Department of Agriculture and Rural Development

Resource Accounts 05/06

For the year ended 31 March 2006

Department of
Agriculture and
Rural Development

www.dardni.gov.uk

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Resource Accounts
For the year ended 31 March 2006

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ANNUAL REPORT

SCOPE

Boundary

The Department of Agriculture and Rural Development (DARD) presents its accounts for the financial year ended 31 March 2006.

These accounts comprise a consolidation of the income and expenditure, and the assets and liabilities of those entities falling within the departmental resource accounting boundary as follows: -

- Core Department
- Rivers Agency
- Forest Service agency

Appendix 1 contains a full list of bodies, for which DARD had lead responsibility during the 2005-06 financial year, and identifies a list of all those bodies for which the costs have also been consolidated within the accounts.

Departmental Reporting Cycle

DARD's public expenditure proposals are considered as part of the annual Northern Ireland (NI) Budget process, the outcome of which is contained within the 'Priorities and Budget' document published annually by the Department of Finance and Personnel (DFP). This document also contains the Public Service Agreement (PSA) targets for the Budget period. DARD's progress against PSA targets is included in the Programme for Government Annual Report published by DFP on the internet (www.dfpni.gov.uk).

In 2005-06 DARD published a Business Strategy document containing the Department's PSA and Performance Targets. At the end of March 2006 DARD published a 5-year Strategic Plan, which is available on the Department's internet site (www.dardni.gov.uk).

More detailed information in relation to the annual resource and cash requirements is contained within the Main and Supplementary Estimates documents published by DFP.

OPERATING AND FINANCIAL REVIEW

Key Aims and Objectives

The overall aim of the Department in 2005-06 was to:

Promote sustainable economic growth and development of the countryside in Northern Ireland by assisting the development of the agri-food, fishing and forestry sectors, being both pro-active and responsive to the needs of consumers for safe and wholesome food, the welfare of animals and the conservation and enhancement of the environment.

In pursuit of this Aim and in line with the four themes underlying the concept of sustainability, the Department's Strategic Priorities were:

- *To improve the economic performance of the agri-food, fishing and forestry sectors;*
- *To protect the public, animals and property;*
- *To conserve and enhance the rural environment; and*
- *To strengthen the economy and social infrastructure of disadvantaged rural areas.*

The specific aims and objectives of each of the Department's executive agencies (Rivers Agency and Forest Service) are documented in the Annual Report and Accounts published separately for each of these bodies.

At the end of March 2006 the Minister published DARD's first 5-year Strategic Plan covering the period 2006-2011. The Plan, which was the subject of a public consultation, sets out the long-term strategic direction for a period which will be particularly challenging for the agri-food industry and the wider rural community. The Plan will therefore play a key role in steering the policy direction for this Department in the coming years. The Strategic Plan is available on DARD's internet site (www.dardni.gov.uk).

The Plan outlines the Department's Vision, Aim and Role over a 5 year timeframe, focuses upon 5 key Goals and derives a series of strategic objectives and key actions which should lead to change and measurable success.

The Vision of the Department is *a thriving and sustainable rural community and environment in Northern Ireland*. To meet this Vision, the Department aims to *put the customer first, build partnerships, value staff and be efficient, adaptable, responsive to change, and focused on making a difference*. This will involve supporting improved performance in the market by safeguarding animal, fish and plant health; by maintaining and investing in the environment; and by contributing to a successful rural economy and society.

It is considered desirable to retain a top level theme to the document and then to use the Department's Group and Business Units' plans to articulate the more operational detail which will not only contribute to the higher level aspirations but also provides staff with a clearer view of where their personal contribution fits with the Department's task to deliver an increasingly more efficient and effective service to the customers and stakeholders.

Running in tandem with the preparation of the Plan is the development of a more focussed monitoring system to ensure that progress towards the achievement of the Goals is maintained and that success is delivered. This will be based on the Balanced Scorecard methodology.

Principal Activities

The Department of Agriculture and Rural Development is one of eleven departments of the Northern Ireland Civil Service. The Department's remit is essentially an economic one, concerned with the success of all sectors of the Northern Ireland agri-food industry. However, economic activity must also take full account of the wider interests of the community. There is a need to balance efficient and sustainable agri-food and forestry industries with the conservation and enhancement of the countryside, and to stimulate and to react to consumer demands for safe and wholesome food produced in an ethical manner, with proper regard for animal welfare. The Department's role also includes ensuring the well being of rural communities, and the economic, social and physical infrastructure on which they depend.

The Department advises the Minister (in his capacity as one of the four UK Agriculture, Fisheries and Forestry Ministers) on UK policies, including negotiations on the Common Agricultural and Fisheries Policies, with particular reference to the implications for Northern Ireland.

[NOTE: On 14 October 2002 the Secretary of State suspended the Assembly, and the Northern Ireland departments, which up to that point had been under the control of Ministers of the Assembly, were then subject to the control and direction of the Secretary of State and his Ministerial team.]

In discharging its functions, the Department acts in two main ways:

- With the Department for Environment, Food and Rural Affairs and the Rural Payments Agency in the field of economic support for the agricultural and fisheries industries and the implementation of European Union (EU) policies. This includes price support, which is carried on Rural Payment Agency estimates, and the payment of production subsidies and capital grants to farmers; and

- As a Northern Ireland department in respect of all other aspects involved in the development of agriculture, including education and training services, research, technology transfer, analytical and diagnostic work and special support measures, as well as rural development, sea fisheries and aquaculture, forestry, land drainage and flood defences. The Department's role includes helping to ensure the economic and social well being of rural communities.

Details of the principal activities undertaken by DARD are provided at Appendix 2.

OPERATING REVIEW

The Context

Sustainable Development will be the overarching driver of change for the Department in the next 5 years. It will shape the context of our work, what we do and how we do it, whether it is in relation to the environment, the agri-food industry or rural development. It will also shape the activities of many of our clients, with Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP) reform reinforcing the requirement on farmers and fishermen to act in an environmentally sustainable and responsible way. The Department has a major contribution to make across the full range of its functions and this will be reflected in the emerging Sustainable Development Strategy for Northern Ireland.

Agricultural Reform

The last few years have witnessed major reform in agriculture: the radical reform of CAP has opened the way to a new future for farming. The decoupling of EU subsidy from production has freed farming to respond to the demands of the market place, its customers, the environment and local communities. Over the next few years this is likely to lead to restructuring and efficiency gains, higher standards of environmental protection and care for animal welfare. The new Single Farm Payment Scheme should help to create a future in which sustainable land management is an essential ingredient of farming and food production. Also, we cannot rule out further reform or changes flowing from economic and environmental pressures.

Market Change

Market change will invariably impact on our work: increased market competition, the growth of multiples and cheaper produce from other countries are all likely to affect the agri-food industry in the coming years. In addition, the requirement for easily prepared and healthy food as well as organic products will influence the industry. Direct intervention in the market is not an option for Government, rather our role will be to assist the industry adapt to changes in the market place.

Changes in Rural Society and Farming Culture

Over the last 20 years the rural landscape has changed considerably as more commuters live in the countryside and travel longer distances to work in urban areas. This has increased pressure for improved transport networks, better schools, more shops, outlets, and restaurants, and there is an understandable expectation that these will be provided in the same numbers and to the same standard as in urban areas. At the same time, farming culture is changing, with fewer farms being economically sustainable, a consequent downward pressure on farming’s level of employment. This is being offset not only by diversification out of traditional farming, but also by the growth of a stronger, more diverse rural economy.

We want to respond to these changes in a positive manner by developing and implementing appropriate agri/rural support plans ensuring that the countryside is accessible to all, and by articulating the comprehensive needs of rural communities throughout Government.

EU and global developments

Other developments that are likely to impact on rural communities include:

EU enlargement: the enlargement of the EU community over the next few years will continue to have an impact not only on trade but also the distribution of EU Structural Funds and the Peace Programme.

Globalisation of markets: the World Trade Organisation (WTO) Doha Agenda – the Doha Ministerial Declaration commits the EU (and all other WTO participants) to comprehensive negotiations aimed at substantial improvements in market access; reductions in all forms of export subsidies and substantial reductions in trade-distorting domestic support. This move towards trade liberalisation will inevitably impact on Northern Ireland, as it will lead to increased competition from imports and a need to develop profitable exports which do not rely on subsidy.

Environmental Regulations: EU environmental regulations, in particular the Nitrates Directive, Habitats Directive and the Water Framework Directive, could have a significant impact on primary production and necessitate structural adjustment.

Climate change: emerging strategies to counter climate change and adapt to its effects will provide an increasing impetus for the exploitation of renewable energy sources, including biofuels. These present significant new business opportunities for farms seeking to diversify.

