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

Home Office Resource Accounts

2004-05

LONDON: The Stationery Office
HC 826

31 January 2006
£12.00

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Home Office

Resource Accounts 2004 - 05

(For the year ended 31 March 2005)

Presented to Parliament by the Financial Secretary to the Treasury by Command of Her Majesty 31 January 2006

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Principal activities

The central headquarters of the Home Office sets the framework of objectives, financial allocations, strategy and performance management for the key services that the Home Secretary is responsible for, along with providing common support services and driving delivery toward objectives. The Home Office group also comprises two large public services – National Offender Management Service (NOMS) and Immigration & Nationality – and has national responsibility for the Police service in England and Wales. The Home Office also has responsibility for a number of smaller services including UK Passport Service, Criminal Records Bureau and the Forensic Science Service as well as lead responsibility for a number of non-departmental public bodies (as listed on pages 3 and 4).

The Home Office relies on Parliamentary voted funding to finance its operations.

Aims and objectives

The Home Office is the Government department responsible for internal affairs in England and Wales. The Home Office has three main pillars of responsibilities, the first being policing security and community safety, the second the National Offenders Management Service and the third immigration, citizenship and nationality. Our purpose is to build a safe, just and tolerant society, to enhance opportunities for all, and to ensure that the protection and security of the public are maintained and enhanced.

In July 2004 the Home Office published its first five year Strategic Plan, *Confident Communities in a Secure Britain*, which set out the objectives and the programme of reforms and investments to deliver them. In this plan the Home Office announced that it had replaced its seven Aims against which it reported against in 2003-04 with five Strategic Objectives which reflected more fully the nature of ground level service delivery. The new Strategic Objectives are listed below:

- Objective 1 – People are and feel more secure in their homes and daily lives
- Objective 2 – More offenders are caught, punished and stop offending and victims are better supported
- Objective 3 – Fewer people's lives are ruined by drugs and alcohol
- Objective 4 – Migration is managed to benefit the UK, while preventing abuse of immigration laws and the asylum system
- Objective 5 – Citizens, communities and the voluntary sector are more fully engaged in tackling social problems and there is more equality of opportunity and respect for all people of all races and religions

Department Report

The Home Office Departmental Report for 2004-05 was presented to Parliament in June 2005. This covers the Home Office strategic objectives and main activities, performance against Public Service Agreement targets in 2004-05 and expenditure plans for 2005-06, 2006-07 and 2007-08. The Report is available from The Stationery Office (CM 6528) or from the Home Office website at *www.homeoffice.gov.uk.*

Entities consolidated

The Home Office departmental accounting boundary encompasses the central Government department, three executive agencies and the National Probation Service. The executive agencies are HM Prison Service, the UK Passport Service and the Criminal Records Bureau. The accounts of all of these entities form part of the Home Office's consolidated financial statements. In January 2004 the Home Office announced plans to balance the demand for, and capacity of, correctional services and to integrate through the creation of a single National Offender Management Service (NOMS). During 2004-05 both the Prison Service and the National Probation Service produced separate resource accounts which were laid before Parliament.

HM Prison Service (HMPS)
HMPS is responsible for providing prison services in England and Wales. It works in pursuit of the Home Office Strategic Objective 2 by ensuring that offenders and those remanded in custody are supervised in such a way as to protect the public and by giving offenders the opportunity to lead law-abiding, productive and healthy lives.

National Probation Service (NPS)
The NPS is a key statutory criminal justice service working in a highly collaborative way with police and prison services as well as the Crown Prosecution Service, courts, local authorities, health, education, housing a wide range of independent and voluntary sector partners in support of Strategic Objective 2

UK Passport Service (UKPS)
UKPS supports the delivery of the Home Office Strategic Objective 4 and is responsible for providing passport services for British Nationals in the United Kingdom promptly and economically. UKPS's primary objective is to provide the best possible service to its customers while maintaining the integrity of the British passport.

Criminal Records Bureau (CRB)
The CRB helps protect children and other vulnerable people through safer recruitment by making information from police records and other data sources more readily available to employers, ensuring greater consistency of vetting in support of Strategic Objective 1.

Entities not consolidated

Public bodies for which the Home Office has lead policy responsibility within Government, but which are outside of the consolidation boundary for accounting purposes, are set out below. Non Departmental Public Bodies (NDPBs) are reflected in the Home Office accounts by the inclusion of funds paid to them as grants or expenses. The Forensic Science Service, executive NDPB's and Criminal Injuries Compensation Appeals Panel publish their own annual reports and accounts which can be obtained from The Stationery Office or the relevant body.

Forensic Science Service (FSS)

FSS is principally responsible for supplying scientific support for criminal investigations and for providing expert evidence to the courts. The agency is a Trading Fund and is treated as an investment in the Balance Sheet (Schedule 3). Work is ongoing to establish the FSS as a Government owned company prior to development as a private sector classified Public Private Partnership (PPP).

Non-Departmental Public Bodies (NDPBs):

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

Central Police Training & Development Authority (CENTREX)
Commission for Racial Equality
Community Development Foundation
Criminal Cases Review Commission
Criminal Injuries Compensation Authority
Independent Policy Complaints Commission
Office of the Immigration Services Commissioner
Parole Board for England and Wales
Police Information Technology Organisation
National Criminal Intelligence Service
National Crime Squad
Security Industry Authority
Youth Justice Board for England and Wales

Advisory NDPBs: these are generally set up administratively by Ministers to advise them and their departments on matters within their sphere of interest. Some Royal Commissions are classified as advisory NDPBs, but departmental committees of officials are not. Generally, advisory NDPBs are supported by staff from within the sponsor department, and do not incur expenditure on their own account.

Advisory Board on Restricted Patients
Advisory Council on the Misuse of Drugs
Animal Procedures Committee
Correctional Services Accreditation Panel
Poisons Board (in abeyance)
Police Advisory Board for England Wales
Police Negotiating Board
Race Equality Advisory Panel
RIPA Technical Advisory Board
Sentencing Advisory Panel
Sentencing Guidelines Council (established March 2004)
Victims Advisory Panel

Tribunal NDPBs: these are bodies with jurisdiction in a specialised field of law. Tribunals generally operate under statutory provisions and, independently of the Executive, decide the rights and obligations of private citizens towards each other or towards a Government department or other public authority. In general, tribunals are serviced by staff from the sponsor department or other public authority. There are two types of tribunal system: standing tribunals, which have a permanent membership; and tribunals that are convened from panels, so that the actual number of tribunals sitting varies. Although their functions are essentially judicial, they are not part of the Courts.

Criminal Injuries Compensation Appeals Panel
Investigatory Powers Tribunal
Office of Surveillance Commissioners
Police Arbitration Tribunal
Police Discipline Appeals Tribunal

Other NDPBs: Independent Monitoring Boards perform a vital 'watchdog' role on behalf of Ministers and the general public in providing a lay and independent oversight of prisons and immigration removal centres.

Independent Monitoring Board of Penal Establishments and Immigration Centres (formerly the Board of Visitors to Penal Establishments and Visiting Committee Immigration Detention/Reception Centres)

Other Public Bodies

Annual Reviewer of the Terrorism Act 2000
Annual Reviewer of the Part 4 of the Anti-Terrorism Crime and Security Act 2001
Annual Reviewer of the Criminal Justice (Conspiracy and Terrorism) Act 1998
Asylum Support Adjudicators
Charity Commission
Criminal Justice Consultative Council
HM Chief Inspector of Prisons
HM Chief Inspector of Probation
HM Inspectorate of Constabulary
IND Complaints Audit Committee
Independent Assessor for Miscarriage of Justice Compensation
Independent Race Monitor
Intelligence Services Commissioner
Interception of Communications Commissioner
Metropolitan Police Authority
Ministerial Advisory Group to Retail Crime Reduction Action Team
National Probation Service for England and Wales (Local Probation Boards)

Prisons and Probation Ombudsman
Property Crime Reduction Action Team
Retail Crime Reduction Team
Selection Panels for Independent Members of Police Authorities

OPERATING AND FINANCIAL REVIEW

The following paragraphs are a summary of the operating and financial performance during the financial year and investment strategy for the future. Further information is available in the Departmental Annual Report published in June 2005.

Operating Review

Strategy

The Home Office published the Strategic Framework in June 2003 (available on the Department website www.homeoffice.gov.uk). This is a tool to help the organisation adapt to change and encourage forward looking and join up better on activities across the group and with partners, enabling better planning and ultimately better delivery. The Framework identified the following key issues for what we do and how we do it.

- Renewing the relationship between State and citizen
- Effective communication, consultation and engagement`
- Preventing problems, supporting people early and reducing reoffending
- Providing security in a connected world
- Tackling a potentially greater range of crime and disorder
- Getting better at joint working – across the Home Office group; across the Criminal Justice system; with other Government Departments; at the regional and local level; with individuals, communities and community organisation at grass roots level
- Gathering information and using it
- Using technology

The Home Office Corporate Plan 2005-06 was published in June 2005 (available via the website www.homeoffice.gov.uk) outlining detailed spending and action plans for 2005-06.

Investment for the future

The bulk of the Home Office capital investment is made in Prisons (new construction and improvement of existing estate) and Immigration and Nationality (accommodation and detention capacity). Additionally, significant grants are made to Police Authorities to support the police estate and fund core activities and for three major projects: Airwave digital radio communications project, Case and Custody, Command Control Communications and Information System for the Met Police. These grants are classified as Resource spend in these accounts included in Schedule 1. The Police Authorities rather than the Home Office will ultimately own the assets.

Two major corporate projects continued development in 2004-05:

- Adelphi – the new finance, HR and procurement system based on standard Oracle software which went 'live' in May 2004
- Headquarters premises – the Home Office headquarters moved in 2005 to new purpose built premises early. This is financed via a PPP/PFI contract over 29 years whereby the contractor owns the asset and the Home Office pays a rental charge over the life of the contract.

More details on Home Office investment over the period 2003-04 – 2005-06 are included in the Departmental Investment Strategy published in September 2003 and available on the Department's website www.homeoffice.gov.uk.

Performance against PSA targets

In common with other Government departments, the Home Office targets for the period 2003-04 to 2005-06 are set out in its Public Service Agreement (PSA). The Home Office has 10 PSA targets which relate to the five Home Office objectives (as outlined on page 3) as follows:

Objective 1: People are and feel more secure in their homes and daily lives	**PSA 1:** Reduce crime and the fear of crime; improve performance overall, including reducing the gap between the highest crime Crime and Disorder Reduction Partnership areas and the best comparable areas; and reduce: – vehicle crime by 30% from 1998-99 to 2004 – domestic burglary by 25% from 1998-99 to 2005 – robbery in the ten Street Crime Initiative areas by 14% from 1999-00 to 2005; and maintain that level **PSA 2:** Improve the performance of all police forces, and significantly reduce the performance gap between the best and worst performing forces; and significantly increase the proportion of time spent on frontline duties **PSA 4:** Improve the level of public confidence in the CJS, including increasing that of ethnic minorities.
Objective 2: More offenders are caught, punished and stop offending and victims are better supported.	**PSA 3:** Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.2 million by 2005-06; with an improvement in all CJS areas, a greater increase in the worst performing areas and a reduction in the proportion of ineffective trials **PSA 5:** Protect the public and reduce reoffending by 5%: – for young offenders; – for both adults sentenced to imprisonment and adults sentenced to community sentences; – maintain the current low rate of prisoner escapes, including category A escapes.
Objective 3: Fewer people's lives are ruined by drugs and alcohol.	**PSA 6:** Reduce the harm caused by drugs by: – reducing the use of Class A drugs and the frequent use of any illicit drug among all young people under the age of 25 especially by the most vulnerable young people – reduce drug related crime, which includes measuring the proportion of offenders testing positive at arrest
Objective 4: Migration is managed to benefit the UK, while preventing abuse of the immigration laws and the asylum system.	**PSA 7:** Focus the asylum system on those genuinely fleeing persecution by taking speedy, high quality decisions and reducing significantly unfounded asylum claims, including by: – fast turnaround of manifestly unfounded cases – ensuring by 2004 that 75% of substantive asylum applications are decided within 2 months; and that a proportion (to be determined) including final appeal, are decided within 6 months – enforcing the immigration laws more effectively by removing a greater proportion of failed asylum-seekers
Objective 5: Citizens communities and the voluntary sector are more fully engaged in tackling social problems and there is more equality of opportunity and respect for people of all races and religions.	**PSA 8:** To increase Voluntary and Community Sector activity, including increasing community participation, by 5% by 2006 **PSA 9:** Bring about measurable improvements in race equality and community cohesion across a range of performance indicators, as part of the Government's objectives on equality and social inclusion
Value for Money	**PSA 10:** Increase value for money from the Criminal Justice System, and the rest of the Home Office, by 3%; and ensure annual efficiency gains by the police of at least 2%

Home Office performance against its PSA targets for 2004-05 is covered in detail in the Departmental Report published in June 2005 and in the Autumn Performance Report. Performance headlines show good progress:

- Crime is down by over 30% since 1997 – but still represents a major cost for victims and society more widely.
- The 2003-04 British Crime Survey (BCS) shows that the risk of crime is at its lowest level since the survey began in 1981 and the fear of crime and concern about anti-social behaviour are falling. However, many of those still affected are among the poorest and most vulnerable.
- The latest Police performance monitors reporting performance in 2003-04 demonstrated that police performance is improving with the police and their partners delivering significant crime reductions.
- Baseline BCS data for 2003-04 show that 59% of victims are satisfied with the Criminal Justice System and 57% of witnesses are satisfied with the police.
- Provisional figures for the year to December 2004 indicate that 1,131,000 offences were brought to justice, up 12.9% on the baseline year.
- Overall actual re-conviction rate within one year for juveniles dealt with in the first quarter of 2003 (published in February 2005 was 36.9%, 0.9% less than the predicted rate (i.e. allowing for offender characteristics) of 37.8%.The overall actual re-conviction rate within two years for adults sentenced to a community penalty or release from custody in the first quarter of 2001 was 53.7%, 1% less than the predicted rate of 54.7%.
- Latest figures for Class A drug use among young people was 8.3% in 2003-04 compared with a baseline of 8.6% in 1998. Frequent use of all drugs by young people was 12% compared with a baseline of 11.3% in 2002-03.
- Information from the Schools Survey shows that 13.1% of vulnerable young children used Class A drugs during 2002, compared with a baseline of 13.3%. The 2001 baseline for frequent use among vulnerable groups was 22.1%.
- We have continued to reduce asylum intake and have maintained swift processing of applications. We undertook significantly more operations against illegal working in 2004 compared with the previous year, and have taken steps to further tackle the abuse of legal migration rules.
- In 2003 around 20.3 million people participated actively in their communities, (in civic participation, informal volunteering and formal volunteering) in England, an increase of 1.5 million since 2001.

Financial Review

The Home Office, like other government departments, needs to report its financial performance in a number of ways. These are identified below:

1) Resource Estimate (Estimates Boundary)

   This is a statement presented by the Treasury to the House of Commons in which the Home Office seeks approval for its estimated spending for the coming financial year. The Estimate summarises both the resources and the cash required for the year and the Home Office actual outturns against these Estimates are reported in Schedule 1 (Summary of Resource Outturn) of the resource accounts which can be found on page 30. This is a statement which only applies to Central Government; it has no equivalent statement in UK GAAP based accounts.

2) Resource Accounts (Accounting Boundary)

   These are prepared annually and present the financial results of the Home Office. These accounts are prepared on the basis of UK GAAP (Generally Accepted Accounting Practice) and the Resource Accounting Manual. Schedule 2 (Operating Cost Statement and the Statement of Recognised Gains and Losses found on page 33), Schedule 3 (Balance Sheet found on page 34) and Schedule 4 (Cash

Flow Statement found on pages 35 and 36) have been adapted for central government from their commercial equivalents. The accounting boundary includes the financial results for the Home Office plus its agencies. The resource accounts only include the Grant in Aid paid to the NDPBs sponsored by the Home Office. The financial performance and assets and liabilities of the NDPBs are not consolidated within these accounts.

3) Resource Budgeting (Budgeting Boundary)

Resource budgeting involves using resource accounting information as the basis for planning and controlling public expenditure. It introduces new concepts such as capital consumption and requires the Home Office to match costs to the period in which the economic activity takes place. HM Treasury controls Home Office spending through the use of Departmental Expenditure Limits (DEL) and they control capital spending separately from resource spending. This is the basis on which HM Treasury controls, and the Home Office manages, spending in-year and includes the full resource and capital DEL spending of the Home Office NDPBs rather than the Grant in Aid provided by the Home Office to finance the activities of those NDPBs.

Financial reporting in the Departmental Report and other documents published by the Home Office are reported based on the resource consumption of those bodies which are included within the budgeting boundary, (i.e. includes the full resource and capital consumption of the Home Office sponsored NDPBs). This is to ensure that the costs of those bodies involved in delivering the performance reported in PSA targets are matched against the delivery reported against the appropriate PSA Target. In this respect they will differ from those amounts reported in Schedule 5 (Resources by Departmental Aims and Objectives), which can be found on page 37.

