

The Government Actuary's Department

Annual Report and Resource Accounts 2005-06

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(For the year ended 31 March 2006)

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Annual Report and Resource Accounts: The Government Actuary's Department

Foreword

Introduction

This document contains the Annual Report and Resource Accounts of Government Actuary's Department (GAD) for the year 1 April 2005 to 31 March 2006. These have been prepared in accordance with the guidance set out in HM Treasury's Financial Reporting Manual (FReM) for 2005-06.

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

The Aim and Objectives of the Department

The aim of the Department is *to provide mainly public sector clients with independent, professional actuarial advice of the highest quality.*

To achieve our aim, the Department works to:

Objective 1

Provide actuarial advice to Government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main public service pension schemes) and other employee benefits;

Objective 2

Provide the social security projections, demographic analyses and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy and provide the actuarial advice necessary for the regulation and supervision of financial institutions.

Principal Activities

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

- a. Occupational pensions – A reasonable standard of living for the nation's citizens depends on an effective system of occupational and personal pensions provision. The sums involved are large and have an important bearing on the national economy. Public sector pension costs are a major item of expenditure. Their design must support employment objectives and appropriate costing and financial mechanisms are important in achieving value for money and financial control. They are a significant factor in the private finance initiative, in public/private partnerships and in contracting-out of services. Private pension schemes are governed by complex legislation and regulation, with a high level of actuarial involvement. The Department for Work and Pensions (DWP), the Treasury, HM Revenue & Customs, the Pensions Regulator, the Pension Protection Fund, and virtually all other government departments and many public sector bodies call on GAD for advice on strategic and policy issues relating to pensions, advice on supervision of private pension schemes, individual cases and assistance on all matters relating to public sector pensions.

- b. Social Insurance – From its inception GAD has played a major role in establishing sound financial disciplines in this major area of public expenditure, which is a fundamental aspect of the modern state and economy. The Government Actuary has statutory obligations to report to Parliament with a range of independent reports on the financial impact, both in the short and long-term, of the social security legislation. Under the Social Security Administration Act 1992 there is a requirement for the Government Actuary to prepare a report to accompany any Order concerning the annual uprating of benefits, or changes in contributions, laid before Parliament by the Secretary of State for Work and Pensions. Legislation also demands a five-yearly report on the long-term financial prospects for the National Insurance Fund. A separate report to Parliament is expected on the financial impact of any major new social security legislation, and on the terms for occupational and personal pension schemes contracting out of the State Second Pension. GAD also advises a number of overseas governments on social security and pensions.
- c. Demography and Statistics – The recommendation made in the Morris Review to transfer a major part of the Demography and Statistics work to the Office for National Statistics (ONS) was implemented with effect from February 2006. GAD will, however, continue to provide advice to ONS on a repayment basis. Advice from GAD continues to depend critically on the reliable collection of past and present data and projection of probable future trends. Before their transfer to ONS, the Demography and Statistics section completed the 2004-based set of population projections, which included, for the first time, a range of variant projections published with the principal projections.
- d. Insurance Supervision – The Department continues to advise overseas governments on insurance supervision.

Other Reports

GAD financial targets were published in its 2006 Spring Departmental Report (Cm 6831) along with future expenditure plans covering 2006-07 and 2007-08. That report contains information about GAD which supplements this Annual Report and Accounts.

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

- Main Estimates 2005-06
- Supplementary Budget information 2005-06
- Public Expenditure Statistical Analyses 2006 which present the overall Government expenditure outturn figures and plans for 2000-01 to 2007-08
- Spending Review 2004 which presents Government Spending plans for 2005-06 to 2007-08.

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

Management Structure and Governance:

Minister

GAD is one of the Chancellor's Departments. The Economic Secretary to the Treasury (Ivan Lewis MP) had Ministerial responsibility for the Department with effect from 9 May 2005. Prior to this date the Financial Secretary to the Treasury (Stephen Timms MP) was the Minister responsible for GAD. No remuneration is payable by the Department to the Minister and the Department has no Special Advisers. The recent Government reshuffle in May 2006 has seen Ed Balls MP replace Ivan Lewis MP as Economic Secretary to the Treasury with responsibility for the Department.

Permanent Head of the Department and Management Board

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

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

*Kim Clegg resigned from GAD with effect from 5 March 2006. Kevin Down has been recruited as her replacement and joined GAD on 5 June 2006.

**The Non-Executive Directors joined the Management Board of GAD in December 2004. They were selected for their independence and complementary skills.

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

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

Governance

The Management Board meets monthly (normally with the exception of August). It focuses on the overall strategic management of the Department and takes decisions on the key high level issues affecting the Department. Day-to-day operational issues are delegated to individual Board Members, in accordance with their job descriptions, or to the Operations Committee and the Technical Committee, chaired respectively by the Deputy Government Actuary and the Government Actuary. A summary of the terms of reference of the Management Board, the Operations Committee and the Technical Committee is at Annex A.

There are a number of other Committees, working groups and task forces within GAD, most of which report to the Operations Committee. These all have clear terms of reference. Information about their duties and responsibilities are available on GAD's intranet.

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

Audit Committee

The Audit Committee is currently chaired by David Parsons, who is a non-executive Member recruited from the Accounting and Finance Team of the Home Office. Non-Executive Directors Jan Smith and Graham Bartlett, together with Ian Boonin (GAD), are also Audit Committee Members. The Government Actuary, Director of Finance & Strategy, Deputy Government Actuary, the external auditors (NAO and Moore Stephens) and the Internal Auditor are invited to attend. The Committee normally meets three or four times a year.

Management Board Members' Remuneration

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

Management Commentary:

Operating Review

The past financial year has seen GAD in a very strong financial position, experiencing an unprecedented level of demand for our services. In order to keep pace with demand, the Department is currently actively recruiting to build up its technical resources. One of the major factors in this surge in demand for GAD services has been the Public Service Forum discussions on the future of the main public service pensions schemes. In addition, there has been a huge amount of central activity on developing policy for the public services as a whole. There have been intensive discussions about possible reforms to each of the major pension schemes for which GAD provides advice. As in previous years we have bid and won competitive tenders.

