the contract the payments are expected to amount to around £31 million for the Core Department.

Other obligations

The Core Department has a responsibility to pay termination charges should the Core Department exercise its break option before the agreed service end date.

33.3.2 Charge to the Consolidated Statement of Comprehensive Net Expenditure and future commitments

The total amount charged to the Consolidated Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI transactions in 2011-12 was £22 million (2010-11: £21 million); see note 8. Total payments to which the Core Department is committed, analysed by the period during which the commitment expires, are shown in the table under 33.3.1 above.

33.4 Other financial commitments

The Departmental Group has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements) for subscriptions to international bodies, student loans and grants and various other expenditures. The payments to which the Departmental Group is committed during 2012-13, analysed by the period during which the commitments expire, are as follows:

	31 March 2012 £'000			(restated) 31 March 2011 £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Not later than one year	-	151,438	189,680	50	159,006	193,724
Later than one year and not later than five years	790	207,834	366,745	823	353,260	378,577
Later than five years	25,840	25,840	25,840	62,333	63,370	217,653
Total	**26,630**	**385,112**	**582,265**	**63,206**	**575,636**	**789,954**

33.4.1 International Subscriptions

The amounts disclosed above include subscriptions paid to the following bodies:

Organisation	Note	Expiry within one year £'000	Expiry within two to five years £'000	Expiry over five years £'000	Total 2011-12 £'000	(restated) Total 2010-11 £'000
World Trade Organisation (WTO)	a	-	-	6,320	6,320	6,323
UNIDROIT	b	-	-	105	105	103
International Labour Organisation (ILO)	c	-	-	-	-	15,000
EUMETSAT Polar Satellite Programme	d	-	-	9,659	9,659	8,918
Bureau International des Poids et Measures (BIPM) – (NMO)	e	594	-	-	594	837
European Space Agency (ESA) – (UKSA)	f	145,577	160,960	-	306,537	462,607
European Organisation for Nuclear Research (CERN) – (STFC)	g	-	98,689	-	98,689	97,138
European Southern Observatory Agency (ESO) – (STFC)	h	-	16,512	-	16,512	28,376
European Science Foundation (ESF) – (EPSRC)	i	487	-	-	487	344
Institut Laue Langevin (ILL) – (STFC)	j	-	16,248	-	16,248	13,661
European Synchrotron Radiation Facility (ESRF) – (STFC)	k	-	7,383	-	7,383	9,742
European Science Foundation (ESF) – (ESRC)	l	-	194	-	194	213
International Fusion Research (ITER) – (EPSRC)	m	221	-	-	221	243
Institut des Hautes Études Scientifiques (IHÉS) – (EPSRC)	n	160	-	-	160	200
Institut National des Sciences de l'Univers – (NERC)	o	3,544	1,772	-	5,316	3,229
Total		**150,583**	**301,758**	**16,084**	**468,425**	**646,934**

Notes:

The Departmental Group is required to subscribe to the above bodies on an on-going and continuous basis. These subscriptions are paid in Euros, Swiss Francs, US dollars and pounds sterling. The subscriptions paid in Euros and Swiss Francs are subject to fluctuations due to exchange rate differences. The purpose of the subscription payable to each of these bodies is described below:

a) The Core Department is responsible for the payment of the UK's annual contribution to the World Trade Organisation (WTO), which deals with the global rules of trade between nations. Its main function is to ensure that international trade flows as smoothly, predictably and freely as possible. As a member of the WTO the UK, like other members, has a legal commitment to pay a contribution to the cost of running the WTO Secretariat, which is based in Geneva. The UK's share is calculated on the basis of our international trade in relation to the total international trade of all WTO members.

b) The Core Department pays an annual contribution towards the running of the International Institute for the Unification of Private Law (UNIDROIT). UNIDROIT, is an independent intergovernmental organisation with its seat in Rome. Its purpose is to study needs and methods for modernising, harmonising and co-ordinating private and in particular commercial law as between States or groups of States.

c) During 2011-12, responsibility for paying the annual subscription to the ILO was transferred to the Department for Education.

d) The UK is a member of EUMETSAT by treaty as a signatory of the EUMETSAT convention. The UK is committed to EUMETSAT's Polar Satellite Programme until its conclusion in 2023.This subscription was transferred from the Ministry of Defence to the Core Department during the reporting period.

e) NMO subscribes to the Bureau International des Poids et Mesures (BIPM). Its task is to ensure world-wide uniformity of measurements and their traceability to the International System of Units (SI).

f) The European Space Agency (ESA) programme subscriptions have been transferred from the Technology Strategy Board (TSB) and STFC to the newly-formed UK Space Agency with effect from 1 April 2011 under a Machinery of Government change. The UK shares research objectives with other European nations and collaborates with them to mitigate the high capital and running costs of facilities. There are agreements in place at national level to regulate annual contributions and the management of the facilities. These include a period of notice of withdrawal from the arrangement. ESA requires a notice period of 12 months after the end of the current calendar year.

g) STFC shares the funding of the capital and running costs of CERN with other major scientific nations. There is a notice of withdrawal period of 12 months after the end of the current calendar year.

h) STFC shares the funding of the capital and running costs of the ESO. There is a notice of withdrawal period of 12 months with effect from 1 July 2013.

i) ESPRC shares the funding of the capital and running costs of ESF. There is a notice of withdrawal period of three years.

j) The UK, through STFC, has signed up to International Conventions, with respect to ILL. The 4th protocol of the Intergovernmental Convention was signed at the end of 2002 and will remain in force until 31 December 2013. STFC has no current intentions to withdraw from these arrangements.

k) The UK, through STFC, has signed up to International Conventions, with respect to ESRF. The current ESRF Convention runs until the end of 2013 and has a notice period of 3 years.

l) ESRC pays a contribution to the EU European Science Foundation (ESF). The contribution is to the general ESF budget and to specific initiatives within the programme of the foundation's work.

m) EPSRC pays a subscription to the International Thermonuclear Experimental Reactor (ITER), which is an international project to design and build an experimental fusion reactor based on the "tokamak" concept.

n) EPSRC pays a subscription to the Institut des Hautes Études Scientifiques (I.H.É.S: Institute of Advanced Scientific Studies), which is a French institute supporting advanced research in mathematics and theoretical physics.

o) NERC as the UK representative pays the Integrated Ocean Drilling Programme (IODP) subscription to the Institut National des Sciences de I'Univers. The IODP subscription is an international scientific research programme supported by twenty five countries that is advancing scientific understanding of the Earth by monitoring, drilling, sampling and analysing subseafloor environments.

33.4.2 Non-cancellable contracts

The amounts disclosed above include payments due in the next financial year under non-cancellable contracts to the following organisations:

Organisation	Note	Expiry within one year £'000	Expiry within two to five years £'000	Expiry over five years £'000	Total 2011-12 £'000	Total 2010-11 (restated) £'000
European University Institute (EUI)	a	-	-	4,256	4,256	4,089
Erasmus Programme	b	-	388	-	388	377
Vodafone (expiry in 2013-14)	c	-	402	-	402	496
Fulbright Commission	d	-	-	600	600	600
Honours Trustee Limited	e	-	-	2,700	2,700	6,000
Finance for Higher Education Limited	f	-	-	2,200	2,200	5,000
European Schools Programme	g	-	-	-	-	16,300
NPL Management Ltd (NPLM Ltd)	h	-	46,084	-	46,084	44,900
Laboratory of the Government Chemist (LGC Ltd)	i	1,395	-	-	1,395	1,214
Technischer Überwachungsverein – German safety and standards institution (TUVNEL Ltd)	j	1,398	-	-	1,398	1,672
Amey Community Ltd	k	2,268	-	-	2,268	1,000
SGS Ltd	l	206	-	-	206	200
NERC Research Contracts	m	33,830	18,113	-	51,943	61,172
Total		**39,097**	**64,987**	**9,756**	**113,840**	**143,020**

Notes:

The Departmental Group has entered into non-cancellable contracts with the above bodies. Contracts are paid in Euros and pounds sterling. Where payments are made in Euros there are fluctuations due to exchange rate differences. The nature of the contracts with each of these bodies is described below:

a) The EUI is a post-graduate body which the UK has a legally binding commitment to fund having ratified the convention that established the EUI. The Core Department pays annual subscriptions for the institute's teaching and learning costs. The EUI budget is set annually by agreement between its member states.

b) The Erasmus Programme is an exchange programme where EU students can study at higher education institutions in different countries and receive a small allowance from the EU. It is part of the European Commission's Lifelong Learning Programme, which ends on 31 December 2013. The Core Department has a seven year contract with the British Council to deliver this programme and pays the British Council a quarterly management fee.

c) The Core Department has entered into a non cancellable contract with Vodafone for mobile telephony. The contract expires in 2013-14.

d) The Core Department funds the Fulbright Commission which provides an HE scholarship programme in the UK and the USA.

e) The Core Department has entered into a contract with Honours Trustee Limited for the sale and administration of mortgage-style student loans. The contract is for a period of 30 years and expires in 2029.

f) The Core Department has an agreement with Finance for Higher Education Limited for the sale and administration of mortgage-style student loans. This contract runs until March 2028.

g) Responsibility for funding the European Schools Programme transferred to the Department for Education during 2011-12.

h) National Measurement Office (NMO) has entered into a non-cancellable contract with NPLM Ltd to operate the National Physical Laboratory and perform scientific metrology on the Teddington site.

i) NMO has a non-cancellable contract with the Laboratory of the Government Chemist Ltd to perform scientific metrology.

j) NMO has a non-cancellable contract with Technischer Überwachungsverein – German safety and standards institution (TUVNEL Ltd) to perform scientific metrology.

k) NMO has a non-cancellable contract with Amey Community Ltd for the facilities management of the Teddington estate.

l) NMO has a six year contract with SGS Limited to test disputed gas and electricity meters.

m) NERC has entered into non-cancellable contracts for the provision of research management and co-ordination and has a long-term relationship with several research organisations. The contracts defining the scope of this relationship are renewed annually, with funding committed for the following financial year.

33.4.3 Student grants and loans

In addition to the commitments listed above, the Core Department also entered into agreements with students spanning more than one financial year for grants and loans payable in the summer terms of academic year 2011/12, for payment after 31 March 2012. Since the Statement of Financial Position date, the Student Loans Company has issued £1,100 million in maintenance loans and £500 million in grants in respect of the academic year 2011/12.

34. Contingent Liabilities

34.1 Contingent liabilities disclosed under IAS37

The Departmental Group has the following contingent liabilities:

Basis of Recognition	Description
Nuclear	The Core Department has a range of civil nuclear liabilities arising through its association with the United Kingdom Atomic Energy Authority and British Nuclear Fuels Limited as well as ensuring that the Government complies with its obligations under the various international nuclear agreements and treaties. The amount and timing of this overarching liability is not quantifiable.
Postal Services Act 2000	Since October 2003 the Core Department has made available to Post Office Limited a revolving loan facility of up to £1.15 billion. This is to help the company fund its daily in-branch working capital cash requirements needed to deliver services through the network, such as social benefits payments. The facility currently matures on 31 March 2016 and the outstanding balance on the loan was £499 million at 31 March 2012 (31 March 2011: £260 million).
Lease payments	The Core Department is responsible to pay the rent in respect of a lease in the event that the current tenant defaults. The cost to the Core Department is estimated to be in the region of £2 million, which is the estimated total value of the amounts payable until the lease expires in November 2016. (31 March 2011: £2 million).
Indemnities	The Core Department is responsible for liabilities arising from deeds of indemnity given to liquidators of TECs, covering the funds that they have returned to the Department as part of the dissolution process. The estimated cost to the Department is in the region of £1 million (31 March 2011: £1 million).
Radioactive waste disposal	NMO is responsible for the disposal of all radioactive waste arising from scientific projects undertaken at the National Physical Laboratory. The contingent liability is unquantifiable.
Decontamination	NMO has a contingent liability for the decontamination of land and buildings on the Teddington estate where costs may be higher than those provided for. The contingent liability is unquantifiable.
Space waste act	The UKSA has a potential liability under the Space Waste Act. This is likely to be minimal but is unquantifiable at time of reporting.
Reprocessing and staff costs	STFC is responsible for ILL staff related commitments and costs associated with reprocessing fuel elements. The contingent liability is estimated to be £12 million.
Decommissioning	STFC is liable for the decommissioning costs associated with the dismantling of the European Synchrotron Radiation Facility (ESRF). The contingent liability is estimated to be £2 million.
Redundancy costs	BBSRC has entered into an agreement to contribute to the redundancy costs of the former BBSRC sponsored Roslin Institute, which transferred to the University of Edinburgh, if there is a reduction in the University's grant income up to 2015.
International collaborations – technical facilities	STFC collaborates with a number of international partners in the funding, management and operation of technical facilities which it does not own. For each of these facilities STFC may be obliged to contribute to decommissioning costs arising from a decision to discontinue operations. The most significant of these potential liabilities are in respect of CERN and the European Southern Observatory (ESO). The contingent liability is unquantifiable.
Dilapidations	Contingent liabilities of £2 million have been identified by MRC in relation to dilapidation works that may be required at the end of property leases expected to end within the next 10 years. These are sites located at Head Office London, Clinical Trials Unit London and Human Nutrition Research Unit Cambridge.