Reporting performance against HM Treasury budgeting boundary, the Home Office underspent by some £223 million in 2004/05 against its Resource DEL delegated budget (around 2% of Resource DEL). Some £87 million of this is due to planned underspends to create end year flexibility (EYF) to allow the money to be spent in 2005-06. This includes providing additional funding for grants to police authorities and the employment of Community Service Officers. Other factors resulting in lower spend include delays in building prison capacity and emergency capacity not required; lower then expected levels grant claims from the voluntary community sector; cancellation of some volunteering projects as other funders pulled out; new drugs programmes taking time to establish (arrest referral schemes, drug testing pilots); lower costs associated with dealing with asylum appeal costs and lower IT and corporate communications costs. Spending on Capital DEL was £202 million lower than planned due to slippage in IT projects, prisons and asylum accommodation centres.

An analysis of the financial performance against the budgeting boundary for each Aim is shown in the following tables:

Objective 1: People are and feel more secure in their homes and daily lives	Outturn 2003/04 £m's	Estimated Outturn 2004/05 £m's	Planned 2005/06 £m's
Resource DEL	5,703	5,886	6,160
Resource AME* (Police pensions)	41	1	–
Capital DEL	545	459	621

**AME: Annually Managed Expenditure*

The majority of the spend is on the police forces across England and Wales and related activity, with £100-200m spent on reducing crime and fear of crime. There are two strategic strands for delivering on this Aim:

- Reducing crime and the fear of crime: dealing with the factors that lead to crime in the first place, tackling crimes that cause most damage to society; targeting high crime areas and increasing community involvement in local services

- Improving police performance by ensuring that we have a modern, efficient and accountable service that responds to the needs of the community

Working in partnership with other Government departments is key to achieving these.

The bulk of capital spend is by the police.

Activity on counter terrorism includes:

- Continuing to disrupt terrorist networks and their finances;
- Addressing the disaffection at home and abroad which terrorists exploit;
- Protecting our people and infrastructure more effectively from terrorist attack;
- Putting in place a strategy to enable us to recover quickly if an attack occurs.

To deal with organised crime, the formation of new Serious Organised Crime Agency was announced in February to disrupt the criminal business which wreck lives by trafficking drugs and people, and operate in areas ranging from counterfeiting to cyber crime, and to convict the criminals and seize assets.

Objective 2: More offenders are caught, punished and stop offending and victims are better supported.	Outturn 2003/04 £m's	Estimated Outturn 2004/05 £m's	Planned 2005/06 £m's
Resource DEL	3,754	3,998	4,341
Capital DEL	257	473	362

The strategy to effective delivery of justice is to:

- Narrow the 'Justice Gap' between offences committed and those brought to justice, ensuring that modern and effective detection methods are used; that suspects are charged with the right offences, that the court process is efficient and that the number of ineffective trials is reduced;
- Increase confidence in the CJS; improve the experience of victims and witnesses by providing better services to support and protect them: and help victims and witnesses feel they are playing a valuable role in the delivery of justice;
- Enforce sentence and order of the courts;
- Put in place a comprehensive system to help people stop reoffending

Correctional services play a full role in tackling crime and its causes with two main strategic strands:

- Sentences and community punishments are rigorously enforced, in particular to protect the public from dangerous, violent and sexual offenders;
- Community and custodial sentences rehabilitate through programmes that deal with offending behaviour, educate people and give them the skills they need and tackle drug addiction.

Objective 3: Fewer people's lives are ruined by drugs and alcohol.	Outturn 2003/04 £m's	Estimated Outturn 2004/05 £m's	Planned 2005/06 £m's
Resource DEL	96	222	196
Capital DEL	–	–	–

Addressing drug misuse depends on effective partnership. While the Home Office takes the lead in driving the Strategy, responsibility for its delivery is shared with other Whitehall Departments including the Department for Education and Skills (educating young people), HM Customs & Excise (reducing supply) and the Department of Health (drug treatment). Locally, school plays a vital role in ensuring that children have access to drug education and the Police, Prison and Probation Services are crucial in channelling offenders into treatment.

Objective 4: Migration is managed to benefit the UK, while preventing abuse of the immigration laws and the asylum system.	Outturn 2003/04 £m's	Estimated Outturn 2004/05 £m's	Planned 2005/06 £m's
Resource DEL	1,875	1,671	1,518
Capital DEL	123	126	172

The approach to managing migration is balanced between welcoming legal migrants and being tough on illegal immigrants and those seeking to abuse the asylum system. It is based on:

- Strengthening our borders to prevent people entering the UK illegally and reducing the intake of unfounded asylum claims; improving and expanding legal entry routes; and improving the protection we offer to refugees worldwide;
- Reducing the time taken to process applications and increasing the number of failed applicants removed;
- Reinforcing citizenship: developing greater meaning for our common citizenship and supporting social and economic integration.

Objective 5: Citizens communities and the voluntary sector are more fully engaged in tackling social problems and there is more equality of opportunity and respect for people of all races and religions.	Outturn 2003/04 £m's	Estimated Outturn 2004/05 £m's	Planned 2005/06 £m's
Resource DEL	87	201	222
Capital DEL	–	–	–

Civil renewal – the re-engagement of citizens with civil society – sits at the heart of the Home Office's purpose and activities, enabling people to play a full part in the decision-making that affects their lives. This means:

- Encouraging active citizenship, by enabling the voluntary and community sector to take a full role in the delivery of public services, particularly among those at greatest risk of social exclusion; and by encouraging voluntary action by individuals;
- Departments and the wider public sector working with communities to ensure that people and local communities can shape government action through consultation and feedback;
- Buildings cohesive communities; valuing the diversity of all our communities, by promoting a shared sense of belonging and by tackling extremism;
- Promoting race equality and good race relations, whilst tackling race inequalities;
- Harnessing the important role that faith communities can play in developing a cohesive and active society.

Funding

2004/05 was the second year following the Spending Review 2002, which set out funding levels for all Government departments for the three years 2003/04 – 2005/06. The Spending Review 2004 has set funding for 2005/06 and for the following two years.

The Home Office is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons, specifying the estimated expenditure and asking for the necessary funds to be voted. The Department then draws down voted funds in year from the Consolidated Fund as required.

The Estimates are structured by 'Requests for Resources' (RfR) and include a formal description ('ambit') of the services to be financed under each RfR. Voted money cannot be used to finance services that do not fall within the ambit of the RfR. The Home Office has one Requests for Resources (RfR) which covers all of its activities.

Outturn

Schedule 1 to the accounts, which is the main Parliamentary control schedule, reports the outturn against Estimate (the Estimates boundary) for each RfR. Additional detailed actual spending during 04-05 against Estimate sub-heads is reported in Note 9. Estimates for each sub-heading are finalised in the Spring Supplementary Estimate with work to formulate these numbers taking place in December, (some three months before the end of the financial year). However it is possible that spending decisions taken in the last quarter of the financial year can result in monies being transferred from one delegated budget to another within individual Strategic Objectives. However these changes cannot be reflected onto individual Estimate sub-heads and are dealt with after the year end by agreement with HM Treasury to vire monies between sub-heads. There is also a difference between the way monies are allocated against Estimate sub-heads and the way budgets for in-year control purposes are delegated (the Budgeting boundary). The timing of these two exercises is also different with the delegation of in-year budgets not sometimes being finalised until the beginning of the relevant financial year and much later than the dates when Main Estimates are finalised. This can give rise to variations which are inconsistent between Estimate control totals and Budget control totals.

Resource Spend as reported in Schedule 5 (the Accounting boundary), identifies amounts spent by Strategic Objective for both the current and previous year. The differences between the Estimates and the Accounting boundaries are disclosed in Note 7 of the accounts.

The overall resource underspend was £452m. During the financial year the Department planned to move money from financial year 2004-05 into future years by generating an underspend to manage pressures in the big Home Office delivery areas, (mainly Policing). This involved not delegating all EYF entitlements, Departmental Unallocated Provision and monies allocated to the Department for Community Support Officers to budget holders. This money was needed in 2005-06 to meet pressures arising from Police Grant settlements and funding for other policing pressures arising from funding the increase in Community Support Officers. An explanation of variations between Estimate and Outturn for Net Total Resources is shown on the face of Schedule 1 – Summary of Resource Outturn which can be found on page 30.

The overall cash requirement for the year was £910m lower than required. This was a result of lower resource spend described above of £452m, lower than planned spending on capital projects of £287m (Policing and Organised Crime, Offender Management and Asylum) and movements in working capital and non cash items of £171m.

Events since the year end

Following the General Election in May 2005, Caroline Flint and Des Browne left the Ministerial Team. After a reallocation of ministerial responsibilities, Tony McNulty was appointed as the Minister of State for Immigration, Citizenship and Nationality and Andy Burnham was appointed as the Parliamentary Undersecretary of State for Immigration, Citizenship and Nationality.

MANAGEMENT

The department is headed by the following team of Ministers, supported by officials.

Ministers

The following Ministers were responsible for the Department during 2004-05:

David Blunkett	Home Secretary (until 15th December 2004)
Charles Clarke	Home Secretary (from 15th December 2004)
Hazel Blears	Minister of State for Crime Reduction, Policing, Community Safety and Counter-Terrorism
Patricia Scotland	Minister of State for Criminal Justice System and Law Reform
Beverley Hughes	Minister of State for Citizenship, Immigration and Nationality (until 1 April 2004)
Des Browne	Minister of State for Citizenship, Immigration and Nationality (from 1 April 2004)
Fiona Mactaggart	Parliamentary Under Secretary for Community Policy and Civil Renewal
Paul Goggins	Parliamentary Under Secretary for Correctional Services and Reducing Reoffending
Caroline Flint	Parliamentary Under Secretary for Tackling Drugs and Reducing Organised and International Crime

Officials

The Group Executive Board (GEB) has responsibility for leading the Home Office Group, including its Agencies, to ensure that it delivers on the aims set by Ministers, builds its capability for the future and maintains high standards of propriety. Officials serving on GEB during the year were:

John Gieve	Permanent Secretary (until 31 December 2005)
Margaret Aldred	Director General, Resources and Performance (until 19 November 2004)
William Nye	Acting Director General, Resources and Performance (from 19 November 2004)
Leigh Lewis	Permanent Secretary Crime, Policing, Counter Terrorism & Delivery (until 14 November 2005)
Moira Wallace	Director General, Criminal Justice Group
Martin Narey	Permanent Secretary and Chief Executive National Offender Management Service (NOMS) (until 1 November 2005)
Bill Jeffrey	Director General, Immigration & Nationality (until 18 April 2005)
Helen Edwards	Director General, Communities
John Marsh	Group HR & Change Director
Martin Bryant	Director of Strategy (from 7 September 2004)
Chris Seward	Secretary to the Board]

Non Executive Directors:

Derrick Anderson	Chief Executive of Wolverhampton City Council
Denise Kingsmill	Chairman of Sadlers Wells
Patrick Carter	Chair of Sport England

Audit Committee

The committee met four times in 2004/05. Its purpose is to advise the Accounting Officer on internal control, risk management, audit and financial accounts issues. During 2004/05 the Committee was chaired by Pat Carter a non-executive GEB member and has 5 non-executive members.

Appointment of senior officials

The Permanent Head of the Department was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial Head of the Department. Other departmental members of the Group Executive Board were appointed by the Permanent Secretary. These appointments are for an indefinite term under the terms of the Senior Civil Service contract. The rules for termination are set out in Chapter 11 of the Civil Service Management Code.

Ministers' and Board Members' Remuneration

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

The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard, cols 245-247).

The pay of the Management Board is determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

Further details on remuneration are set out in Note 2 to these financial statements.

PUBLIC INTEREST AND OTHER

Employment of Disabled Persons policy
The Home Office is committed to the employment and career development of disabled people and disability is not regarded as a bar to recruitment or promotion. Selection is based upon the ability of the individual to do the job. The Department operates the Guaranteed Interview Scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. Once in post, disabled staff are provided with any reasonable support they might need to carry out their duties.

Equal Opportunities
The Home Office is an equal opportunities employer. Policies are in place to guard against discrimination and to ensure that there are no unfair or illegal discriminatory barriers to employment and advancement in the Department.

The Cabinet Office (Office of Public Service) is responsible for developing, formulating and promulgating equal opportunity policies for the Civil Service as a whole, but operational responsibility lies with the Home Office. The Home Office has an Equal Opportunities team, which is responsible for developing equal opportunities policies and liasing with the Cabinet Office and other Government departments.

The Home Office equal opportunities policy states that there shall be no discrimination against staff on grounds of ethnic origin, religious belief, sex, sexual orientation, disability or any other irrelevant factor. Employment and promotion are solely on merit. Staff who have alternative working patterns are assessed on exactly the same basis as those working full time. The Home Office continues to work to ensure that equal opportunities are brought into the mainstream of Home Office personnel policies.

Pension scheme liabilities
Employees in the parent Department are primarily members of the Principal Civil Service Pension Scheme (PCSPS). This scheme is an unfunded multi-employer defined benefit scheme with benefits paid by the Office of Public Service (OPS) as they fall due, secured against future tax yield. The OPS produces a separate annual PCSPS scheme statement. The Home Office pays contributions to meet the actuarially calculated cost of pensions and is responsible for certain costs associated with early retirements. These costs are charged to the Operating Cost Statement. The Home Office pays contributions to meet the actuarially calculated cost of pensions and is responsible for certain costs associated with early retirements. These costs are charged to the Operating Cost Statement. The Home Office is unable to identify its share of the underlying PCSPS assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Civil servants may be in one of three statutory based 'final salary' defined benefit schemes within the PCSPS (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a ‘money purchase’ stakeholder based arrangement with a significant employer contribution (partnership pension account).

Ministers of the Home Office are members of the Ministerial Pension Scheme (MPS) which is a part of the Parliamentary Contributory Pension Fund (PCPF) and provides benefits on a ‘final salary’ basis. It is a funded scheme and is administered by the House of Commons Pensions Unit.

These accounts include the Home Office liabilities for undischarged contribution payments, and for the future costs of early retirement compensation payable to the PCSPS. It does not show the total pension liability in respect of employees or pensioners within the departmental boundary.

Some members of the National Probation Service belong to the Local Government Pension Scheme (LGPS), a statutory fully funded scheme. Independent actuarial valuations were carried out for the 42 Probation Boards at 31 March 2004 by various actuaries and this determined employer’s contribution rates from 2003-4 to 2005-6. The valuation as applied to the Probation Board at 31 March 2005 showed a shortfall of assets compared with the present value of liabilities of £298m.

Payment of Suppliers
The Home Office has signed up to the CBI’s prompt payment code and BS 7890, the British Standard for prompt payment. The contractual terms and conditions of payment require that a supplier’s invoice be paid within 30 days of acceptance of relevant goods and services, or the receipt of a valid invoice if that is later. The Home Office and its Agencies prompt payment record for the year was 86.6% (89.9% in 2003-04).

External auditor
These financial statements have been prepared in accordance with the Government Resources Accounts Act 2000 and are subject to audit by the Comptroller and Auditor General.

Provision of Information to, and Consultation with, Employees
The Home Office has a variety of communication channels in place to deliver information on organisation and business developments to staff, and to provide an opportunity for feedback. The channels used range from timely electronic communications to face-to-face briefings. The Home Office gained Investors in People accreditation in September 2000 and retained accreditation in January 2004 following the three yearly review of performance against the Standard.

David Normington
Accounting Officer
24 January 2006

Statement of Accounting Officer's Responsibilities

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

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

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

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

a. Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

b. Make judgements and estimates on a reasonable basis;

c. State whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;

d. Prepare the accounts on a going concern basis.

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

David Normington
Accounting Officer
24 January 2006

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Home Office policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*. I discharge this responsibility in conjunction with Accounting Officers of the Department's Agencies and Non-departmental Public Bodies. My relationship with these Accounting Officers is set out in statements contained in the respective Framework Agreements, Financial Memoranda and designatory letters.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Home Office for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. I am committed to the ongoing development, monitoring and review of these systems to ensure that they continue to be appropriate, effective and integral to all Home Office business processes.

Capacity to handle risk

Context

The Home Office is a complex, disparate organisation with multiple challenges. Its aims cover crime reduction, reforming the criminal justice system, countering terrorism, tackling drug abuse, building strong communities and managing asylum procedures together with a host of supporting objectives. It achieves its aims by direct service provision in some areas augmented in others by delivery through a multiplicity of other agencies including Non-departmental Public Bodies, police authorities, probation boards and independent community groups.

Leadership

I, as Departmental Accounting Officer and Permanent Secretary lead the risk management process, supported by the Group Executive Board who endorse the Group-wide risk management policy that defines the overall aims and approach.

A second Permanent Secretary, Leigh Lewis, also provides leadership as Departmental risk champion, and chairs a sub-group of the Executive Board which reviews corporate and group level risks and reports to the Executive Board on it's findings.

Led by their respective Accounting Officers, the various Home Office agencies have developed their own risk management processes and strategies. A risk management forum, which includes senior management representatives from each Agency and the Home Office, has been established to ensure that these processes are co-ordinated.