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

The last year saw the implementation of key Morris Review recommendations. From February 2006 most of our specialist demography section was transferred to become part of the National Statistics Centre for Demography, which is a division of the Office for National Statistics (ONS). This brought to an end more than 50 years for which the Department has been responsible for the official national population projections. The Department will, however, continue to provide advice on mortality matters to the projections team at ONS.

GAD has also seen a number of staff transferred to the Department for Work and Pensions (DWP) and to HM Revenue and Customs (HMRC), with a view to performing more of the day to day modelling and analysis work for the UK social security scheme within those departments. This service was previously funded on a repayment basis. GAD will, however, continue to be responsible for the formal reports to Parliament on the National Insurance Fund (NIF). GAD is currently working on the next quinquennial review of the long term finances of the NIF and this should be completed and published in 2006.

GAD published the 2004 Occupational Pensions Scheme Survey in mid 2005, having had a good response rate from pension administrators. The 2005 survey was published on 15 June 2006, although, in line with the Morris Review recommendation, it is likely that responsibility for the survey will thereafter pass to the ONS.

Public sector pensions remain GAD's predominant area of activity. GAD advised most of the main public service pension schemes, gave general pensions policy advice to HM Treasury and advised government departments on issues specific to them. Our actuaries advised the trustees and sponsoring employers of a number of funded pension schemes, with advice ranging from completing actuarial valuations to investment strategy and the management and communication of structural changes to schemes. The development in 2005 of a new pension valuation system has given the Department a strong platform to continue to deliver the best quality pensions advice and support for our clients. Further development of the system is planned, which will enable our clients to reap the benefits of improved efficiency and greater flexibility in our service.

GAD's international business continues to flourish. The Department has recently won the contract to carry out a review for the Zambia National Pension Scheme Authority. GAD continues to give advice to IMSS, the main health provider in Mexico, on risk management and long term financial stability. GAD is also working on social security projects for Mauritius and Guernsey and on insurance supervision for Cyprus and Saudi Arabia. We are assisting the British Council in the delivery of a large technical assistance project for China's social security.

Further functions performed included advice to the Department for Constitutional Affairs on the assessment of damages in personal injury and fatal accident cases. GAD also provided regular certification of the randomness of the monthly premium bond draw (ERNIE).

Following the Morris Review, the Department has been taking a number of positive steps to operate more effectively in a competitive environment and to modernise working practices and strengthen relationships with clients. These measures include initiating an internal review of GAD's marketing strategy, reviewing team structures for improved efficiency, modernising the Department's corporate identity and increasing resources provided for client liaison. The Department continues to look for opportunities to gain new clients, which helps to keep our fees and charges very competitive. Strong and clear leadership from the Management Board, together with the active participation of every member of staff, has resulted in a steady improvement in client satisfaction, as indicated in our annual Client Satisfaction Survey, as well as greater demand for our services. This has contributed to our strong financial position in the year just ended.

Financial Review

2005-06 proved to be a very successful year for GAD. We have seen a significant increase in client demand for GAD services across all customer areas recorded, but most significantly in demand for advice in UK pensions. There have also been increased earnings from international work. Fee income levels have increased by 22% from £8.7m in 2004-05 to £10.7m in 2005-06. Indeed over the past two years fee income has increased by 54%. This huge growth in demand for GAD's services has meant the department closing its accounts for 2005-06 reflecting a profit of £411K shown in the Operating Cost Statement (see page 28). This sum will be returned to the Exchequer as a Consolidated Fund Extra Receipt (CFER). 57% of fee income recorded in 2005-06 was generated from other Government Departments (52% in 2004-05), with the balance coming from the wider public sector, the private sector and overseas clients. This past year has seen GAD expand its services with the back office functions providing shared services (finance, audit, IT, payroll and facilities management) to one of its tenants, the Human Tissue Authority (HTA), on a repayment basis.

Although the Client Liaison team again ensured that our debt levels were kept well under control, some of our clients, including a few UK government clients, unfortunately still do not pay within the 30-day payment terms and this continues to cause problems in forecasting and managing our cash flow. The level of debt has increased in 2005-06 by some £890K but this is commensurate with the increased level of chargeable work invoiced just before our accounts were closed.

The increased investment in capital resulted in an increase in the depreciation charge. This year GAD took the opportunity to increase its capital spending by applying to Treasury for permission to transfer £200K from its surplus running cost provision into capital. This increased the capital provision to £438K and allowed the department to invest in improved software and hardware to improve the services we offer to clients. Our normal replacement cycle on assets has accounted for the rest of the year's capital expenditure. In addition this year we have also had to incorporate a £182K loss on revaluation of software and hardware arising from the revaluation indices published by the Office for National Statistics.

Staff costs are the largest element of our budget, accounting once again for some 70% of total expenditure, with the next most significant item being accommodation charges, which accounted for 19%. Staff costs increased by 15% reflecting increased numbers of professional staff required to meet the current high demand for our services. However the increase in staffing costs is recovered through the increase in fee income. At the same time, increased efficiency has resulted in general administrative costs excluding non cash costs rising by only 2.2%

Looking ahead, there is no current indication that growth in demand for GAD's services will slacken in 2006-07. In fact, the exceptionally high demand for our services especially with regard to UK public sector pensions work has meant GAD having actively to recruit in order to build up its technical resources to keep pace with current demand. As a result of this exercise GAD expects to see its salary and running cost expenditure increase in 2006-07 but all extra costs will be recovered through the extra fee income that will be generated.

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

Through careful budgeting and with the expectation that client demands on GAD will continue to remain buoyant, the Management Board has taken the decision to limit hourly rate increases to an average of 3% for 2006-07 compared to 2005-06.