34.2 Contingent liabilities arising through financial guarantees, indemnities and letters of comfort

Quantifiable

The Departmental Group has entered into the following quantifiable contingent liabilities by offering guarantees or indemnities. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39.

Managing Public Money requires that the full potential costs of such contracts be reported to Parliament. These costs are reproduced in the table below.

	1 April 2011 £'000	Increase in year £'000	Liabilities crystallised in year £'000	Obligations expired in year £'000	31 March 2012 £'000	Amount Reported to Parliament by Departmental minute £'000
Statutory Guarantees:						
– Home Shipbuilding Credit Guarantee Scheme	7,000	-	-	3,961	3,039	-
Statutory Indemnities:						
– Local Network Indemnities	3,484	-	-	-	3,484	72,654
Other:						
– Callable capital subscription for the Common Fund for Commodities	1,960	-	-	-	1,960	-
– Paid in capital subscription for the Common Fund for Commodities	2,240	-	-	-	2,240	-
Liabilities that arise from the audit work carried out in respect of the delivery of activities funded through European Union initiatives or through the Single Regeneration Budget and other schemes sponsored by Government Departments other than the former DfES and DTI.	1,500	-	-	1,500	-	3,500
Liabilities that arise from the transfer of TEC/CCTE functions to successors, including from staff who have transferred or been made redundant, and who as a result of the transfer seek redress through the Employment Tribunal.	1,000	-	-	-	1,000	2,000
Potential liability relating to European Schools Programme for teachers claiming permanency under the fixed term employee regulations. These programmes have now been passed to the Department for Education.	2,190	-	-	2,190	-	-
The Government agreed to match fund the cost of hosting the World Skills London 2011 event if insufficient sponsorship revenue was obtained. Appropriate sponsorship revenue was forthcoming for the World Skills event in October 2011 therefore the liability has expired.	22,120	-	-	22,120	-	-
Total	**41,494**	**-**	**-**	**29,771**	**11,723**	**78,154**

Notes:

- Obligations expired in year relate to cases closed and/or completed contracts.
- Where the balances outstanding at 31 March 2012 are different to the amounts included in the Departmental minute, this is because the contingent liabilities have gone through a process of re-assessment, or have crystallised since the minute was laid.

Unquantifiable

The Departmental Group has also entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Statutory Guarantees

- A guarantee has been given to the Financial Reporting Council that if the amount held in the Legal Costs Fund falls below £1 million in any year, an additional grant will be made to cover legal costs subsequently incurred in that year.
- Any liabilities imposed by section 9, British Aerospace Act 1980.

Statutory Indemnities

- Indemnities given to UK Atomic Energy Authority by the Secretary of State to cover certain indemnities given by the Authority to carriers and British Nuclear Fuels. Limited against certain claims for damage caused by nuclear matter in the course of carriage.
- Indemnities equivalent to those given to civil servants under the Civil Service Management Code have been given to persons appointed to the Board of the Office of Fair Trading, including the Chairman.
- Indemnities given to Bankers of the Insolvency Service against certain liabilities arising in respect of non-transferable "account payee" cheques due to insolvent estates and paid into the Insolvency Service's account. [i]
- The Police Information Technology Organisation (Home Office) provides BIS with access to data from the Police National Computer (PNC). BIS has indemnified the police against any liabilities which they might incur as a result of providing that access.

Other

- Incidents/Accidents Insurance claims for exposure to ionising radiation pursued outside the existing UK Atomic Energy Authority insurance scheme.
- A contingent liability in respect of risk associated with the Core Department assuming responsibility for uplifts in pension contributions for the UK Atomic Energy Authority's non-actives.
- Outstanding claims under the Enemy Property Claim Scheme are still being considered by the Core Department.
- There is a possibility that other liabilities exist in relation to nationalised, and former nationalised, industries that, if they crystallised, may fall to the Core Department
- European Patent Office (EPO): the UK as one of the contracting states has a potential liability under Article 40 of the European Patent Convention of 1973.

- World Intellectual Property Organisation: the UK, as a contracting state to the Patent Co-operation Treaty of 1970, has a potential liability under Article 57 of the Treaty.
- The Cabinet Secretary has provided a Government wide indemnity to Independent Public Appointment Assessors (IPAAs). This will ensure that IPAAs will not have to meet any personal civil liability incurred in the execution of their IPAA functions. BIS carries out around 200 appointments per annum which are scrutinised by IPAAs.
- The National Endowment for Science, Technology and the Arts has a lease agreement for the rental property at 1 Plough Place, which expires in 2021. While a contingent liability for dilapidations exists, no estimate has been made due to uncertainty in timing and amount. (ii)

These liabilities are unquantifiable due to the nature of the liability and the uncertainties surrounding them.

Note: (i) – These contingent liabilities relate to Agencies.

Note: (ii) – These contingent liabilities relate to other bodies within the Group.

All other liabilities relate to the Core Department.

35. Losses and special payments

The purpose of this note is to report on losses and special payments of particular interest to Parliament in accordance with *Managing Public Money*.

35.1 Losses Statement

Loss values	2011-12 £'000			2010-11 (restated) £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Cash losses	1,994	1,994	6,318	1,600	1,600	4,833
Claims abandoned	353,376	353,376	357,118	396,552	396,552	403,243
Administrative write-offs	101	16,701	16,729	79	95,079	97,881
Fruitless payments and constructive losses	31,641	31,889	33,920	28,459	28,459	28,713
Store losses	-	-	30	-	-	103
Total	**387,112**	**403,960**	**414,115**	**426,690**	**521,690**	**534,773**

Number of cases	2011-12			2010-11 (restated)		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Cash losses	2	2	61	1	1	26
Claims abandoned	11,671	11,671	12,681	12,396	12,396	12,417
Administrative write-offs	1,281	1,587	1,654	1,263	1,389	1,546
Fruitless payments and constructive losses	4	104	180	2	2	9
Store losses	-	-	34	-	-	22
Total	**12,958**	**13,364**	**14,610**	**13,662**	**13,788**	**14,020**

Details of cases over £250,000

Cash losses

There were losses in 2011-12 from fraudulent "phishing" attacks of £1,363,496 in student loans and £629,737 in student grants. Losses through phishing are loan payments re-directed by a fraudster that would otherwise have gone to a student.

Included in cash losses for 2011-12 there are four cases with a value of £3,076,365 paid to the following organisations by the Skills Funding Agency where recovery was not possible because the organisations have gone into liquidation.

- Skills and Enterprise Development (two cases) (£1,684,765)
- Key Skills Training (£1,071,920)
- Maxforce Services UK Ltd (£319,680).

Claims abandoned

HMRC pay to BIS the amounts of student loan repayments collected from borrowers by employers through the tax system. During the reporting period £375,615 was written off in respect of student loan repayments which have been collected by the employer from the borrower but were uncollectable from employers by HMRC, normally because of employer insolvency. The amount written off in 2010-11 was £888,051 which represented uncollectable repayments for the years 2001-2010. Of this sum, £317,528 related to 2010-11.

Redundancy Payment Service (RPS) Receivable Impairment: Most of the redundancy payments made from the National Insurance Fund (NIF) are in respect of employees of insolvent companies. Repayment of debt is recovered from the sale of the assets of the insolvent company. A small part of the debt is preferential but most ranks with ordinary creditors. Therefore most of the debt is irrecoverable. HMRC record the impairment of the RPS receivable in NIF accounts. The RPS receivable impairment for 2011-12 is £353 million (2010-11: £380 million).

Administrative losses

The Insolvency Service (INSS) has written off a sum of £17 million in 2011-12 (2010-11: £95 million) in respect of irrecoverable receivables for case administration fees (£15 million), estate accounting fees (£0.3 million) and costs awarded for director disqualification proceedings (£2 million).

Case Administration fee write offs include a planned cost of £10 million which reflects 12% of the fee charged and is expected to be written off as irrecoverable. It is therefore included as a cost when setting case administration fees. The recoverability of case administration fees is subject to asset levels in insolvency cases and requires analysis of past trends of recoveries. The debtors for case administration fees have been further reduced by an additional £4.5 million write-off to reflect that asset levels in insolvency cases will not be sufficient to generate future fee recoveries. The additional write-off relates to case administration fees that have been charged over the period from April 2004 to March 2010 which are now deemed to be irrecoverable.

Debtors for disqualification costs have been written off totalling £2 million (2010-11: £2 million) and debtors for estate account fees have been written off totalling £0.3 million (2010-11: £0.5 million).

Constructive losses

The Core Department holds onerous leases for properties on the Department estate, for which we have provided £198 million, as disclosed in Note 28. The payments made during the course of 2011-12 in respect of these leases amounted to £31,640,841 (2010-11: £28,459,000).

The Skills Funding Agency made payments of £2 million to purchase early release from two onerous property leases during 2011–12. The payments were made on the basis of value for money cases demonstrating future cost savings.

35.2 Special Payments

Special payments include extra-contractual, *ex gratia* and compensation payments.

	2011-12 £'000			2010-11 (restated) £'000		
	Core Department	Core Department and Agencies	Departmental Group	Core Department	Core Department and Agencies	Departmental Group
Total amount	**-**	**5**	**2,163**	**-**	**-**	**501**
Total number of cases	-	*4*	*73*	-	-	*12*

Details of cases over £250,000

There are no special payments over £250,000 in 2011-12.

35.3 Student Loans remitted (written off) in year

Loans totalling £24,811,657 were written off in 2011-12. This is an increase of £8,372,603 on the number written off in 2010-11, totalling £16,439,054.

	2011-12 £'000	2010-11 £'000
Because of death	7,162	6,052
Because of age	10,836	8,942
Because of disability	651	1,252
Because of bankruptcy	4,418	110
On completion of Individual Voluntary Arrangement (IVA)	948	46
Other	797	37
Total	**24,812**	**16,439**

36. Related-party transactions

The Core Department is the parent of the bodies listed in Note 41 and during the reporting period made payments to these bodies. The Core Department is sponsor of the public bodies listed at *http:/www.bis.gov.uk/partners/by/types*, including Companies House and UKIPO, Ordnance Survey and Met Office (Trading Funds), and Royal Mail Holdings plc, British Shipbuilders and BNFL.

The Core Department has also had various material transactions with other Government departments and Government bodies. The most significant of these transactions have been with the Department for Communities and Local Government, the Department of Energy and Climate Change, the Department for Education, HM Revenue and Customs, the National Loans Fund, the Cabinet Office and HM Treasury's Consolidated Fund.

Professor Dame Julia King DBE, a Non Executive Director on the BIS Management Board, is the Vice Chancellor of Aston University which receives funding from the Core Department through the Higher Education Funding Council for England (HEFCE). The Core Department did not have material transactions with Aston University in the reporting period.

Bernadette Kelly's husband, Howard Ewing, is the Chair of the board of the Arun and Chichester Citizen's Advice Bureau and director of the West Sussex consortium of Citizen's Advice Bureaux. The Core Department did not have material transactions with any of these bodies during 2011-12.

None of the Core Department's Ministers or other Management Board members has undertaken any material transactions with the Core Department during the year.

Disclosures with respect to the NDPBs and other designated bodies

The University of the West of England is regarded as a related party by HEFCE as they own Northavon House in Bristol. HEFCE lease this building at an annual commercial rental of £887,090. During the reporting period, the University of the West of England received £68,502,724 of funding. HEFCE have also reported a balance with the University of Manchester of £10 million in respect of a recoverable grant.

The following BBSRC council members held positions on the governing bodies of sponsored research institutes:

Dr David Lawrence	Rothamsted Research
Mr David Gregory	Institute for Food Research

The Institute for Food Research (IFR) received £15 million grant funding from BBSRC during the reporting period and Rothamsted Research received £23 million. BBSRC operates a policy where interested parties are precluded from voting on grant funding to organisations in which they have an interest. BBSRC also reported balances as follows: IFR £1.4 million receivable, Rothamsted Research £3.5 million receivable, £2.1 million payable.

Karen Livingstone, a non-executive director of EEDA, is a director of the East of England IDB Limited which received grants and payments for services during the reporting period of £13,938,973. As a non-executive director, Karen Livingstone has no role in procurement or grant funding decisions.

Within the Group various organisations have also had various material transactions with other Government departments and Government bodies. The most significant of these transactions have been with the Department for Work and Pensions, the Cabinet Office, HM Revenue and Customs, the Department for Culture, Media and Sports, the Ministry of Defence, the Department of Health and the Department for Environment, Food and Rural Affairs.

The Core Department provides grant funding to the universities via HEFCE. A range of universities also receive grant funding from various other bodies within the Departmental Group. Where these bodies also have board members who act in various capacities on university councils, each body operates a policy that precludes interested parties from voting on the funding to the university in which they have an interest.