Support provided to staff to manage risk

Extensive training on risk has been provided to staff within the Department under the Government's risk improvement programme. An analysis of risk management training needs within the Home Office, carried out by an external consultant in April 2005, concluded that staff have a good level of awareness about the need to manage risks and risk management approaches. The report identified some gaps in training, particularly in policy areas. A further programme of tailored workshops, targeted at the needs of policy units, was delivered in Spring 2005. Risk scenario training has now been integrated into the Home Office leadership programme for Senior Civil Servants, and a new strategic risk training programme is also being developed for rollout shortly.

The risk and control framework

Risk Criteria and Evaluation

The specific approach has been tailored to fit the circumstances of each areas, but risk management operates on consistent principles of identifying and analysing the management risks against objectives.

Risk registers have been established across the Home Office group, and risk assessment is included in the corporate planning process. Risks are assessed for likelihood and potential impact in order to help determine priority risks for action. Accountability for management of individual risks is established as an essential part of the risk management policy.

Risk Management Processes

Risks are assessed, managed and reported at strategic, programme and project level. Over-arching threats to delivery by the Home Office group are tracked and managed on a corporate risk register. The Group Executive Board formally reviews this risk register on a quarterly basis as part of an integrated performance management report. A sub-group of the Group Executive Board (GEB) reviews corporate and group level risks and escalates issues to the Group Executive Board for consideration as part of the quarterly reporting process.

Risks threatening key delivery targets and major infrastructure initiatives are reported monthly to the Group Executive Board and Ministers. In addition, a Performance Board, which I chair personally, monitors performance and risks to delivery across the different Home Office businesses and corporate support services.

Within agencies, corporate risks are managed and reviewed by the appropriate Management Board, and escalated where appropriate to the Home Office's corporate risk register.

Risk Appetite

The Group Executive Board has considered risk appetite and has set out the criteria to be used in evaluating risk and has mandated the necessary action required for the different levels of severity of corporate risks faced by the Home Office.

Review and Assurance of Risk Management

The Audit Committees of the Home Office and its agencies oversee their respective risk management processes, and take progress reports at each meeting. These Committees are assisted by the work of internal audit who as part of their programme of work independently review and report on the risk management process. In addition, progress on embedding risk management is formally assessed and reported quarterly in the Home Office Balanced Scorecard.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Home Office who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and the Performance Board; a plan to address weaknesses, and ensure continuous improvement of the system is in place.

Group Executive Board

The Group Executive Board, comprising the senior members of the Department and three external independent members, meets monthly to consider the plans and strategic direction of the Department. The Board receives a monthly report on finance and key projects, including an assessment of current risk and mitigation strategy. Each quarter the Board also reviews corporate performance through an integrated report covering delivery, resources and risk.

The Department has transformed its approach to business planning and delivery with more effective monitoring and reporting procedures. The Department's capability for managing projects has been strengthened and systems of reporting progress on key projects to the Board are now in place.

Performance and Project Management

Departmental performance is reviewed on a quarterly basis by the GEB. Performance in business areas and services is overseen at corporate level by the Performance Board, a sub-board of GEB. Performance at group level is managed through supporting performance management arrangements tailored to the needs of the business area concerned. The Performance Board has a well-established role in driving performance against PSA targets and strategic objectives, and ensuring that effective arrangements for managing delivery are in place in those areas. The Board has now also introduced arrangements to provide for broader scrutiny of performance, not just in delivery areas, but across all business groups and corporate support services in the Home Office.

We have previously undertaken a review of the Department's major projects and a systematic inquiry into the reasons where delivery has fallen short of that planned. The lessons learned have informed our strategy for Project and Programme Management in the Home Office. This approach is consistent with the Government's Improving Programme and Project Delivery scheme.

Audit Committee and Internal Audit

During 2004/05 the Audit Committee met four times during the year. The Committee is chaired by an independent chair in accordance with Audit Committee best practice. The purpose of the Audit Committee is to advise me as the Departmental Accounting Officer on the adequacy of arrangements for internal control and risk management, and on the implications of assurances provided on risk and control in the Home Office, particularly those from internal and external audit. The Audit Committee is wholly independent consisting of five independent members. I, the Home Office Finance Director and other senior members of the Department also attend.

The Committee is supported by the work of my internal audit unit, which operates in accordance with Government Internal Audit Standards. The Chief Internal Auditor provides regular reports and advice on governance, risk and internal controls and each year provides an independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement.

Corporate Risks faced during 2004-05

The top corporate risks identified by the Department during 2004/5 were (in no specific order):

- Terrorist attack or campaign of attacks
- Departmental change
- Major disturbance in custodial establishments
- Pressures on custodial capacity
- Failure of mission critical and/or major investment programme
- Major IT failure

- Failure to communicate effectively with stakeholders
- Employee relations
- Compromising of data security
- Impact of Freedom Of Information Act

The status of these risks, and specific actions to mitigate them, have been monitored and managed through the Home Office corporate risk register, an internal document reviewed regularly throughout the year by the departmental risk sub-group, the Group Executive Board and the Home Office Audit Committee.

Implementation of a new accounting system

During 2004-5 the finance module of Adelphi, an integrated Oracle Enterprise Resource Planning system, went live. The Adelphi system will subsequently also incorporate the procurement and human resource systems.

Difficulties that arose from the implementation of Adelphi resulted in some deterioration in the financial control environment, a significant delay to the preparation of statutory accounts and problems in fully reconciling the circa one-million transactions processed through the bank account. These issues prevented my predecessor from signing the accounts by the statutory deadline of 30th November and directly contributed to the 'disclaimed' external audit opinion.

Significant improvements are being made to the financial control environment to address these issues and advance the general control environment. These include improved:

- security and controls over key financial information technology applications;
- processes for reconciling key control accounts;
- training for accounts staff; and
- processes and supervision for the production of statutory accounts.

I, together with the Home Office Audit Committee will actively monitor progress to ensure the financial control environment is significantly strengthened and to enable the Home Office to be in a position where it can deliver timely and accurate financial accounts in line with the Government's, faster accounts closing initiative.

David Normington
Accounting Officer
24 January 2006

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

I certify that I have audited the financial statements on pages 30 to 76 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 38 to 42.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 17, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statue and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implication for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 18 to 21 reflects the department's compliance with Treasury's guidance entitled *'Corporate Governance: Statement on Internal Control'*. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all the risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of opinion

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

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

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

The scope of my examination was limited because the Home Office was unable to submit its Resource Accounts to me in time for me to perform an audit within the statutory timetable set out in the Government

Resources and Accounts Act 2000 (the Act). The Home Office failed to submit its Resource Accounts, signed by the Accounting Officer to me by the statutory date set out in the Act of 30 November 2005. Under the same Act I am required to send a copy of the audited and certified accounts to Treasury by 15 January 2006 and the Treasury is required to lay the certified accounts before the House of Commons by 31 January 2006.

The scope of my examination was also limited because the Home Office had not maintained proper accounting records which would enable them to disclose with reasonable accuracy at any time the financial position of the Department. The pervasive and fundamental nature of the problems encountered during my audit mean that I am unable to reach an opinion as to whether the financial statements show a true and fair view.

Disclaimer of opinion on view given by financial statements

Because of the pervasive and fundamental nature of the problems encountered during my audit and the possible effects of the limitation in evidence available to me I am unable to form an opinion as to whether:

- the financial statements give a true and fair view of the state of affairs of the Home Office at 31 March 2005 and whether they have been properly prepared in accordance with the requirements of the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The Home Office has not maintained proper accounting records which would have enabled them to disclose with reasonable accuracy at any time the financial position of the Department.

Details of these matters are explained more fully in my Report at pages 24 to 29.

John Bourn
Comptroller and Auditor General

26 January 2006

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

Report of the Comptroller and Auditor General

Introduction

1. The purpose of the Home Office (the Department) is to build a safe, just and tolerant society, to enhance opportunities for all, and to ensure that the protection and security of the public are maintained and enhanced. This is reflected in its objectives, set out in its Public Service Agreement agreed in the 2004 Spending Review, which are as follows:

- People are and feel more secure in their homes and daily lives;
- More offenders are caught, punished and stop offending and victims are better supported;
- Fewer people's lives are ruined by drugs and alcohol;
- Migration is managed to benefit the UK, while preventing abuse of immigration laws and the asylum system; and
- Citizens, communities and the voluntary sector are more fully engaged in tackling social problems and there is more equality of opportunity and respect for all people of all races and religions.

2. The resource accounts of the Home Office consolidate the accounts of the core Department with those of HM Prison Service, the UK Passport Service, the Criminal Records Bureau and the National Probation Service.

3. As set out in *Government Accounting*, the Accounting Officer of the Home Office is personally responsible to Parliament for the following:

- The propriety and regularity of the public finances for which he is answerable;
- For the keeping of proper accounts;
- For prudent and economical administration;
- For the avoidance of waste and extravagance; and
- For the efficient and effective use of all the available resources.

My obligations as Auditor

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

5. Under the Government Resources and Accounts Act 2000 (the Act), I am required to examine and certify all departmental resource accounts received under the Act. I inform Parliament if a department does not meet the statutory reporting timetable, which is outlined below.

6. Under the Act, the Accounting Officer of the Department was required to submit to me, as Comptroller and Auditor General, the signed accounts for his department for 2004-05 by 30 November 2005. I am required by the Act to certify the accounts by 15 January 2006 and to send them to the Treasury. The Treasury is required to lay the accounts before the House of Commons by 31 January 2006.

7. As well as the statutory reporting timetable set out in the Act, every department is committed to the Treasury's 'faster closing' initiative. The goal is for departments to have their resource accounts from 2005-06 onwards signed, certified and laid before Parliament before the Summer Recess. The benefits of this are as follows:

- Improved Parliamentary accountability as statements will be more timely and relevant;

- Earlier information improves departmental financial planning and provides the Treasury with reliable figures for actual expenditure; and
- A department's ability to produce timely financial statements, with clean audit opinions, is evidence of financial discipline and data integrity.

Purpose of report

8. The purpose of this report is as follows:

- To inform Parliament that the Home Office has not met the statutory reporting timetable in respect of its 2004-05 resource accounts;
- To explain why I have been unable to reach an opinion as to whether the accounts show a true and fair view;
- To explain the reasons for the Department's delay in providing me with accounts for audit; and
- To indicate the steps the Department is taking to address the weaknesses in the system of control that led to this situation and to prevent a recurrence in the future.

9. The issues raised in my report relate to the preparation of accounts for the core Department and the consolidation of those accounts with those of the bodies referred to in paragraph 2. I have certified the individual accounts of the bodies listed in paragraph 2 without qualification.

Failure to deliver accounts to the required timetable

10. Under the faster closing programme the Home Office undertook to accelerate the accounts production timetable in order to achieve certification of the 2004-05 accounts by 30 September 2005, and pre-recess for the 2005-06 accounts. On this basis my staff agreed an audit timetable for the 2004-05 accounts with the Home Office. This timetable committed the Department to the delivery of draft consolidated accounts to me by 30 June 2005. However the first draft accounts were not received until ten weeks later on 9 September 2005. These accounts contained numerous errors and internal inconsistencies. In particular, amounts relating to cash, Exchequer funding and non retainable income due to the Consolidated Fund were contradictory and did not reconcile between the different places in which they appeared in the accounts. There were also material omissions and misstatements, for example the value of the private prison estate was incorrectly recorded in the accounts.

11. Following discussions with senior management and the Home Office Audit Committee, it was agreed that second draft accounts would be provided by 14 December 2005. These were subsequently produced with the supporting papers being made available to us on 16 December 2005. The amounts in the revised accounts had changed significantly from the first draft. In particular nearly every major balance was markedly different. To illustrate the scale of the movements: the amount owed to the Exchequer by the Home Office of £68 million in the September draft accounts became an amount owed by the Exchequer to the Home Office of £112 million in the December draft accounts. This swing is due to major changes elsewhere in the accounts resulting in a change to the cash required by Home Office.

Basis of disclaimer audit opinion

12. The factors which have led me to conclude that I cannot form an opinion on the truth and fairness of the Home Office financial statements for 2004-05 are set out below.

New accounting system

13. Adelphi is the Home Office's new, Oracle based, integrated finance, human resource and procurement system. In May 2004, the Home Office implemented the accounting module which was designed to automate manual processes, bring greater efficiency and control and improve the timeliness and quality of information.

14. In my report on the 2002-03 Home Office Resource Accounts I highlighted some of the key risks to the Department which could damage successful implementation of the new accounting system. Not all of these risks were adequately addressed and various problems arose during implementation. Difficulties were encountered in the transfer and cleansing of data, and staff were not trained to use the new system on a timely basis. These problems and delays, together with a lack of understanding of the new accounting system, meant that the Home Office could not use data from its new accounting system effectively to produce a cogent set of accounts to the required faster closing and statutory timetables.

15. Additionally, reviews carried out by the Home Office's Audit and Assurance Unit (the internal audit function) and by my staff revealed significant control weaknesses within the main accounting systems. The reviews found control weaknesses within key Information Technology applications including access to the system, inadequate segregation of duties, the creation of standing data and the ability to interrogate and monitor changes made. These weaknesses made access to the database by unauthorised staff possible, representing a risk to the integrity of Adelphi data and exposing the Home Office to a greater risk of fraud and error. The Home Office has now taken significant steps to address these weaknesses.

Cash management

16. Due to difficulties in implementing the new accounting system, the Home Office has been unable to reconcile its cash at bank position, i.e. match its own records of cash payments and receipts with those shown on its bank statements. Bank reconciliations are one of the most fundamental of all accounting controls as they enable payments, receipts and cash balances to be validated to an external source and provide assurance about debtor and creditor balances. They are also a key control for the prevention and detection of fraud. Regular reconciliations would enable the Home Office to identify and action omissions and processing errors and would provide a check on whether fraudulent transactions have occurred. It is therefore important that they are carried out monthly, reviewed at a senior level and action taken promptly to follow up any issues arising. Table 1 sets out the chronology of actions in relation to the Home Office's bank reconciliation difficulties. Home Office has found no evidence of fraud following the actions taken as set out in this table.

Table 1: Cash timeline	
Date	*Event*
May 2004	New accounting system implemented.
May 2004 – November 2004	Cash – general ledger technical processing errors identified and corrected by Oracle consultants.
May 2004 – March 2005	Ongoing investigation of reconciling differences means that the cash position is not fully reconciled.
February 2005	Consultant employed to reconcile main cash account.
June / July 2005	Reconciliation attempted for 31 March 2005. £67 million of adjustments identified by consultant to correct interfaces with debtors/creditors leaving a £3 million unreconciled balance which was written off to the Operating Cost Statement.
September 2005	Unreconciled cash balances came to NAO attention during audit work. Issue raised with the Home Office by the NAO.
October 2005	Escalated to senior management by NAO. Chair of Audit Committee informed.
November 2005	Second consultant employed to assist on cash reconciliation. Difficulties reported to Audit Committee.
January 2006	Entries to reverse the unreconciled £3 million difference will be processed. An adjustment affecting creditors (net increase of £67 million) and cash reconciles the cash position. Gross adjustments totalled £946 million.
31 January 2006	Some commercial accounts remain unreconciled.

17. In February 2005 the Home Office employed an Oracle experienced consultant to rectify matters. The consultant identified £67 million of reconciling transactions but this work left a difference of £3.035 million unresolved which the Home Office, after considering the potential causes and risks, judged should be written off to administration costs without further investigation. My staff were concerned that the £3.035 million difference still represented a significant financial risk which could mask substantial errors, and potential losses. Following discussions between my staff and the Home Office a second consultant was employed in November 2005 to undertake further work on the difference. This further work revealed a range of errors which are set out in Table 2 with gross adjustments totalling £946 million necessary to correct the £3.035 million difference. As noted previously, the Home Office has found no evidence of fraud following the work.

Table 2: Errors contained within unreconciled cash	
1.	Opening balances transferred to new accounting system contained unreconciled transactions
2.	The Adelphi accounting system could not deal with failed payments processed through the Bank Automated Clearing System and Oracle consultants were employed to fix the glitch between May and November 2004
3.	Inaccurate bank statement information loaded into Adelphi system
4.	The processes put in place for the reconciliation of cash were not robust enough to identify differences for investigation and to provide an audit trail
5.	User error occurred to correct perceived reconciliation differences which were generated elsewhere and this compounded the level of error in the cash reconciliation process.

18. Unreconciled items of £3,500 remain on the main bank account in respect of the position at 31 March 2005. The bank account has also yet to be reconciled successfully on a monthly basis in 2005-06.

19. There is a further bank account on the ledger holding £1 million which is the umbrella account for a large number of small commercial accounts. This ledger balance has not been reconciled to the bank statement.

Weaknesses in financial management

20. The Home Office has put in place a clear budgetary control framework and detailed budgeting delegations. The effectiveness of the framework is, however, undermined by weaknesses in the overall financial control framework.

21. As noted earlier, controls over the accounting system during 2004-05 were weak and the Home Office is taking action to address the:

- Poor controls and weaknesses in the audit trails maintained over the assignment of access rights;
- Absence of checks made against Human Resources records to ensure that new users are authorised, and leavers are removed promptly; and
- Absence of controls to detect unauthorised access to the database.

22. In addition, in my opinion, there are weaknesses in the contractual arrangements over the new accounting system in respect of:

- Over reliance on the Home Office contractor to undertake security checks, and a lack of effective processes to address the risks this exposes the Department to; and
- Unmonitored access to the database by the Home Office's contractor, and over reliance on the contractor's expertise, for example in report production.