The summary table overleaf includes data taken from our accounting schedules and notes contained in these resource accounts:

Table 1

Income and Expenditure on a Resource Basis

for the year ended 31 March 2006

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Expenditure		
Staff costs	7,188	6,466
General administrative costs	2,682	2,670
Movements in work in progress	(101)	88
Non cash costs	505	377
Total Expenditure	10,274	9,601
Income		
Fees and charges to other government Departments	6,115	3,537
<i>Of Which: Income from sub-tenants</i>	722	453
<i>Fees and charges to National Insurance Fund</i>	874	520
Fees and charges to the wider public sector and others	4,570	4,515
Total Income	10,685	8,572
Balance of expenditure over income		
(Net Operating Cost)	(411)	1,029
Adjustment for Machinery of Government Changes 2005-06 (i)	—	(413)
Revised Net Operating Cost	(411)	616
Reversal of Adjustment for Machinery of Government Changes	—	413
Net Operating Cost	(411)	1,029
CFER Payable	411	—
Purchase of fixed assets	391	366
Non cash items	(505)	(377)
Adjustment for changes in working capital	869	(306)
Changes in creditors falling due in more than one year	(384)	(384)
Use of provision	9	9
Net Cash Requirement for the year	380	337

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

Payment of Suppliers

The Department adheres to the Better Payment Practice Code. The policy is that all bills should be paid in accordance with credit terms, or where no such terms exist, within 30 days of the receipt of goods or services, or upon the presentation of a valid invoice, whichever is the later. The calculation of payment performance for 2005-06 has been based on continuous monitoring of payments since the start of the year. On this basis, we are pleased to report that 98% of payments by volume met the policy criteria. No interest payments were made to suppliers under the Late Payment of Commercial Debts (Interest) Act 1998. This performance represents a significant improvement on the figure for 2004-05 of 89% which had arisen from a change in accounting systems causing some delays in payment processing. However, nearly all the late payments recorded in earlier year's statistics have now dropped out of the system. It is planned to introduce a new procurement system in 2006-07 which should lead to further improvements.

Employment Policies

Equal Opportunities and Diversity

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

Disabled Persons

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

Information for Staff and Communications Policy

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

Training and Development

GAD has always recognised that people are the most important resource to manage. The Department successfully earned re-accreditation as Investors in People (IiP) once more in 2004. The recruitment of an in-house trainer has improved delivery of more focussed management training courses and enabled us to provide more one-to-one coaching than was previously available.

GAD also sponsors staff taking a number of different professional exams (including actuarial and accountancy disciplines) and operates a staff mentoring scheme for trainees.

Auditor

The Comptroller and Auditor General is the external auditor for GAD's accounts. The auditor's remuneration in 2005-06 increased to £40,000 (£2004-05: £35,000.) No fees were incurred for non-audit work (2004-05 £Nil.)

The Accounting Officer confirms that:

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



Chris Daykin CB MA FIA
Government Actuary
Accounting Officer
20 June 2006

Terms of Reference of Management Board and its key Committees – Annex A

Management Board

Aim

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

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

Responsibilities

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

Links to Other Government Departments and Authorities

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

Audit Committee

Aim

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

The Audit Committee will meet at least three times a year. The Chair of the Audit Committee may convene additional meetings as deemed necessary.

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

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

Responsibilities

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

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

Operations Committee

Aim

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

Responsibilities

- The Operations Committee is responsible for the effective and efficient day to day delivery of GAD's business. It functions within the policies and strategies of the Management Board; and the requirements placed upon the Government Actuary as Head of Department and Accounting Officer.
- The Committee has authority to take such decisions as are required in order that the Management Board can focus on strategic and major policy matters issues.
- The Operations Committee will coordinate and oversee decisions by executive managers of GAD to ensure that there is coherence in operational practice across the department, and that the departmental implications have been considered before decisions are made. Executive managers will be responsible for actions and decisions in accordance with their job descriptions.
- The Risk Assessment Group and the Business Systems Group report to the Operations Committee.
- The Operations Committee is not responsible for the development, content or presentation of professional advice.

Specific responsibilities

Finance

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

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

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

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

Risk management

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

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

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

Effectiveness and efficiency

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

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

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

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

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

Marketing

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

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

Personnel

Coordinate manpower planning throughout the department and approve recruitment plans.

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

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

Technical Committee

Aim

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

Responsibilities

- To consider and promote professional practices in the department, including the use and management of actuarial techniques, and to identify training needs in this area.
- To consider and recommend baseline actuarial assumptions for use within the department.
- To produce as required a set of position papers – Practice Reference Documents – to be made available across the department.
- To consider the department's responses to formal and informal consultation exercises on professional matters.
- To consider how the department should react to developments affecting our professional role.
- To monitor and take action in support of the department's compliance with professional requirements, including keeping up-to-date the GAD Actuarial Practice Notes.
- To consider any generic issues relating to compliance with the Professional Conduct Standards, the Civil Service Management Code and the profession's Guidance Notes.
- To monitor and consider the handling of risks to GAD's business which are professional or technical actuarial.
- To identify research priorities and co-ordinate research activities.

Attendance at Management Board meetings in 2005-06

Number of meetings	9
Number of meetings attended by:	
Chris Daykin	8
Andrew Johnston	7
Kim Clegg ¹	6
Simon Bancroft-Rimmer	7
David Lewis	6
Graham Bartlett	9
Jan Smith	9

¹ Resigned 5 March 2006

Attendance at Audit Committee meetings in 2005-06

Number of meetings	3
Number of meetings attended by:	
David Parsons (Chairman)	3
Graham Bartlett (NED)	3
Jan Smith (NED)	3
Ian Boonin	2
Chris Daykin (Accounting Officer)	3
Kim Clegg (Director of Finance)	3
Andrew Johnston (DGA) ¹	1
Tony Elkington (Internal Audit)	3
NAO (External Audit)	3
Moore Stephens (External Audit)	3

¹ Appointed to Audit Committee 1 November 2005

Remuneration Report

Salary and pension entitlements of Management Board Members

Remuneration Policy

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

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

Service Contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salary and pension entitlements

No Ministerial Remuneration is paid. The following sections provide details of the remuneration and pension interests of the Board Members. These details are shown in accordance with the 2005-06 Financial Reporting Manual (FReM) issued by HM Treasury. These figures have been supplied by Cabinet Office.