37. Events after the Reporting Period

Splitting of Post Office Limited (POL) from Royal Mail Group Limited (RMGL)

On 1 April 2012, Post Office Limited was moved from being a subsidiary of Royal Mail Group Limited to a direct subsidiary of Royal Mail Holdings plc. This reflects the operational independence that now sits with the Boards of these subsidiaries. To ensure that the existing controls associated with the Secretary of State's special share in Royal Mail Holdings plc flow through to these two subsidiaries, the Secretary of State has been issued with £1 special rights preference shares in both Post Office Limited and Royal Mail Group Limited. These shares were issued on 2 April 2012. The consent requirements linked to these special shares replicate those for the Secretary of State's special share in Royal Mail Holdings as set out on page 158.

Royal Mail Pensions

The Postal Services Bill, which received Royal Assent on 13 June to become the Postal Services Act 2011, put in place a legislative framework aimed at safeguarding the future of Royal Mail and the universal postal service and is the first step on the path towards a sale of shares in the Royal Mail.

As part of this preparation for a possible future sale of shares, the Act enabled the relief of the Royal Mail Pension Plan's historic pension deficit, with members' historic rights being protected by Government through the Royal Mail Statutory Pension Scheme. The Royal Mail Statutory Pension Scheme, which will have funds voted by Parliament under a separate Estimate for which BIS will also be responsible, has assumed responsibility for an estimated £32 billion of future pension payments from 1 April 2012.

Certain Royal Mail Pension Plan assets will transfer to a newly formed subsidiary of BIS from the Royal Mail Pension Plan from 1 April 2012. Assets will transfer in phases as actuarial calculations are finalised. It is expected that these assets will add around £28 billion to the value of BIS's balance sheet. The assets will be realised in a measured fashion over time and proceeds from the asset realisation process will be paid by BIS to the Consolidated Fund.

Closure of Regional Development Agencies

The RDAs were abolished on 1 July 2012 by virtue of a Commencement Order under section 30(1) of the Public Bodies Act 2011. All remaining rights and obligations of the RDAs transferred to BIS.

UK Green Investment

Since 31 March 2012, the Core Department has entered into capital commitments amounting to £180 million, to enable fund managers to make and manage investments in the small scale waste infrastructure sector and non-domestic energy efficiency projects.

Changes in general damages for personal injury claims

On 26 July 2012 the Court of Appeal handed down a judgement (Simmons-v- Castle), which will lead to an increase in general damages in most cases from 1 April 2013. General damages will increase by 10% for pain, suffering and loss of amenity in respect of personal injury. The value of the Core Department's provisions for personal injury in respect of British Shipbuilders, and the National Dock Labour Board may be impacted by this judgement, however, the increases will be offset by savings in changes to the fees structure and the way claimant solicitors are able to recover their costs. It is therefore too early to say what impact, if any, these changes will have.

National Endowment for Science, Technology and the Arts

On 1 April 2012 National Endowment for Science, Technology and the Arts (NESTA) was abolished. All staff, activities, operating assets and liabilities were transferred to Nesta Operating Company (Nesta), a company limited by guarantee and a registered charity. All of NESTA's financial assets and payables relating to these financial assets were transferred to the Nesta Trust, a registered charitable trust. Both transfers took place pursuant to a statutory transfer scheme made by the Secretary of State for Business, Innovation and Skills under the Public Bodies Act 2011. The change of status of NESTA had no effect on the assets and liabilities as reported in the financial statements as at 31 March 2012.

37.1 Date Accounts authorised for issue

The Accounting Officer of the Department has authorised these Accounts to be issued on 6 September 2012.

38. Third-party assets

The following are balances on accounts held in BIS's name at commercial banks but which are not BIS monies. They are held or controlled for the benefit of third parties and are not included in BIS's Accounts.

	31 March 2012			31 March 2011 (restated)		
	Core Department £'000	Core Department and Agencies £'000	Departmental Group £'000	Core Department £'000	Core Department and Agencies £'000	Departmental Group £'000
Monetary assets such as bank balances and monies on deposit	2,505	2,505	13,331	6,792	6,792	17,813
Listed securities	-	-	-	-	-	-
Total	**2,505**	**2,505**	**13,331**	**6,792**	**6,792**	**17,813**

39. Restatement of Statement of Financial Position and Statement of Comprehensive Net Expenditure as a result of Machinery of Government (MOG) changes and changes under Clear Line of Sight (CLoS)

Machinery of Government Changes

The Departmental Group had a number of MOG changes affecting its Estimates and Accounts to 31 March 2012, where functions or responsibilities were merged or transferred within Government.

Media, Broadcasting, Digital and Telecoms

On 18 January 2011 a ministerial statement announced that responsibility for all competition and policy issues relating to media, broadcasting, digital and telecoms sectors had been transferred from the Secretary of State for Business, Innovation and Skills to the Secretary of State for Culture, Olympics, Media and Sport. This change took effect in the Core Department's Estimates and Accounts from 1 April 2011.

UK Space Agency

Responsibilities for space activities transferred to the UK Space Agency, a new Executive Agency of the Core Department, with effect from 1 April 2011. Some responsibilities transferred from the Core Department and others transferred from the Department for Transport, the Department for Environment, Food and Rural Affairs, the Science and Technology Facilities Council, the Natural Environment Research Council and the Technology Strategy Board.

Government Property Unit

The Government Property Unit transferred to the Cabinet Office with effect from 1 April 2011.

Met Office, Ordnance Survey and Land Registry

Responsibility for the Met Office, Ordnance Survey and Land Registry transferred to the Core Department with effect from 1 April 2011. These bodies transferred from the Ministry of Defence, Department for Communities and Local Government and the Ministry of Justice respectively.

Clear Line of Sight Changes

2011-12 is the first year of implementation of HM Treasury's "Clear Line of Sight" alignment project. This has led to the consolidation of the Core Department's sponsored non-departmental and other designated bodies designated by order made under the GRAA by Statutory Instrument 2011 no. 723, as amended by Statutory Instrument 2011 no. 3004. A full list of the Core Department's designated bodies can be found in Note 41.

BIS's accounts now present three sets of financial results as they show the results of: the Core Department, the Core Department plus its Agencies and, new for this year, the results of the Departmental Group. The adjustments below reflect the changes to the Consolidated Statements of Financial Position as at 31 March 2011 and 1 April 2010 and the Consolidated Statement of Comprehensive Net Expenditure as at 31 March 2011 as a result of bringing the Core Department's NDPBs and designated bodies within the consolidated boundary.

Restatements

The Machinery of Government Changes which involve the merger or the transfer of functions or responsibility of one part of the public service sector to another, are accounted for using merger accounting in accordance with the FReM. This requires the restatement of the Primary Statements and associated Notes to the Accounts. The Accounts have also been restated to reflect the changes required as a result of the Clear Line of Sight project. The Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Net Expenditure for 2010-11 were restated as follows:

Consolidated Statement of Financial Position as at 31 March 2011

	Published 2010-11 £'000	Machinery of Government changes 2010-11: £'000	Clear Line of Sight adjustments 2010-11: £'000	*Other 2010-11 £'000	Restated 2010-11 £'000
Non Current Assets:					
Property, plant and equipment	252,635	65,749	1,931,307	-	2,249,691
Investment properties	-	-	37,877	-	37,877
Intangible assets	88,691	-	182,540	-	271,231
Investments and loans in public bodies	1,932,437	92,867	22,486	-	2,047,790
Other financial assets	25,284,671	-	430,665	-	25,715,336
Derivative financial instruments	-	-	7,046	13,498	20,544
Investment in joint ventures and associates	-	-	345,043	-	345,043
Trade and other receivables	232,298	-	20,769	-	253,067
Total non-current assets	***27,790,732***	***158,616***	***2,977,733***	***13,498***	***30,940,579***
Current assets:					
Inventories	13	-	36,309	-	36,322
Non-current assets held for sale	-	-	12,172	-	12,172
Trade and other receivables	1,288,073	(41,748)	601,513	-	1,847,838
Investments and loans in public bodies	260,166	1,105	-	-	261,271
Derivative financial instruments	-	-	8,400	8,147	16,547
Other financial assets	1,700,000	-	140,153	-	1,840,153
Cash and cash equivalents	1,259,660	(103,595)	723,848	-	1,879,913
Total current assets	***4,507,912***	***(144,238)***	***1,522,395***	***8,147***	***5,894,216***

	Published 2010-11 £'000	Machinery of Government changes 2010-11: £'000	Clear Line of Sight adjustments 2010-11: £'000	*Other 2010-11 £'000	Restated 2010-11 £'000
Current liabilities:					
Trade and other payables	(3,386,674)	156,766	(1,169,473)	-	(4,399,381)
Provisions	(64,788)	-	(55,702)	-	(120,490)
Financial guarantees	(54,519)	-	(1,334)	-	(55,853)
Other financial liabilities	(9,124)	-	-	-	(9,124)
Current tax liability	-	-	(6,998)	-	(6,998)
Total current liabilities	***(3,515,105)***	***156,766***	***(1,233,507)***	***-***	***(4,591,846)***
Non-current Liabilities:					
Trade and other payables	(1,195,463)	-	46,126	-	(1,149,337)
Provisions	(614,552)	5,138	(331,997)	-	(941,411)
Financial guarantees	(245,462)	-	1,334	-	(244,128)
Retirement benefit obligations	-	-	51,542	-	51,542
Other financial liabilities	(182,050)	-	-	-	(182,050)
Deferred tax liability	-	-	(13,747)	-	(13,747)
Total non-current liabilities	***(2,237,527)***	***5,138***	***(246,742)***	***-***	***(2,479,131)***
Assets less liabilities	**26,546,012**	**176,282**	**3,019,879**	**21,645**	**29,763,818**
Taxpayers' equity and other reserves:					
General fund	26,324,863	176,282	2,111,499	-	28,612,644
Revaluation reserve	221,149	-	763,224	21,645	1,006,018
Charitable funds	-	-	140,921	-	140,921
Minority interest	-	-	4,235	-	4,235
Total Equity	**26,546,012**	**176,282**	**3,019,879**	**21,645**	**29,763,818**

Consolidated Statement of Financial Position as at 1 April 2010

	Published 2009-10 £'000	Machinery of Government changes 2009-10: £'000	Clear Line of Sight adjustments 2009-10: £'000	*Other 2009-10 £'000	Restated 2009-10 £'000
Non Current Assets:					
Property, plant and equipment	259,671	72,493	1,786,053	-	2,118,217
Investment properties	-	-	52,920	-	52,920
Intangible assets	103,562	-	183,588	-	287,150
Investments and loans in public bodies	1,592,330	73,972	7,162	-	1,673,464
Other financial assets	23,895,345	-	432,311	-	24,327,656
Investment in joint ventures and associates	-	-	347,428	-	347,428
Trade and other receivables	180,851	-	103,987	722	285,560
Total non-current assets	***26,031,759***	***146,465***	***2,913,449***	***722***	***29,092,395***
Current assets:					
Inventories	60	-	70,016	-	70,076
Non-current assets held for sale	-	-	5,472	-	5,472
Trade and other receivables	1,509,696	(90,878)	473,434	-	1,892,252
Investments and loans in public bodies	521,666	5,698	-	-	527,364
Derivative financial instruments	-	-	1,654	-	1,654
Other financial assets	1,450,000	-	113,118	-	1,563,118
Cash and cash equivalents	579,580	(90,659)	603,965	-	1,092,886

	Published 2009-10 £'000	Machinery of Government changes 2009-10: £'000	Clear Line of Sight adjustments 2009-10: £'000	*Other 2009-10 £'000	Restated 2009-10 £'000
Total current assets	***4,061,002***	***(175,839)***	***1,267,659***	**-**	***5,152,822***
Current liabilities:					
Trade and other payables	(2,632,377)	166,749	(1,418,492)	-	(3,884,120)
Provisions	(55,818)	1,143	(51,981)	-	(106,656)
Financial guarantees	(105,316)	-	-	-	(105,316)
Other financial liabilities	(23,432)	-	-	-	(23,432)
Current tax liability	-	-	(17)	-	(17)
Total current liabilities	***(2,816,943)***	***167,892***	***(1,470,490)***	**-**	***(4,119,541)***
Non-current Liabilities:					
Trade and other payables	(858,722)	-	(3,523)	(722)	(862,967)
Provisions	(471,534)	5,138	(339,859)	-	(806,255)
Financial guarantees	(193,810)	-	-	-	(193,810)
Retirement benefit obligations	-	-	44,891	-	44,891
Other financial liabilities	(246,875)	-	-	-	(246,875)
Deferred tax liability	-	-	(19,358)	-	(19,358)
Total non-current liabilities	***(1,770,941)***	***5,138***	***(317,849)***	***(722)***	***(2,084,374)***
Assets less liabilities	**25,504,877**	**143,656**	**2,392,769**	**-**	**28,041,302**
Taxpayers' equity and other reserves:					
General fund	25,337,436	143,656	1,608,357	(19)	27,089,430
Revaluation reserve	167,441	-	688,660	19	856,120
Charitable funds	-	-	92,599	-	92,599
Minority interest	-	-	3,153	-	3,153
Total equity	**25,504,877**	**143,656**	**2,392,769**	**-**	**28,041,302**

* The 'Other' category includes an adjustment from receivables to payables relating to INSS accrued expenditure at 31 March 2011.