Waste: demanding EU obligations to reduce the amount of biodegradable municipal waste going to landfill up to 2020, the drive to recycle more under the various producer responsibility regulations and to reduce the environmental impact of waste management through strict controls on waste treatment and disposal will all impact on rural areas.

Fisheries policy: the increasing global concern over the sustainability of fishing and the plight of key fish stocks will inevitably lead to further reform of the EU's Common Fisheries Policy and fisheries management. Through the implementation of international fisheries agreements and a reformed Common Fisheries Policy we shall reduce adverse impact and develop fisheries that are environmentally sustainable.

Protecting against emergencies

DARD has a key role in protecting against outbreaks of disease and emergencies in the food chain. Growing awareness of the potential risks has led to well developed plans, which are regularly tested. The Rivers Agency also plays a proactive role in flood emergency planning. External factors will continue to challenge preparations and this will impact on our work. DARD will be required to address the demands of the NI Civil Contingencies Framework by regularly reviewing its plans against guidance and best practice. We will ensure that we are able to deal with emergencies efficiently and effectively on the basis of risk assessment and by building resilience into Departmental plans.

Public Sector Reform

The Department faces a period of very significant public sector reform. The Department is committed to better regulation, greater efficiency and targeting resources from front line services. These commitments reflect the Government's efficiency and reform agenda, as taken forward through the recommendations in the Gershon Report, the Fit for Purpose Report, the Hampton Report and the CSR whilst other change will be motivated by the Department's desire to improve the service to our customers.

The published proposals arising from the Review of Public Administration envisage a new role for Local Government in the field of Rural Development. Further change will be motivated by how we position ourselves to facilitate improved service delivery in a spirit that reflects the principles set out in "A Shared Future" and the emerging Sustainable Development Strategy. In parallel with this the Department's draft Rural Policy proposes a new and more challenging regime of rural intervention and advocacy of the particular needs of rural communities within Government by the Department.

Our agenda, broadly held in common with that of other Departments, is to enhance the way in which customers access our services. Customers will be able to contact us by telephone, e-mail or in person, confident that the majority of their requirements will be dealt with at the first point of call. All our channels of communication will be joined up seamlessly, so that electronic customer records will be updated instantly with new information, however obtained. We will drive down service costs, especially in setting up new shared service centres in partnership with other public bodies.

Realising the benefits of this investment will be key in helping us maximise the effective use of staff and enhance front-line delivery.

Reform and Efficiency

In line with other Departments, DARD must meet its commitments in relation to the "Fit for Purpose" document. This sets out the new Public Sector reform programme that includes a reduction of 2,300 posts in the Northern Ireland Civil Service (NICS) by March 2008. Within this overall figure DARD has a target of a minimum reduction of 373 posts.

DARD is also committed in its Efficiency Plan to realise total annual efficiencies of at least £21m by 2007-08 of which at least £10.5m will release resources to be reinvested into priority front-line activities.

New Science Non-Departmental Public Body – Agri-Food and Biosciences Institute

The Department's new NDPB, the Agri-Food and Biosciences Institute (AFBI), was launched on 1 April 2006. AFBI comprises the former DARD Science Service and a previous DARD NDPB, the Agricultural Research Institute of Northern Ireland. The setting up of AFBI provides a clearer customer-contractor relationship between DARD and the organisation that delivers its science services.

AFBI's primary role is to carry out specific scientific work in support of DARD policies and responsibilities. This work includes statutory, diagnostic and analytical testing, as well as Research and Development, set out in an annually agreed work programme. AFBI will also undertake work from other customers, including DARD and other government departments, on a commercial basis. AFBI may seek such opportunities in local, national and international markets.

Accounting Services Programme

The Accounting Services Programme (ASP) is a key component of the Reform Programme and will modernise accounting processes across all of the Northern Ireland Departments. The ASP's objective is to procure and implement a common accounting system for all Departments, including executive agencies and non-departmental public bodies.

e-HR

e-HR is a major programme, which aims to transform Human Resources Services by providing enhanced capability through timely, accurate, responsive and accessible personnel data supported by business change to realise benefits. The implementation of e-HR will have some impact on everyone in the NICS in the future.

Workplace 2010

Workplace 2010 is a three to five year programme of work to transform the Northern Ireland Civil Service (NICS) office estate, improving the working environment for many staff and facilitating new ways of working in a way that demonstrates value for money for the taxpayer. The Strategic Investment Board and DFP are working together to deliver a step change in the quality and efficiency of NICS public services. Workplace 2010 involves the introduction of new accommodation standards, including open plan working, which will enable the NICS to rationalise its existing estate and dispose of surplus, poor quality accommodation.

PSA Targets

The remainder of this Operating Review focuses on the Department's PSA targets and reports on progress under a single Request for Resources (RfR).

Under its Request for Resources, the Department is committed to promoting sustainable development of the agri-food industry and the countryside and stimulating the economic and social revitalisation of disadvantaged rural areas, reducing the risk to life and property from flooding, promoting sustainable development of the Sea Fishing Industry and maintaining, protecting and expanding forests in a sustainable way.

DARD's 2005-06 PSA targets are shown in Table 1: -

Table 1

PSA Target	Progress
1. Create conditions for the agricultural industry to achieve a 10.5% improvement in Total Factor Productivity (TFP) between calendar years 2001 and 2008.	**Target on track for achievement**
2. Reduce the gap in agricultural Gross Value Added (GVA) per full time worker equivalent (measured as Annual Work Units) between Northern Ireland and the UK as a whole by 0.6 of a percentage point per annum from 34% in 2003 to 31% in 2008.	**Target on track for achievement**
3. Using the regional discretion available, implement the Luxembourg CAP Reform Agreement in the best interests of the agri-food sector as a whole, taking account of the need to ensure that farming is undertaken in an environmentally sustainable way.	**Target likely to be achieved but with some delay**
4. Create conditions to increase agricultural gross value added per full-time worker equivalent (measured as Annual Work Units) from £14,800 (2000/2002 average) to £19,500 by 2008.	**Target on track for achievement**
5. Create conditions to increase value added per full-time employee equivalent in the NI Food and Drinks processing sector from £22,400 (1999/2001 average) to £33,100 by 2008.	**Target on track for achievement**
6. Reduce the level of serious animal disease by a reduction in Brucellosis outbreaks to less than 75 per year, the level of TB reactors to less than 12,000 per year by 31 March 2008.	**Target on track for achievement**
7. By 31 March 2008, create a net increase of 1,000 Full Time Equivalent (FTE) jobs in disadvantaged rural areas under the Rural Development Programme 2001-2006 (300 of which should be in the tourism sector).	**Target on track for achievement**
8. By 31 December 2005, prepare an action plan to reduce nitrate and phosphate levels in surface and ground water to within the maximum limit allowed under relevant EU Directives – by 31 December 2008, reduce nitrate and phosphate inputs to soil and waterways in accordance with the agreed action plan.	**Target likely to be achieved but with some delay**
9. Increase the number of Housing Equivalents benefiting from a reduced risk of flooding from 17,812 at 31 March 2005 to 18,262 at 31 March 2008.	**Target achieved**
10. Sustain the annual supply of timber, recreation and environmental services from existing forests at 2002/03 levels and secure a modest increase in combined public and private forest area by 1,500ha by 2008 at a rate of 500ha per year.	**Target on track for achievement**

1. Total Factor Productivity has risen by 7.4% between 2001 and 2005, although the 2004 figure remains provisional. [Note: TFP is calculated on a calendar year basis. The next up-to-date figure will become available when the 2006 figure is calculated in early February 2007.] Work is ongoing on various TB and Brucellosis measures including TB pre-movement testing, re-evaluation of BR tests, review of TB testing arrangements, extension of valuation pilot to all commercial animals.

   Definition of TFP: Agricultural **Total factor productivity (TFP)** is a volume based productivity measure, which takes account of all factors/resources used in production and removes, as far as possible, the effects of changing prices. Agricultural TFP is calculated and published annually by DARD for Northern Ireland as a whole. The values of output and inputs compiled for each year's Aggregate Agricultural Account are used in the calculation. These values are converted into constant prices and an index is constructed based on gross output (at constant prices) divided by the value of inputs (at constant prices). In addition, since agricultural activity is characterised by multiple outputs and multiple inputs, the ratio of the weighted sum of outputs with respect to the weighted sum of inputs is used to calculate the Total Factor Productivity Index. The weights are the cost share for inputs (at constant prices) and the revenue shares for the outputs (at constant prices) for each year. There is some evidence to indicate that the TFP for Northern Ireland is increasing at a faster rate than in GB.