In addition to those listed in the table, the Government Actuary's Department has two non-executive directors (NEDs), who receive no emoluments except for fees of £500 per day of service plus their travelling expenses (see Note 8a for more details). The total amount received by the NEDs in 2005-06 was £12,392.95 in respect of fees and £44.80 in respect of expenses.



Chris Daykin CB MA FIA
Government Actuary
Accounting Officer

20 June 2006

Salary and pension entitlements

Remuneration and pension benefits of Board members in 2005-06

Name of Officer	Salary including performance pay (ii)	Real increase in pension at age 60 (iii)	Real increase in lump sum at age 60 (iv)	Pension at 31/03/05 (v)	Lump sum at 31/03/05 (vi)	CETV at 31/03/05 (vii)	CETV at 31/03/06 (viii)	Employee contributions and transfers-in (ix)	Real increase in CETV as funded by employer (x)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£	£'000
Chris Daykin <i>Government Actuary</i>	185-190	2.5-5	7.5-10	80-85	250-255	1,545	1,941	4,753	63
Andrew Johnston <i>Deputy Government Actuary</i>	135-140	0-2.5	5-7.5	45-50	145-150	602	810	4,699	31
Kim Clegg ¹ <i>Director Finance & Strategy</i>	55-60	0-2.5	0-2.5	10-15	40-45	163	230	784	12
David Lewis <i>Head of Overseas Business</i>	110-115	0-2.5	2.5-5	15-20	50-55	323	423	1584	33
Simon Bancroft-Rimmer <i>Director of Personnel</i>	40-45	0-2.5	2.5-5	10-15	30-35	104	157	664	11

¹ Kim Clegg resigned from GAD on 5 March 2006.

Salary

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

Benefits in Kind

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

Cash Equivalent Transfer Value

Columns (vii) and (viii) of the above table show the member's cash equivalent transfer value accrued at the beginning and end of the reporting period. The factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figures for 31 March 2005 have been restated using the new factors, so that they are calculated on the same basis as the CETV figure for 31 March 2006.

A cash equivalent transfer value is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A cash equivalent transfer value is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The cash equivalent transfer value figures, and, from 2003-04, the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Principal Civil Service Pension Scheme arrangements and for which the Civil Superannuation Vote has received a transfer payment relating to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

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

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

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

Civil Service Pensions

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

(i) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(ii) Premium

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents the member from undertaking any gainful employment, service is enhanced to what would have otherwise accrued at age 60.

(iii) Classic Plus Scheme

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

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

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

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

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

Further details about the Civil Service Pension arrangements can be found on the website:

www.civilservice-pensions.gov.uk

Statement of Accounting Officer's Responsibilities

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

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

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

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

Statement on Internal Control

1. Scope of Responsibility

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

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Government Actuary's Department for the year ended 31 March 2006 and up to the date of approval of the accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The department has established and maintains a comprehensive risk register. All members of the senior management team are aware of the register and it is reviewed regularly by the Risk Assessment Group. Items requiring attention are considered by the Operations Committee at its monthly meeting and any serious matters are referred to the Management Board for consideration. I expect all members of my senior management team to accept responsibility for management of risks in their areas and ensure that information on major risks is communicated to staff in an appropriate and timely manner.

4. The risk and control framework

The Risk Assessment Group was set up in 2004-05 to prepare the departmental risk register. This group keeps the scope and content of the register under regular review. The Operations Committee oversees the detailed management of risks on behalf of the Management Board. In 2005-06, further analysis of risks was carried out and the results of the latest version of the risk register were approved by the Management Board and later presented to all members of the Department at a Departmental seminar.

The Department has established the following processes:

- The Management Board generally meets once a month to consider the plans and overall strategic direction of the Department.
- Strategic aims are considered during an annual Management Board away-day session. The annual Business Plan is developed with clear aims, objectives and deliverables so that each member of staff can see a correlation between their job description and the business plan for the coming year.
- Detailed budgets for expenditure and targets for income are identified during the corporate planning process and then monitored each month through a series of financial reports presented to the Management Board.

- During 2005-06 the Management Board replaced two previous committees with an Operations Committee, chaired by the Deputy Government Actuary. Groups reporting to the Operations Committee include the Risk Assessment Group, the Business Systems Group and the House Committee. Professional and technical matters are dealt with by the Technical Committee, chaired by the Government Actuary. There is also an Audit Committee, which reports directly to the Management Board and to the Accounting Officer.
- A risk register is maintained by the Risk Assessment Group and items of concern are now identified to the Operations Committee for their consideration. Each risk recorded on the register is owned by a nominated member of staff or relevant Committee. The Risk Assessment Group approach these individuals for regular updates on the status of the risk. Any risks identified as high risk are reported to the Operations Committee who decide if the Management Board should be informed.
- All new infrastructure projects require a project impact assessment as part of the initiation process and follow the OGC Gateway review process. Major projects are also subject to a Post Implementation Review to ensure that the Department learns lessons from each implementation.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditor and the executive managers within the Government Actuary's Department who have responsibility for the development and maintenance of the internal control framework, as well as by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board, the Audit Committee.

Plans are in place to address any weaknesses that have been identified and to ensure continuous improvement of the systems in place. The key areas being addressed are the business continuity plan, production of a comprehensive finance manual, contracting arrangements with clients and IT management.

Following the Morris Review, the Department has been taking a number of positive steps to operate more effectively in a competitive environment and to modernise working practices and strengthen relationships with clients. These measures include initiating an internal review of GAD's marketing strategy, reviewing team structures for improved efficiency, modernising the Department's corporate identity and increasing resources provided for client liaison.

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

- Two Non-Executive Directors were appointed to the Management Board in December 2004, in line with best practice, and with particular regard to the increasing transparency and rigour of the risk management process.
- The Audit Committee reviews the priorities for risk assessment in the Department and agrees a timetable and yearly plan for the Internal Auditor.
- The Internal Auditor acts independently in providing advice to the Management Board and to the Accounting Officer and also makes direct recommendations to representatives on the Management Board if he feels that additional audit activity is required on specific topics.

- Senior Management Team Members also contribute to and participate actively in the profession and keep in touch with the latest professional developments by working on Committees and working parties for the Institute and Faculty of Actuaries. Up-to-date knowledge of the latest professional developments is shared through the Technical Committee, which reports to the Management Board.