Consolidated Statement of Comprehensive Net Expenditure as at 31 March 2011

	Note	Published 2010-11 £'000	Machinery of Government changes 2010-11: £'000	Clear Line of Sight adjustments £'000	*Other 2010-11 £'000	Restated 2010-11 £'000
Administration costs:						
Staff costs	7	183,066	(3,595)	363,858	-	543,329
Other administration costs	8	139,908	(1,131)	266,210	-	404,987
Income	11	(27,634)	-	(42,116)	-	(69,750)
Net administration costs		*295,340*	*(4,726)*	*587,952*	-	*878,566*
Programme costs:						
Staff costs	7	219,850	(2,409)	445,746	54	663,241
Programme costs	9	26,415,934	(131,416)	(321,455)	(54)	25,963,009
Income	11	(4,379,700)	62,382	(1,049,090)	18,489	(5,347,919)
Special dividend (BNFL)	11	(32,000)	-	-	-	(32,000)
Public Dividend Capital dividends	11	-	-	-	(18,489)	(18,489)
less minority interest	9	-	-	1,082	-	1,082
Net programme costs		*22,224,084*	*(71,443)*	*(923,717)*	-	*21,228,924*
Net Operating Cost		**22,519,424**	**(76,169)**	**(335,765)**	**-**	**22,107,490**

*The 'Other' category includes the reclassification of spend as administration expenditure which was previously classified as programme expenditure and changes in presentation of the Statement of Comprehensive Net Expenditure.

The MOG adjustments reflect transfers of responsibilities in and out of the Departmental boundary.

The 2010-11 published information does not include most of the Department's NDPBs and other designated bodies. Therefore where there have been transfers of responsibilities outside of the Departmental boundary during the reporting period which has required the results and net assets of NDPBs and other designated bodies to be restated, this is not reflected in the re-statements shown above. During the reporting period the RDAs transferred functions to HCA, an NDPB of DCLG. This resulted in a £738 million restatement of the 2010-11 net expenditure for the RDAs.

40. Acquisition accounting

The Regional Development Agencies achieved operational closure on 31 March 2012 and are being formally wound up by virtue of a Commencement Order under Section 30(1) of the Public Bodies Act 2011 dated 1 July 2012. The transfer of those assets and liabilities continuing into 2012-13 and beyond was completed by 30 March 2012 under acquisition accounting, for no consideration, with the majority of the assets/liabilities transferring to the Core Department.

On receipt of the assets and liabilities the Core Department reclassified a number of them in order to align with its accounting policies. The transfers in from the RDAs and reclassification of assets and liabilities have impacted the Core Department's accounts as follows:

Consolidated Statement of Financial Position

				31 March 2012 £'000
	Note	**Transfer in**	**Reclassification**	**Balance**
Non Current Assets:				
Investments and loans in public bodies	18.5	28,809	(10,587)	**18,222**
Other financial assets	20.4	47,951	10,928	**58,879**
Investments in joint ventures	19.1	(18,358)	-	**(18,358)**
Investments in associates	19.2	7,718	-	**7,718**
Trade and other receivables		37	(37)	**-**
Total non current assets		**66,157**	**304**	**66,461**
Current assets:				
Inventories	22	258	-	**258**
Trade and other receivables		22,442	(304)	**22,138**
Total current assets		**22,700**	**(304)**	**22,396**
Current liabilities:				
Trade and other payables		(38,043)	614	**(37,429)**
Total current liabilities:		**(38,043)**	**614**	**(37,429)**
Non Current liabilities:				
Retirement benefit obligations	30	(1,091)	1,091	**-**
Provisions*	28	(8,478)	(1,705)	**(10,183)**
Total non current liabilities:		**(9,569)**	**(614)**	**(10,183)**
Net Assets		**41,245**	**-**	**41,245**

Consolidated Statement of Comprehensive Net Expenditure

	Note	31 March 2012 £'000
Gain on acquisition	9	107,215
Loss on acquisition	9	(65,970)
		41,245

*The reclassification into provisions of £1,705 thousand comprises £1,091 thousand from retirement benefit obligations and £614 thousand from trade and other payables.

The transfer from the RDAs to BIS is recorded as a gain or loss on acquisition in the Consolidated Statement of Comprehensive Net Expenditure. The RDAs will record the corresponding opposite entries in their accounts for 2011-12. These transactions will be eliminated on consolidation.

41. List of bodies within the Departmental Group

A list of those bodies within the Departmental Group together with a link to where their individual Annual Report and Accounts can be found is provided below. These bodies were included in the BIS Designation Order for 2011-12, and their accounts have been consolidated within the Departmental Group accounts.

Bodies within the Departmental Group but not consolidated, such as where net assets are not considered material to the Departmental Group accounts, are indicated separately below.

Name of Organisation *(Linked organisations are indicated in italics below each body)*	**Status**	**Link to Annual Report and Accounts**
Bodies consolidated in Departmental Group accounts for 2011-12		
Executive Agencies		
Insolvency Service	Executive Agency	http://www.bis.gov.uk/insolvency/Publications/publications-by-theme/publications-about-The-Service
Insolvency Practitioners Tribunal	*Tribunal NDPB*	*Consolidated by Insolvency Service*
National Measurement Office	Executive Agency	http://www.bis.gov.uk/nmo/about/key-documents
UK Space Agency	Executive Agency	http://bis.ecgroup.net/Publications/UKSpaceAgency/UKSpaceAgencyAnnualReports.aspx
Crown Executive NDPBs		
Advisory Conciliation and Arbitration Service (ACAS) including accounts for:	Crown Executive NDPB	http://www.acas.org.uk/index.aspx?articleid=1473
Central Arbitration Committee	*Linked but independent institution of ACAS*	*Consolidated by ACAS*
Certification Officer	*Linked but independent institution of ACAS*	*Consolidated by ACAS*
Skills Funding Agency	Crown Executive NDPB	http://readingroom.skillsfundingagency.bis.gov.uk/sfa/sfa_annual_report_2011-12.pdf
NDPBs and other designated bodies		
Advantage West Midlands	Executive NDPB	http://www.bis.gov.uk/assets/biscore/economic-development/docs/a/advantage-west-midlands-annual-report-2012.pdf
Business Link West Midlands Limited	*Limited Company*	*Consolidated by Advantage West Midlands until 30 March 2012, when investment transferred to BIS.*
Arts and Humanities Research Council	Executive NDPB	http://www.ahrc.ac.uk/About/Policy/Pages/CorporateDocuments.aspx
Biotechnology and Biological Sciences Research Council	Executive NDPB	http://www.bbsrc.ac.uk/publications/accounts/accounts-index.aspx

Name of Organisation *(Linked organisations are indicated in italics below each body)*	**Status**	**Link to Annual Report and Accounts**
Capital for Enterprise Ltd (CfEL)	Executive NDPB and Limited Company	http://www.capitalforenterprise.gov.uk/corporate
Capital for Enterprise Fund Managers Limited	*Limited Company*	*Consolidated by CfEL*
Capital for Enterprise (GP) Limited	*Limited Company*	*Consolidated by CfEL*
Competition Commission	Executive NDPB	http://www.competition-commission.org.uk/governance/annual-report-and-accounts
Competition Service	Executive NDPB	http://www.catribunal.org.uk/248/Publications.html
CITB-ConstructionSkills	Executive NDPB and Charity	http://www.cskills.org/uploads/2011-Annual-report-accounts_tcm17-30918.pdf
Consumer Focus	Executive NDPB	http://www.consumerfocus.org.uk/publications-reports
East Midlands Development Agency	Executive NDPB	http://www.bis.gov.uk/assets/biscore/economic-development/docs/e/emda-report-and-accounts-2011-12.pdf
East of England Development Agency	Executive NDPB	http://www.bis.gov.uk/policies/economic-development/regional-support/rda-reports-accounts
Centre for Integrated Photonics	*Limited Company*	*Consolidated by East of England Development Agency. Included in BIS consolidated accounts for part of 2011-12 until the organisation was reclassified and no longer within the designation order for BIS.*
Economic and Social Research Council	Executive NDPB	http://www.esrc.ac.uk/publications/annual-report/index.aspx
Engineering and Physical Sciences Research Council	Executive NDPB	http://www.epsrc.ac.uk/newsevents/pubs/corporate/annualreport/Pages/default.aspx
Engineering Construction Industry Training Board	Executive NDPB and Charity	http://www.ecitb.org.uk/AboutECITB/TheECITB/
Financial Reporting Council Ltd	Limited Company	http://www.frc.org.uk/About-the-FRC/Plans-and-budget/Annual-Reports-and-Plans.aspx
Accountancy and Actuarial Discipline Board Limited	*Limited Company*	*Consolidated by Financial Reporting Council Ltd*
Higher Education Funding Council for England (HEFCE)	Executive NDPB	http://www.hefce.ac.uk/media/hefce/content/about/howweoperate/annualaccounts/annual_report_201112.pdf
Learning and Skills Improvement Service	Charity	http://www.lsis.org.uk/Services/Publications/Pages/default.aspx
Local Better Regulation Office (LBRO)	Executive NDPB	http://www.bis.gov.uk/brdo/about-us/our-performance *LBRO closed 31 March 2012*
Medical Research Council	Executive NDPB	http://www.mrc.ac.uk/Utilities/Documentrecord/index.htm?d=MRC008586
MRC Technology Ltd	Limited Company	http://www.mrctechnology.org.uk/about/company-information
National Endowment for Science, Technology and the Arts (NESTA)	Executive NDPB	http://www.nesta.org.uk/home1 *Constituted as two bodies from 1 April 2012: one Charitable Trust in the public sector and one company operating in the charity sector.*
NESTA Investment Management LLP	*Limited Liability Partnership*	*Consolidated by NESTA. Will not be in BIS designation order from 1 April 2012.*
NESTA Partners Ltd	*Limited Company*	*Consolidated by NESTA. Will not be in BIS designation order from 1 April 2012.*
NESTA Kinetique LLP	*Limited Liability Partnership*	*Consolidated by NESTA. Will not be in BIS designation order from 1 April 2012.*
Natural Environment Research Council	Executive NDPB	http://www.nerc.ac.uk/publications/annualreport/
North West Development Agency (NWDA)	Executive NDPB	http://www.bis.gov.uk/assets/biscore/economic-development/docs/n/northwest-regional-development-agency-annual-report-2012.pdf

Name of Organisation *(Linked organisations are indicated in italics below each body)*	**Status**	**Link to Annual Report and Accounts**
North West Business Link Limited	*Limited Company*	*Consolidated by NWDA until 30 March 2012, when investment transferred to BIS.*
ONE North East	Executive NDPB	http://www.bis.gov.uk/assets/biscore/economic-development/docs/o/one-north-east-annual-report-accounts-2011-2012.pdf
Enterprise Development North East Limited	*Limited Company*	*Consolidated by ONE North East until 31 March 2012. Will not be in BIS designation order from 1 April 2012.*
North East Regional Aggregation Body LLP	*Limited Liability Partnership*	*Consolidated by ONE North East until 31 March 2012. Will not be in BIS designation order from 1 April 2012.*
North East Regional Investment Fund Partner Limited	*Limited Company*	*Consolidated by ONE North East until 31 March 2012. Will not be in BIS designation order from 1 April 2012.*
North East Regional Investment Fund Three Limited	*Limited Company*	*Consolidated by ONE North East until 31 March 2012. Will not be in BIS designation order from 1 April 2012.*
RCUK Shared Service Centre Limited	Limited Company	http://www.ssc.rcuk.ac.uk/info/Pages/default.aspx
Science and Technology Facilities Council (STFC)	Executive NDPB	http://www.stfc.ac.uk/Print%20Publications/3435.aspx
STFC Innovations Ltd	*Limited Company*	*Consolidated by STFC*
South East England Development Agency (SEEDA)	Executive NDPB	http://www.bis.gov.uk/assets/biscore/economic-development/docs/s/seeda-report-and-accounts-2011-12.pdf
East Kent Spatial Development Company Ltd	*Limited Company*	*Consolidated by SEEDA. Will not be in BIS designation order from 1 April 2012.*
Ryde Business Park Management Company Ltd	*Limited Company*	*Consolidated by SEEDA. Will not be in BIS designation order from 1 April 2012.*
South West of England Regional Development Agency	Executive NDPB	http://www.bis.gov.uk/assets/biscore/economic-development/docs/s/south-west-england-annual-report-accounts-2011-2012.pdf
Student Loans Company Limited	Executive NDPB and Limited Company	http://www.slc.co.uk/media/annual-report.aspx
Technology Strategy Board	Executive NDPB	http://www.innovateuk.org/publications/corporate-documents.ashx
United Kingdom Commission for Employment and Skills	Executive NDPB	http://www.ukces.org.uk/publications
United Kingdom Atomic Energy Authority	Executive NDPB	http://www.uk-atomic-energy.org.uk/news_publications.html
AEA Insurance Ltd	*Limited Company*	*Consolidated by UK Atomic Energy Authority*
University for Industry Charitable Trust Ltd (UCT)	Charitable Trust and Limited Company	http://www.charitycommission.gov.uk/Accounts/Ends28/0001081028_ac_20110731_e_c.pdf *Will not be in BIS designation order from 1 April 2012.*
UCT Solutions Ltd (was Learn Direct Solutions Limited)	*Limited Company*	*Consolidated by UCT. Will not be in BIS designation order from 1 April 2012.*
University for Industry Limited (UfI Ltd)	*Limited Company*	*Consolidated by UCT until sold in November 2011.*
Yorkshire Forward *(operating name of Yorkshire and the Humber Regional Development Agency)*	Executive NDPB	http://www.bis.gov.uk/assets/biscore/economic-development/docs/y/yorkshire-forward-annual-report-accounts-2011-2012.pdf
Co2 Sense Ltd	*Limited Company*	*Consolidated by Yorkshire Forward. Will not be in BIS designation order from 1 April 2012.*
Directions Finningley	*Community Interest Company*	*Investment transferred from Yorkshire Forward to BIS in 2011-12.*
Victoria Place Management Company (Leeds) Limited	*Limited Company*	*Consolidated by Yorkshire Forward. Will not be in BIS designation order from 1 April 2012.*