2. The introduction of the Single Farm Payment (SFP) scheme resulted in accounting changes in the calculation of agricultural Gross Value Added (GVA) per full time worker. SFP is not included in GVA unlike the direct subsidy payments that it replaces. The published provisional 2005 figure for the gap in agricultural Gross Value Added per full time worker equivalent between Northern Ireland and the UK as a whole is 43% in 2005. However, whenever SFP is included the gap for the provisional 2005 figures falls to 31% between NI and the UK as a whole. This revised figure (the gap in agricultural GVA plus SFP per full time worker between Northern Ireland and the UK) is the relevant figure to use when assessing progress in respect to PSA Target 2 and target achievement is expected by 2008. [This is the latest available figure and it remains provisional. The figure for 2006 will be available in February 2007].

3. The Project Board continues to oversee the various strands of Luxembourg CAP Reform Agreement implementation needed to deliver this project. Some aspects of Single Farm Payment are required to be implemented in all regions of the UK at the same time. The Rural Payments Agency (RPA) could not establish the value of successful National Reserve applications in England until February 2006 and full payments could not therefore start in December 2005. DARD, in line with Scotland and Wales, decided to make interim payments starting in December. The target in the Interim Payment Timetable, published by DARD on 28/11/05, to complete 75% of payments by 31/01/06 was met one month earlier than expected. At 31/03/06 90% of payments were completed and a further 2-3% of claims identified as ineligible. National Reserve awards have been notified to 95% of successful

applicants. 90% of farm businesses have been notified of unit value and number of entitlements and the remainder will be established when queries are resolved with farmers concerned. Balance payments, including allocations from the National Reserve, are scheduled to commence in late April 2006 and to be significantly completed by 30/06/06.

4. The introduction of the Single Farm Payment (SFP) scheme resulted in accounting changes in the calculation of agricultural gross value added. SFP is not included in GVA unlike the direct subsidy payments that it replaces. The published provisional 2005 figure for GVA is £11,200, however whenever SFP is included in GVA the provisional figure for 2005 is £17,500. This revised figure (GVA plus SFP per full time worker) of £17,500 is the relevant figure to use when assessing progress in respect to PSA Target 4 and target achievement is expected by 2008.

5. The latest figure available in respect of value added per full-time employee equivalent in the NI Food and Drinks processing sector is £24,798 for 2003 and full target achievement is expected by 2008. Figures for 2004 are expected to be available by September 2006.

6. To the end of February 2006, there were 88 Brucellosis outbreaks and 9,387 TB Reactors against 2005/06 targets of 150 and 12,500 respectively. Given the progress that has been made in reducing disease levels, a revised PSA target has been set in the DARD Strategic Plan 2006-2011.

7. The Department is on schedule to achieve the 2008 FTE jobs in disadvantaged rural areas under the Rural Development Programme 2001-2006 (300 of which should be in the tourism sector). By the end of March 2006, 689.5 net Full Time Equivalent (FTE) jobs in disadvantaged rural areas under the Rural Development Programme 2001-2006 were created; of these 42.5 FTE are in the tourism sector.

8. Progress continues to be made towards agreeing an Action Programme to implement the Nitrates Directive. Further meetings with Stakeholders and the Commission will be necessary before the Action Programme is finalised. Subject to Commission agreement, Regulations will be introduced in 2006.

9. Rivers Agency had 4 Schemes underway and 691 Housing Equivalents benefiting from a reduced risk of flooding delivered in 2005/06 with a total cumulative figure at 31 March 2006 of 18,591.

10. The Forest Service achieved 606 hectares planted in combined public and private forest area and 419,000 m^3 of timber was sold during 2005/06.

FINANCIAL REVIEW

The net operating cost of the Department in 2005-06 was £236.1million. This represented a decrease of £3.7million or 1.5% over 2004-05. Gross expenditure was £619.1million and income was £383.0million. Expenditure and income relative to the Common Agricultural Policy (CAP) both rose by £129.2million, largely as a result of the introduction of the Single Farm Payment Scheme which has altered the timing of subsidy entitlements hence bringing into 2005-06 expenditure on this scheme alongside that on legacy schemes. When the figures are adjusted for the CAP amounts, there are increases in expenditure of £7.5million (or 2.7%) and in income of £11.2million (or 26.2%). The increase in expenditure largely relates to increases in administration costs (£6.7million), grants (£6.3million), non-cash items (£4.5million), and weather aid to farmers (£4.6million) offset by reductions in expenditure on Less Favoured Areas Compensatory Allowance (£8.0million), animal disease compensation and private veterinary practitioner fees (£5.6million) and the contribution to the National Fallen Stock Company (£1.7million). The increase in income largely relates to the introduction of charging for services provided to the Food Standards Agency.

The Statement of Parliamentary Supply summarises the resource outturn for 2005-06. The net total resources required were £267.9million compared to an estimated net total of £323.8million. Note 2 to the Accounts provides an analysis of resource outturn and Estimate by section while Note 3(a) sets out a reconciliation to the Operating Cost Statement. For 2005-06 net resource outturn differs from net operating cost in that the former excludes income payable to the Consolidated Fund. Table 2 below sets out a comparison of resource estimate and outturn:

Table 2

	Estimate £million	Outturn £million	Variance £million
Gross Expenditure	346.0	290.1	55.9
Accruing Resources	22.1	22.1*	-

* excludes excess accruing resources of £2.1million.

The significant areas of under-spending are Central Policy Group (£9.6million), EU Programme for Peace and Reconciliation (£4.4million), EU Community Initiatives (£2.1million), Executive Programme Funds (£19.8million) ARINI (£2.1million) and £9.3million in relation to an anticipated disallowance provision requirement in respect of expenditure under the Common Agricultural Policy. Other areas of underspending are detailed at note 2. The excess accruing resources are largely in Science Service and the Forest Service agency.

Outturn against the Administration Budget is shown at Note 3(b) to the Accounts. Gross administration costs amounted to £124.3million, while outturn against the Administration Budget was £115.0million which was within the agreed limit of £117.8million. There was an increase of £4.9million in gross administration costs between 2004-05 and 2005-06 which was largely due to an increase in pension costs arising from increases in the four rates in the range 12 to 18 per cent of pensionable pay to a range of 16.5 to 23.5 per cent. Income allowable against the Administration Budget rose by £7.4million, largely due to the introduction of charging for services provided to the Food Standards Agency.

Total Capital Employed has increased from £654.3million at 31 March 2005 to £774.5million at 31 March 2006. This increase is largely attributable to:

- An increase in the value of tangible fixed assets - £124.5million, £123.5million of which related to the revaluation of these assets. The vast majority of this arises as a result of the requirement to obtain a professional valuation of land and buildings and infrastructure assets every five years. This has resulted in revaluation increases of £41.1million (land and buildings) and £73.6million (infrastructure assets)
- An increase in debtors - £44.7million
- An increase in creditors – (£48.6million)

The increases in debtors and creditors are largely due to payments to be made to farmers under the Common Agricultural Policy Single Farm Payment Scheme and the subsequent recovery of these amounts from the Rural Payments Agency. Notes 14 to 20 provide further details on net current assets.

Capital expenditure at £20.6million was £6.4million lower than anticipated. This arose largely due to the suspension of capital works at the College of Agriculture Food and Rural Enterprise (CAFRE) pending the outcome of the College Review together with some delays in capital works for the Science Service. Subject to the necessary approvals this under-spending will be carried forward under the terms of the End Year Flexibility Scheme.

The Net Cash Requirement at £232.6million was £59.6million less than the Estimate. This variance is largely attributable to the reduction in resources required for cash items (£46.5million), the lower than anticipated capital expenditure (£6.4million) and a decrease in working capital of £4.0million rather than an estimated increase of £2.0million.

MANAGEMENT

Departmental Board

The Department is headed by its Permanent Secretary, and in 2005-06 was supported by a Departmental Board (DB) of 4 senior officials and two non-executive directors. The composition of the Board was as follows:

Mr Pat Toal	Permanent Secretary
Mr R J McClenaghan	Service Delivery Group (responsibilities including the College of Agriculture, Food and Rural Enterprise ("CAFRE"), Rural Payments and Inspection and Rural Development Divisions.)
Mr RM Houston	Chief Veterinary Officer (responsible for Veterinary Service)
Mr G Lavery	Senior Finance Director (responsibilities including Personnel, Facilities Management, Finance, Corporate Policy and Change Divisions)
Mr AE McCusker (to 31 August 2005)	Central Policy Group (responsibilities including Policy and Economics, Food, Farming and Environmental Policy, Animal Health and Welfare Policy and Fisheries Divisions)
Mr R Jordan (from 1 September 2005)	Central Policy Group (responsibilities including Policy and Economics, Food, Farming and Environmental Policy, Animal Health and Welfare Policy and Fisheries Divisions)
Mrs J Bliss (from 1 June 2004)	Non-Executive Director
Dr CRA Lennon (from 15 September 2005	Non-Executive Director

The Chief Executives of the Rivers Agency and Forest Service are Agency Accounting Officers and directly responsible to the Minister for their respective Agency's performance and operations, with Mr Lavery acting as Frazer Figure.