23. Weaknesses also exist over business and monitoring controls which the full implementation of the human resource and procurement modules of Adelphi will help address. However for 2004-05 we noted that:

- The absence of contract registers recording all contracts entered into by the Home Office makes it difficult for the Department to be satisfied all liabilities are included in the financial statements and all commitments disclosed where appropriate. The central procurement function would be more effective with this information and it would assist the Home Office in its drive for efficiency savings;

- Purchase order levels and overall contract amounts can be exceeded without being challenged;
- Contract letting and extension procedures were not always followed properly. On one significant contract a contract extension was granted at short notice, which was not allowed in the original contract, and serious deficiencies in this contract were not addressed;
- Key reconciliations such as those between the register of fixed assets and the general ledger, between the payroll system and the general ledger, and headcount had not been performed routinely; and
- Management did not routinely review key reconciliations and take action where appropriate.

24. The poor quality and delay to the production of the financial statements reflected a lack of skills within the accounts branch compounded by late recognition by management of the serious problems being encountered. The effort required to fully investigate and reconcile cash and inadequate in-year procedures for ensuring the quality of the financial information also impacted on the accounts timetable. Management procedures to ensure the quality of the financial information produced were also inadequate. With the exception of the Immigration and Nationality Directorate, the financial statements preparation process was not subject to project management disciplines resulting in consistent slippage against planned timetabling.

Implications for my audit of the Home Office's financial statements

25. The Home Office's preparation of accounts for 2004-05 for Parliament has been significantly delayed for the reasons noted above. A constructive discussion about the difficulties was held at the Home Office Audit Committee on 29 November 2005 and it was agreed that my staff would work to audit the accounts provided they were available by 14 December 2005. This would have left only one month for the audit to be completed for me to provide an opinion within the timeframe required by statute. The Home Office worked hard to try and resolve the underlying difficulties and presented my staff with a revised set of draft accounts by the agreed date. However, these accounts were materially different from the September draft and were themselves subject to further material adjustment to reflect amendments needed following the Home Office's and my staff's ongoing work in December 2005 and January 2006, including adjustments arising from the work to reconcile the Home Office's bank account. The scale of audit work required therefore meant that it has not proved possible for my staff to obtain all the evidence and explanations necessary to verify the amounts and disclosures in the accounts prior to the statutory deadline.

26. As a result of the weaknesses in the financial control framework, on which I have commented above, I cannot obtain sufficient confidence in the financial systems operated by the Home Office without significant additional audit work, which is not practical given the statutory requirement for the financial statements to be laid by 31 January 2006. My staff will, however, continue to work with the Home Office to resolve outstanding matters as far as possible.

27. As a result of the difficulties experienced by the Home Office in preparing accounts for 2004-05, the scale of adjustments required to resolve key balances, and other errors and omissions, in my opinion the Home Office has failed to maintain proper books and records in 2004-05. The pervasive and fundamental nature of the problems encountered in my audit of the Home Office's accounts for 2004-05 mean that I am unable to reach an opinion as to whether they show a true and fair view.

The way forward

28. Home Office has appointed a new professionally qualified Director General Finance and Commercial who took up post in April 2005 and a new Head of Performance and Finance in January 2006. They and the Home Office have recognised the need to strengthen its financial control framework, and to improve its financial statements preparation processes to enable it to meet its accountability obligations to Parliament. Actions taken to address the problems include:

- The Home Office has redesigned and restructured its financial accounting function which will result in an increase in the number of qualified and experienced accountants in the team from three to eight. The function will also be moved from Liverpool to be co-located with the management accounting function located in London. This will integrate the activities more closely, improve the financial control environment and increase interaction with other Home Office financial activities located in the London area.

- The Home Office will continue work on the all aspects of the 2004-05 account in order to provide a more robust basis for preparing a timely account for 2005-06, and to minimise the impact on the audit opinion.
- The Home Office has commissioned a review of the factors that prevented the timely preparation of the 2004-05 accounts and the further action that is required. Oversight of this review and the subsequent implementation of its recommendations will be an area of particular focus for the Home Office Audit Committee.
- The Home Office and its Audit Committee will ensure that focus is maintained on financial control environment by closely monitoring the implementation of those recommendations arising from this audit and those of its internal audit function.

29. The Home Office will need to work rapidly to resolve its financial accounting difficulties, to produce accounts for 2005-06 in accordance with the faster closing and statutory requirements. Senior management leadership and commitment will be vital to the Department's success.

John Bourn
Comptroller and Auditor General
26 January 2006

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

SCHEDULE 1

Summary of Resource Outturn
for the year ended 31 March 2005

	2004-05 Estimate			2004-05 Outturn				2003-04
	Gross Expenditure	*A in A*	*Net Total*	*Gross Expenditure*	*A in A*	*Net Total*	*Net Total Outturn compared with Estimate saving/ (excess)*	*Prior year outturn*
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1 (Note 5 and 9)	13,893,140	905,680	12,987,460	13,441,039	905,680	12,535,359	452,101	9,917,601
Request for resource 2 (Note 5 and 9)	–	–	–	–	–	–	–	2,300,674
Total resources	**13,893,140**	**905,680**	**12,987,460**	**13,441,039**	**905,680**	**12,535,359**	**452,101**	**12,218,275**
Non-operating cost A in A			(26,590)			(17,128)	(9,462)	(21,182)
Net cash requirement			**13,219,645**			**12,309,371**	**910,274**	**12,413,071**

Summary of income payable to the Consolidated Fund (In addition to appropriations in aid the following income relates to the Department and is payable to the Consolidated Fund)	**Forecast 2004-05**		**Outturn 2004-05**	
	Income	**Receipts**	**Income**	**Receipts**
	£000	£000	£000	£000
Operating income and receipts not classified as A-in-A	110,059	110,059	245,335	255,100
Total	**110,059**	**110,059**	**245,335**	**255,100**

Schedule 1 – Explanation of variation between Estimate and Outturn

Explanation of variation between estimate and outturn (net total resources)

(i) Sub-head A: Police – £223m underspend. Planned underspend to allow £124m to be carried forward through end year flexibility into 2005-06 with the remaining £99m being used to partially offset the £50m overspend on sub-head B for Crime Reduction and £69m overspend on Sub-head R for Police Grants.

(ii) Sub-head B: Crime reduction – £50m overspend. Spending on Acquisition Crime Teams, Crime Strategy Resources Unit and Anti-social Behaviour Unit was higher than Estimate provision.

(iii) Sub-head C: Criminal Records Bureau – £4m overspend. Caused by higher than planned volumes of checks for volunteers which meant that associated costs could not be recovered.

(iv) Sub-head D: Organised and international crime – £48m overspend. Higher than planned spending on Counter Terrorism measures.

(v) Sub-head F: Criminal justice – £17m underspend. Caused by underspends on Criminal justice IT projects.

(vi) Sub-head G: Communities group – £28m underspend. Caused by slower than planned take up of grant payments related to Cross Cutting Review programmes.

(vii) Sub-head H: Futurebuilders – £65m underspend. The estimate presumed monies paid to the Trust account would be treated as Programme expenditure, whereas actual outturn treats cash held in trust as part of Home Office short term deposits.

(viii) Sub-head I: Corrections HQ – £78m underspend. Planned underspend to offset the overspend on sub-head L of £30m together and create end year flexibility to carry forward into 2005-06.

(ix) Sub-head L: Probation HQ – £30m overspend. Primarily caused by higher than planned electronic monitoring costs as Home Detention Curfews were used as an alternative to imprisonment.

(x) Sub-head N: Passport Service – £18m underspend. Higher than planned passport volumes were processed resulting in higher profits which offset losses incurred in previous years.

(xi) Sub-head P: Research and statistics – £6m underspend. Caused by underspends on ISB funded projects and higher than planned receipts generated by the Police Scientific Development Branch.

(xii) Sub-head Q: European Refugee Fund – £2m overspend. Due to a mismatch of expenditure and receipts in 2004-05.

(xiii) Sub-head U: Probation loan charges – £2m overspend. No Estimate cover for this with expenditure being offset by underspend on sub-head I.

(xiv) Sub-heads W to AN – £232m underspend. Home Office sponsored bodies did not need the planned levels of Grant in Aid to finance their operations during 2004-05 resulting in this underspend.

Explanation of the variation between Estimate net cash requirement and outturn

The overall cash requirement for the year was £910m lower than required. This was due to lower than planned resource spending described above of £452m, lower than planned capital spending of £287m on capital projects (of which £174m arose in Policing and Organised Crime, Offender Management and Asylum) and higher than estimated non-cash items (depreciation and cost of capital) of £354m. Increases in cash requirement due to working capital movements (mainly decrease in creditors), changes in the level of overdraft, and other adjustments totalled £183m.

Reconciliation of Resources to Cash Requirement

	Note	2004-05 Estimate £000	2004-05 Outturn £000	Outturn compared with Estimate saving (excess) £000	2003-04 Prior year £000
Net Total Resources		**12,987,460**	**12,535,359**	**452,101**	**12,218,275**
Capital:					
Acquisition of fixed assets					
Cash Purchase	Sch 4 note iv and v	656,824	369,920	286,904	482,254
New loans/investments		–	–	–	–
Non-operating A in A		(26,590)	(17,128)	(9,462)	(3,219)
Proceeds of fixed asset disposals		–	(10,432)	10,432	(41,884)
Government Grant Capital receipts		–	–	–	(17,405)
Accruals adjustments:					
Non-cash items	3 and 4	(34,335)	(387,945)	353,610	(381,977)
Changes in working capital other than cash	13	–	(148,222)	148,222	124,699
Movement in Overdraft	17	(363,714)	(124,678)	(239,036)	32,328
Correction to 2003-04 Resource Accounts – UKPS CFER Creditors		–	71,747	(71,747)	–
Correction of errors in 2003-04 Resource Accounts which affect Net Cash Requirement in 2004-05		–	20,750	(20,750)	–
Net cash requirement (Schedule 4, note V)	9	**13,219,645**	**12,309,371**	**910,274**	**12,413,071**

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2005

	Note	2004-05 £000	2004-05 £000	2003-04 £000	2003-04 £000
Administration costs:					
Staff costs	2	2,161,507		1,958,979	
Other administration costs	3	1,956,422		2,065,920	
Gross administration costs			**4,117,929**		**4,024,899**
Operating income	5		(1,073,706)		(865,599)
Net administration costs			**3,044,223**		**3,159,300**
Programme Costs					
Request for resources 1:					
Staff costs	2	566,802		526,882	
Expenditure	4	8,839,979		8,280,143	
Other programme costs	4	1,249		1,336	
Less: income	5	(135,059)		(8,159)	
			9,272,971		**8,800,202**
Request for resources 2:					
Staff costs	2	–		–	
Expenditure	4	–		174,800	
Other programme costs	4	–		18	
Less: income	5	–		(22,417)	
			–		**152,401**
Net programme costs			**9,272,971**		**8,952,603**
Net operating cost	7 and 9		**12,317,194**		**12,111,903**
Net resource adjustments	7		**218,165**		**106,372**
Net resource outturn	7		**12,535,359**		**12,218,275**

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses for the year ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Net gain/(loss) on revaluation of fixed assets	11A, 11B	(84,688)	444,799
Disposal of donated assets	20	(3)	(3)
Actuarial gain/(loss) relating to pension scheme	20	74,375	151,305
Total recognised gains and losses for the financial year		**10,316**	**596,101**
Prior period adjustment	33	–	(495,518)
Total gains and losses		**10,316**	**100,583**

SCHEDULE 3

Balance Sheet
as at 31 March 2005

	Note	31 March 2005 £000	31 March 2005 £000	31 March 2004 £000	31 March 2004 £000
Fixed assets:					
Tangible assets	11A	6,555,141		6,347,903	
Intangible assets	11B	11,175		37,077	
Investments	12	35,282		37,241	
			6,601,598		**6,422,221**
Debtors (amounts falling due after more than one year)	15		7,111		10,132
Current assets:					
Stocks	14	43,011		47,165	
Debtors	15	390,611		365,682	
Cash at bank and in hand	16A	48,836		97,824	
Creditors (amounts falling due within one year)	17	(1,132,220)		(912,786)	
Net current liabilities			(649,762)		(402,115)
Total assets less current liabilities			**5,958,947**		**6,030,238**
Creditors (amounts falling due after more than one year)	17	(381,941)		(284,531)	
Provisions for liabilities and charges	18	(174,159)		(118,170)	
			(556,100)		(402,701)
Net assets excluding pension liability			**5,402,847**		**5,627,537**
Pension liability	2.5		(297,507)		(366,079)
Net assets including pension liability			**5,105,340**		**5,261,458**
Taxpayers' equity:					
General fund	19		3,820,846		3,897,148
Revaluation reserve	20		1,581,989		1,707,287
Donated assets reserve	20		12		15
Government grant reserve	20		–		23,087
Pension reserve	20		(297,507)		(366,079)
			5,105,340		**5,261,458**

David Normington
Accounting Officer

24 January 2006

SCHEDULE 4

Cash Flow Statement
for the year ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Net cash outflow from operating activities	i	(11,778,465)	(11,877,734)
Capital expenditure and financial investment	ii	(360,308)	(430,883)
Payments of amount to the Consolidated Fund		(212,076)	(75,218)
Financing from the Consolidated Fund (Supply)	iii	12,301,861	12,311,546
Financing Machinery of Government DfES		–	(7,461)
Intra-Probation Service Funding		–	(30)
Financing from the Consolidated Fund (Non-Supply)		–	(18,205)
Decrease(-) in cash in period		**(48,988)**	**(97,985)**

Notes to cash flow statement

Note i: Reconciliation of operating cost cash flows:

	Note	2004-05 £000	2003-04 £000
Net Operating Cost		12,317,194	12,111,903
Adjustments for non-cash transactions	3,4	(379,520)	(377,067)
Adjustments for movements in working capital other than cash	13	(148,222)	164,765
Adjustment for pension funding		(10,987)	(21,867)
Net cash outflow from operating activities		**11,778,465**	**11,877,734**

Note ii: Analysis of capital expenditure and financial investment:

	Note	2004-05 £000	2003-04 £000
Tangible fixed asset additions	iv	(369,583)	(484,556)
Invest to Save Grant (UKPS)		(336)	(558)
Proceeds of disposal of fixed assets		7,870	33,049
Repayment of loans from other bodies		1,741	3,219
Government capital grants receipts		–	17,963
Net cash outflow from capital investment activities		**(360,308)**	**(430,883)**

Note iii: Analysis of financing and reconciliation to the net cash requirement:

	2004-05 £000	2003-04 £000
From the Consolidated Fund (Supply): current year	12,200,336	12,285,124
From the Consolidated Fund (Supply): prior year	101,525	26,422
Prison Service repayment to Consolidated Fund	–	(18,205)
Net Financing	**12,301,861**	**12,293,341**
Decrease in cash in hand	48,988	97,985
Adjustment for UKPS 2002/03 overdraft	–	(1,604)
Movement in overdraft	(124,678)	32,324
Net cash flows other than financing	**12,226,171**	**12,422,046**
Adjustment for payments and receipts not related to Supply:		
Amounts due to the Consolidated Fund – received in a prior year and paid over	(58,305)	(48,127)
Amounts due to the Consolidated Fund – received and not paid over	122,559	58,304
Net cash requirement for the year	**12,290,425**	**12,432,223**

	Note	2004-05 £000	2003-04 £000
Note iv: Reconciliation between fixed assets and cash flow			
Cash flow additions		369,584	484,556
Opening fixed asset accruals		(14,364)	(52,812)
Investment to Save funding		336	558
Found assets		167	1,800
PFI additions		111,500	7,597
Closing fixed asset accruals		34,770	14,364
Total		**501,993**	**456,063**
Represented by:			
Note 11A Tangible fixed assets		500,512	435,825
Note 11B Intangible fixed assets		1,481	20,238
Total		**501,993**	**456,063**

Note v: Reconciliation between Net Cash Requirement reported at Schedules 1 and 4:

	Note	2004-05 £000	2003-04 £000
As above		12,290,425	12,432,223
Probation Service net resource adjustments	7	(27,170)	13,515
Capital purchases		–	(2,300)
Book value of disposals		–	256
Non cash items		–	(13,998)
Working capital movement	13	–	(13,644)
Intra Probation Service funding		–	(30)
Probation Service pension funding		–	21,867
NPS overdraft movement		–	1,604
2002/03 Supply creditor	17	–	(26,422)
Other Schedule 1 adjustments			
Correction to 2003-04 Resource Accounts – UKPS CFER creditors		41,297	–
Correction of errors in 2003-04 Resource Accounts which affect Net cash requirement in 2004-05		20,750	–
Overstatement of FSS CFER		(545)	–
Removal of Government Grant income which is treated as CFER		(15,386)	–
As reported in Schedule 1		**12,309,371**	**12,413,071**

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2005

	Gross	2004-05 Income	Net
	£000	£000	£000
Objective:			
1 People are and feel more secure in their homes and daily lives.	6,457,371	(70,405)	**6,386,966**
2 More offenders are caught, punished and stop offending and victims are better supported.	4,718,077	(737,770)	**3,980,307**
3 Fewer people's lives are ruined by drugs and alcohol.	214,440	(1,388)	**213,052**
4 Migration is managed to benefit the UK, while preventing abuse of the immigration laws and of the asylum system.	2,014,644	(394,793)	**1,619,851**
5 Citizens, communities and the voluntary sector are more engaged in tackling social problems and there is more equality of opportunity and respect for people of all races and religions.	121,427	(4,409)	**117,018**
Net Operating Costs	**13,525,959**	**(1,208,765)**	**12,317,194**

Prior year comparatives have been restated in line with Home Office Objectives.