Chris Daykin CB MA FIA
Government Actuary
Accounting Officer

20 June 2006

Government Actuary's Department

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

I certify that I have audited the financial statements of the Government Actuary's Department for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

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

I review whether the statement on pages 22-24 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword, the unaudited part of the Remuneration Report, the Management Commentary, and the Terms of Reference of Management Board and its key Committees. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs of the Government Actuary's Department as at 31 March 2006 and net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000;
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

23 June 2006

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

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

	Notes	2005-06				Outturn		<i>Net Total Outturn compared with and Estimate Saving/ (Excess)</i>	<i>Prior Year Outturn</i>	
		Estimate		<i>Net Total</i>	<i>Gross Expenditure</i>	<i>A-in-A</i>	<i>Net Total</i>			<i>A-in-A</i>
		<i>Gross Expenditure</i>	<i>A-in-A</i>							
Request for resources 1	2 & 3	11,618	10,569	1,049	10,274	10,274	–	1,049	1,029	
Total Resources		11,618	10,569	1,049	10,274	10,274	–	1,049	1,029	
Non-operating Cost Appropriated in Aid		–	–	–	–	–	–	–	–	

Net Cash Requirement 2005-06

	Notes	2005-06		<i>Outturn (Net Total)</i>	<i>Net Total Outturn compared with Estimated Saving</i>	<i>Prior Year Outturn</i>
		<i>Estimate</i>	<i>Estimate</i>			
		£000	£000			
Net Cash Requirement	4	729		380	349	337

Summary of income payable to the Consolidated Fund

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

	Notes	2005-06 Forecast		2005-06 Outturn	
		<i>Income</i>	<i>Receipts</i>	<i>Income</i>	<i>Receipts</i>
		£000	£000	£000	£000
Income payable to the Consolidated Fund		–	–	411	411
Total	5 & 6	–	–	411	411

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

The notes on pages 32 to 48 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2006

	Note	2005-06		2004-05 Restated*	
		£000	£000	£000	£000
Administration Costs					
Staff Costs	8	7,188		6,253	
Other administration costs	9	3,187		3,002	
Movement in Work in Progress	13	(101)		88	
Gross Administration costs		10,274		9,343	
Operating income	10	(10,685)		(8,727)	
Net Operating (Surplus)/Cost			(411)		616

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

Statement of Recognised Gains and Losses
for the year ended 31 March 2006

	Note	2005-06	2004-05
		£000	£000
Net gain on revaluation of Tangible Fixed Assets	19	69	8
Total recognised gains and losses for the financial year		69	8

The notes on pages 32 to 48 form part of these accounts.

Balance Sheet
as at 31 March 2006

	Note	31 March 2006		31 March 2005	
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	11	1,605		1,541	
Intangible Assets	12	366		317	
			1,971		1,858
Current Assets					
Work in progress	13	609		508	
Debtors	14	2,983		2,077	
Cash at bank and in hand	15	760		413	
		4,352		2,998	
Creditors (Amounts falling due within one year)	16	(1,815)		(986)	
Net Current Assets			2,537		2,012
Total Assets less Current Liabilities			4,508		3,870
Creditors (Amounts falling due after one year)	16		(1,208)		(824)
Provisions for Liabilities and Charges	17		(6)		(14)
			3,294		3,032
Taxpayers' Equity					
General fund	18		3,212		3,019
Revaluation reserve	19		82		13
			3,294		3,032



Chris Daykin CB MA FIA
Government Actuary,
Accounting Officer

20 June 2006

The notes on pages 32 to 48 form part of these accounts.

Cash Flow Statement

For the year ended 31 March 2006

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net cash inflow/(outflow) from operating activities	20a	390	29
Capital expenditure and financial investment	20b	(359)	(366)
Payments of amounts due to the Consolidated Fund		-	-
Financing	20c	<u>316</u>	<u>663</u>
Increase/(Decrease) in cash in the period	20d	<u>347</u>	<u>326</u>

Explanation for 2005-06 CFERs:

1. Total CFERs paid to HM Treasury amounted to £12,899.89 made up of £11,597.96 relating to 2005-06 (physically received by HM Treasury on 3 April 2006) and £1,301.93 relating to 2004-05. Remaining CFERs payable amount to £410,241.57 reflecting income in excess of the Gross Administration Costs incurred.

The notes on pages 32 to 48 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2006

	Note	Gross £000	2005-06 Income £000	Net £000	Gross £000	2004-05 Restated* Income £000	Net £000
AIM:							
To provide mainly public sector clients with independent, professional, actuarial advice of the highest quality at a reasonable cost.							
Objective 1: To provide the actuarial advice to Government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main pension service schemes) and other employee benefits.							
	21	7,112	7,135	(23)	6,472	5,821	651
Objective 2: To provide the social security projections, demographic analysis and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy and provide the actuarial advice necessary for the regulation and supervision of financial institutions.							
	21	3,162	3,550	(388)	2,871	2,906	(35)
Net Operating Costs	21	10,274	10,685	(411)	9,343	8,727	616

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

The notes on pages 32 to 48 form part of these accounts.

Notes to the Resource Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the Finance Reporting Manual (FReM) 2005-06 issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The particular accounting policies adopted by the Department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs. As allowed in the FReM 2005-06, the Department uses end-year revaluation for modified historic cost accounting purposes.

1.2 Intangible Fixed Assets

Computer software

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

1.3 Tangible Fixed Assets

Fitting out costs – Leasehold Property

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

Computer Equipment and Office Furniture

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

1.4 Depreciation

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

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

Some individual software packages are depreciated on a longer or shorter life span – dictated by the expected useful life of the system. Items that have a determinable lifespan (such as software licences) will have a lifespan equal to that of the licence itself. Some recent minor enhancements to the building are depreciated over 10 years.

1.5 Foreign Currency Transactions

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

1.6 Leases

GAD has an operating lease in respect of its Finlaison House premises. GAD's commitments are disclosed in note 25. There are no finance leases.