The Permanent Secretary, as Principal Accounting Officer, is responsible for the overall operation and performance of the Department.

Departmental employees are eligible for pension benefits under the normal civil service pension arrangements that are disclosed in note 1.18 and note 9 of the accounts.

PUBLIC INTEREST AND OTHER

Equal Opportunities

It is the Department's policy to ensure that all eligible persons shall have equal opportunity for employment and advancement in the Department on the basis of their ability, qualifications and aptitude for work. This policy has been communicated to all departmental staff through a comprehensive programme of equal opportunities training, and through the provision of information and guidance on a wide range of equal opportunities issues. The Department's Equal Opportunities Section is responsible for ensuring that all staff are aware of this policy and fully understand their responsibilities and the workplace behaviours expected of them.

Employment of People with Disabilities

As part of its overall Equal Opportunities policy, the Department is fully committed to ensuring that all of its policies and working practices meet or exceed the requirements of the Disability Discrimination Act 1995.

A Disability Forum has now been established within the Department, and this is providing an ideal opportunity for staff with disabilities / long-term health conditions to engage with key decision makers across the Department; to participate in raising awareness of disability issues, and to help bring about many changes and improvements for the benefit of all staff.

The Department has also introduced a simple 'reasonable adjustment' process to help those staff that have a disability to request the workplace adjustments they need, and for these requests to be assessed quickly to ensure that individuals remain effective in their workplace.

Payment of Suppliers

The Department is committed to the prompt payment of bills for goods and services received in accordance with the Confederation of British Industry's Prompt Payers Code and British Standard BS 7890 – Achieving Good Payment performance in Commercial Transactions. Unless otherwise stated in the contract, payment is due within 30 days of receipt of the goods or services, or on presentation of a valid invoice or similar demand, whichever is later. During the year 97.53% of bills were paid within this standard (2004-05 95.47%).

The Late Payment of Commercial Debts (Interest) Act 1998, which came into effect from 1 November 1998, enables suppliers to charge interest on overdue debts. The Department made no payments during the year in respect of such claims.

Departmental Auditor

The financial statements are audited by the Comptroller and Auditor General (C&AG), JM Dowdall CB, in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. He is head of the Northern Ireland Audit Office. He and his staff are wholly independent of the Department, and he reports his findings to the Northern Ireland Assembly, or Parliament during periods when devolution is suspended.

The audit of the financial statements for 2005-06 resulted in a notional audit fee of £128,800. This is included in non-staff administration costs in the Operating Cost Statement. The C&AG did not provide any non-audit services during the year.

The C&AG may also undertake other statutory activities that are not related to the audit of the Department's financial statements. These include the preparation of Value for Money (VFM) studies, which report to the Assembly (or Parliament) on the economy, efficiency and effectiveness with which the Department's financial resources have been used.

Disclosure to Auditor

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

Provision of information to and consultation with employees

The Department makes every effort to ensure that all staff are kept informed of plans and developments through meetings, team briefings, circulars and the publication of business and training plans.

Staff have access to welfare services and trade union membership. The Department uses the established Whitley process of staff consultation. The Whitley Council and Committees provide an agreed forum for discussion and they are attended by employer and employee (trade union) representatives. Thus staff views are represented and information for circularisation to employees is decided upon.

Interests of Board Members

None of the Departmental Board Members have any significant interests which conflict with their management responsibilities. Full details of interests are given in Note 34 to the Accounts.

Pat Toal

PAT TOAL
Accounting Officer, Department of Agriculture & Rural Development
19 October 2006

Appendix 1

BODIES FOR WHICH DARD HAS A DEGREE OF RESPONSIBILITY

The following are the bodies for which DARD had some degree of responsibility during the year:

On-Vote Executive Agencies

- Rivers Agency*
- Forest Service agency*

Executive Non-Departmental Public Bodies (NDPB)

- Agricultural Research Institute for Northern Ireland (ARINI) *#
- Livestock and Meat Commission (LMC) for Northern Ireland *
- Northern Ireland Fishery Harbour Authority (NIFHA) * #
- Pig Production Development Committee (PPDC) *
- Agricultural Wages Board (AWB) for Northern Ireland

Advisory NDPBs

- Drainage Council for Northern Ireland

Cross Border Bodies

- The Loughs Agency of the Foyle, Carlingford and Irish Lights Commission* #

Other Bodies

The Department has some degree of responsibility for a number of rural development groups, including the Rural Development Council.

Notes:

1. *Separate Reports and Accounts are produced for these entities.
2. # These entities have been consolidated, only to the extent of the inclusion of grants paid in the Operating Cost Statement.
3. There is no grant funding provided to the Livestock and Meat Commission and the Pig Production Development Committee.
4. Expenditure on the Agricultural Wages Board relates to general expenses e.g. travel expenses of members and has been consolidated within the Departmental accounts.
5. The Loughs Agency of the Foyle, Carlingford and Irish Lights Commission is funded jointly by DARD and the Department of Communications, Marine and Natural Resources.

Appendix 2

DARD – PRINCIPAL ACTIVITIES

The principal activities undertaken by the entities within the boundary in pursuance of their aims and objectives are outlined below:

Core Department

- Develop and administer policies to maintain or improve the sustainable economic performance of the agri-food industry;
- Represent the interests of Northern Ireland agri-food, agri-environment and rural development sectors at national and European level;
- Conduct on-farm inspections;
- Approve grant and subsidy applications and process claims in line with scheme regulations;
- Apply and enforce public health, animal health and welfare legislation through the prevention/control/eradication of epizootic/enzootic/zoonotic diseases by conducting animal inspections/tests;
- Carry out meat inspection in compliance with national and international standards;
- Implement a programme of inspection, sampling, enforcement, licensing and guidance in relation to food safety;
- Implement animal registration, identification and movement controls;
- Promote and maintain acceptable welfare standards through inspection;
- Process animal disease compensation payments to eligible applicants;
- Develop and administer policies to conserve and enhance biodiversity and the rural environment;
- Implement a programme of audits, management plan development, inspections and guidance in relation to agri-environment schemes;
- Implement Government policy through inspection, enforcement, licensing, certification and guidance relating to agriculture, horticulture and food;
- Provide a programme of Higher and Further Education courses;
- Deliver a programme of Lifelong Learning through short courses, to enhance competitiveness throughout the agri-food industry and to develop environmentally responsible farming and rural enterprise;
- Establish necessary legislation to implement new schemes under the EU Structural Funds and Peace Package and promote the schemes;
- Conduct analytical and diagnostic testing;
- Undertake scientific research and development;

- Implement the relevant recommendations arising from the review of the long established link between DARD and the School of Agriculture and Food Science at the Queen's University of Belfast (QUB);
- Provide teaching and support for the School of Agriculture and Food Science, of the QUB;
- Promote comprehensive and integrated action towards the sustainable and equitable development of disadvantaged rural areas;
- Equality and Rural Proofing.
- Participate at European level in efforts to ensure the recovery of Irish Sea cod;
- Conserve and protect sea fisheries;
- Promote sustainable development of aquaculture through regulation and enforcement;
- Meet EU fish health requirements and enhance Northern Ireland's fish health status;
- Implement the EU Common Fisheries Policy and UK fisheries policies;
- Assist in the development of an efficient commercial fisheries sector;
- Work with the Irish Authorities to support the operation of the Loughs Agency of the Foyle, Carlingford and Irish Lights Commission;
- Manage the implementation of Peace II Programme Measures;
- Conduct fish health inspections and check fish farm compliance with licence conditions;

Rivers Agency

- Identify and assess flooding risks;
- Implement a programme of prioritised works to minimise flooding risks;
- Carry out maintenance works on both urban and rural open watercourses (the majority being rural therefore impacting upon agricultural land);

Forest Service

- Review forestry policy
- Encourage the extension of the area of woodland by the private sector and by public sector planting;
- Continue the sustainable management of woodlands including replanting;
- Supply wood to the timber industry;
- Promote access to and use of forests for recreational purposes.

REMUNERATION REPORT

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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

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

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

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

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

The pay award for staff in the Senior Civil Service is comprised of two elements - a base pay uplift and a non-consolidated bonus. Both elements of the pay award are entirely performance based. Non-consolidated bonuses are payable to a proportion of SCS staff as part of the annual pay award, with total bonus payments equating to just under 6.5% of base paybill in 2006. It was agreed at Ministerial level that the application of the recommendations in the Review Body report should be implemented for the NICS SCS pay award. Permanent Secretaries' pay awards are determined by the Northern Ireland Civil Service (NICS) Permanent Secretary Remuneration Committee and the pay strategy is also based on the recommendations of the Review Body report.