	Gross	2003-04 Income	Net
	£000	£000	£000
Objective:			
1 People are and feel more secure in their homes and daily lives.	6,231,835	(90,901)	**6,140,934**
2 More offenders are caught, punished and stop offending and victims are better supported.	4,353,151	(508,698)	**3,844,453**
3 Fewer people's lives are ruined by drugs and alcohol.	106,383	(2,665)	**103,718**
4 Migration is managed to benefit the UK, while preventing abuse of the immigration laws and of the asylum system.	2,209,743	(287,540)	**1,922,203**
5 Citizens, communities and the voluntary sector are more engaged in tackling social problems and there is more equality of opportunity and respect for people of all races and religions.	106,966	(6,371)	**100,595**
Net Operating Costs	**13,008,078**	**(896,175)**	**12,111,903**

Notes to the accounts for the year ended 31 March 2005

1.0 Statement of accounting policies

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

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts comprise a consolidation of the core Home Office and its on Vote agencies, the Prison Service, the United Kingdom Passport Service and the Criminal Records Bureau, and also the National Probation Service. The agencies also produce and publish their own annual report and accounts. The accounts of the Forensic Science Service Trading Fund, sponsored by the Home Office, are not included by way of consolidation. The trading fund is outside the Voted Supply and is subject to a different financial control framework. Financial information about the Forensic Science Service is published in their own separately published annual accounts.

1.3 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. The capitalisation thresholds for expenditure on tangible fixed assets is £5,000 for the core Home Office (other than for furniture all of which is capitalised) and the Prison Service, £500 for the United Kingdom Passport Service, and £2,000 for the Criminal Records Bureau. On initial recognition, they are measured at cost, including any costs such as installation directly attributable to bringing them into working condition.

All tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations every 5 years and in the intervening years by the use of published indices appropriate to the type of land or building. Non property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value. Residual interest in off-balance sheet PFI properties are included in tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual to the balance sheet date plus an adjustment based on the net present value of the change in the fair value of the residual as estimated at the start of the contract and its estimated fair value at the balance sheet date.

The Valuation Office Agency (VOA) carried out a desktop review of all prison land and buildings as at 31 March 2005. The existing use value of land has been amended to take into account alternative site values where appropriate. The indexation has been applied to the valuation of prison buildings, and other land and buildings have been revalued in accordance with the VOA review.

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

The United Kingdom Passport Service apply the following accounting treatment to software licences:

Software licences covering a period in excess of 1 year are capitalised and amortised over their useful life to a maximum of 5 years in accordance with FRS10.

1.5 Depreciation

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

Buildings	up to 50 years or life or lease
Plant and machinery	2 – 15 years
Computers	2 – 10 years
Software	3 – 5 years
Other vehicles	5 – 10 years
Other office based equipment	3 – 12 years

1.6 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated assets reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the Operating Cost Statement.

1.7 Investments

Loans and public dividend capital (PDC) issued by the Home Office to the Forensic Science Service are shown at historic cost. The Prison Service holds a number of investments as a result of its trading activities. Quoted investments are valued at market value. Unquoted investments are valued on the basis of estimated realisable value.

1.8 Stocks and work-in-progress

Stocks and work-in progress are valued as follows:

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

ii) work-in-progress is valued at the lower of cost, including appropriate overheads, and net realisable value;

iii) the consumable stocks of the Prison Service are valued at current cost which is not materially different from historic cost.

1.9 Third party transactions

Cash and Bank balances exclude Third Party funds held by the Prison Service and are disclosed by way of note 16B.

1.10 Research and development

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

1.11 Operating income

Operating income is income which relates directly to the operating activities of the Home Office. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers as well as public repayment work, but also includes other income such as that from investments. It includes both income appropriated-in-aid and income due to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Operating income is stated net of VAT. Operating income also includes:

i) the income from the Prison Service in respect of charges excluding VAT for goods and provided to external customers;

ii) the turnover of the UKPS and CRB from their continuing activities, representing the sale value of all services provided during the year.

1.12 Administration and programme expenditure

The operating cost statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. These include both the administration costs and associated operating income. Income is analysed in the notes between that which, under the administration cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

1.13 Capital charge

A charge, reflecting the cost of capital utilised by the Home Office is included in operating cost. The charge is calculated at the real rate set by HM Treasury currently 3.5% on the average carrying amount of all assets less liabilities.

1.14 Foreign exchange

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

1.15 Pensions

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

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

For 2004-05, employers' contributions of £220,048,000 were payable to the PCSPS *(2003-04 £207,439,000)* at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

The Local Government Pension Scheme (LGPS) covers present and past employees, which is statutory and is a funded scheme that currently has a shortfall. The 42 Probation Boards participates in the LGPS, administered by the appropriate local authority or body acting on behalf of the local authority. This is a defined benefit scheme meaning that retirement benefits are determined independently of the investments of the scheme and employers are obliged to make additional contributions where assets are insufficient to meet retirements benefits. Under the LGPS Regulations the pension fund is subject to an independent triennial actuarial valuation to determine each employer's contribution rate. As part of the terms and conditions of employment of its officers and other employees, the 42 Probation Boards offer retirement benefits. Although these will not actually be payable until employees retire, the 42 Probation Boards have a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

1.16 Early departure costs

The Home Office is required to meet the cost of paying the pensions of employees who retire early from the date of their retirement until they reach normal pensionable age. The department provides in full for the cost of meeting pensions up to normal retirement age in respect of early retirement programmes announced in the current or previous years.

1.17 Leases

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

1.18 Home Office grants

The majority of grants made by the Department are recorded as expenditure in the period in which the claim is paid, as the grant funding cannot be directly related to activity in a specific period. The claims are deemed to be the only appropriate measurable activity that truly creates an entitlement for the recipient. However recognition of the entitlement of grant varies according to the individual recipient.

1.19 PFI Transactions

The Home Office has accounted for PFI transactions in accordance with Treasury Taskforce Guidance Technical Note 1 (revised) "How to Account for PFI transactions". The guidance allows for both on and off balance sheet transactions.

Off Balance Sheet Transactions
Where the balance of risks and rewards of ownership of PFI property are borne by the PFI operator payments are recorded as an operating cost. Where the department has contributed assets a prepayment for their fair value is recognised and amortised over the life of the PFI contract by a charge to the Operating Cost Statement. Where at the end of the PFI contract a property reverts to the Home Office, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge and a service charge.

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

1.20 Provisions

The department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 3.5 per cent).

1.21 Contingent liabilities

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

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

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

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

1.22 Valued Added Tax

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

2 Staff numbers and related costs

2.1 Staff Costs

Staff costs consist of:

	2004-05				2003-04
	Total	Officials	Ministers	Special Advisers	Total
	£000	£000	£000	£000	£000
Wages and salaries	2,257,363	2,256,472	642	249	2,053,230
Social security costs	163,691	163,645	36	10	154,281
Other pension costs	285,237	285,237	–	–	268,829
Sub-total	**2,706,291**	**2,705,354**	**678**	**259**	**2,476,340**
Inward Secondments	22,018	22018	–	–	9,521
Total staff costs	**2,728,309**	**2,727,372**	**678**	**259**	**2,485,861**
Of which					
Charged to Programme Costs	566,802	–	–	–	526,881
Charged to Administration Costs	2,161,507	–	–	–	1,958,979
Less recoveries in respect of outward secondments	–	–	–	–	(2,053)
Total net costs	**2,728,309**	**2,727,372**	**678**	**259**	**2,483,807**

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

For 2004-05 contributions of £177,160,000 were paid to the Classic scheme, £42,888,000 to the Premium scheme, and £220,048,000 (£207,439,000 for 2003-04) to the PCSPS at rates determined by the Government Actuary's Department and advised by the Treasury. These rates were in a range 12 – 18.5% of pensionable pay. The Scheme Actuary reviews employers contributions every four years following a full scheme valuation. From 2005-06, the salary bands will be revised and the rates will be in range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

The remaining balance in the "other pension costs" is attributable to non-PCSPS Probation Service pension contributions.

The classification of staff cost between administration and programme has altered in 2004-05. Prior year figures have been restated to reflect this change.

2.2 Average Number of Persons Employed

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

	Ministers	Special Advisors	Senior Management	Officials	Staff on inward secondment	Agency, temporary and contract staff	2004-05	2003-04
Objective 1	3	3	4	1,470	200	93	1,773	1,607
Objective 2	1	1	1	226	56	73	358	347
Objective 3	1	1	1	69,732	171	945	70,851	66,589
Objective 4	1	1	1	18,231	14	1,902	20,150	19,535
Objective 5	1	1	1	218	15	8	244	320
TOTAL	**7**	**7**	**8**	**89,877**	**456**	**3,021**	**93,376**	**88,398**

2.3 Salary and Pension Entitlements For Ministers

For the year end 31 March 2005 the salary, pension entitlements and value of taxable benefits-in-kind for Ministers were as follows:

	Salary	Benefits in kind rounded to the nearest £100	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2005	CETV at 31 March 2004	CETV at 31 March 2005	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000		£000	£000	£000	£000	£000
Ministers							
The Rt Hon Charles Clarke, MP (Secretary of State) from 15 December 2004	15-20	–	0.0-2.5	5-10	52	57	2
The Rt Hon David Blunkett, MP (Secretary of State) to 15 December 2004	55-60	5100*	0.0-2.5	10-15	99	111	6
Des Brown, MP from 01 April 2004	25-30		0.0-2.5	0-5	23	34	6
Beverley Hughes, MP to 01 April 2004	0-5		0.0-2.5	0-5	34	35	–
Hazel Blears, MP	30-35		0.0-2.5	0-5	18	27	5
Caroline Flint, MP	20-25		0.0-2.5	0-5	4	10	3
Baroness Patricia Scotland of Asthal QC	120-125		0.0-2.5	5-10	63	84	10
Paul Goggins, MP	20-25		0.0-2.5	0-5	6	13	4
Fiona McTaggart, MP	20-25		0.0-2.5	0-5	5	12	4

*Taxable value of living accommodation provided at public expense.

The following table discloses the comparative information for Ministers:

2003-04

	Salary	Benefits in kind rounded to the nearest £100	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2004	CETV at 31 March 2003	CETV at 31 March 2004	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000		£000	£000	£000	£000	£000
The Rt Hon David Blunkett MP (Secretary of State)	70-75	7300*	0.0-2.5	10-15	83	99	8
Beverley Hughes, MP	35-40		0.0-2.5	0-5	23	34	6
Hazel Blears, MP	25-30		0.0-2.5	0-5	11	18	4
Caroline Flint, MP	20-25		0.0-2.5	0-5	0	4	2
Baroness Patricia Scotland of Asthal QC	100-105		0.0-2.5	5-10	47	63	8
Paul Goggins, MP	20-25		0.0-2.5	0-5	0	6	4
Fiona McTaggart, MP	20-25		0.0-2.5	0-5	0	5	3
Hilary Benn (to 13 May 2003)	0-5		0.0-2.5	0-5	11	30	2
Lord Filkin (to 12 June 2003)	15-20		0.0-2.5	0-5	26	30	2
Lord Falconer (to 12 June 2003)	15-20		0.0-2.5	10-15	92	103	7
Michael Wills (to 11 July 2003)**	–		–	–	–	–	–

* Taxable value of living accommodation provided at public expense
**Michael Wills salary is paid by the Labour Party, and is not a cost to the Home Office.

Ministerial Salary

The presentation for Ministers is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional Ministerial remuneration. The salary for their services as an MP of £57,485 (2003-04 £56,358) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers of the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Ministerial Benefits-In-Kind

The monetary value of benefits-in-kind covers any benefits provided by the employer and treated by HM Revenue & Customs as a taxable emolument.

Ministerial Pensions

As the House of Commons or House of Lords and not the Department meets the Exchequer contribution to the cost of pension provision for Ministers, the pension details are included on a 'for information' basis.

Pension benefits to Ministers are provided by the Ministerial Pension Scheme (MPS) which is part of the Parliamentary Contributory Pension Fund (PCPF) for Members of Parliament. The scheme is statutory based (made under Statutory Instrument SI1993 No 3253. as amended). The MPS provides benefits on a 'final salary' basis with either a 1/40th or 1/50th accrual rate taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).Benefits are payable on retirement from ministerial office on or after age 65, or on the payment of benefits under the PCPF scheme. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate and 9 per cent if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24 per cent of the ministerial salary. In the event of retirement because of serious ill health, the MPS pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Minister's pension. On death in service, the MPS provides a lump sum gratuity of three times the ministerial salary. Pensions increase in payment in line with changes in Retail Prices Index. On retirement, it is possible to commute part of the pension for a lump sum.

Real Increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the Minister and uses common market valuation factors for the start and end of the period.

2.4 Salary and Pension Entitlements for Group Executive Board Members

For the year ended 31 March 2005, the salary, pension entitlements and the value of taxable benefits-in-kind for individuals who served on the Group Executive Board during the year were as follows:

2004-05

	Salary	Real increase in pension and related lump sum at age 60	Total accrued Pension and related lump sum at age 60 at 31 March 2005	CETV at 31 March 2004	CETV at 31 March 2005	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000
Sir John Gieve (Permanent Secretary) (until 31 December 2005)	170-175	2.5-5.0 plus lump sum 7.5-10.0	60-65 plus lump sum 180-185	964	1062	68
Leigh Lewis (Permanent Secretary, Crime, Policing, Counter Terrorism and Delivery) (until 14 November 2005)	160-165	0.0-2.5 plus lump sum 5.0-7.5	60-65 plus lump sum 180-185	869	954	57
Martin Narey (Permanent Secretary and Chief Executive of the National Offender Management Service) (until 1 November 2005)	155-160	0.0-2.5 plus lump sum 5.0-7.5	50-55 plus lump sum 155-160	715	798	61
Helen Edwards (Director General, Communities Group)	115-120	0.0-2.5 plus lump sum 0.0-2.5	00-05 plus lump sum 00-05	41	70	27
Margaret Aldred (Director General, Resources and Performance) (until 20 Nov 2004)	80-85	0.0-2.5 plus lump sum 5.0-7.5	40-45 plus lump sum 125-130	581	644	51
Moira Wallace (Director General Criminal Justice Group)	115-120	2.5-5.0 plus lump sum 7.5-10.0	25-30 plus lump sum 80-85	293	346	44
John Marsh (Group HR and Change Director)	115-120	5.0-7.5 plus lump sum 20.0-22.5	25-30 plus lump sum 75-80	208	308	95
Bill Jeffrey (Director General, Immigration and Nationality) (until 18 April 2005)	150-155	2.0-2.5 plus lump sum 5.0-7.5	55-60 plus lump sum 175-180	969	1036	54
William Nye (Director General, Finance and Commercial Acting)*	90-95	2.5-5.0 plus lump sum 7.5-10.0	15-20 plus lump sum 50-55	152	190	34
Martin Bryant (Director of Strategy) (from 07 Sept 2004)	85-90	0.0-0.0 plus lump sum 0.0-0.0	00-05 plus lump sum 00-00	0	17	0
Denise Kingsmill (Non-Executive Director)	10-15	–	–	–	–	–
Patrick Carter (Non-Executive Director)	15-20	–	–	–	–	–
Derrick Anderson (Non-Executive Director)	10-15	–	–	–	–	–

* William Nye £40,000-£45,000 relates to his period of service as Acting Director General, Finance and Commercial.

Comparative figures for 2003-4 include employer's national insurance and pension contributions.

2003-04

	Salary	Real increase in pension and related lump sum at age 60	Total accrued Pension and related lump sum at age 60 at 31 March 2004	CETV at 31 March 2003	CETV at 31 March 2004	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000
Sir John Gieve (Permanent Secretary)	200-205	2.5-5.0 plus lump sum 7.5-10.0	55-60 plus lump sum 165-170	877	964	62
Leigh Lewis (Permanent Secretary, Crime, Policing, Counter Terrorism and Delivery)	180-185	2.5-5.0 plus lump sum 12.5-15.0	55-60 plus lump sum 170-175	755	869	93
Martin Narey (Permanent Secretary and Chief Executive of the National Offender Management Service)	175-180	2.5-5.0 plus lump sum 7.5-10.0	45-50 plus lump sum 145-150	642	715	55
Helen Edwards (Director General, Communities Group)	115-120	0.0-2.5 plus lump sum 0.0-5.5	0-5 plus lump sum 0-5	19	41	21
Margaret Aldred (Director General, Resources and Performance)	135-140	0.0-2.5 plus lump sum 6.5-7.0	45-50 plus lump sum 115-120	517	581	49
Moira Wallace (Director General Criminal Justice Group)	135-140	0.0-2.5 plus lump sum 6.5-7.0	20-25 plus lump sum 70-75	246	293	40
John Marsh (Group HR and Change Director)	85-90	2.5-5.0 plus lump sum 7.5-10.0	15-20 plus lump sum 50-55	163	208	41
Bill Jeffrey (Director General, Immigration and Nationality)	175-180	5.0-7.5 plus lump sum 15.0-17.5	55-60 plus lump sum 165-170	834	969	110
Denise Kingsmill (Non-Executive Director)	10-15	–	–	–	–	–
Patrick Carter (Non-Executive Director)	10-15	–	–	–	–	–
Derrick Anderson (Non-Executive Director)	10-15	–	–	–	–	–

Salary

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

Benefits-In-Kind

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

Group Executive Board Members received no benefits-in-kind during the year ended 31 March 2005.