1.7 Work in Progress

Work-in-Progress is valued at the lower of cost (including appropriate overheads, multiplied by the number of rechargeable hours booked through the time recording system and not already charged to clients) or recoverable value. Information as to the value of work-in-progress is collected through the accounts system. Work is generally billed monthly, or in some cases on completion or at agreed break-points and therefore the work in progress total is the value of incomplete work outstanding at 31 March 2006.

1.8 Operating Income

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

1.9 Administration Expenditure

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

1.10 Capital Charge

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

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

1.11 Pensions

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

1.12 Early Departure Costs

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

1.13 Value Added Tax

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

2. Analysis of Net Resource Outturn

	2005-06						Estimate		2004-05
	Outturn						Net Total outturn compared with		Prior Year
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Net Total	Estimate	Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1									
Providing an actuarial consultancy service	10,274	-	-	10,274	10,274	-	1,049	1,049	1,029
Resource Outturn	10,274	-	-	10,274	10,274	-	1,049	1,049	1,029

The Total Resource Requirement differs from the estimate as GAD earned more than forecast due to increased demand. The Net Cash Requirement differed to the estimate due to efficiency gains and increased income. Detailed explanations of the variances are given in the Operating and Financial Review.

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

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

	2005-06			2004-05
	Outturn	Supply Estimate	Outturn compared with estimate	Prior Year Outturn
	£000	£000	£000	£000
Net Resource Outturn	-	1,049	1,049	1,029
Prior Year Adjustments	-	-	-	(413)
Non-supply income (CFERs)	(411)	-	411	-
Non-supply Expenditure	-	-	-	-
Net operating cost	(411)	1,049	1,460	616

(b) Outturn against Administration Budget

	2005-06		2004-05
	Budget	Outturn	Prior Year Outturn
	£000	£000	£000
Gross Administration Budget	11,618	10,274	9,601
Income allowable against the Administration Budget	10,569	(10,274)	8,572
Net outturn against final Administration Budget	1,049	-	1,029

4. Reconciliation of resources to cash requirement

	2005-06		
	<u>£000</u>	<u>£000</u>	<u>£000</u>
	Estimate	Outturn	Net Total Outturn compared with estimate: saving/ (excess)
Resources Outturn	1,049	–	1,049
Capital:			
Acquisition of Fixed Assets	238	391	(153)
Investments	–	–	–
Non-operating A-in-A:			
Proceeds of Fixed Asset Disposals	–	–	–
Accruals adjustments:			
Non-cash items	(567)	(505)	(62)
Changes in Working Capital other than Cash	–	869	(869)
Changes in creditors falling due after one year	–	(384)	384
Use of Provision	9	9	–
Excess cash receipts surrenderable to the Consolidated Fund	–	–	–
Net cash requirement	<u>729</u>	<u>380</u>	<u>349</u>

5. Analysis of income payable to the Consolidated Fund

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

	Forecast 2005-06		Outturn 2005-06	
	<u>Income</u>	<u>Receipts</u>	<u>Income</u>	<u>Receipts</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Excess Cash surrenderable to the Consolidated Fund	–	–	411	411
Total income payable to the Consolidated Fund	<u>–</u>	<u>–</u>	<u>411</u>	<u>411</u>

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

	<u>2005-06</u>	<u>2004-05</u>
	<u>£000</u>	<u>£000</u>
Operating income	10,685	8,572
Income authorised to be appropriated in Aid	10,274	8,572
Operating income payable to the Consolidated Fund	<u>411</u>	<u>–</u>

7. Machinery of Government Transfer – Restatement of Operating Cost Statement

The demographic projections function carried out by GAD was transferred to the Office for National Statistics (ONS) under a machinery of government change from 31 January 2006. This function was funded through the Supply Estimate which has been transferred to the ONS. Comparative figures have been restated to take account of the change.

(i) Restatement of Comparatives

For the Period ending 31 March 2005

	2004-05	
	£000	£000
	Prior to Transfer of Function	Re-stated amount
Administration Costs		
Staff Costs	6,466	6,253
Other administration costs	3,047	3,002
Movement in Work Progress	88	88
Gross Administration Costs	9,601	9,343
Operating Income	(8,572)	(8,727)
Net operating cost	1,029	616

(ii) Effect of the Transfer on Current Year

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

For the Period ending 31 March 2005

	2005-06	
	£000	£000
	Outturn including Transfer of Function transactions	Re-stated amount excluding Transfer of Function transactions
Administration Costs		
Staff Costs	7,409	7,188
Other administration costs	3,253	3,187
Movement in Work in Progress	(101)	(101)
Gross Administration Costs	10,561	10,274
Operating Income	(10,537)	(10,685)
Net operating cost/(surplus)	24	(411)

For the work carried out by GAD in the 10 month period prior to the transfer of functions a balance of £344,000 has been recorded as a CFER debtor (refer to notes 14 and 16).

8. Staff Numbers and related costs**(a) Staff costs comprise:**

	2005-06			Restated 2004-05
	Permanently employed staff	Non- Executive Directors	Total	Prior Year Outturn
	£000	£000	£000	£000
Wages and Salaries	5,413	12	5,425	4,955
Social Security Costs	555	1	556	476
Other Pension Costs	1,207	–	1,207	822
Total	7,175	13	7,188	6,253

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

For 2005-06, contributions of £1,207,171 (2004-05: £822,156) were paid to the PCSPS at rates prescribed by the Treasury on the advice of the Scheme Actuary. These rates were in the range of 16.2-24.6 per cent (2004-05: 12-18.5 per cent) of pensionable pay, according to salary level.

(b) Average Number of persons employed

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

	2005-06	2004-05
Objectives		
1. To provide the actuarial advice to government Departments and other GAD clients in respect of employer-sponsored pension arrangements (particularly the main pension service schemes) and other employee benefits.	77	75
2. To provide the social security projections, demographic analysis and actuarial advice necessary to underpin Ministerial decision-making in social security and pensions policy.	31	31
Total	108	106

Following the recommendations of the Morris Review, elements of work and resources were transferred from the Government Actuary's Department to the Office for National Statistics, the Department for Work and Pensions and HM Revenue and Customs. This entailed the departure of 12 staff by 31 January 2006.