The Remuneration Committee is comprised as follows:

Mr John B McGuckian
Ms Ann Shaw
Sir Joe Pilling (until December 2005)
Mr Jonathan Philips (from December 2005)
Mr Nigel Hamilton.

Policy on the performance management of senior managers

The *Performance Management System for the Senior Civil Service* provides a means to improve management of individual performance and a better link between organisational success, individual contribution and reward. It links objective setting to business objectives; provides a delivery-focused set of Senior Civil Service Leadership Competences; encourages the development of skills and knowledge; focuses on personal development through the mid-year development review; and rewards results through the performance review and pay awards.

Service Contracts

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

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. Policy relating to notice periods and termination payments is contained in the Northern Ireland Civil Service (NICS) Staff Handbook.

- Mrs Jacqueline Bliss was appointed as a non-executive director on a three year contract commencing on 24 June 2004.
- Dr Alan Lennon was appointed as a non-executive director on a three year contract commencing on 15 September 2005.

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

Duration of Notice Periods

Recruits or promotees to the senior civil service on or after 1 January 1997 are required to give three month's notice of resignation. DARD reserves the right to introduce a longer period of notice for individual posts of up to a maximum of six months and incumbents will be notified accordingly. This may be appropriate where the recruitment of a replacement is likely to be a protracted process.

At the time of resignation, the Department may, by agreement with the member of staff concerned, agree to waive the required notice. Existing members of the senior civil service prior to 1 January 1997 will have the reserved right to give one month's notice.

The contracts with the two non-executive directors may be terminated by three months written notice by the Department or the appointee, this period can be ended or reduced by consent.

Where the Department is of the opinion that the appointee is unfit to continue in post or is incapable of adequately performing the duties of the post, it can terminate the appointment with immediate effect by written notice.

Termination payments

If for any reason other than disciplinary dismissal, the minimum period of notice cannot be given, the member of staff will receive compensation in lieu of the unexpired period of notice. Compensation is not payable when the date of leaving is mutually agreed, for example, in cases of flexible early retirement, approved early retirement, voluntary redundancy or where staff resign before the end of the notice period.

No significant awards have been made to past senior managers.

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior officials of the Department.

Ministers' Salaries

During 2005-06 the Department of Agriculture and Rural Development was under the direction and control of Mr Ian Pearson MP until 12 May 2005 when Lord Jeff Rooker was appointed. Their salaries and allowances were paid by the Northern Ireland Office or the Cabinet Office rather than the Northern Ireland Assembly. These costs have not been included as notional costs in the Operating Costs Statement in the same way as Devolved Ministers' salaries. Details of Mr Pearson and Lord Rooker's salaries and allowances will be provided in the 2005-06 Northern Ireland Office Resource Accounts.

Ministerial Pensions

Pension benefits for Westminster Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

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

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6 % of their ministerial salary if they have opted for the 1/50th accrual rate.

Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9 % to 10 % from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24 % of the ministerial salary.

Senior Management

(a) Remuneration

	2005-06		2004-05	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind to nearest £100
Mr PT Toal Permanent Secretary 2A	110-115	-	105 – 110	-
Mr G Lavery Deputy Secretary 3	80 - 85	-	75 – 80	-
Mr RJ McClenaghan Deputy Secretary 3	85 – 90	-	90 – 95	-
Mr RM Houston Deputy Secretary 3	80 – 85	-	75 – 80	-
Mr T McCusker Deputy Secretary 3 (Note 1)	45 – 50 (100-105 full year equivalent)	-	95 – 100	-
Mr RJ Jordan Deputy Secretary 3 (Note 2)	45 – 50 (75-80 full year equivalent)	-	-	-
Dr SG McIlroy Deputy Secretary (Note 3)	80 – 85	-	80 – 85	-
Mrs JC Bliss Non-executive Director (Note 4)	10 - 15	-	5 - 10	-
Dr CRA Lennon Non-executive Director (Note 5)	5 - 10	-	-	-

<u>Salary</u>
'Salary' includes gross salary; performance pay or bonuses, any allowance, such as London Weighting Allowances, to the extent that it is subject to UK taxation. This report is based on payments made by the Department and thus recorded in these accounts.

<u>Benefits in kind</u>
The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

Note: Equivalent information relating to the Department's on-Vote agencies (consolidated into these Departmental resource accounts) is given in the separate accounts of Forest Service agency and Rivers Agency.

Senior Management

(b) Pensions

	Real increase in pension and related lump sum at age 60 £'000	Total accrued pension at age 60 as at 31 March 2006 and related lump sum £'000	CETV at 31 March 2006 or at date of leaving £'000	CETV at 31 March 2005 or at date of leaving £'000	Real increase in CETV (Note 6) £'000	Employer contribution to partnership pension account including risk benefit cover to nearest £100
Mr PT Toal Permanent Secretary 2A	0-2.5 plus lump sum of 5-7.5	50-55 plus lump sum of 155-160	(Note 7)	-	-	-
Mr G Lavery Deputy Secretary 3	0-2.5 plus lump sum of 5-7.5	30-35 plus lump sum of 90-95	521	462	35	-
Mr RJ McClenaghan Deputy Secretary 3	0-2.5 plus lump sum of 5-7.5	35-40 plus lump sum of 115-120	719	645	46	-
Mr RM Houston Deputy Secretary 3	0-2.5 plus lump sum of 2.5-5	20-25 plus lump sum of 65-70	361	324	16	-
Mr T McCusker Deputy Secretary 3 (Note 1)	2.5-5 plus lump sum of 5-7.5	45-50 plus lump sum of 140-145	849	788	60	-
Mr RJ Jordan Deputy Secretary 3 (Note 2)	0-2.5 plus lump sum of 0-2.5	30-35 plus lump sum of 100-105	598	580	10	-
Dr SG McIlroy Deputy Secretary 3 (Note 3)	0-2.5 plus lump sum of 2.5-5	5-10 plus lump sum of 15-20	82	63	16	-

Notes to the above tables of senior management remuneration and pension benefits: -

1. Mr McCusker retired on 31 August 2005 on Flexible Early Retirement terms.
2. Mr Jordan was appointed to the Departmental Board on 1 September 2005.

3. Dr McIlroy stood down from the Departmental Board with effect from 1 April 2005 as a consequence of his involvement with the creation of the new Agri-Food and Biosciences Institute (AFBI) and his appointment as Chief Executive Designate.
4. Mrs J Bliss was appointed to the Departmental Board as a Non-Executive Director on 1 June 2004. She is not an employee of the Department and her remuneration is non-pensionable.
5. Dr Lennon was appointed to the Departmental Board as a Non-Executive Director on 15 September 2005. He is not an employee of the Department and his remuneration is non-pensionable.
6. After adjustment for inflation and changes in market investment factors.
7. Member is over 60; no CETV can be calculated.

Cash Equivalent Transfer Values

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

Real increase in CETV

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

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1

October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 % of pensionable earnings for Classic and 3.5 % for Premium and 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 give up (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 in the same way as in Classic.

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensions-ni.gov.uk .

The Department's Accounting Policy in respect of pensions is at Note 1.18 to the accounts.

Pat Toal

PAT TOAL
Accounting Officer, Department of Agriculture & Rural Development
19 October 2006

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

1. Under the Government Resources and Accounts Act (NI) 2001, the Department is required 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.

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

3. DFP has appointed the Permanent Head of the Department as Accounting Officer of the Department, with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

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

   a observe the Accounts Direction issued by DFP, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

   b make judgements and estimates on a reasonable basis;

   c state whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and

   d prepare the accounts on a going-concern basis.

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

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 the Department of Agriculture and Rural Development'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 Northern Ireland.

The accountability arrangements within this Department encompass stewardship, performance and compliance. Monthly Departmental Management Board meetings and the 4 times yearly Corporate Governance and Audit Committee meetings support the role of the Accounting Officer.

This Department regards its Agencies and Non-Departmental Public Bodies as partners, although these are in practice arms length bodies underpinned by strict accountability arrangements. A collegiate approach to achieving PSA targets is adopted and performance is reviewed as part of the annual planning and reporting cycle.

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 Department of Agriculture and Rural Development for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with DFP guidance.

3. Capacity to handle risk

The Departmental Management Board monitors and verifies the Department's Corporate Risk Register which is revised to reflect diminishing and emergent risks on a timely basis. The Corporate Risk Register and the corresponding Risk Management Plans for each business area have been reviewed and amended to reflect the 2006/07 business plans and they are linked to business performance targets. In this way risk management has a key function in managing business performance.