The above table shows the member's Cash Equivalent Transfer Value (CETV) accrued at the beginning and the end of the period. The table also records the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. The Department made no employer's contribution to Partnership pension accounts, including risk benefit cover.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued, as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures. and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pensions (CSP) arrangements and for which the Civil Service (CS) Vote has received a transfer payment commensurate to the additional pension liabilities being assumed.

They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

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

2.5 Retirement Benefits

Pension benefits to Officials are provided through the Principal Civil Service Pension Scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality "money purchase" stakeholder based arrangement with a significant 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 and Premium Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. For Premium Scheme benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater. Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per the Classic scheme.

The Partnership Pension Account is a stakeholder-type arrangement. The employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, these will be matched by the employer 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 risk benefit cover (death in service and ill health retirement).

Following the winding up of the Police Complaints Authority (PCA) the Department has accepted the pension liabilities of the PCA Broadly By Analogy (BBA) Pension Scheme. At the date of the last actuarial assessment the present value of the scheme's liabilities 31 March 2004 was £3.3million.

Some members of the National Probation Service belong to the Local Government Pension Scheme (LGPS). The provisions of LGPS, which is statutory and fully funded, cover present and past employees. The scheme provides benefits on a "final salary" basis at a normal retirement age of 65. Benefits accrue at the rate of one-eightieth of pensionable salary for each year of service. In addition, a lump sum equivalent to three eightieths of final pay of every year of total membership is payable on retirement. Members pay contributions of 6% of pensionable earnings. Employers pay the balance of the cost of providing benefits, after taking into account investment returns. This is a defined benefit scheme where retirement benefits are determined independently of the investments of the scheme and employers are obliged to make additional contributions where assets are insufficient to meet retirement benefits.

The approximate employer's pension contributions for the three years from 2003-06 were 14.6% of salaries for 2003-04; 14.9% for 2004-05; and will be 17.1% for 2005-06.

Under the Local Government Pension Scheme Regulations the pension fund is subject to an independent triennial actuarial valuation to determine each employer's contribution rate. Independent actuarial valuations were carried out for the 42 Probation Boards at 31 March 2004 by various actuaries, with an approximate updating for the subsequent financial years to reflect known changes which have occurred within the period from 31st March 2004 – 31st March 2006.

The approximate employer's pension contributions for the three years are:

Employer's contributions for 2003-04 which will be 14.6% of salaries; and,
Employer's contributions for 2004-05 which will be 14.9% of salaries; and,
Employer's contributions for 2005-06 which will be 17.1% of salaries.

The major assumptions used by the actuaries were:

	31 March 2005	31 March 2004	31 March 2003
Inflation assumption	2.9%	2.8%	2.5%
Rate of increase in salaries	4.5%	4.3%	4.1%
Rate of increase for pensions in payment and deferred pensions	2.9%	2.8%	2.5%
Discount rate	6.4%	6.2%	6.0%

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005	Long-term rate of return expected at 31 March 2004	Value at 31 March 2004	Long-term rate of return expected at 31 March 2003	Value at 31 March 2003
	%	£000	%	£000	%	£000
Equities	7.6	1,004,521	7.6	886,180	7.9	668,136
Bonds	4.8	222,561	5.0	201,557	4.8	175,911
Property	6.2	114,603	6.5	92,525	6.0	86,479
Cash	4.8	66,496	3.7	44,896	3.1	33,218
Total market value of assets		**1,408,181**		**1,225,158**		**963,744**
Present value of scheme liabilities		**1,705,688**		**1,591,237**		**1,453,508**
Surplus/(Shortfall) of the scheme		**(297,507)**		**(366,079)**		**(489,764)**
Net pension asset/(liability)		**(297,507)**		**(366,079)**		**(489,764)**

Analysis of the amount charged to operating profit

	2004-05	2003-04
	£000	£000
Current service cost	51,757	50,475
Past service cost	1,023	1,458
Total operating charge	**52,780**	**51,933**

Analysis of the amount credited to other finance income

	2004-05	2003-04
	£000	£000
Expected return on pension scheme asset	86,472	68,838
Interest on pension scheme liabilities	(101,779)	(90,116)
Net return	**(15,307)**	**(21,278)**

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2004-05	2003-04
	£000	£000
Actual return less expected return on pension scheme assets	54,137	158,891
Experience gains and losses arising on the scheme liabilities	23,586	(3,912)
Changes in assumptions underlying the present value of the scheme liabilities	(3,348)	(3,674)
Actuarial gain/(loss) recognised in the STRGL	**74,375**	**151,305**

Movement in surplus/(shortfall) during the year

		2004-05	2003-04
		£000	£000
Surplus/(Shortfall) in scheme in the beginning of the year		(366,079)	(495,517)
Adjustment to value at 1 April 04		5,184	–
		(360,895)	(495,517)
Movement in year:	Current service costs	(51,757)	(50,475)
	Employer contributions	57,100	51,344
	Past service cost	(1,023)	(1,458)
	Other financial income	(15,307)	(21,278)
	Actuarial gain/(loss)	74,375	151,305
Surplus (Shortfall) in scheme at the end of the year		**(297,507)**	**(366,079)**

The full actuarial valuation at 31 March 2005 showed a decrease in the shortfall from £366,079,000 to £297,507,000.

History of experience gains and losses

	2004-05	2003-04	2002-03
	£000	£000	£000
Difference between the expected and actual return on scheme assets	54,137	132,366	(248,990)
Percentage of scheme assets	3.8%	10.8%	(25.8%)
Experience gains and losses on scheme liabilities	23,586	(3,912)	(2,292)
Percentage of the present value of the scheme liabilities	1.4%	(0.2%)	(0.2%)
Total amount recognised in statement of total recognised gains and losses	74,375	124,779	(254,392)
Percentage of the present value of the scheme liabilities	4.4%	7.9%	(17.5%)

3 Other administration costs

			2004-05		2003-04
		£000	£000	£000	£000
Rentals under operating leases:	hire of plant and machines	67,492		60,317	
	other operating leases	2,251		3,507	
PFI service charges:	Off-balance sheet contracts	124,025		133,043	
	Service element of on-balance sheet contracts	168,655		12,844	
Sub total of Lease Payments			**362,423**		**209,711**
Research and development expenditure			94		26,009
Non cash items:	Total depreciation charge	208,657		176,501	
	Total amortisation charge	2,492		24,289	
	Release from donated assets reserve	–		(3)	
	Impairment charges	2,162		14,348	
	(Gain)/loss on disposal of fixed assets	2,562		9,090	
	Movement in investments	–		(154)	
	Cost of capital charge	168,213		151,070	
	Notional charges and Income	4,268		50	
	Auditor's renumerations and expenses (notional)	904		825	
	Stock provisions	3,360		–	
	Provisions for dilapidations	(4,714)		4,836	
	Provisions for PFI	28,757		(4,002)	
	Provisions for early departure and other employee related costs	52,771		1,839	
Total non cash costs			**469,432**		**378,689**
Other expenditure:	Other	–		821,455	
	Auditor's remuneration and expenses (cash)	1,790		1,583	
	Admin – other expenditure	1,106,654		603,701	
	Bad debt provision	722		3,494	
	Net pension charges	15,307		21,278	
Sub total of other expenditure			**1,124,473**		**1,451,511**
			1,956,422		**2,065,920**

The Home Office exercises in year control of the Probation Service in a similar manner to other departmental expenditure but a non-departmental method for its funding and delivery. Consequently, while the Probation Service consolidated income and expenditure is recorded in Schedule 2 it is replaced by the actual grant authorised by Parliament in Schedule 1.

	2004-05	2003-04
	£000	£000
Therefore: Probation Service Schedule 1 adjustment		
Gross admin expenditure (from note 2 and 3 above)	4,117,929	4,551,781
Remove Probation Service admin costs	(776,813)	(632,015)
Add Machinery of Government Changes	–	7,461
Adjusted Schedule 1 admin costs for gross expenditure calculation	3,341,116	3,927,227

4 Net programme costs

		2004-05		2003-04
	£000	£000	£000	£000
Current grants and other current expenditure				
Other current	1,577,471		1,575,408	
Contractual costs (Asylum Centres)	77,058		59,057	
Grants – current	6,916,050		6,540,500	
Grants – capital	269,400		279,978	
		8,839,979		8,454,943
Cost of capital charge on				
Investments in the FSS	1,249		1,336	
Investments by Prison Service	–		18	
		1,249		**1,354**
		8,841,228		**8,456,297**
Less: programme income (note 5)		(135,059)		(30,576)
		8,706,169		**8,425,721**

	2004-05	2003-04
	£000	£000
Probation Service Schedule 1 adjustment		
Gross programme expenditure (from note 4 above)	8,841,228	8,456,297
Removal of Probation Expenditure included in above	(2,055)	(6,210)
Add back Probation Service Grant	693,948	580,290
Adjusted Schedule 1 programme costs for gross expenditure	**9,533,121**	**9,030,377**

5a Summary of Income Payable to the Consolidated Fund

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

	2004-05 Outturn		2003-04 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts not classified as Appropriations in Aid	(95,171)	*(95,171)*	(40,651)	*(40,651)*
Other amounts collectable on behalf of the Consolidated Fund	(79,920)	*(89,685)*	(44,745)	*(34,980)*
Excess cash receipts to be surrendered to the Consolidated Fund	(70,244)	*(70,244)*	–	–
Total	**(245,335)**	***(255,100)***	**(85,396)**	***(75,631)***

5b Operating income

	2004-05 Appropriated in Aid	2004-05 Payable to Consolidated Fund	2004-05 Total	2003-04 Appropriated in Aid	2003-04 Payable to Consolidated Fund	2003-04 Total
	£000	£000	£000	£000	£000	£000
Operating income analysed by classification and activity, is as follows:						
Administration income						
Fees and charges to external customers (UKPA)	(121,639)	(95,171)	(216,810)	(159,744)	(40,651)	**(200,395)**
Non cash notional income	–	–	–	(306)	–	**(306)**
Other income	(711,082)	(145,814)	(856,896)	(622,944)	(41,954)	**(664,898)**
Total administration income	(832,721)	(240,985)	**(1,073,706)**	(782,994)	(82,605)	**(865,599)**
Programme income	(130,709)	(4,350)	**(135,059)**	(27,785)	(2,791)	**(30,576)**
Total income	(963,430)	(245,335)	**(1,208,765)**	(810,779)	(85,396)	**(896,175)**
Probation Service Schedule 1 adjustment Appropriations in Aid (from note 5 above)	(963,430)			**(810,779)**		
Remove Probation Service income in above	57,750			**71,450**		
Adjusted Appropriation in Aid figure Schedule 1	(905,680)			**(739,329)**		

An analysis of income from services provided to external and public sector customers is as follows:

Objective		2004-05 Income	2004-05 Full cost	2004-05 Surplus/ (deficit)	2003-04 Income	2003-04 Full cost	2003-04 Surplus/ (deficit)
		£000	£000	£000	£000	£000	£000
1	Bomb Search Training	–	–	–	42	42	–
1	Police registration certificate	1,525	1,128	397	1,532	1,163	369
1	Crime Reduction Centre Courses	–	–	–	25	39	(14)
1	Data Subject Access Requests	–	–	–	1,433	1,202	231
1	Inspection of non-HO Police Forces	117	117	–	202	200	2
1	CRB	65,239	73,207	(7,968)	48,992	71,248	(22,256)
1	Perimeter detection system	2,341	2,341	–	2,339	2,339	–
1	Firearms certificates	–	–	–	7,884	7,884	–
1	Gun club licences	69	69	–	6	6	–
3	Licences issued under the misuse of drugs act	–	–	–	567	575	(8)
4	Nationality Fees	19,986	26,563	(6,577)	12,320	19,843	(7,523)
4	UK Passport Service	245,770	218,276	27,494	199,920	171,500	28,420
4	Immigration: Detention Costs Recovered	1,269	40,670	(39,401)	1,385	1,385	–
4	Immigration: Certificates Right of Abode	77	382	(305)	70	511	(441)
4	Immigration: Additional Services	811	1,960	(1,149)	753	780	(27)
4	Travel documents refugee passports	793	4,475	(3,682)	1,069	3,612	(2,543)
4	Travel documents Certs of Identity	269	1,364	(1,095)	458	1,524	(1,066)
4	Work permits	39,792	40,947	(1,155)	14,846	17,669	(2,823)
4	Accommodation provided by non Home Office Bodies	–	–	–	121	121	–
4	Leave to remain	54,261	65,572	(11,311)	44,157	43,432	725
4	Certificate of Approval	132	379	(247)	–	–	–
5	Animals (Scientific Procedures), Licences	3,520	3,437	83	3,837	3,203	634
		435,971	480,887	(44,916)	341,958	348,278	(6,320)

This analysis of income satisfies the Fees and Charges requirements of HM Treasury rather than SSAP25.

6 Administration cost limits (See also note 1.12)

The outturn compared to administration cost limits is as follows:

	2004-05 Outturn	2004-05 Limits	2003-04 Outturn	2003-04 Limits
	£000	£000	£000	£000
Administration cost limit	3,402,863	3,619,944	3,124,205	3,469,800

7 Reconciliation of net operating cost to control total and net resource outturn

	2004-05	2003-04
	£000	£000
Net operating cost:	12,317,194	12,111,903
Less: Supply and other expenditure outside resource budget (control total)	–	–
Resource budget outturn	12,317,194	12,111,903
Remove non-supply expenditure (–) and income (+), including income scored as Consolidated Fund Extra Receipts (CFERs)	245,335	85,396
Machinery of Government changes – Department for Education and Skills	–	7,461
Net changes for Probation Service (notes 3, 4 and 5)	(27,170)	13,515
Net resource adjustments	218,165	106,372
Net resource outturn (as per schedule 1)	**12,535,359**	**12,218,275**

Net operating cost is the total of expenditure and income appearing in the operating cost statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the Department's Supply Estimate. The outturn against the estimate is shown in the summary of resource outturn (Schedule 1).

8 Analysis of net operating cost

This note analyses funding by the department to the relevant spending body.