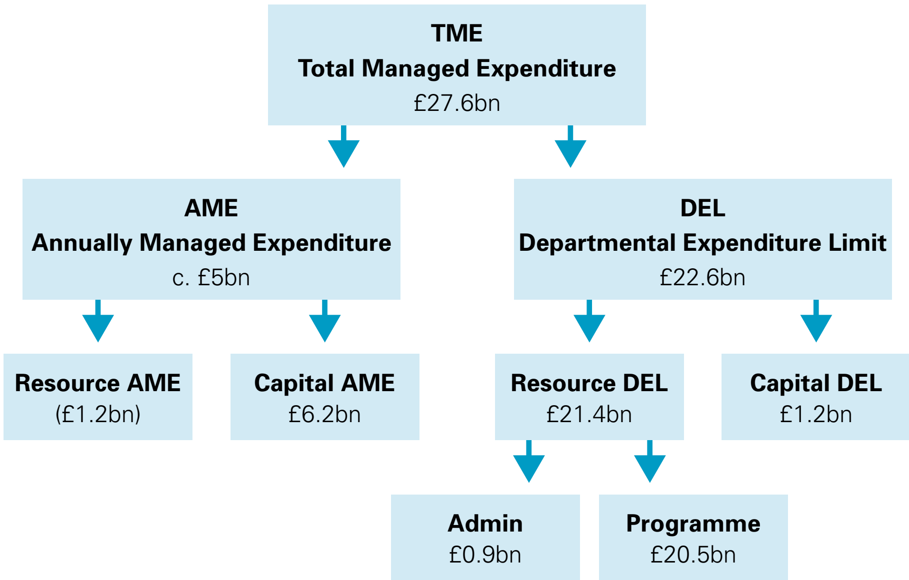
Name of Organisation *(Linked organisations are indicated in italics below each body)*	**Status**	**Link to Annual Report and Accounts**
Bodies not consolidated in Departmental Group accounts for 2011-12		
Design Council	Charity (additionally an Executive NDPB until 31 March 2011)	Reclassified in 2011-12 as private sector. http://www.designcouncil.org.uk/Documents/Documents/Publications/AnnualReports/DC%20Annual%20Report%202010-11.pdf
Office for Fair Access *(operating name of Director of Fair Access to Higher Education)*	Executive NDPB	Consolidated in 2009-10 and 2010-11 only. Not material to Departmental Group accounts for 2011-12. http://www.offa.org.uk/wp-content/uploads/2012/06/21439-Offa-HC-219-web-only.pdf
British Shipbuilders	Public Corporation	Not material to Departmental Group accounts.
British Shipbuilders (Southwick) Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
BS Benton House Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
BS (ETS) Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
George Clark & NEM Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
Govan Shipbuilders Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
Henry Robb Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
North East Shipbuilders Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
Smith's Dock Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
Sunderland Shipbuilders Ltd	*Limited Company*	*Consolidated by British Shipbuilders*
Competition Appeal Tribunal	Tribunal NDPB	Not material to Departmental Group accounts http://www.catribunal.org.uk/248/Publications.html
Film Industry Training Board for England and Wales	Executive NDPB and Charity	Not operating
Higher Education Policy Institute	Limited Company and Charity	A HEFCE body but not consolidated as not material to their accounts.
NW VCLF HF LLP	Limited Liability Partnership	Investment transferred from North West Development Agency to BIS in 2011-12.
Copyright Tribunal	Tribunal NDPB	No accounts produced
Council for Science and Technology	Advisory NDPB	No accounts produced
Industrial Development Advisory Board	Advisory NDPB	No accounts produced
Low Pay Commission	Advisory NDPB	No accounts produced
Office of Manpower Economics	Advisory NDPB	No accounts produced

Annexes

Annex A: Annex to the Financial Review, including glossary of financial terms

Budgets

Total Managed Expenditure (TME) represents the total funds available to the Department.



Departmental Expenditure Limit (DEL)

DEL budgets are firm, planned budgets set for multi-year periods in Spending Reviews. They are linked to the Department's objectives and their limits may not be exceeded. The majority of BIS spending falls within DEL.

The DEL budget can be split into **Resource DEL** and **Capital DEL**.

Capital DEL is for spending on assets and investment. By having a separate total for Capital DEL, funding for capital investment is both protected and controlled.

Resource DEL is spent on either:

- Programme:
  Largely the delivery of the Department's frontline objectives, including funding for many partner organisations
- Administration:
  Running costs of the Department and its partner organisations, including back office staff, accommodation and ICT.

Annually Managed Expenditure (AME)

AME budgets are volatile or demand-led in a way that the Department cannot control. Examples of AME budgets for BIS are:

- Student Loans (cash paid out and repayments received)
- Post Office working capital loan
- Redundancy payments service
- Paternity and adoption pay

Consolidated Fund Extra Receipts (CFERs)

CFERs are receipts not authorised to be retained by the Department and which are paid over to HM Treasury.

Estimates

Supply Estimates are the means by which Parliament gives approval to (and grants resources for) Departmental Spending Plans. The amount approved by Parliament is often termed **the Vote**. The resources granted in the Vote are specifically for the set of Departmental operations covered under the **ambits**.

Budgets may be amended via the annual **Supplementary Estimate**. This allows the Department to make various changes, including: taking account of new internal allocations, for example due to machinery of government changes; increasing or decreasing the net cash requirement; and Reserve claims to increase funding.

Note that BIS has a separate Estimate for the effective management of the United Kingdom Atomic Energy Authority pension schemes. This is separate from the consolidated accounts contained in this volume. Copies of the United Kingdom Atomic Energy Authority Pension accounts are available at

http://www.official-documents.gov.uk/document/hc1213/hc00/0058/0058.pdf.

From 2012-13 BIS will also be responsible for a further Estimate in respect of the Royal Mail Statutory Pension Scheme.

Clear Line of Sight

The Clear Line of Sight alignment project has changed the face of Departmental accounts:

- The voted Estimate and budgeting boundary are now fully aligned: consolidated accounts include the net expenditure of partner organisations (rather than the grant-in-aid funding paid to them); capital and capital grants all now appear as capital.
- The Accounts now present three sets of financial results: the core Department; the core Department plus its Agencies; and, new for this year, the results of the core Department plus its Agencies plus its other partner organisations included in the Designation Order.
- Parliament now votes on a net expenditure basis, rather than voting separate control totals for income and expenditure.
- From 2011-12 the Estimate no longer includes Requests for Resources. This allows greater budget flexibility.

Financial Management

BIS is responsible for all of the resources allocated to the Departmental family. The Department has put in place a strong budgetary control process to effectively discharge this responsibility. The Department allocates annual budgets in March of each year and monitors them on a monthly basis. Forecasts of expenditure are reviewed monthly and updated where appropriate.

More in-depth reviews of forecasts are carried out quarterly with particular emphasis on mid year and end December reviews (as these are used by HM Treasury as a basis for total spend across Government for the year and to identify changes to be made through the Supplementary Estimate). In 2011-12, a formal mid year review process was carried out to confirm or adjust in-year budgets to align with revised forecasts, and to assess risks and opportunities in the future years of the Spending Review.

During the year, the Finance Director delivered a monthly financial report to the Executive Finance Board, highlighting emerging issues and advising where action may be required. From March 2012, the report has been delivered to the Performance, Finance and Risk Committee. During 2011-12, financial reports have also focussed on how to manage within the reduced administration funding envelope to ensure that BIS and its partner organisations can operate within the forward years' administration budgets.

Annex B

Expenditure Tables

These Tables present actual expenditure by the Department for the years 2006-07 to 2011-12 and planned expenditure for the years 2012-13 to 2014-15. The data relates to the Department's expenditure on an Estimate and budgeting basis. From 2011-12 there is alignment between Estimates and budgets, and the administration costs of partner organisations are shown as such rather than as programme.

The format of the Tables is determined by HM Treasury, and the disclosure in Tables 1 to 3 follow that of the Supply Estimate Functions.

The data in the Tables has been restated to take account of machinery of government changes over the period. The exception is Table 3 (Total Capital Employed), where outturns for all years except 2007-08 have been restated. All 2011-12 outturns are those used for the 2012 Public Expenditure Outturn White Paper.

Table 1 Total Departmental Spending – summarises expenditure on functions now administered by the Department, covering the period from 2006-07 to 2011-12. Consumption of resources includes programme and administration costs. Total Departmental expenditure is analysed by Departmental Supply Estimates, and any unallocated provision.

Table 2 Resource Budget – is complementary to Table 1 and shows 2011-12 figures against the original and final budgetary control limits.

Table 3 Total Capital Employed – shows capital employed by the Department in Statement of Financial Position format as disclosed in the Department's Accounts. It also shows as a separate line the net capital employed by its partner organisations to give a total figure for capital employed by the Departmental Group.

Table 4 Administration Costs – provides a more detailed analysis of the administration costs of the Department. It retains the high level functional analysis used in Table 1. One of the classification changes resulting from the SR2010 Settlement was the movement of the administration costs of partner organisations from programme funding into admin. Table 4 shows assumed figures for past years other than 2010-11.

Table 5 Staff Numbers – shows staff numbers employed by the main Department and its Agencies and Companies House.

Tables 6, 7, and 8 Country and Regional Analysis Tables – show analyses of the Department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in Chapter 9 of Public Expenditure Statistical Analyses (PESA) 2012. The figures were taken from the HM Treasury public spending database for the 2010-11 financial year and therefore do not show the latest position and are not consistent with other tables in the Departmental Report.

The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the Department, its executive agencies and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.

TES is a near cash measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in Departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2012.

The data are based on a subset of spending – identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions. Expenditure that is incurred for the benefit of the UK as a whole is excluded.

Across Government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the Department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.

The functional analyses of spending in Table 8 are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in chapter 9 of PESA 2012. These are not the same as the strategic priorities shown elsewhere in the report. The Department's expenditure encompasses a wide range of programmes, and the method of allocation by region will vary according to the nature of each programme. Transfer payments to individuals are generally allocated to the region of the residence of the recipient. Transfer payments to institutions are normally allocated on the basis of the location of the recipient institution, as a proxy for the location which benefits from the spending. Where directly measured data is unavailable, suitable formulae determined in consultation with Departmental statisticians have been used.

Table 6 Expenditure by Country and Region – shows identifiable expenditure on services, i.e. expenditure which can be shown as being for the benefit of specific countries and regions. It also includes, for completeness, a line for non identifiable expenditure i.e. that which is deemed to be on behalf of the United Kingdom as a whole.

Table 7 Expenditure per Head by Country and Region – analyses the identifiable expenditure underlying Table 6, per head of population.

Table 8 Expenditure by Function/Programme by Country and Region – shows the outturns for 2010-11 in Table 6 analysed into functional categories. These categories are the standard COFOG categories.