Training on corporate governance, risk management and fraud is provided across the Department to further embed risk management, counter-fraud awareness and the use of Risk Management Plans as routine management practice. The responsibility for risk management is cascaded through the organisation with risk management plans used to inform the agendas of management meetings at all levels. As a result, ownership of risk is allocated to the appropriate staff.

4. The risk and control framework

The Department's Counter-Fraud Forum, which meets on a quarterly basis, oversees and promotes Departmental activities associated with countering fraud. The Central Investigation Unit investigates and pursues prosecutions where fraud is uncovered. The Department continues to enhance counter fraud measures and controls over the period. Fraud has been included as a key risk area in the Department's Corporate Risk Register and relevant business areas complete a fraud risk assessment for all new schemes and programmes. The Central Investigation Service has, or is in the process of developing, service agreements with key business areas and has been assigned responsibility to quality assure fraud risk management plans for key business areas. Promoting a culture of anti fraud consciousness remains a key objective within DARD to influence the attitude of staff and the general public towards countering fraud. The Department's Central Investigation Service continues to deliver fraud awareness training to all staff across the Department. The Department is also represented on the new NICS Fraud Forum, which has been established to co-ordinate the work being done in Departments on tackling fraud and also to provide a forum for the exchange of information/sharing of experience for mutual benefit.

Additional assurance is also obtained through a formal stewardship reporting process which is embedded within each business area of the Department. This process is monitored by the Corporate Governance and Audit Sub-Committee (CGAC). The CGAC is constituted in a way that ensures adherence to the guidelines contained within Treasury's Audit Committee handbook. The committee is chaired by a non-executive director and meets 4 times per year. A Departmental Risk Committee has been established to review the Corporate Risk Register and operational reports from business areas on a regular basis. This is an executive committee that reports directly to the Departmental Board but also provides relevant information to CGAC. Risk Management training has been rolled out across the Department to ensure that risk management has been embedded within operational activities.

The Department has an Internal Audit Unit, which operates to defined Government Internal Audit Standards. This Unit submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement. In the Internal Audit Annual Assurance Report for 2005-06 it confirms that the Unit is satisfied with the Department's internal control framework and confirmed that the developing risk management and governance processes are considered to be effective.

Where internal audit reviews or the work of the Department's Central Investigation Service have identified control weaknesses, management responses have been obtained setting out action that will be taken to strengthen the relevant controls. The Corporate Governance and Audit Sub-Committee monitors implementation of these action plans to ensure that appropriate action has been taken to address internal and external findings raised throughout the year. Satisfactory progress has been made on rectifying control weaknesses identified during 2005-06.

5. Review of effectiveness

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

The outcome of my review has identified the need for some further improvements in relation to minor internal control weaknesses within the Department. In addition I am aware of a number of significant internal control weaknesses as outlined below. A plan to address the identified weaknesses and ensure continuous improvement of the system is in place.

The Department's system of internal control, as outlined above, will continue to operate and we will seek to strengthen these controls where appropriate. In particular, in the incoming year, the Department plans to:

- further develop the Corporate Risk Register;
- continue to embed counter fraud awareness across the Department,

6. Significant internal control problems

During the period there were a number of issues identified by the Northern Ireland Audit Office that were considered to be significant internal control problems. I have listed these as follows:

- Concerns were raised in respect of some of the procedures followed in administering the Department's Processing and Marketing Grants scheme. The report raised concerns that in a number of cases there was insufficient evidence available to prove the procedures had been followed in relation to the procurement aspect of those grants. The Department has subsequently re-examined the administration of these grants, revised the scheme and put additional controls in place to ensure that there is no reoccurrence of these procedural failures.
- During interim audit work on the European Agricultural Guidance and Guarantee Fund (EAGGF) 2006 Account, some errors and omissions were found. The Department has taken corrective actions to address this issue and the management checks to quality assure this work have now been strengthened.
- A concern has been highlighted noting that procurement procedures were not followed in respect of placing a contract for the disposal of clinical waste. Currently DARD is investigating with senior management the circumstances surrounding this omission with a view to ensuring that this procedural weakness is eliminated. Detailed procurement procedures are already in place and the Department is taking steps to remind staff of the importance of complying with these procedures through seminars and guidance notes provided by Central Procurement Directorate of the Department of Finance and Personnel.

Two further concerns were raised that were considered to have the potential to be Significant Internal Control problems, these are listed as follows:

- One of these concerns related to a potential risk emanating from the fact that the post of DARD IT Security Officer is vacant. This concern has been fully considered but logistical, administrative and NICS procedural constraints have left DARD in a position whereby it has not been possible to recruit a suitable person to fill the vacancy. It is the case however that steps have been taken to mitigate this risk as far as possible and an officer is currently deputising into this post pending a permanent appointment. Management do not consider that the residual risk is significant.
- Finally a concern was raised relating to the potential disallowance of EU funding in respect of Single Farm Payments. This issue remains unresolved but DARD is closely monitoring the situation and steps have been taken during this period to avoid the possibility that this problem can reoccur.

Pat Toal

PAT TOAL
Accounting Officer, Department of Agriculture & Rural Development
19 October 2006

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS AND THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the Department of Agriculture and Rural Development for the year ended 31 March 2006 under the Government Resources and Accounts Act (Northern Ireland) 2001. 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 (Northern Ireland) 2001 and Department of Finance and Personnel 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 Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001. 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 the Department of Finance and Personnel regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 28 to 31 reflects the Department's compliance with the Department of Finance and Personnel'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 Scope section, the Operating and Financial Review, the Public Interest and Other information, the two appendices and the unaudited part of the Remuneration Report. 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 judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel, of the state of the Department’s affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows 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 Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

See also my report on pages 72 to 76.

J M Dowdall CB
Comptroller and Auditor General

26 October 2006

Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

STATEMENT OF PARLIAMENTARY SUPPLY

Summary of Resource Outturn 2005-06

								2005-06 £'000	2004-05 £'000
				Estimate			Outturn	Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Request for Resources	Note	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total		Net Total
A	2	345,974	(22,145)	323,829	290,077	(22,145)	267,932	55,897	265,074
Total resources	3	345,974	(22,145)	323,829	290,077	(22,145)	267,932	55,897	265,074
Non-operating accruing resources				5,991			5,790	201	2,812

Net cash requirement 2005-06

				2005-06 £'000	2004-05 £'000
	Note	Estimate	Outturn	Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Net cash requirement	4	292,234	232,638	59,596	242,312

Summary of income payable to the Consolidated Fund

		Forecast 2005-06 £'000		Outturn 2005-06 £'000	
	Note	Income	*Receipts*	Income	*Receipts*
Total	5	25,659	*26,780*	31,832	*31,415*

Explanations of variances between Estimate and outturn are given in Note 2 and in the Operating and Financial Review.

Notes 1 to 36 form part of these accounts

OPERATING COST STATEMENT
for the year ended 31 March 2006

		2005-06 £'000						2004-05 £'000	
				Core Department			Consolidated	Core Department	Consolidated
	Note	Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income		
Administration Costs:									
Staff Costs	9	85,336			101,183			79,827	95,667
Other administration Costs	10		27,795			30,994		26,745	29,847
Operating income	12			(9,867)			(10,986)	(2,737)	(3,733)
Sub-Total		85,336	27,795	(9,867)	101,183	30,994	(10,986)	103,835	121,781
Programme Costs:									
Staff Costs	9	11,476			11,476			11,405	11,405
Programme costs	11		444,367			475,464		314,991	345,509
Income	12			(365,412)			(372,031)	(232,363)	(238,906)
Sub-Total		11,476	444,367	(365,412)	11,476	475,464	(372,031)	94,033	118,008
Totals		96,812	472,162	(375,279)	112,659	506,458	(383,017)	197,868	239,789
Net Operating Cost	3, 13			193,695			236,100	197,868	239,789

STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2006

	2005-06 £'000		2004-05 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Net (gain)/loss on revaluation of tangible assets	(24,820)	(123,492)	(5,925)	(23,760)
Net (gain)/loss on revaluation of intangible assets	(34)	(58)	(57)	26
Net (gain)/loss on revaluation of investments	-	-	-	-
Receipt of donated assets	-	-	-	-
Donated asset amounts recognised in the OCS	7	7	6	6
Receipt of government grants	(13)	(13)	(297)	(297)
Government grant amounts recognised in the OCS	58	58	14	14
Recognised gains and losses for the financial year	(24,802)	(123,498)	(6,259)	(24,011)