	2004-05 Estimate	Outturn	2003-04 Outturn
	£000	£000	£000
Spending body			
Core department	5,801,749	5,636,851	5,833,237
Non-departmental public bodies	2,146,645	1,915,522	1,615,951
Other central government	831	493	66,000
Local authorities	4,984,718	4,764,328	4,596,715
	12,933,943	**12,317,194**	**12,111,903**

9 Analysis of net resource outturn by Estimate subhead and reconciliation to net Operating Cost Statement

				2004-05			
	Admin	Other Current	Current Grants	A in A	Net total	Estimate	Net total outturn compared with Estimate
	£000	£000	£000	£000	**£000**	£000	£000
Request for Resources 1							
Spending in Departmental Expenditure Limits (DEL):							
Central Government Spending							
A – Police	25,553	70,437	160,898	(2,621)	**254,267**	476,825	222,558
B – Crime reduction	20,107	21,239	167,596	(1,005)	**207,937**	157,711	(50,226)
C – Criminal Records Bureau	55,796	16,641	–	(66,237)	**6,200**	2,700	(3,500)
D – Organised and international crime	25,027	35,569	107,621	(639)	**167,578**	119,492	(48,086)
E – Drugs	12,828	2,918	192,502	(1,170)	**207,078**	222,006	14,928
F – Criminal justice	33,416	41,755	34,681	(20,577)	**89,275**	106,218	16,943
G – Communities group	13,367	14,173	69,667	(2,313)	**94,894**	122,674	27,780
H – Futurebuilders	–	–	1,865	–	**1,865**	66,861	64,996
I – Corrections HQ	19,046	5,554	1,598	(17,974)	**8,224**	86,035	77,811
J – Prisons private	224,186	1,466	–	(22,640)	**203,012**	210,484	7,472
K – Prisons public	339,576	2,158,755	167,791	(423,147)	**2,242,975**	2,214,084	(28,891)
L – Probation HQ	14,930	156,604	12,572	(14,487)	**169,619**	139,866	(29,753)
M – Immigration and Nationality	884,910	851,968	35,463	(86,099)	**1,686,242**	1,666,212	(20,030)
N – Passport Service	72,617	142,838	–	(239,296)	**(23,841)**	(5,894)	17,947
O – Central services	185,335	21,070	2	(4,030)	**202,377**	215,725	13,348
P – Research and statistics	29,727	21,629	2	(3,354)	**48,004**	54,266	6,262
Q – European Refugee Fund	–	–	2,517	–	**2,517**	1	(2,516)
Firearms compensation	–	–	6	–	**6**	–	(6)
Support for Local Authorities							
R – Police grants	–	–	4,703,193	–	**4,703,193**	4,634,295	(68,898)
S – Police current grants outside AEF	–	–	335,267	–	**335,267**	339,682	4,415
T – Police loan charges	–	–	10,614	–	**10,614**	10,741	127
U – Probation loan charges	–	–	2,041	–	**2,041**	–	(2,041)
Spending in Annually Managed Expenditure (AME)							
Central Government spending:							
V – Police superannuation	–	–	584	(91)	**493**	831	338
Non Budget							
W – Police Information Technology Organisation	–	–	236,615	–	**236,615**	288,453	51,838
X – Police Complaints Authority	–	–	174	–	**174**	–	(174)
Y – Central Police Training & Development Agency	–	–	85,176	–	**85,176**	93,251	8,075
Z – National Criminal Intelligence Service	–	–	79,707	–	**79,707**	99,754	20,047
AA – National Crime Squad	–	–	164,694	–	**164,694**	174,000	9,306
AB – Security Industry Authority	–	–	14,356	–	**14,356**	25,900	11,544
AC – Parole Board grant and non budget	–	–	4,238	–	**4,238**	4,215	(23)
AD – National Probation Service	–	–	693,068	–	**693,068**	746,331	53,263
AE – Youth Justice Board	–	–	373,922	–	**373,922**	375,601	1,679
AF – Youth Justice Board (Drugs)	–	–	–	–	**–**	37,000	37,000
AG – Criminal injuries compensation	–	–	4,467	–	**4,467**	–	(4,467)
AH – Criminal injuries compensation	–	–	204,114	–	**204,114**	236,094	31,980
AI – Criminal Cases Review Commission		–	5,750	–	**5,750**	5,622	(128)

	2004-05						
	Admin	**Other Current**	**Current Grants**	**A in A**	**Net total**	**Estimate**	**Net total outturn compared with Estimate**
	£000	£000	£000	£000	**£000**	£000	£000
AJ – Community Development Foundation	–	–	1,414	–	**1,414**	1,414	–
AK – Commission for Racial Equality	–	–	17,361	–	**17,361**	30,100	12,739
AL – Office of the Immigration Service Commissioner	–	–	3,710	–	**3,710**	3,710	–
AM – Fine refunds to carriers	–	505	–	–	**505**	1,200	695
AN – Independent Police Complaints Commission		–	26,250	–	**26,250**	24,000	(2,250)
Office of the data protection registrar	1	–	–	–	**1**	–	(1)
Total Request for Resources schedule 1	**1,956,422**	**3,563,121**	**7,921,496**	**(905,680)**	**12,535,359**	**12,987,460**	**452,101**
Probation Service adjustment	–		84,920	(57,750)	**27,170**	–	(27,170)
Non A in A operating income	–	–	–	(245,335)	**(245,335)**	–	245,335
Net operating costs schedule 2	**1,956,422**	**3,563,121**	**8,006,416**	**(1,208,765)**	**12,317,194**	**12,987,460**	**670,266**

10 Analysis of capital expenditure, financial investment and associated A in A

	2004-05				2003-04			
	Capital expenditure	**Loans, etc**	**A in A**	**Net total**	**Capital expenditure**	**Loans, etc**	**A in A**	**Net Total**
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	501,993	–	(7,870)	494,123	165,341	–	(1,116)	164,225
Request for Resources 2 (2003-04)	–	–	–	–	290,722	–	(31,934)	258,788
Total	**501,993**	–	**(7,870)**	**494,123**	**456,063**	–	**(33,050)**	**423,013**

11A Tangible fixed assets

	Land & Buildings Excluding Dwellings	Assets Under Construction	Information Technology	Vehicles	Plant and Equipment	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
As at 1 April 2004	6,004,223	322,139	92,313	12,125	203,579	6,634,379
Adjustment to value at 1 April 2004	(480,235)	14,592	(13,640)	(751)	356	(479,678)
	5,523,988	336,731	78,673	11,374	203,935	6,154,701
Additions	143,568	314,931	25,683	1,393	14,772	500,347
Transfers	228,872	(240,214)	25,835	–	10,023	24,516
Disposals	(5,281)	–	(8,472)	(286)	(11,503)	(25,542)
Revaluations	499,817	–	(706)	51	(5,471)	493,691
Found assets	45	–	–	–	122	167
At 31 March 2005	**6,391,009**	**411,448**	**121,013**	**12,532**	**211,878**	**7,147,880**
Depreciation						
As at 1 April 2004	186,455	–	22,733	4,659	72,630	286,477
Adjustment to value at 1 April 2004	(157)	–	(607)	28	74	(662)
	186,298	–	22,126	4,687	72,704	285,815
Charge in year	163,752	–	27,136	1,751	18,181	210,820
Transfers	–	–	–	–	–	–
Disposals	(367)	–	(3,990)	(268)	(10,496)	(15,121)
Revaluations	114,288	–	(1,033)	24	(2,054)	111,225
At 31 March 2005	**463,971**	**–**	**44,239**	**6,194**	**78,335**	**592,739**
Owned	5,250,688	411,448	76,774	6,338	133,543	5,878,791
Prison Service PFI	676,350					676,350
Net book value at 31 March 2005	**5,927,038**	**411,448**	**76,774**	**6,338**	**133,543**	**6,555,141**
Owned	5,345,818	322,139	69,580	7,466	130,950	5,875,953
Prison Service PFI	471,950					471,950
Net Book value at 31 March 2004	**5,817,768**	**322,139**	**69,580**	**7,466**	**130,950**	**6,347,903**
Net change to Revaluation	385,529	–	327	27	(3,417)	**382,466**
Impairment analysis (included in above Revaluations) – note 3						**(469,374)**
Impairment analysis included in revaluations above						**2,162**
Transfer to Revaluation Reserve						**(84,746)**

The core Department's Freehold land and buildings were valued at £234,871,675, as at 31 March 2001 on the basis of existing use value, by the chartered surveyors; Insignia Richard Ellis, Rogers Chapman, Lambert Smith Hampton. The Langhurst site was valued at £850,000 as at 05 November 2003 on the basis of market value, by the chartered surveyors Donaldson. Details of valuation of assets of the NPS are provided in their published accounts. Other tangible assets were revalued on the basis of the latest available indices. A full valuation of all Prison Services operational prison buildings and of the farm estate was carried out as at 31 March 2004 by the Valuation Office Agency (VOA). The VOA also carried out desk top reviews at 31 March 2004 of previous valuations, (Land element of operational prison sites – Full valuation 31 March 2001, Non-specialised prison properties and surplus property – Full valuation 31 March 2001, Staff quarters estate – Full valuation 31 March 2002).

The accounts include in Note 11A an adjustment to the value of fixed assets land and buildings held by HM Prison Service at 1 April 2004. The changes to land reflect a change in estimating technique. The changes to buildings' value is caused by the elimination of VAT on costs where the VAT is recoverable by HM Prison Service. Full details of the adjustment to land and buildings' can be found in Note 6 of HM Prison Service's 2004-05 financial statements.

The Criminal Records Bureau India Mill site is no longer in use and has been retained as a disaster recovery site. The value of the assets at this site have been impaired by £2.1million during the year to reflect this change in use.

11B Intangible Fixed Assets

	2004-05 Purchased Software
	£000
Cost or Valuation	
As at 1 April 2004	41,050
Adjustment to value at 1 April 2004	(27,059)
	13,991
Additions	1,481
Transfers	361
Donations	–
Disposals	–
Revaluations	59
As at 31 March 2005	**15,892**
Amortisation	
As at 1 April 2004	3,973
Adjustment to value at 1 April 2004	(1,748)
Restated Opening Balance	2,225
Charged in year	2,492
Transfers	–
Disposals	–
Revaluations	–
As at 31 March 2004	**4,717**
Net book value at 31 March 2005	**11,175**
Net book value at 31 March 2004	**37,077**
Net change to Revaluation	**59**

12 Investments

	Forensic Science Service PDC	Forensic Science Service Loans	National Milk Records Plc Share Capital	Total
	£000	£000	£000	£000
Balance as at 1 April 2004	17,971	18,580	690	37,241
Adjustment to value at 1 April 04	–	–	1	1
Repayments	–	(1,742)	–	(1,742)
Revaluation adjustment	–	–	(218)	(218)
Net book value at 31 March 2005	**17,971**	**16,838**	**473**	**35,282**

13 Movements in working capital other than cash

	2004-05		2003-04
	£000	£000	£000
(Decease) in stocks / work in progress	(4,154)		(5,253)
Increase in debtors	21,908		117,552
(Increase) in creditors	(316,844)		195,831
(Increase) in provisions	(55,989)		(23,614)
Movement as per Balance Sheet	**(355,079)**		**284,516**
Opening CFERS		(58,304)	(48,126)
Closing CFERS		122,559	58,304
Amounts due in respect of supply – current year		(109,035)	(119,730)
Amounts due in respect of supply – previous year		119,730	–
Opening fixed asset accruals		(14,363)	(52,812)
Closing fixed asset accruals		34,770	14,363
Working capital non cash PFI funding		111,500	7,597
Working capital non cash movement relating to (1) creation of debtor and (2) transfer of finance lease liability		–	20,569
NPD cash adjustment		–	84
Working capital movement recognised in Schedule 4		**(148,222)**	**164,765**
NPS accruals		–	(13,644)
Supply creditor		–	(26,422)
Working capital movement recognised in Schedule 1		**(148,222)**	**124,699**

14 Stocks and work in progress

	2004-05	2003-04
	£000	£000
Stocks	40,091	43,909
Work in progress	2,920	3,256
	43,011	**47,165**

15 Debtors

	2004-05	2003-04
	£000	£000
Amounts falling due within one year:		
VAT debtors net of creditors	43,505	29,637
Other taxation & social security	582	588
Trade debtors	37,154	26,793
Provision for bad and doubtful debts	(5,941)	(1,494)
Staff debtors	13,590	10,243
Debtors – Government departments	16,675	77,102
Debtors – Others	92,006	21,396
Debtors – prepayments & accrued Income	84,005	71,922
Amounts due from the Consolidated Fund in respect of Supply	109,035	119,730
Consolidated Fund debtor (monies not yet received)	–	9,765
	390,611	**365,682**
Amounts falling due after more than one year:		
Trade debtors	519	9,165
Staff debtors	6,592	967
	7,111	10,132
Total Debtors	**397,722**	**375,814**

16A Cash at bank and in hand

	2004-05	2003-04
	£000	£000
Balance at 1 April 2004	97,824	195,809
Net change in balances	(48,988)	(97,985)
Balance at 31 March 2005	**48,836**	**97,824**
The following balances at 31 March are held at:		
Office of HM Paymaster General	12,775	45,021
Commercial banks and cash in hand	36,061	52,803
Balance at 31 March	48,836	97,824
Adjust for overdrafts as per creditors Note 17	–	(124,678)
Net Financing Position	**48,836**	**(26,854)**
(Amounts due from the Consolidated fund in respect of Supply) /Amounts issued from Consolidated Fund but not spent at year end	(109,035)	(119,730)
Consolidated Fund extra receipts and due to be paid to the Consolidated Fund	122,559	58,305
National Probation Service bank balance	35,608	32,671
National Probation Service bank overdraft	(296)	–
Adjustment UKPS loan and Prison Service CFERs	–	1,900
Balance at 31 March	**48,836**	**(26,854)**

16B Cash at bank and in Hand – Non public Funds

The balances at note 16 (a) do not include bank accounts and cash holdings in respect of non public funds held mainly for the benefit of prisoners. The movement of these accounts is set out below:

	2004-05	2003-04
	£000	£000
Office of HM Paymaster General	6,882	6,747
Commercial banks	–	4,231
Cash in hand	–	77
Total non public funds at bank and in hand	**6,882**	**11,055**

17 Creditors

	2004-05	2003-04
	£000	£000
Creditors: amounts falling due within one year:		
VAT	–	6
Other taxation & social security	57,175	56,067
Trade creditors	406,122	220,523
Other creditors	30,810	32,538
Staff creditors	6,574	5,529
Loan & borrowing	–	138
Accruals & deferred Income	486,589	361,942
Unpaid pension contributions	2,643	1,081
Creditors – Government departments	19,748	51,979
Consolidated Fund extra receipts received and receivable and other income due to be paid to the Consolidated Fund	122,559	58,305
Overdraft Paymaster	–	124,678
	1,132,220	**912,786**
Amounts falling due after one year:		
Other creditors	3,227	3,458
Staff creditors	–	2
PFI – Core Home Office	363,255	264,674
PFI – Prison Service	15,459	16,397
	381,941	**284,531**
Repayment profile of PFI capital liability		
Less than one year	13,317	10,887
In more than one year but less than 5 years	64,680	52,864
More than 5 year	314,034	228,207
Total	**392,031**	**291,958**
Reconciliation of Supply creditors to net cash requirement saving Schedule 1		
Net cash requirement saving report in Schedule 1	910,274	343,831
Represented by:		
Net cash requirement as reported in Schedule 1	(12,309,371)	(12,413,071)
Less: Current year drawdown as reported in Schedule 4 (note iii)	12,200,336	12,293,341
	(109,035)	(119,730)
Add: amount unissued	1,019,309	463,561
	910,274	343,831

18 Provisions for liabilities and charges

	Early retirement and other Employee related costs	Other	Total
	£000	£000	£000
Balance at 1 April 2004	46,594	71,576	118,170
Additional provisions	52,707	29,511	82,218
Unused amounts reversed	64	(5,469)	(5,405)
Amounts used in year	(7,876)	(12,948)	(20,824)
Balance at 31 March 2005	**91,489**	**82,670**	**174,159**

Early retirement and other Employee related costs

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme become binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms. Also included under this heading are estimates of amounts due in respect of Equal Pay Claims arising within the Prison Service.

Other Provisions

The main component of the "other provisions" relates to outstanding compensation claims, primarily for wrongful convictions and legal claims. Provision has been made for various legal claims against the department. The provision reflects all known claims where legal advice indicates that it is more than 50 per cent probable that the claim will be successful and the amount of the claim can be reliably estimated. The amount provided is on a percentage expected probability basis. Expenditure is likely to be incurred over a period of 5 years. The provision is based on the estimated cash flows discounted the Treasury discount rate of 3.5 per cent in real terms. No reimbursement will be received in respect of any of these claims. Legal Claims, which may succeed but are less likely to do so or cannot be estimated, are disclosed as contingent liabilities in note 25. This category also includes dilapidation provisions.

19 Reconciliation of net operating cost to changes in general fund

	2004-05		2003-04	
	£000	£000	£000	£000
Net operating cost the year (Schedule 2)		**(12,317,194)**		**(12,111,903)**
Income not appropriated in aid paid to Consolidated Fund		(245,335)		(85,396)
		(12,562,529)		**(12,197,299)**
		12,200,336		12,285,124
Net parliamentary funding				
Prison Service repayment to Consolidated Fund		–		(18,205)
CRB funding from other government departments		7,090		–
Prior year CFER corrections		(35,871)		–
UKPS concessionary passports		(5,092)		–
UKPS Invest to Save		(336)		–
MoG transfer to DfES		–		(7,461)
Parliamentary Grant – Vote Surplus		–		26,422
Non Supply (Probation Board)		–		(30)
Transfer to General Fund of realised element of revaluation reserve (note 20)		40,610		46,009
Movements on the General Fund due to transfers of fixed assets & stock		24,803		(10,310)
Movements on the General Fund due to found assets/ debt write offs		167		264
Changes to Probation Service opening balances		–		2,239
Consolidated Fund debtor/(creditor)		109,035		119,730
Transfer to Government Grants Reserve		–		5,123
Non cash charges:				
Cost of Capital	168,213		151,089	
Forensic Science Service cost of capital	1,249		1,336	
Auditor's remuneration	904		793	
Auditor's remuneration (Central Gov. accounts)	–		32	
Notional charges and income	4,268		(306)	
		174,634		**152,945**
Actuarial gain/(loss) to STRGL		74,375		151,305
Net increase in general fund		**27,222**		**555,854**
General fund brought forward		**3,897,148**		**3,470,732**
Adjustments to value of fixed assets at 1 April 04				
Tangible assets	(9,641)			–
Intangible assets	(25,311)	(34,952)		–
Movement in pensions reserve (note 20)		(68,572)		(129,438)
General fund at 31 March (Schedule 3)		**3,820,846**		**3,897,148**

20 Reserves

	2004-05 Revaluation Reserve
	£000
As at 1 April 2004	1,707,287
To Statement of Recognised Gains and Losses – Schedule 2 and note 11	(84,688)
Transferred to general fund in respect of realised element of revaluation reserve	(40,610)
Balance at 31 March 2005	1,581,989

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

	2004-05 Donated Assests Reserve
	£000
As at 1 April 2004	15
Disposals during the year	(3)
Additional donations	
Balance at 31 March 2005	**12**

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

	2004-05 Government Grants Reserve
	£000
As at 1 April 2004	23,087
Grants received	–
Grants released	(23,087)
Balance at 31 March 2005	**–**

	2004-05 Pension Reserve
	£000
As reported at 1 April 2004	(366,079)
Adjustment to opening balance	5,184
Balance restated at 1 April 2004	(360,895)
Utilised in year	63,388
Balance as at 31 March 2005	**(297,507)**

21 Notes to Schedule 5

Administration costs have been attributed to objectives in accordance with the department's normal management account practices, wherever possible, or have been allocated in the same proportions as programme expenditure.