Table 1 – Department for Business, Innovation and Skills

Total departmental spending

									£'000
	2006-07 Outturn	**2007-08 Outturn**	**2008-09 Outturn**	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Plans**	**2013-14 Plans**	**2014-15 Plans**
Resource DEL									
Section A: Innovation, Enterprise and Business	(91,666)	(275,982)	(245,628)	34,590	(187,186)	142,507	412,346	429,692	418,430
Section B: Free and Fair Markets	55,464	79,593	105,619	114,368	98,455	117,518	84,535	85,857	87,732
Section C: Professional Support	412,162	360,214	345,578	339,811	327,078	319,476	381,508	330,304	306,981
Section D: Government as Shareholder	67,330	444,420	273,705	148,165	163,012	165,028	390,040	387,229	367,027
Section E: Science and Research	135,144	162,916	187,111	132,291	146,272	299,400	478,309	481,761	469,201
Section F: Higher Education	1,630,869	1,863,912	1,847,900	2,251,300	5,663,480	5,220,117	3,780,272	4,471,725	5,206,378
Section G: Further Education	(6,462,804)	(6,251,826)	(6,416,341)	(6,717,968)	(406,072)	(647,879)	(1,091,958)	(1,146,933)	(1,201,425)
Section H: Innovation, Enterprise and Business (NDPB) (net)	808,460	977,399	997,237	1,182,390	1,022,336	670,894	292,000	274,755	258,602
Section I: Free and Fair Markets (NDPB) net	96,678	93,529	90,854	95,805	83,271	81,805	90,685	88,681	89,722
Section J: Science and Research (NDPB) net	2,386,569	2,607,583	4,335,013	4,495,987	4,701,130	4,562,254	4,604,559	4,594,626	4,608,926
Section K: Higher Education (NDPB) net	5,916,037	6,212,754	4,982,044	5,188,422	5,238,170	4,891,021	3,941,881	3,074,213	2,145,186
Section L: Further Education (NDPB) net	10,330,198	10,274,687	10,591,747	11,078,149	4,440,540	4,188,952	4,884,213	4,707,592	4,563,906
Section M: Government as Shareholder (NDPB) net						(47)			
Departmental Unallocated Provision (non-Science)	-	-	-	-	-	-	-	-	23,963
Total Resource DEL	**15,284,441**	**16,549,199**	**17,094,839**	**18,343,310**	**21,290,486**	**20,011,046**	**18,248,390**	**17,779,502**	**17,344,629**
Of which:									
– Pay	1,076,001	1,038,180	1,054,522	1,235,602	1,008,170	981,935	1,009,558	917,219	878,437
– Net current procurement[1]	862,082	675,132	711,187	550,026	561,116	1,004,785	816,741	859,357	821,451
– Current grants and subsidies to the private sector and abroad	17,581,946	18,400,517	19,390,512	21,065,673	16,463,044	15,334,248	14,777,597	13,819,164	12,922,448
– Current grants to local government	2,326,567	2,389,932	2,412,897	2,464,030	255,061	241,733	4,942	-	-
– Depreciation[2]	815,206	864,517	758,538	1,020,493	4,261,508	3,820,989	2,268,766	2,854,825	3,465,793
– Other	(7,377,361)	(6,819,079)	(7,232,817)	(7,992,514)	(1,258,413)	(1,372,644)	(629,214)	(671,063)	(743,500)

									£'000
	2006-07 Outturn	**2007-08 Outturn**	**2008-09 Outturn**	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Plans**	**2013-14 Plans**	**2014-15 Plans**
Resource AME									
Section N: Innovation, Enterprise and Business	(113,571)	(46,578)	84,724	(80,055)	9,018	(76,502)	(39,171)	(46,540)	(42,900)
Section O: Free and Fair Markets	226,716	231,563	465,739	559,055	545,100	448,791	451,556	413,406	415,196
Section P: Science Research Councils	(12,445)	22,016	55,285	40,932	45,750	49,928	62,389	69,100	75,206
Section Q: Higher Education	(884,588)	(193,776)	(739,506)	432,252	(1,294,604)	(1,842,686)	(1,824,963)	(1,915,856)	(2,279,679)
Section R: Further Education	-	-	263	(28)	(28)	(888)	(27)	(27)	(27)
Section S: Professional Support	14,443	168,270	(47,985)	(13,401)	27,703	8,015	(42,446)	(29,998)	(29,410)
Section T: Government as Shareholder	(22,156)	3,188	(4,186)	(35,041)	1,681	739	(727)	(1,727)	(2,727)
Section U : Innovation, Enterprise and Business (NDPB) (net)	34,747	(5,405)	219,662	135,051	193,230	38,935	-	-	-
Section W: Free and Fair Markets (NDPB) net	(2,918)	(4,479)	(824)	(5,271)	(1,159)	(1,842)	1,530	594	686
Section X: Science and Research (NDPB) net	(6,882)	(13,848)	(5,324)	2,179	19,209	(10,785)	(45,785)	(28,029)	(3,228)
Section Y: Higher Education (NDPB) net	(27,718)	(486)	14,071	(18,841)	(23,566)	(21,731)	(19,970)	(19,970)	(19,970)
Section Z: Further Education (NDPB) net	(1,852)	(1,824)	(7,306)	16,157	(27,564)	(12,112)	2,581	14,389	(1,816)
Total Resource AME	**(796,224)**	**158,641**	**34,613**	**1,032,989**	**(505,230)**	**(1,420,138)**	**(1,455,033)**	**(1,544,658)**	**(1,888,669)**
Of which:									
– Pay	64,518	50,667	54,028	91,314	85,320	105,346	107,396	114,745	121,024
– Net current procurement[1]	(98,732)	(128,928)	(29,291)	(38,636)	(23,099)	(76,693)	(25,623)	(30,337)	(33,169)
– Current grants and subsidies to the private sector and abroad	411,266	459,587	645,667	738,455	582,884	550,021	578,729	557,417	545,510
– Net public service pensions	144	27,400	73,420	706	1,112	509	1,500	1,500	1,500
– Take up of provisions	11,635	238,052	171,612	78,674	321,067	18,943	94,638	85,089	83,332
– Release of provisions	(204,656)	(180,658)	(161,251)	(155,840)	(176,824)	(161,211)	(219,131)	(188,810)	(156,526)
– Depreciation[2]	2,721	15,823	233,254	137,258	158,154	56,360	6,042	5,889	6,657
– Other	(983,120)	(323,302)	(952,826)	181,058	(1,453,844)	(1,913,413)	(1,998,584)	(2,090,151)	(2,456,997)
Total Resource Budget	**14,488,217**	**16,707,840**	**17,129,452**	**19,376,299**	**20,785,256**	**18,590,908**	**16,793,357**	**16,234,844**	**15,455,960**

									£'000
	2006-07 Outturn	**2007-08 Outturn**	**2008-09 Outturn**	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Plans**	**2013-14 Plans**	**2014-15 Plans**
Of which:									
– Depreciation[2]	817,927	880,340	991,792	1,157,751	4,419,662	3,877,349	2,274,808	2,860,714	3,472,450
Capital DEL									
Section A: Innovation, Enterprise and Business	(857,891)	(946,792)	(923,737)	(671,613)	(209,229)	(169,683)	209,244	151,353	158,870
Section B: Free and Fair Markets	(184)	5,818	13,127	1,419	(3,086)	2,465	14,700	5,000	3,000
Section C: Professional Support	13,665	20,316	14,134	13,943	10,083	7,133	5,500	5,500	4,500
Section D: Government as Shareholder	3,302	(2,533)	1,714	(1,681)	14,303	(1,105)	839,600	76,545	(1,556)
Section E: Science and Research	99,839	140,391	92,074	106,988	88,121	(21,206)	35,453	32,831	34,570
Section F: Higher Education	14	(2,000)	-	10,000	34,384	(3,534)	-	-	-
Section G: Further Education	(29,340)	(52,500)	(205,056)	(210,900)	(32,144)	3,210	-	-	-
Section H: Innovation, Enterprise and Business (NDPB) (net)	855,406	914,511	870,730	894,674	454,418	59,859	37,782	46,885	42,074
Section I: Free and Fair Markets (NDPB) net	1,730	2,279	6,763	4,671	2,960	1,586	1,600	1,600	1,600
Section J: Science and Research (NDPB) net	642,709	751,310	675,616	1,340,930	841,466	777,147	566,647	418,469	522,230
Section K: Higher Education (NDPB) net	717,197	757,314	560,250	371,972	209,689	100,709	108,300	58,800	137,000
Section L: Further Education (NDPB) net	435,011	521,349	838,172	1,167,080	692,695	396,610	278,900	225,000	340,000
Total Capital DEL	**1,881,458**	**2,109,463**	**1,943,787**	**3,027,483**	**2,103,660**	**1,153,191**	**2,097,726**	**1,021,983**	**1,242,288**
Of which:									
– Net capital procurement[3]	97,369	283,710	385,911	408,327	326,403	158,207	2,330,307	318,859	275,522
– Capital grants to the private sector and abroad	2,368,415	2,389,792	2,382,335	3,287,475	2,039,949	1,317,532	(26,978,881)	825,249	1,161,252
– Capital support for local government	578,043	567,433	447,247	503,280	242,972	147,614	-	-	-
– Capital support for public corporations	2,356	76,238	66,248	65,867	80,916	(9,026)	10,004,500	11,045	(1,056)
– Other	(1,164,725)	(1,207,710)	(1,337,954)	(1,237,466)	(586,580)	(461,136)	16,741,800	(133,170)	(193,430)
Capital AME									
Section Q: Higher Education	2,819,109	4,031,616	3,982,498	4,045,771	4,418,158	5,222,590	6,094,000	7,895,000	9,659,000
Section T: Government as Shareholder	(119,880)	(270,000)	(825,000)	260,000	(261,000)	239,000	750,000	750,000	750,000
Section U : Innovation, Enterprise and Business (NDPB) (net)	-	-	-	-	-	115	-	-	-
Section Z: Further Education (NDPB) net	1,558	3,831	5,919	494	1,196	7,221	7,817	139,394	409,921

									£'000
	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Plans	2013-14 Plans	2014-15 Plans
Section : Government as Shareholder (other non-voted)	-	-	300,000	-	-	-	-	-	-
Total Capital AME	**2,700,787**	**3,765,447**	**3,463,417**	**4,306,265**	**4,158,354**	**5,468,926**	**6,851,817**	**8,784,394**	**10,818,921**
Of which:									
– Capital grants to the private sector and abroad	(139)	729	-	-	-	-	-	-	-
– Net lending to the private sector and abroad	2,819,248	4,030,887	3,982,498	4,045,771	4,418,158	5,222,590	6,094,000	8,024,000	10,057,000
– Capital support for public corporations	(550,153)	(270,000)	(525,000)	260,000	(261,000)	239,000	750,000	750,000	750,000
– Other	431,831	3,831	5,919	494	1,196	7,336	7,817	10,394	11,921
Total Capital Budget	**4,582,245**	**5,874,910**	**5,407,204**	**7,333,748**	**6,262,014**	**6,622,117**	**8,949,543**	**9,806,377**	**12,061,209**
Total departmental spending[4]	**18,252,535**	**21,702,410**	**21,544,864**	**25,552,296**	**22,627,608**	**21,335,676**	**23,468,092**	**23,180,507**	**24,044,719**
of which:									
– Total DEL	16,350,693	17,794,145	18,280,088	20,350,300	19,132,638	17,343,248	18,077,350	15,946,660	15,121,124
– Total AME	1,901,842	3,908,265	3,264,776	5,201,996	3,494,970	3,992,428	5,390,742	7,233,847	8,923,595

[1] Net of income from sales of goods and services
[2] Includes impairments
[3] Expenditure on tangible and intangible fixed assets net of sales
[4] Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget. AME and capital budget AME less depreciation AME.
[5] Outturn figures to 2010-11 are on a pre-Clear Line of Sight basis.

Spending by local authorities on functions relevant to the department

						£'000
	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Estimated outturn
Current Spending						
-financed by grants from budgets above	14,882,689	16,139,464	16,747,324	18,257,631	21,180,774	18,361,265
Capital Spending						
-financed by grants from budgets above	1,446,257	1,580,930	1,549,781	2,391,060	1,771,199	1,149,223

Table 2 – Department for Business, Innovation and Skills

Resource Budget

			£'000
	2011-12 Original Provision	2011-12 Final provision	2011-12 Outturn
Resource DEL			
Section A: Innovation, Enterprise and Business	219,120	191,505	142,507
Section B: Free and Fair Markets	104,740	64,116	117,518
Section C: Professional Support	940,489	921,224	319,476
Section D: Government as Shareholder	194,925	194,925	165,028
Section E: Science and Research	136,144	419,406	299,400
Section F: Higher Education	3,376,490	6,278,067	5,220,117
Section G: Further Education	3,655,134	(793,880)	(647,879)
Section H: Innovation, Enterprise and Business (NDPB) (net)	633,038	547,524	670,894
Section I: Free and Fair Markets (NDPB) (net)	33,527	73,651	81,805
Section J: Science and Research (NDPB) (net)	4,431,792	4,432,381	4,562,254
Section K: Higher Education (NDPB) (net)	4,713,111	4,712,874	4,891,021
Section L: Further Education (NDPB) (net)	54,102	4,314,769	4,188,952
Section M: Government as Shareholder (NDPB) (net)	11,067	11,067	(47)
Total Resource DEL	**18,503,679**	**21,367,629**	**20,011,046**
Of which:			
Pay	1,164,028	1,027,504	981,935
Net current procurement[1]	929,156	879,229	1,004,785
Current grants and subsidies to the private sector and abroad	15,385,829	15,620,274	15,334,248
Current grants to local government	143,641	98,379	241,733
Depreciation[2]	2,296,588	4,874,098	3,820,989
Other	(1,415,563)	(1,131,855)	(1,372,644)
Resource AME			
Section N: Innovation, Enterprise and Business	(79,821)	(64,876)	(76,502)
Section O: Free and Fair Markets	458,842	479,988	448,791
Section P: Science and Research	43,835	38,173	49,928
Section Q: Higher Education	(1,785,368)	(1,737,134)	(1,842,686)
Section R: Further Education	3,473	(28)	(888)
Section S: Professional Support	(101,064)	(44,364)	8,015
Section T: Government as Shareholder	8,084	8,084	739
Section U: Innovation, Enterprise and Business (NDPB) (net)	129,247	129,247	38,935
Section V: Government as Shareholder	(4,400)	(4,400)	-
Section W: Free and Fair Markets (NDPB) (net)	858	4,869	(1,842)
Section X: Science and Research (NDPB) (net)	102,031	71,581	(10,785)
Section Y: Higher Education (NDPB) (net)	(19,970)	(19,970)	(21,731)
Section Z: Further Education (NDPB) (net)	1,608	(20,864)	(12,112)
Total Resource AME	**(1,242,645)**	**(1,159,694)**	**(1,420,138)**
Of which:			
Pay	99,036	96,502	105,346
Net current procurement[1]	(28,438)	(29,744)	(76,693)
Current grants and subsidies to the private sector and abroad	595,638	587,494	550,021
Net public service pensions[3]	1,500	1,500	509
Take up of provisions	251,914	414,137	18,943