9. Non-staff administration costs

	2005-06	Restated 2004-05
	£000	£000
Rates and building service costs	604	585
Rent of building	1,389	1,319
Photocopying	12	12
Consultancy	21	19
Agency and other temporary staff costs	3	10
Recruitment	17	57
Travel, subsistence and hospitality	133	121
Training	144	170
Subscriptions	72	58
Computer running costs	184	131
Telecommunications	43	40
Stationery and publications	72	67
Machinery of Government – Contribution to administration costs	(36)	(45)
Other costs	24	81
	2,682	2,625
Non cash items:		
Depreciation and amortisation of fixed assets	265	226
Loss on revaluation of fixed assets	82	–
Cost of capital charge	117	115
Auditor's remuneration	40	35
Increase in provision for early retirement costs	1	1
	505	377
Total	3,187	3,002

10. Operating Income

The Department has a small net resource requirement to cover "core" activities which cannot be ascribed to specific clients. These "core" activities relate principally to occupational pension scheme surveys and population projections (plus associated demographic work). The latter activity was transferred to the Office for National Statistics in February 2006. This income and the matching expenditure relates to a subset of Objective 2.

	2005-06			Restated 2004-05	
	Netted off gross expenditure in subhead	Appropriated in Aid	Payable to the Consolidated Fund	Total Income	Total Income
	£000	£000	£000	£000	£000

Operating income analysed by classification and activity, is as follows:

Administration Income

Receipts from other government departments	6,115	–	–	6,115	4,576
<i>Of which: from National Insurance Fund</i>	874	–	–	874	520
<i>Receipts from Sub Tenants</i>	722	–	–	722	453
Receipts from the wider public sector and overseas clients	4,570	–	–	4,570	4,151
Total	10,685	–	–	10,685	8,727

11. Tangible Fixed Assets

	Office Furniture and Equipment	Computer Equipment	Leasehold Building	Total 2005-06
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2005	305	331	1,326	1,962
Additions	23	156	20	199
Disposals	(9)	(38)	–	(47)
Revaluation	3	(46)	73	30
At 31 March 2006	322	403	1,419	2,144
Depreciation				
At 1 April 2005	140	165	116	421
Charged in year	26	80	70	176
Disposals	(9)	(38)	–	(47)
Revaluation	1	(18)	6	(11)
At 31 March 2006	158	189	192	539
Net Book Value at 31 March 2006	164	214	1,227	1,605
Net Book Value at 31 March 2005	165	166	1,210	1,541
Asset financing:				
Owned	164	214	1,227	1,605

12. Intangible Fixed Assets

	Computer Software
	£000
Cost or Valuation	
At 1 April 2005	487
Additions	192
Disposals	(31)
Revaluation	(68)
At 31 March 2006	580
Amortisation	
At 1 April 2005	170
Charged in year	89
Disposals	(31)
Revaluation	(14)
At 31 March 2006	214
Net Book Value at 31 March 2006	366
Net Book Value at 31 March 2005	317

13. Work in Progress

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Value of time worked but not billed	609	508

14. Debtors

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Trade debtors (i) (ii)	2,839	1,949
Deposits and advances	35	32
Prepayments	108	96
Other Debtors	1	–
Total	<u>2,983</u>	<u>2,077</u>

(i) Trade debtors are shown net of a provision for bad debts of £24,183.08. (2004-05 : £53,121.74)

(ii) Trade debtors also includes a balance of £344,000 owing from the Office for National Statistics resulting from the Machinery of Government transfer (refer Notes 7 and 16).

Debtors – Intra Government Balances

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Balance with Central Government Bodies	1,266	912
Balance with NHS Trusts	197	78
<i>Sub-total intra-government balances</i>	<i>1,463</i>	<i>990</i>
Balance with bodies external to government	1,520	1,087
Total	<u>2,983</u>	<u>2,077</u>

15. Cash at Bank and In Hand

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Balance at 1 April	413	87
Net change in cash balances	347	326
Balance at 31 March 2006	<u>760</u>	<u>413</u>
The following balances at 31 March 2006 are held at:		
Office of HM Paymaster General plus cash in hand	<u>760</u>	<u>413</u>
	<u>760</u>	<u>413</u>
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	349	412
Other amounts due to the Consolidated Fund	411	1
Total	<u>760</u>	<u>413</u>

The Office of HM Paymaster General provides a current account banking service. During the year, the Department held a commercial bank account and a small amount of cash in hand (at year end this was £400.00).

The balance of funds held in the commercial bank account on 31 March 2006 was £14,446.34 and this represents third party deposits (refer to Note 28 for further information).

The balance of funds held in the HM Paymaster General account on 31 March 2006 was £759,732.58.

16. Creditors

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Amounts falling due within one year		
VAT payable	444	452
Trade creditors (i)	137	33
Accommodation Creditor	85	85
Accruals (ii)	45	3
Consolidated Fund Extra Receipt due to be paid to the Consolidated Fund	–	1
—received	411	–
—receivable (iii)	344	–
Consolidated Fund Creditor for cash unspent at year end	349	412
	<u>1,815</u>	<u>986</u>
Amounts falling due in more than one year		
Accommodation Creditor	1,208	824
	<u>3,023</u>	<u>1,810</u>

(i) £10,000 of trade creditors relate to capital investment. £127,000 relates to a credit to the sub-tenant CSCI.

(ii) £22,000 of accruals relate to capital investment.

(iii) Creditors includes a balance of £344,000 due from the Office for National Statistics resulting from the Machinery of Government transfer which becomes due to the Consolidated Fund upon receipt (refer to Notes 14 and 16).