	2004-05
	£000
Objective 1	6,335,699
Objective 2	1,165,360
Objective 3	200,378
Objective 4	968,665
Objective 5	171,126
Programme and other current expenditure	**8,841,228**

	2003-04
	£000
Objective 1	6,005,578
Objective 2	1,100,962
Objective 3	81,892
Objective 4	1,184,884
Objective 5	82,981
Programme and other current expenditure	**8,456,297**

The Home Office capital is employed exclusively for administration purposes.

	2004-05
	£000
Objective 1	252,122
Objective 2	4,764,704
Objective 3	19
Objective 4	88,495
Objective 5	–
Total capital employed	**5,105,340**

	2003-04
	£000
Objective 1	23,371
Objective 2	5,232,837
Objective 3	318
Objective 4	4,609
Objective 5	323
Total capital employed	**5,261,458**

22 Capital commitments

	2004-05	2003-04
	£000	£000
Contracted capital commitments at 31 March 2005 for which no provision has been made.	**711,495**	**609,934**

23 Commitments under leases

A Operating Lease

	2004-05 Land and Buildings	2004-05 Other	2003-04 Land and Buildings	2003-04 Other
	£000	£000	£000	£000
At 31 March the Department was committed to making the following payments during the next year in respect of operating leases expiring:				
within one year	13,172	1,922	16,239	1,032
after one but not more than five years	7,770	4,184	11,250	3,560
after five years	67,110	970	56,275	427
	88,052	**7,076**	**83,764**	**5,019**

B Non-cancellable contracts

At 31 March the Prison Service was committed to making the following payments during the next year in respect of non-cancellable contracts expiring:

	£000	£000
Rental due within 1 year	55,914	117,740
Rentals between 2 – 5 years	57,496	24,108
Rentals over 5 years	173,219	49,630
Total Commitments	**286,629**	**191,478**

With reference to the above table for non-cancellable contracts, the following should be noted:
* Other contracts after 5 years, the prison escort contracts were re-tendered in 2004, for periods in excess of 5 years

24 Commitments under PFI contracts

The Home Office has entered into the following PFI contracts where the following payments will arise during the next year.

	2004-05	2003-04
	£000	£000
A Off balance sheet		
Expiry within 1 year	–	–
Expiry within 2 to 5 years *	119,000	45,000
Expiry within 6 to 10 years **	38,000	113,700
Expiry within 11 to 15 years	–	–
Expiry within 16 to 20 years	–	–
Expiry within 21 to 25 years	–	–
Expiry within 26 to 30 years ***	33,000	2,900
	190,000	**161,600**

* UK Passport data capture and supply systems
** Home Office & Prison Service IT systems
*** Home Office central London accommodation

UK Passport Data Capture and Supply Systems

2004-05 was the seventh year of the ten year contracts awarded under the Public/Private Partnerships Initiative to Seimens Business Services and SP&S Ltd. The total award value of the two contracts over the full ten years is estimated at £433 million.

Home Office and Prison Service IT systems

Core Home Office modernisation programme commenced in February 2001 when the contractor, SIRIUS, a specially constructed consortium of ICL, PWC and Global Crossing assumed responsibility for operating and maintaining the Home Office's IT and telephony. Over the 10 year life span of the programme, the contractor will develop the Home Office's e-mail, Intranet, Extranet and telephone voice services, supported 4,800 desktops and help move towards delivering the Home Office's aim of providing 100% electronic delivery in 2005. The contract is treated as Off Balance Sheet with the separation payment streams to the contractor for IT and telephony charged to the Operating Cost Statement. The Quantum IT facility for Prison Service has an estimated capital value of £51 million and runs for a 10 year term from 29 February 2000. The IT 2000 Home Office e-Business and IT project, with a term of 10 years from 10 October 2000 has an estimated contract value of £25 million.

Home Office Central London Accommodation

On 26 March 2002, a 29 year public private partnership contract was signed for the construction and maintenance of anew central London Headquarters building at 2 Marsham Street. The new building houses the majority of staff in the Home Office based in Central London. The new property is built and run by Anne's Gate Property (AGP) consortium. Construction was completed by quarter one of 2005 and the building is now fully operational. The contract has an estimated capital value of £200 million and runs for 30 years from 26 March 2002.

	2004-05	2003-04
	£000	£000
B On balance sheet		
Expiry within 1 year	–	–
Expiry within 2 to 5 years	–	–
Expiry within 6 to 10 years	–	–
Expiry within 11 to 15 years	32,200	12,656
Expiry within 16 to 20 years	97,468	–
Expiry within 21 to 30 years	245,959	144,119
Home Office (Correctional Services) Contracts awarded under PFI Initiative	**375,627**	**156,775**

Home Office (Correctional Services) Contracts awarded under PFI Initiative

These contracts commenced between 1998-1999 to 2002-2003 and are for thirty years at the end of the contracts the buildings will be returned to the National Offender Management Service at no cost. The freehold land for these prisons is owned by the Home Office (Correctional Services – National Offender Management Service) and leased to the contractors for a peppercorn rent.

Details of PFI contracts

The following contracts are in operation:

- An 850 place new prison at HMP Altcourse with a term of 30 years from 20 December 1995. The estimated capital value of the contract is £88 million.
- Design, build, finance and operate 800 place category B prison near Bridgend, South Wales, with a term of 30 years from 31 December 1995. The estimated capital value of the contract is £74 million.
- Design, build, finance and operation 500 place category B prison at HMP Lowdham Grange, with a term of 30 years from 08 November 1996. The estimated capital is £32 million.
- 400 place young offenders and juveniles' prison at Pucklechurch, near Bristol, with a term of 30 years from 29 June 1998. The estimated capital value of the contract is £30.7 million.
- Design, build, finance and operate 800 place category B prison HMP Forest Bank, on site of former Agecroft power station, with a term of 30 years from 02 July 1998. The estimated capital value of the contract is £38.6 million.
- Prison Service – Heat/Energy tranche 1, with a term of 15 years from 04 November 1998. The estimated capital value of the contract is £9 million.
- Prison Service – Heat/Energy tranche 2, with a term of 15 years from 01 August 2001. The estimated capital value of the contract is £16 million.
- Design, build, finance and operation 600 place category B prison HMP Rye Hill at Onley, near Rugby with a term of 30 years from 22 July 1999. The estimated capital value of the contract is £34.7 million.

- Design, build, finance and operation 800 place prison and therapeutic community facility at HMP Dovegate Marchington, Staffordshire, with a term of 30 years from 24 September 1999. The estimated value of the contract is £48 million.
- Design, build, financing and operation new custodial services at Ashford in Middlesex, with a term of 30 years from 20 December 2002. The estimated capital value of the contract is £47.1 million.
- Design, build, financing and operation new custodial services at Peterborough in Cambridgeshire, with a term of 30 years from 14 February 2003. The estimated capital value of the contract is £64.4 million.

Criminal Records Bureau PPP Contract – value and length of contract

2004-05 was the third year of the ten year contract awarded under the PPP initiative to provide the Disclosure Processing Service. The contract (from March 2002 to March 2012) has an estimated total value of £400m, with the actual final value determined by demand for Disclosure Notices.

25 Contingent liabilities

The Home Office has contingent liabilities in respect of the following matters:

- Claims to injury to staff, prisoner and public amount to £7.3 million (£10.3 million in 2003-04) have been indicated, where the likelihood of a liability arising is possible. Other claims where it is probable that a liability will arise have been provided for in note 18.
- As at 31 March 2005 the CRB had received claims for compensation the amount of which cannot be reliably estimated. These claims are being contested and, in management's opinion will not lead to a liability (2003-04: £110,285).

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

Quantifiable

	1st April 2004	Increase in year	Liabilities Crytallised in year	Obligation Expired in year	31 March 2005
	£000	£000	£000	£000	£000
The Home Office Central London Accommodation HOCLAS Project (HOCLAS) for the relocation of Home Office and Prison Service accommodation to Marsham Street London. Minute laid 23/01/02.	1,750	–	–	–	1,750
The Security Industry Authority (SIA) registered a contingent liability concerning the effect of Transfer of Undertakings protection of Employment (TUPE) regulations with certain local authority staff who currently licence Door Supervisors for the Security Industry could transfer to the private contractors working for the SIA. Minute laid 8/05/03	3,000	–	–	–	3,000
An indemnity in respect of any one accident, has been given to the British Airports Authority (BAA) in respect of damage on injury caused to third parties arising out of the negligence of the Prison Service in their use of vehicles travelling airside for the repatriation of prisoners.	50,000	–	–	–	50,000
The potential cost of failure of the Airwave contract.	500,000	–	–	(500,000)	–
	554,750	–	–	**(500,000)**	**54,750**

Unquantifiable

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

Guarantees

- HOCLAS warranty for supply of defective information to the contractor and limited indemnity for excess pension and termination costs.
- The National Probation Service, has reported the provision of Indemnity to members of the forty two Local Area Probation Boards to maintain the same status of indemnity that was provided by the local authorities. The Government has agreed that an individual Probation Board member should be indemnified against legal damages and costs arising from advice given, or action done, honestly and in good faith in the execution or purported execution of his board functions, except where the board member has acted recklessly.
- Police – City of London Economic Crime Basic Command Unit (ECBCU) (Minute laid 12 March 2004). If the Home Office reduces or discontinues its share of the match funding of the expanded ECBCU then it will contribute 50% to any resulting costs.

Indemnities

- HM Prison Service Crown as insurer of last resort in respect of contracts to design, construct, manage and finance new prisons. Minutes laid 3 July 1995 and 19 March 1997.
- IND New Detection Technology (NDT) in Belgium and Ireland (Minute laid 10 September 2003) Contingent Liabilities arising from NDT equipment loaned by the United Kingdom Immigration Service to recipients in Zebrugge and Rosslare.
- IND New Detection Technology in Belgium, Holland and Germany (Minute laid 18 September 2003) contingent liabilities arising from NDT equipment loaned by the United Kingdom Immigration Service to recipients in Zebrugge, Ostend, Vlissingen and German/Polish frontier.
- IND New Detection Technology in France (Minute laid 18 December 2003) contingent liabilities arising from NDT equipment loaned by the United Kingdom Immigration Service to recipients in France.
- IND New Detection Technology in any EC State. (Comprehensive Minute laid 2 July 2004). Contingent liabilities arising from NDT equipment loaned in future by the United Kingdom Immigration Service to recipients in any of the EC States.
- The United Kingdom Passport Agency has contingent liabilities in respect of its ten year Public/Private Partnership agreements with Siemens Business Services and Secure Printing and Services Limited. The agreements contain termination and expiry clauses, which if activated by the Agency would result in financial liabilities being incurred. The Agency believes that the likelihood of these liabilities materialising is remote, but as a possibility remains, are disclosed here for completeness.

27 Related party Transactions

The Home Office is the parent of the Prison Service Agency, the United Kingdom Passport Service, the Criminal Records Bureau, the National Probation Service and sponsors the Forensic Science Service (trading fund). These bodies are regarded as related parties, with which the Home Office has had various material transactions during the year.

At the end of the each financial year, the Home Office requests that each of its senior managers complete a declaration, stating where they or their spouse, have been in a position of influence or control in organisations with which the Home Office has transactions. All the declarations are to the effect that no such related parties existed. Note 35 provides details of intra-government balances and Note 9 identifies amounts transacted with Home Office sponsored NDPBs and the Forensic Science Service.

28 Entities within the Departmental Boundary

A list of entities can be found on page 4.

29 Losses and Special Payments

		2004-05
	Number of cases	£000
Details of loss cases that exceed £100,000		
The following losses and special payments are included in the Operating Cost Statement		
Cash losses	1,413	142
Losses of accountable stores	3,093	705
Fruitless payments and constructive losses	71	40
Claims waived or abandoned	31	69
Bicester write off	1	11,000
Special payments	7,497	11,400
Total	**12,106**	**23,356**

Home Office

In addition to the above the following items are charged to the Operating Cost Statement:

- Payments made by the National Asylum Support Service included £68,300,000 in respect of "Voids". This is a reduction of £19,400,000 compared to 2003/04, reflecting ongoing action to reduce the level of voids. "Voids" are the bed spaces – not whole properties – that are not being occupied at any particular time. They are part of the accommodation stock for asylum seekers to which the Home Office is contractually committed. Retention of these voids has provided the Immigration and Nationality Directorate with the flexibility to accommodate applicants at short notice at a lower cost per room.

- Payments in respect of non-entitled asylum claimants amount to £3,048,000. This amount relates to asylum seekers supported directly by NASS and is made up of £1,458,000 in cash support and £1,590,000 in accommodation charges. These payments were made principally in the short period immediately following negative decisions, prior to subsistence being terminated, and reflect the time required to implement the termination of benefits in such cases.

Prisons

Special payments include 7 payments over £100,000 arising from compensation claims by staff and four over £100,000 in respect of prisoners.

30 Significant events occurring since the balance sheet date

From 1 April 2005, following further reconstructing of policy between NOMS and the Prison Service, the management of all Prison Service property and some other policy units transferred to NOMS. This results in a reduction in the budget for the Prison Service for 2005-06 amounting to £577m. Operating costs of £330m relate to capital charges and £247m relate to staff and other admin costs. The value of land and buildings transferred, including assets under construction, amount to approximately £4,879m. From 1 April 2005, Primary Care Trusts took over budgetary responsibility for medical care for a further 84 prisons.

31 Financial Instruments

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

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

Liquidity and Interest Rate Risk

The Home Office has no borrowing and relies on funding from Parliament for its cash requirements, and is therefore not exposed to liquidity risks. With the exception of cash held in trust connected with the Futurebuilders programme, which has been treated as a short-term deposit within debtors less than one year, the Home Office has no material deposits, and all material assets and liabilities are denominated in sterling.It is not exposed to interest rate risk or currency risk. The fair value of the cash is the same as the book value.

Financial Liabilities

					Fixed Rate financial liabilities	**Fixed Rate financial liabilities**	**Non interest bearing financial liabilities**
	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Non interest bearing financial liability	Weighed average interest rate	Weighed average period for which rate is fixed	Weighed average period until maturity
	£000	£000	£000	£000	%	Years	Years
At 31 March 2005:							
Sterling	569,467	–	392,031	177,436	8	25	1
Gross financial liabilities	**569,467**	**–**	**392,031**	**177,436**	**8**	**25**	**1**
At 31 March 2004							
Sterling	538,264	–	291,958	246,306	8	25	1
Gross financial liabilities	**538,264**	**–**	**291,958**	**246,306**	**8**	**25**	**1**

Financial Assets

	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Non interest bearing financial liability	**Fixed Rate financial liabilities** Weighed average interest rate	**Fixed Rate financial liabilities** Weighed average period for which rate is fixed	**Non interest bearing financial liabilities** Weighed average period until maturity
	£000	£000	£000	£000	%	Years	Years
At 31 March 2005:							
Sterling	83,643	–	16,838	66,805	8	25	1
Gross financial assets	**83,643**	**–**	**16,838**	**66,805**	**8**	**25**	**1**
At 31 March 2004							
Sterling	134,375	–	18,580	115,795	8	25	1
Gross financial assets	**134,375**	**–**	**18,580**	**115,795**	**8**	**25**	**1**

The departments non-interest bearing assets comprises cash and bank in hand (£63,388,000) and Public Dividend Capital in FSS (£17,971,000).

32 Actual outturn – resources and cash

32.1 Actual outturn – resources:

		£
Request for resources 1:	Actual amount net resource outturn	12,535,359,213
	Actual amount of savings/(excess) in resources over Estimate	452,100,787

32.2 Actual outturn – cash:

Net cash requirement:	Outturn net cash requirement	12,309,370,620
	which is less than the Estimate by	910,274,380
	The actual receipts surrenderable to the Consolidated Fund were	245,335,350

33 Prior period adjustment

There were no prior period adjustments.

34 Transfer of functions to other departments

There were no transfers of functions to other Government departments in the financial year ending 31 March 2005.

35 Intra-government balances

	Debtors amounts falling due within one year	Debtors amounts falling due after more than one year	Creditors amounts falling due within one year	Creditors amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	233,798	88	(199,481)	–
Balances with local authorities	6,703	–	(4,939)	–
Balances with NHS trusts	3,454	–	(616)	–
Balances with public corporations and trading funds	1,775	–	–	–
Balances with bodies external to government	144,881	7,023	(927,184)	(381,941)
At 31 March 2005	**390,611**	**7,111**	**(1,132,220)**	**(381,941)**
Balances with other central government bodies	236,822	967	(291,036)	–
Balances with local authorities	4,721	–	–	–
Balances with NHS trusts	1,616	–	–	–
Balances with public corporations and trading funds	2,251	–	–	–
Balances with bodies external to government	120,272	9,165	(621,750)	(284,531)
At 31 March 2004	**365,682**	**10,132**	**(912,786)**	**(284,531)**

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