			£'000
	2011-12 Original Provision	**2011-12 Final provision**	**2011-12 Outturn**
Release of provisions	(295,109)	(280,986)	(161,211)
Depreciation[2]	104,221	(1,139,461)	56,360
Other	(1,971,407)	(809,136)	(1,913,413)
Total Resource Budget	**17,261,034**	**20,207,935**	**18,590,908**
Of which:			
Depreciation[2]	2,400,809	3,734,637	3,877,349
Capital DEL			
Section A: Innovation, Enterprise and Business	(31,654)	(77,808)	(169,683)
Section B: Free and Fair Markets	8,700	7,600	2,465
Section C: Professional Support	8,500	8,500	7,133
Section D: Government as Shareholder	-	-	(1,105)
Section E: Science and Research	11,531	34,426	(21,206)
Section F: Higher Education	305,200	-	(3,534)
Section G: Further Education	195,894	5,110	3,210
Section H: Innovation, Enterprise and Business (NDPB) (net)	500	47,170	59,859
Section I: Free and Fair Markets (NDPB) (net)	583,869	1,600	1,586
Section J: Science and Research (NDPB) (net)	95,400	689,756	777,147
Section K: Higher Education (NDPB) (net)	-	95,400	100,709
Section L: Further Education (NDPB) (net)	-	399,090	396,610
Total Capital DEL	**1,177,940**	**1,210,844**	**1,153,191**
Of which:			
Net capital procurement[3]	319,479	523,996	158,207
Capital grants to the private sector and abroad	962,151	985,720	1,317,532
Capital support for local government	218,000	194,894	147,614
Capital support for public corporations	1,000	(272)	(9,026)
Other	(322,690)	(493,494)	(461,136)
Capital AME			
Section Q: Higher Education	5,712,285	5,443,000	5,222,590
Section T: Government as Shareholder	750,000	750,000	239,000
Section U: Innovation, Enterprise and Business (NDPB) (net)			115
Section Z: Further Education (NDPB) (net)	5,836	4,387	7,221
Total Capital AME	**6,468,121**	**6,197,387**	**5,468,926**
Of which:			
Net lending to the private sector and abroad	5,712,285	5,443,000	5,222,590
Capital support for public corporations	750,000	750,000	239,000
Net capital procurement	5,836	4,387	7,336
Total Capital Budget	**7,646,061**	**7,408,231**	**6,622,117**
Total departmental spending[4]	**22,506,286**	**23,881,529**	**21,335,676**
of which:			
Total DEL	17,385,031	17,704,375	17,343,248
Total AME	5,121,255	6,177,154	3,992,428

Notes:
1 Net of income from sales of goods and services
2 The depreciation figure shown in the outturn includes the impairment of the value of the Student Loan book.
3 Expenditure on tangible and intangible fixed assets net of sales
4 Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation AME

Table 3 – Total Capital Employed

Assets and Liabilities on the Statement of Financial Position at end of year:

								£000
	2007-08 outturn	**2008-09 outturn**	**2009-10 outturn**	**2010-11 outturn**	**2011-12 outturn**	**2012-13 plans**	**2013-14 plans**	**2014-15 plans**
Assets								
Non-Current assets								
Intangible	8,592	85,395	4,579	3,354	2,511	2,385	2,266	2,153
Tangible	18,932,911	22,505,826	25,826,228	27,584,505	30,686,955	33,232,607	36,744,977	41,132,728
of which:								
Plant and Machinery	265,006	278,723	126,267	118,916	59,142	56,185	53,376	50,707
Leasehold Improvements					14,326	13,610	12,929	12,283
Information Technology					10,046	9,544	9,067	8,613
Furniture, Fixtures and Fittings					1,402	1,332	1,265	1,202
Assets under Construction					27,949	26,552	25,224	23,963
Other Financial Assets and Trade and other Receivables	17,711,771	20,968,339	24,033,659	25,440,285	28,498,409	31,153,489	34,769,814	39,256,323
Investments	956,134	1,258,764	1,666,302	2,025,304	2,075,681	1,971,897	1,873,302	1,779,637
Current assets	3,835,337	4,406,634	3,455,274	3,887,372	4,050,315	3,847,799	3,655,409	3,472,639
Liabilities								
Payables (<1 year)			(1,919,069)	(2,485,915)	(2,224,945)	(2,113,698)	(2,008,013)	(1,907,612)
Payables (>1 year)			(1,218,343)	(1,496,274)	(1,466,037)	(1,392,735)	(1,323,098)	(1,256,943)
Provisions			(471,994)	(629,001)	(640,598)	(608,568)	(578,140)	(549,233)
Current Liabilities:								
Trade and Other Payables	(2,334,007)	(3,247,861)						
Provisions, Financial Guarantees and other Financial Liabilities	(106,461)	(168,574)						
Non-Current Liabilities:								
Trade and Other Payables	(547,383)	(545,121)						
Provisions, Financial Guarantees and other Financial Liabilities	(949,429)	(943,340)						
Capital employed within core Department	18,839,560	22,092,959	25,676,675	26,864,041	30,408,201	32,967,791	36,493,401	40,893,731

								£000
	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 outturn	2011-12 outturn	2012-13 plans	2013-14 plans	2014-15 plans
Assets								
Partner organisation net assets	2,686,948	2,810,395	2,364,627	2,899,777	2,761,020	2,622,969	2,491,821	2,367,230
Total capital employed in Departmental Group	21,526,508	24,903,354	28,041,302	29,763,818	33,169,221	35,590,760	38,985,222	43,260,961

Notes:
Reporting categories within the Statement of Financial Position were changed from 2011-12

Table 4 – Administration Costs

									£'000
	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Plans	2013-14 Plans	2014-15 Plans
Section A: Innovation, Enterprise and Business	6,661	3,242	9,556	14,137	-	1,525	2,688	2,255	2,262
Section B: Free and Fair Markets	5,084	8,839	10,465	9,349	2,033	(110)	5,379	5,072	5,089
Section C: Professional Support	392,545	346,179	335,347	334,909	307,262	310,728	345,893	309,641	286,184
Section E: Science and Research	(3,381)	(4,367)	-	-	-	39,938	2,057	1,962	1,962
Section F: Higher Education	(4,520)	(5,585)	-	-	-	-	-	-	-
Section H: Innovation, Enterprise and Business (NDPB) (net)	176,943	180,999	226,163	254,296	-	127,484	25,859	23,864	23,896
Section I: Free and Fair Markets (NDPB) net	8,901	9,214	5,724	19,494	-	26,638	17,639	15,177	15,221
Section J: Science and Research (NDPB) net	86,811	110,551	128,600	127,456	-	96,697	147,048	136,360	136,684
Section K: Higher Education (NDPB) net	37,405	38,476	46,813	49,187	-	58,773	66,312	55,864	55,942
Section L: Further Education (NDPB) net	-	-	7,452	8,180	119,302	150,351	154,074	146,757	147,714
Section M: Government as Shareholder						243			
Total administration budget	**706,449**	**687,548**	**770,120**	**817,008**	**428,597**	**812,267**	**766,949**	**696,952**	**674,954**
Of which:									
– Paybill	396,826	410,505	475,755	513,197	247,490	419,179	389,677	344,542	328,221
– Expenditure	344,505	324,274	339,893	347,606	211,586	477,893	458,088	433,641	428,394
– Income	(34,882)	(47,231)	(45,528)	(43,795)	(30,479)	(84,805)	(80,816)	(81,231)	(81,661)

Table 5 – Staff Numbers

	2009-10 Actual (restated)	2010-11 Actual (restated)	2011-12 Actual
Department for Business, Innovation and Skills (gross control area)			
CS FTEs	3,037.6	2,646.9	2,511.8
Others	248.1	122.4	149.6
Total	**3,285.7**	**2,769.3**	**2,661.4**
UK Trade & Investment (gross control area)			
CS FTEs	528.9	538.9	572.0
Others	84.4	53.5	12.0
Total	**613.3**	**592.4**	**584.0**
The Insolvency Service (gross control area)			
CS FTEs	2,647.0	2,565.0	2,253.0
Others	485.5	359.0	147.0
Total	**3,132.5**	**2,924.0**	**2,400.0**
National Measurement Office (gross control area)			
CS FTEs	63.0	68.0	65.6
Others	-	1 .0	1.0
Total	**63.0**	**69.0**	**66.6**
UK Space Agency (gross control area)			
CS FTEs			31.3
Total			**31.3**
Notes: The UK Space Agency was created in 2011-12.			

Table 6 – Total identifiable expenditure on services by country and region, 2006-07 to 2010-11

					£ million
	National Statistics				
Business, Innovation and Skills	**2006-07 outturn**	**2007-08 outturn**	**2008-09 outturn**	**2009-10 outturn**	**2010-11 outturn**
North East	793	840	919	1,058	1,036
North West	1,969	2,155	2,314	2,653	2,671
Yorkshire and the Humber	1,481	1,643	1,755	2,141	1,951
East Midlands	1,155	1,278	1,346	1,567	1,590
West Midlands	1,371	1,604	1,783	2,032	1,971
East	1,337	1,389	1,632	1,918	1,775
London	3,129	3,498	3,705	4,176	3,993
South East	2,356	2,447	2,617	3,043	2,770
South West	1,284	1,473	1,593	1,781	1,804
Total England	14,874	16,327	17,663	20,368	19,561
Scotland	300	285	393	463	472
Wales	125	126	157	181	172
Northern Ireland	31	40	38	66	61
UK identifiable expenditure	**15,330**	**16,778**	**18,251**	**21,078**	**20,265**
Outside UK	279	250	410	398	318
Total identifiable expenditure	**15,610**	**17,028**	**18,660**	**21,476**	**20,583**
Non-identifiable expenditure	1,214	1,469	1,624	1,379	1,465
Total expenditure on services	**16,824**	**18,497**	**20,284**	**22,855**	**22,049**

Notes:
Numbers may not sum, due to rounding.

Table 7 – Total identifiable expenditure on services by country and region, per head 2006-07 to 2010-11

					£ per head
	National Statistics				
Business, Innovation and Skills	**2006-07 outturn**	**2007-08 outturn**	**2008-09 outturn**	**2009-10 outturn**	**2010-11 outturn**
North East	310	328	357	409	397
North West	287	314	337	385	385
Yorkshire and the Humber	288	317	336	407	368
East Midlands	265	291	304	352	355
West Midlands	256	298	330	374	361
East	239	246	285	333	304
London	415	460	483	539	510
South East	286	295	313	361	325
South West	251	284	306	340	342
England	293	319	343	393	374
Scotland	59	55	76	89	90
Wales	42	42	52	60	57
Northern Ireland	18	23	21	37	34
UK identifiable expenditure	253	275	297	341	325

Table 8 – Total identifiable expenditure on services by function, country and region, for 2010-11

Data in this table are National Statistics (£ million)