Creditors – Intra Government Balances

(including Amounts falling due in more than one year)

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Balance with Central Government Bodies	1,675	866
Balance with bodies external to government	1,348	944
	<u>3,023</u>	<u>1,810</u>

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

17. Provision for Liabilities and Charges

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

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Balance at 1 April	14	22
Increase in provision	1	1
Payments made in year	(9)	(9)
Balance at 31 March	<u>6</u>	<u>14</u>

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

18. General Fund

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

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
General Fund at 1 April 2006	3,019	3,561
Prior Period Adjustment	–	(413)
	3,019	3,148
Net Parliamentary Funding		
Drawn Down	729	663
Deemed Supply	–	87
Supply Creditor – current year	(349)	(413)
CFER Creditor	(344)	–
Net Transfer from Operating Activities		
Net Operating Cost	411	(616)
Other CFER	(411)	–
Non Cash Charges (See Note 9)		
Cost of capital charge	117	115
Audit fee	40	35
Net Increase/(Decrease) in General Fund	193	(129)
General Fund at 31 March	3,212	3,019

19. Revaluation Reserve

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Balance as at 1 April	13	5
Arising from revaluation during the year	69	8
Balance At 31 March	82	13

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

20. Notes to the Cash Flow Statement

a. Reconciliation of operating cost to operating cash flows

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Net Operating Cost	(411)	616
Restatement adjustment	–	413
Adjustments for non-cash transactions	(505)	(377)
Increase/(Decrease) in Work in Progress	101	(88)
Increase/(Decrease) in Debtors	906	(248)
Decrease/(Increase) in Creditors (i)	(106)	30
Increase/(Decrease) in creditors falling due in more than one year	(384)	(384)
Adjustments for use of Provision	9	9
Net cash (inflow)/outflow from operating activities	(390)	(29)

(i) Creditor amount has been reduced by some £32,000 to reflect capital accruals (see Notes 11 & 16 ii)

b. Analysis of Capital Expenditure and Financial Investment

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Tangible Fixed Assets additions (i)	173	137
Intangible Fixed Assets additions (i)	186	229
Total Additions	359	366

(i) Capital expenditure additions have been reduced by some £32,000 to reflect capital accruals (see Notes 11 & 16 ii)

c. Analysis of Financing

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
From the Consolidated Fund (Supply): current year	729	750
Cash surrender of prior year's unspent supply	(413)	(87)
Net Financing	316	663

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

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Net Cash Requirement for the year (see Statement of Parliamentary Supply)	380	337
From the Consolidated Fund (Supply): current year	(729)	(750)
Cash surrender of prior year's unspent supply	413	87
Amounts due to the Consolidated Fund received and not paid over	(411)	–
(Increase)/Decrease in Cash	(347)	(326)

21. Notes to the Operating Cost Statement by Departmental Objectives

a. Current Expenditure has been allocated as follows:

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Objective One	7,112	6,472
Objective Two	3,162	3,129
Total	<u>10,274</u>	<u>9,601</u>

b. Capital employed by Departmental Objectives at 31 March 2006 has been allocated as follows:

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Objective One	2,220	2,099
Objective Two	1,074	933
Total	<u>3,294</u>	<u>3,032</u>

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

22. Capital Commitments

As at 31 March 2006 the Department had committed itself to capital investment totalling £32,986. (2004-05: £Nil.)

23. Commitments under operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below.

	<u>2005-06</u>	<u>2004-05</u>
	£	£
Land and Buildings		
Lease expiring in more than five years	1,384,852	1,352,279

24. Financial Instruments

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

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

Liquidity risk

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

Interest rate risk

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

Interest rate profile

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

Table 1 – Financial liabilities

	Total £000	Floating- rate financial liabilities £000	Fixed-rate financial liabilities £000	Non- interest bearing financial liabilities £000	Fixed-rate financial liabilities		Non- interest bearing financial liabilities
					Weighted- average interest rate %	Weighted- average period for which rate is fixed Years	Weighted- average period until maturity Years
At 31 March 2006:							
Sterling	6	–	–	6	–	–	0.6
Other	–	–	–	–	–	–	–
Gross financial liabilities	6	–	–	6	–	–	0.6

Table 2 – Financial assets

	Total £000	Floating- rate financial assets £000	Fixed-rate financial assets £000	Non- interest bearing financial assets (i) £000	Fixed-rate financial assets		Non- interest bearing financial assets
					Weighted- average interest rate %	Weighted- average period for which rate is fixed Years	Weighted- average period until maturity Years
At 31 March 2006:							
Sterling	760	–	–	760	–	–	Note (i)
Other	–	–	–	–	–	–	–
Gross financial assets	760	–	–	760	–	–	–

(i) The Department's non-interest bearing financial assets comprise cash at bank and in hand of £760,132.58.

Foreign currency risk

Fees payable in foreign currency amounted to 6.7 per cent of total turnover in 2005-06. The policy on foreign currency receipts is to account for them at the conversion value on receipt, accepting fluctuations in currency movements and not hedging against these movements. Foreign currency expenditure is minor.

Fair values

Set out below is a comparison by category of book values and fair values of the Department's financial assets and liabilities as at 31 March 2006.

Table 3 – Fair Values

	Book value	Fair value (i)	Basis of fair Valuation
	£000	£000	£000
At 31 March 2006			
Primary financial instruments:			
Financial assets:			
Cash at bank	760	760	Note (i)
Financial liabilities:			
Provisions	(6)	(6)	Note (i)

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

25. Related Party Transactions

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

A summary of Operating Income from Government and non-government bodies is shown at Note 4. Note that receipts from other government departments include rent and Facilities Management charges received from the Commission for Social Care Inspection (CSCI) and the Human Tissue Authority (HTA) as sub-tenants of the property of Finlaison House. The HTA also paid GAD for IT, Finance and other services. In 2005-06 the total net income from these sub-tenants was £722,000.

Details of balances outstanding with other government departments are shown in the Debtors and Creditors Notes 16 and 18. These include approximately £127,000 due to the CSCI and some £20,500 due to the HTA.

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

26. Third Party Assets

	2005-06
	£000
Opening balance at 1 April 2005	12
Net receipts (payments)	2
Closing balance at 31 March 2006	14

The Department has a custodial role to ensure the safekeeping of client deposits. As at 31 March 2006, these amounted in total to £14,446.34 (31 March 2005: £12,030.48). An analysis of the movements on these accounts is shown in the table above.

27. Entities within the Departmental Boundary.

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

28. Post-Balance Sheet Events

There are no Post-Balance Sheet Events to disclose.

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