Notes 1 to 36 form part of these accounts

BALANCE SHEET
as at 31 March 2006

		2005-06 £'000		2004-05 £'000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Fixed assets:					
Tangible assets	14	164,557	799,026	140,844	674,495
Intangible assets	15	1,473	1,942	1,288	1,744
Investments	16	19	19	19	19
		166,049	800,987	142,151	676,258
Debtors falling due after more than one year	18	340	340	360	360
Current assets:					
Stocks	17	1,711	2,291	1,760	2,428
Debtors	18	155,443	157,105	110,710	112,344
Cash at bank and in hand	19	75	127	59	158
		157,229	159,523	112,529	114,930
Creditors (amounts falling due within one year)	20	(178,789)	(181,435)	(130,152)	(132,878)
Net current assets		(21,560)	(21,912)	(17,623)	(17,948)
Total assets less current liabilities		144,829	779,415	124,888	658,670
Creditors (amounts falling due after more than one year)	20	-	-	-	-
Provisions for liabilities and charges	21	(4,854)	(4,913)	(4,289)	(4,381)
		139,975	774,502	120,599	654,289
Taxpayer's equity:					
General Fund	22	91,320	416,191	94,557	417,005
Revaluation reserve	23(a)	48,263	357,412	25,624	236,866
Donated asset reserve	23(b)	138	138	130	130
Government grant reserve	23(c)	254	761	288	288
		139,975	774,502	120,599	654,289

Pat Toal

PAT TOAL
Accounting Officer
19 October 2006

Notes 1 to 36 form part of these accounts

CONSOLIDATED CASH FLOW STATEMENT
for year ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Net cash outflow from operating activities	24(a)	(186,814)	(191,533)
Capital expenditure and financial investment	24(b)&(c)	(14,292)	(21,705)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payments of amounts due to the Consolidated Fund		(31,325)	(29,279)
Financing	24(d)	232,813	250,460
Increase/(decrease) in cash in the period	24(e)	382	7,943

CONSOLIDATED STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIM AND OBJECTIVES
for year ended 31 March 2006

			2005-06 £'000			2004-05 £'000
	Gross	Income	Net	Gross	Income	Net
Aim						
Objective 1	619,117	(383,017)	236,100	482,428	(242,639)	239,789
Net operating costs	619,117	(383,017)	236,100	482,428	(242,639)	239,789

The Department's objectives were as follows:

Objective 1: (RfR A) Promoting sustainable development of the agri-food industry and the countryside and stimulating the economic and social revitalisation of disadvantaged rural areas, reducing the risk to life and property from flooding, promoting sustainable development of the Sea Fishing Industry and maintaining, protecting and expanding forests in a sustainable way.

See Note 25.

Notes 1 to 36 form part of these accounts

NOTES TO THE DEPARTMENTAL ACCOUNTS

1. Statement of accounting policies

1.0 Introduction

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by the Department of Finance and Personnel of Northern Ireland (DFPNI). 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.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The consolidated Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where FReM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and livestock.

1.2 Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the Department (the core department) and those entities which fall within the Departmental boundary as defined in the FReM (chapter 2.4). Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the Departmental boundary is given at Note 36.

1.3 Tangible fixed assets

Capitalisation

The threshold for capitalisation of single fixed assets is £5,000. Within the Department the grouping of computer equipment, in respect of items falling below this threshold, has also been undertaken.

Subsequent expenditure on an asset, that meets the criteria of an enhancement or improvement, in compliance with FRS 15, is capitalised, otherwise it is written off to revenue.

<u>Valuation</u>
Land and Buildings are carried at the last professional valuation, in accordance with the Appraisal and Valuation Manual produced jointly by the Royal Institute of Chartered Surveyors (RICS), the Incorporated Society of Valuers and Auctioneers (ISVA) and the Institute of Revenues Rating and Valuation (IRRV). Revaluations of Land and Buildings are undertaken every 5 years. They are revalued annually, between valuations, using indices provided by the Valuation and Lands Agency (VLA), specific to the Northern Ireland property sector. Properties are valued on the basis of open market value for existing use, unless they are specialised, in which case they are valued on a depreciated replacement cost basis.

The Department's Heritage Assets comprise the Peace Maze at Castlewellan Forest Park and Glenariff Walkway. These are included under "Land and Buildings" in Note 14. They are revalued each year using the Retail Prices Index (RPI).

Assets under Construction are carried at cost.

The value of trees grown for commercial purposes is included in fixed assets on a replacement cost basis. This reflects the value in use of the asset, which is regarded as higher than net realisable value. The timber is valued at the balance sheet date using the most recent costs. Any change in valuation is taken to the revaluation reserve.

All other fixed assets are revalued annually by reference to indices compiled by the Office for National Statistics (ONS).

In compliance with FReM disclosure of fixed assets at historical cost is not provided.

<u>Depreciation</u>
Land at Baronscourt is being handed back to its owner in stages up to the year 2024. Depreciation is being charged over that period. There is no depreciation charge on the Department's own land.

Heritage Assets will be maintained in perpetuity and consequently have not been depreciated.

Assets under Construction are not depreciated until they are commissioned.

For all other categories of assets, depreciation is charged on a straight line basis, to write off the cost or valuation, less estimated residual value, where relevant, of each asset over its estimated useful life. The useful lives, which are reviewed regularly, are:

• Land and Buildings	10-50 years
• Culvert Infrastructure Assets	120 years
• Plant, Machinery, Equipment and Computers	3-20 years

1.4 Valuation and Depreciation of Infrastructure Assets

(a) Flood Defences

Expenditure on all Flood Defence assets is capitalised and depreciated over the useful economic life of the asset. For most assets this will be a period of 50 years. Flood Defence assets (both sea and river) have been defined as the product of capital expenditure on the creation, provision, purchase, replacement or improvement of discrete physical watercourse based structures that enable Rivers Agency to achieve its strategic aim of providing flood protection.

In the financial year to 31st March 2006 a revaluation of flood defence assets was carried out. Sea defence assets were independently valued by RPS Consulting Engineers. River defence assets were valued in accordance with FReM para 5.2.6(d) using indices and other appropriate information.

(b) Culverts

Rivers Agency manages a culvert network of 300 kilometres, in which there are over 6,200 culvert reaches i.e. lengths of culverts between manholes. The depths at which culverts are laid vary between 1 metre and 12 metres. Prior to 1st April 2005, the Agency used an in-house model to calculate a modern day replacement value (MDRV) of the total culvert network, which includes both pipe and box culverts.

In the financial year to 31st March 2006 a revaluation of the total culvert network was carried out. This gave a new valuation for the culvert network at 1 April 2005. The modern day replacement value (MDRV) of the culvert network is now based on a hybrid cost model of a UK National Industry Standard Cost Estimating Package (TR61) for the pipe network, and an In-House Developed model for the box culvert network. The rates derived from both cost models are applied to the network statistics, which are contained within the Agencies Asset Inventory Database, INFONET.

The TR61 cost model has been independently validated by Halcrow Management Sciences Ltd. on behalf of WRC and member companies (including Rivers Agency), and the In-House model validated by WS Atkins.

Each year the valuation will be revalued using indices contained within Current Cost Accounting MM17, a publication of the Office for National Statistics (ONS). It will also takes account of any additions and condition surveys that have taken place in the year.

The accounting policy adopted in relation to culverts is a variant of renewals accounting as detailed in FReM paragraph 5.2.10. This policy requires the formulation of a detailed Asset Management Plan that determines the amount to be spent to maintain the asset in a steady state condition and also the charge to the Operating Cost Statement. Actual refurbishment costs are charged to the Operating Cost Statement, with any variation between this figure and that suggested by the Asset Management Plan adjusted in the accounts.

(c) Soft Defences
Soft Defences mainly consist of levees and soft earth banks of varying heights. Those on designated watercourses are maintained to their existing standard and do not contain a hard core as in the case of urban Flood Defences. Rivers Agency has decided that it will not attempt to value these defences because:

- for the most part, they provide protection to agricultural land to a lesser degree than that afforded to the urban environment;
- they are subjected to a six-year rolling programme of scheduled inspection and are maintained on the basis of need, rather than by a reference to a detailed maintenance plan. Any expenditure incurred is merely reactive in nature.

The accounting policy adopted by Rivers Agency in respect of Soft Flood Defences is to expense all expenditure to the Operating Cost Statement each year.

(d) Capitalisation of engineer's time
The Rivers Agency has included engineer salary costs in Flood Defence and Culvert Network Valuations.

1.5 Donated Assets

The Department has a number of donated assets. These include a number of buildings on agricultural college sites within the core department. These assets are depreciated and revalued, consistent with other assets, but are charged to the Donated Asset Reserve.

1.6 Assets funded by government grants

The Department has received grants from the Department of the Environment and the Department for Environment, Food and Rural Affairs to fund the purchase of certain assets. These grants are credited to a government grant reserve. These assets are depreciated and revalued, consistent with other assets, but are charged to the Government Grant Reserve.