Business, Innovation and Skills	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	UK Identifiable expenditure	OUTSIDE UK	Total Identifiable expenditure	Not Identifiable	Totals
Economic affairs																		
General economic, commercial and labour affairs	4	28	19	20	20	29	61	44	22	248	30	15	7	301	10	311	16	327
Agriculture, forestry, fishing and hunting	-	-	-	-	-	-	-	-	1	2	-	-	-	3	-	3	-	3
of which: other agriculture, food and fisheries policy	-	-	-	-	-	-	-	-	*1*	*2*	-	-	-	*3*	-	*3*	-	*3*
Mining, manufacturing and construction	(1)	(2)	(1)	(1)	(2)	(2)	(2)	(4)	(2)	(17)	(1)	(1)	(1)	(20)	-	(20)	-	(20)
Communication	3	10	7	6	8	10	20	16	8	88	9	4	2	103	-	103	416	519
R&D economic affairs	94	227	177	157	147	321	413	371	164	2,070	266	82	36	2,454	245	2,699	378	3,078
Economic affairs n.e.c	15	37	27	21	27	26	59	41	24	278	6	2	1	287	6	292	-	292
Total economic affairs	**116**	**299**	**230**	**204**	**199**	**384**	**552**	**469**	**217**	**2,669**	**310**	**102**	**46**	**3,127**	**261**	**3,388**	**810**	**4,198**
Environment protection																		
Waste management	-	1	-	-	-	-	-	2	1	4	5	-	-	9	-	9	-	9
Pollution abatement	4	10	7	7	8	10	21	16	8	90	9	4	3	105	-	105	-	105
R&D environment protection	1	14	26	3	4	22	19	16	34	140	22	5	-	167	52	219	216	435
Total environment protection	**5**	**25**	**34**	**10**	**12**	**32**	**40**	**34**	**43**	**234**	**35**	**9**	**3**	**281**	**52**	**333**	**216**	**549**
Health																		
R&D health	9	20	17	14	13	37	134	65	14	323	44	11	1	380	-	380	431	811
Total Health	**9**	**20**	**17**	**14**	**13**	**37**	**134**	**65**	**14**	**323**	**44**	**11**	**1**	**380**	**-**	**380**	**431**	**811**
Recreation, culture and religion																		
R&D recreation, culture and religion	4	6	8	3	4	8	48	17	17	115	9	4	1	130	2	131	9	140
Total recreation, culture and religion	**4**	**6**	**8**	**3**	**4**	**8**	**48**	**17**	**17**	**115**	**9**	**4**	**1**	**130**	**2**	**131**	**9**	**140**
Education																		
Secondary education	278	669	457	388	584	453	771	684	428	4,713	-	-	-	4,713	-	4,713	-	4,713
Tertiary education	580	1,475	1,115	900	1,076	780	2,332	1,345	1,002	10,606	-	-	-	10,606	-	10,606	-	10,606
Education not definable by level	23	51	46	32	43	39	52	54	35	374	13	23	2	412	-	412	-	412
Education n.e.c	-	-	-	-	-	-	-	-	1	2	-	-	-	2	-	2	-	2
Total education	**881**	**2,195**	**1,619**	**1,320**	**1,703**	**1,272**	**3,155**	**2,084**	**1,465**	**15,694**	**13**	**23**	**2**	**15,732**	**-**	**15,733**	**-**	**15,733**

Data in this table are National Statistics (£ million)

Business, Innovation and Skills	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	UK Identifiable expenditure	OUTSIDE UK	Total Identifiable expenditure	Not Identifiable	Totals
Social protection																		
Old age	1	78	1	1	2	4	2	43	16	148	13	2	-	163	3	167	-	167
of which: pensions	*1*	*78*	*1*	*1*	*2*	*4*	*2*	*43*	*16*	*148*	*13*	*2*	-	*163*	*3*	*167*	-	*167*
Family and children	2	6	5	4	5	5	7	8	5	46	5	3	2	55	-	55	-	55
of which: family benefits, income support and tax credits	*2*	*6*	*5*	*4*	*5*	*5*	*7*	*8*	*5*	*46*	*5*	*3*	*2*	*55*	-	*55*	-	*55*
Unemployment	18	41	37	35	33	34	55	51	26	330	42	19	6	396	-	396	-	396
of which: other unemployment benefits	*18*	*41*	*37*	*35*	*33*	*34*	*55*	*51*	*26*	*330*	*42*	*19*	*6*	*396*	-	*396*	-	*396*
Total social protection	**21**	**125**	**44**	**40**	**40**	**43**	**63**	**101**	**47**	**524**	**60**	**24**	**7**	**615**	**3**	**618**	**-**	**618**
Total Business, Innovation & Skills	**1,036**	**2,671**	**1,951**	**1,590**	**1,971**	**1,775**	**3,993**	**2,770**	**1,804**	**19,561**	**472**	**172**	**61**	**20,265**	**318**	**20,583**	**1,465**	**22,049**

Notes:
Numbers may not sum, due to rounding.

Annex C

BIS partner organisations

The BIS family is large and diverse – some partners, such as ad hoc advisory groups, are not shown here.

From autumn 2012, the Cabinet Office will produce a comprehensive annual Public Bodies directory, providing details of non-departmental public bodies and similar organisations connected to Government. This information will be published on the Cabinet Office website.

Partner organisation	What they do	Website
Advisory Conciliation and Arbitration Service (ACAS)	ACAS aims to improve organisations and working lives through better employment relations. It provides conciliation services in individual and collective disputes, operates a helpline that receives around a million calls a year, and provides advice and guidance on all aspects of employment relations to employers and employees.	acas.org.uk
Arts and Humanities Research Council	AHRC promotes and supports high-quality research and postgraduate training in the arts and humanities, including the exploitation of research outcomes and research relating to the UK's cultural heritage.	ahrc.ac.uk
Biotechnology and Biological Sciences Research Council	BBSRC invests in world-class bioscience research and training. Its aim is to further scientific knowledge, to promote economic growth, wealth and job creation and to improve quality of life in the UK and beyond.	bbsrc.ac.uk
British Academy	The Academy's purpose is to inspire, recognise and support excellence in the humanities and social sciences, throughout the UK and internationally, and to champion their role and value.	britac.ac.uk
British Standards Institute	BSI is a global organisation that equips businesses with the necessary solutions to turn standards of best practice into habits of excellence.	bsigroup.com/standards
Capital for Enterprise Ltd	CfEL is the UK Government's centre of knowledge, expertise and information on the design, implementation and management of finance measures to support SMEs across the UK.	capitalforenterprise.gov.uk
Citizens Advice	Provide the advice people need for the problems they face. Improve the policies and practices that affect people's lives.	citizensadvice.org.uk
Citizens Advice Scotland	A national umbrella body that provides essential services to Scottish citizens advice bureaux.	cas.org.uk
Companies House	Incorporate and dissolve limited companies; examine and store company information delivered under the Companies Act and related legislation; and make this information available to the public.	companieshouse.gov.uk
Competition Appeal Tribunal	The CAT is a specialist judicial body with cross-disciplinary expertise in law, economics, business and accountancy. Under UK law, the function of the CAT is to hear and decide appeals and other applications or claims involving competition or economic regulatory issues.	catribunal.org.uk
Competition Commission	An independent body which, together with the Office of Fair Trading and the sector regulators, and in conjunction with the Competition Appeal Tribunal, operates the UK's competition regime.	competition-commission.org.uk
Competition Service	Funds and provides support services to the Competition Appeal Tribunal.	
ConstructionSkills (Construction Industry Training Board)	Helps employers by ensuring that there are, and will be in future, enough trained people to meet the needs of construction industry employers.	cskills.org
Consumer Focus	The statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland. As announced in April 2012, the Citizens Advice service will take on responsibility from Consumer Focus for representing consumers' interests in unregulated sectors.	consumerfocus.org.uk

Partner organisation	What they do	Website
Copyright Tribunal	Main role is to adjudicate in commercial licensing disputes between collecting societies and users of copyright material in their business.	ipo.gov.uk/ctribunal.htm
Council for Science and Technology	Advise the Prime Minister on strategic science and technology issues that cut across the responsibilities of individual Government departments.	bis.gov.uk/cst
Economic and Social Research Council	The UK's largest organisation for funding research on economic and social issues. ESRC support independent, highquality research which has an impact on business, the public sector and the third sector.	esrc.ac.uk
Engineering and Physical Sciences Research Council	EPSRC invest in a portfolio of excellent research and postgraduate skills for UK economic growth, wealth and wellbeing.	epsrc.ac.uk
Engineering Construction Industry Training Board	Supporting apprenticeships, adult reskilling, and higher level project management skills in a highly innovative and export earning industry. Supporting the growth agenda for the engineering construction industry.	ecitb.org.uk
Financial Reporting Council Ltd	The FRC is the UK's independent regulator of corporate governance and reporting. FRC's mission is to foster investment.	frc.org.uk
Higher Education Funding Council for England	Working in partnership, HEFCE promotes and funds high quality, cost-effective teaching and research, meeting the diverse needs of students, the economy and society.	hefce.ac.uk
Industrial Development Advisory Board	A statutory body that provides robust, independent, business advice to Ministers on large business investment decisions.	bis.gov.uk/policies/economic-development/industrial-development-advisory-board
Insolvency Service	We provide the framework and means for dealing with financial failure in the economy and for dealing with the misconduct that is often associated with it.	bis.gov.uk/insolvency
Land Registry	To develop and maintain a stable and effective statebacked registration system for land and property in England and Wales, to facilitate the efficient operation of the housing market, and to provide access to up-to-date land information.	landregistry.gov.uk
Learning and Skills Improvement Service	Aims to develop excellent and sustainable further education and skills provision by encouraging the sharing of expertise, experience and insight from the sector to sector.	lsis.org.uk
Low Pay Commission	Advise the Government on the National Minimum Wage (NMW) and make recommendations for the different rates of the NMW.	lowpay.gov.uk
Medical Research Council	The heart of the MRC's mission is to improve human health through world-class medical research. MRC supports research across the biomedical spectrum, from fundamental lab-based science to clinical trials, and in all major disease areas.	mrc.ac.uk
Met Office	Met Office provide an extensive range of weather and climate science and services in the UK and around the world.	metoffice.gov.uk
National Measurement Office	Provides policy support to Ministers on measurement issues and a measurement infrastructure which enables innovation and growth, promotes trade and facilitates fair competition and the protection of consumers, health and the environment.	bis.gov.uk/nmo
Natural Environment Research Council	NERC gathers and applies knowledge, creates understanding and predicts the behaviour of the natural environment and its resources, and communicates all aspects of its work.	nerc.ac.uk
Office for Fair Access	OFFA safeguards and promotes fair access to higher education for people from groups currently under-represented in universities and colleges.	offa.org.uk
Office of Fair Trading	The OFT's mission is to make markets work well for consumers. Markets work well when businesses are in open, fair and vigorous competition with each other for the consumer's custom.	oft.gov.uk
Office of Manpower Economics	Supports and facilitates the Pay Review Bodies in offering independent advice on public sector pay and conditions; supports the Police Negotiating Board and Police Advisory Board for England and Wales.	ome.uk.com
Ordnance Survey	Ordnance Survey is Great Britain's national mapping agency, providing the most accurate and up-to-date geographic data, relied on by Government, business and individuals.	ordnancesurvey.co.uk

Partner organisation	What they do	Website
RCUK Shared Service Centre Ltd	Draws together a wide range of services – from human resources and finance through to IT, procurement and grants – in one central location in Swindon.	ssc.rcuk.ac.uk
Royal Academy of Engineering	Bring together the most successful and talented engineers from across the engineering sectors for a shared purpose: to advance and promote excellence in engineering.	raeng.org.uk
Royal Society	Recognises, promotes, and supports excellence in science and encourages the development and use of science for the benefit of humanity.	royalsociety.org
Royal Society for the Prevention of Accidents	RoSPA promote safety and the prevention of accidents at work, at leisure, on the road, in the home and through safety education.	rospa.com
Science and Technology Facilities Council	STFC keeps the UK at the forefront of international science and tackle some of the most significant challenges facing society, such as meeting our future energy needs, monitoring and understanding climate change, and global security.	stfc.ac.uk
Skills Funding Agency	The Skills Funding Agency helps make skills work for England. It funds and promotes further education and skills training in England.	skillsfundingagency.bis.gov.uk
Student Loans Company Limited	SLC provides loans and non-repayable grants for living costs and studying expenses for students at colleges and universities throughout the UK, and tuition fee loans directly to higher education institutions.	slc.co.uk
Technology Strategy Board	As the UK's innovation agency, TSB accelerates economic growth by stimulating and supporting business-led innovation.	innovateuk.org
UK Accreditation Service	UKAS accredits organisations that provide testing, calibration, inspection and certification services across a wide range of market sectors.	ukas.com
UK Export Finance (formally Export Credits Guarantee Department)	Insuring UK exporters against non-payment by their overseas buyers; guaranteeing bank loans to finance the export of goods and/or services to overseas buyers; sharing credit risks with banks in order to assist exporters in the raising of tender and contract bonds, in accessing pre- and post-shipment working capital finance and in securing confirmations of letters of credit insuring UK investors in overseas markets against political risks.	ukexportfinance.gov.uk
UK Intellectual Property Office	We promote innovation by providing a clear, accessible and widely understood Intellectual Property (IP) system, to enable the economy and society to benefit from knowledge and ideas.	ipo.gov.uk
UK Space Agency	The Agency is responsible for all strategic decisions on the UK civil space programme and provides a clear, single voice for UK space ambitions.	bis.gov.uk/ukspaceagency
UK Trade & Investment (with FCO)	We help UK-based companies succeed in the global economy. We also help overseas companies bring their high quality investment to the UK's dynamic economy – acknowledged as Europe's best place from which to succeed in global business.	ukti.gov.uk
United Kingdom Atomic Energy Authority	Position the UK as a leader in a future, sustainable energy economy by advancing fusion science and technology and related technologies to the point of commercialisation.	uk-atomic-energy.org.uk
United Kingdom Commission for Employment and Skills	UKCES provides strategic leadership on skills and employment issues in the four nations of the UK.	ukces.org.uk

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