1.7 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. In addition similar licences falling below this threshold, which when grouped exceed the threshold, are also capitalised. The value of the capitalised licences is restated at current value at the balance sheet date in accordance with the movement in the Retail Prices Index (RPI). The licences are amortised over their expected useful life, which can be from 1 to 15 years depending on the licence.

Other intangibles relate to Forest Service land rights (shooting and turbary rights). The forest land rights, being land based, are as a consequence revalued every 5 years by the VLA.

1.8 Investments

Financial interests, in bodies that are outside the departmental boundary, are treated as fixed asset investments as they are held for the long term. These comprise ordinary £1 shares in United Dairy Farmers Limited. United is a dairy farmer cooperative registered in Northern Ireland.

Short-term debtors and creditors are not deemed to be financial instruments within the context of FRS 13 and are not disclosed separately in relation to this standard.

1.9 Stocks and work in progress

Livestock are valued at market value. Other stocks are valued at the lower of cost and net realisable value.

1.10 Operating income

Operating income is income that relates directly to operating activities of the Department. It comprises fees and charges, to be recovered for services provided to external customers, sale of timber, and public repayment work. It also includes accruing resources in aid of the Estimate and income payable to the Consolidated Fund, which in accordance with FReM, is treated as operating income. It excludes accruing resources and Consolidated Fund Extra Receipts treated as capital. Income under the Common Agricultural Policy, from the European Union programme for Peace and Reconciliation, and other EU initiatives is also treated as operating income.

1.11 Foreign exchange

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

1.12 Grants

The Department recognises grant expenditure in the period in which the recipient carries out the activity that creates an entitlement to the grant support, in so far as it is practicable to do so. EU income due to the Department is accrued in line with the relevant expenditure.

1.13 Provisions

The Department provides for legal or constructive obligations, which are of uncertain timing, or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation.

Legal claims under £300,000 are assessed together and a provision of 50% of the likely maximum claim value is made. This percentage is reviewed on an ongoing basis to ensure it continues to represent a reasonable estimate of the expenditure of the Department on such claims. Claims greater than or equal to £300,000 are assessed on a case-by-case basis, and provided for or disclosed as a contingent liability as applicable.

The Department is required to meet the cost of paying the pensions of employees who retire early from the date of their retirement until they reach normal pensionable age. The Department provides in full for the cost of meeting these payments in respect of early retirement programmes at the time that a liability is created.

1.14 Value Added Tax

VAT is recovered on a cash basis. The Operating Cost Statement is stated net of VAT. Where trade debtors and trade creditors are stated gross of VAT the VAT account balance is adjusted accordingly.

No taxation is chargeable on the financial results of entities within the departmental boundary.

1.15 Third-party assets

The Department holds a number of bank accounts on behalf of third parties. These third parties include student trust funds, college club and society accounts, other trust funds and statutory accounts. The closing balances in these accounts as at 31 March have been disclosed at Note 35. In addition, a number of these trusts hold Treasury stock and shares in the Northern Ireland Central Investment Fund for Charities. The numbers and market value of these shares is also shown at Note 35.

1.16 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Department as defined under the administration cost-control regime, together with associated operating income. Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department, as well as certain staff costs where they relate directly to service delivery.

1.17 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities except for:

(a) tangible and intangible fixed assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:

- additions at cost
- disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal)
- impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure)
- depreciation of tangible and amortisation of intangible fixed assets

(b) donated assets, and cash balances with the Consolidated Fund (including balances in Departmental bank accounts within the centralised NICS pool of accounts currently held at the Northern Bank), where the charge is nil.

(c) liabilities for amounts to be surrendered to the Consolidated Fund, where the credit is at a nil rate.

1.18 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS[NI]). The defined benefit scheme is a multi-employer unfunded scheme, which produces its own resource accounts, but the Department of Agriculture and Rural Development is unable to identify its share of the underlying assets and liabilities. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS[NI] of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS[NI]. The defined benefit scheme are non-contributory except in respect of dependents benefits. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year. See Note 9. Further details of the civil service pension arrangements can be found at the website www.civilservicepensions-ni.gov.uk

1.19 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

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

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

2. Analysis of net resource outturn by section

	Admin	Other current	Grants	Gross resource Expenditure	Accruing Resources	2005-06 £'000 Outturn Net Total	2005-06 £'000 Estimate Net Total	Net Total outturn compared with Estimate	2004-05 £'000 Outturn Prior-year outturn
Request for Resources A									
Departmental Expenditure in DEL:									
1: Service Delivery Group	25,682	31,879	5,764	63,325	(2,533)	60,792	60,224	(568)	34,468
2: Rural Development	5,047	209	4,591	9,847	(14)	9,833	10,251	418	9,476
3: Science Service	26,705	14,558	-	41,263	(1,267)	39,996	39,341	(655)	38,015
4: Veterinary Service	35,467	986	-	36,453	(7,601)	28,852	29,590	738	33,465
5: Central Policy Group	6,711	33,059	1,677	41,447	(3,811)	37,636	47,207	9,571	66,409
6: Fisheries	2,072	483	3,471	6,026	(6)	6,020	7,042	1,022	6,792
7: The Loughs Agency of FCILC	-	-	1,332	1,332	-	1,332	1,832	500	1,013
8: Rivers Agency	12,533	2,763	-	15,296	(582)	14,714	14,796	82	15,610
9: Forest Service Agency	7,983	13,468	219	21,670	(6,331)	15,339	17,061	1,722	15,452
10: EU Programme for Peace & Reconciliation	-	-	12,244	12,244	-	12,244	16,606	4,362	12,202
11: EU Community Initiatives	-	-	6,865	6,865	-	6,865	8,977	2,112	3,871
12: Executive Programme Funds	2,101	1,093	3,798	6,992	-	6,992	26,817	19,825	4,512
13: Intregrated Development Fund	-	6	69	75	-	75	575	500	-
14: Repayment of Loan Interest	-	114	-	114	-	114	70	(44)	74
Annually Managed Expenditure (AME):									
15: Common Agriculture Policy	-	326,121	727	326,848	-	326,848	340,032	13,184	198,844
16: Flood Protection	21	14,424	-	14,445	-	14,445	15,967	1,522	13,033
Non-Budget:									
17: Science Service - ARINI	-	-	3,380	3,380	-	3,380	5,516	2,136	3,051
18: Fisheries - NIFHA	-	-	371	371	-	371	1,955	1,584	454
19: Common Agriculture Policy	-	2,192	(329,040)	(326,848)	-	(326,848)	(330,732)	(3,884)	(198,844)
20: Payments to Agricultural Loans Fund	-	-	8	8	-	8	30	22	9
21: Payments to Sanitary Authorities	-	-	-	-	-	-	-	-	-
22: Notional Charges	7,855	1,069	-	8,924	-	8,924	10,672	1,748	7,168
Total:	132,177	442,424	(284,524)	290,077	(22,145)	267,932	323,829	55,897	265,074

Explanation of the variation between Estimate and outturn (net total resources)

The main reasons for the underspend of £55.9m are as follows:

(a) £9.6m underspend in Central Policy Group largely due to underspending in relation to Modulation Match Funding, which is being rolled forward into 2006-07 and beyond for use in the new Rural Development Programme.

(b) £1.0m underspend in Fisheries largely in relation to slippage across a range of capital grant projects. Subject to the necessary approvals, this budget will be carried forward for expenditure in 2006-07 under the End Year Flexibility arrangements.

(c) £0.5m underspend in relation to FCILC due to the fact that legislation is not yet in place to allow certain expenditure.

(d) £1.7m variance in Forest Service primarily related to additional income in respect of timber sales in excess of estimated sales.

(e) £4.4m underspend in relation to the European Programme for Peace and Reconciliation due to project slippage and extensions to letters of offer.

(f) £2.1m underspend in European Community Initiatives due to a lack of EU funding available to match the national element.

(g) £19.8m underspend in Executive Programme Funds largely attributable to the Farm Nutrient Management Scheme, which experienced initial start up delays which resulted in an extension to the closing date for applications. Subject to the necessary approvals the capital grant expenditure will be carried forward into 2006-07 and 2007-08 in line with the current anticipated expenditure profile.

(h) £0.5m underspend in relation to the Integrated Development Fund. This is the first year of IDF expenditure for DARD and delays have been experienced in project start up. Subject to the necessary approvals this budget will be carried forward for expenditure in 2006-07 under the End Year Flexibility arrangements.

(i) £13.2m underspend in relation to the Common Agriculture Policy. At the time of preparing the Estimates it was anticipated that responsibility for providing for disallowances would be transferred to DARD from the Department for the Environment, Food and Rural Affairs. The Estimate includes £9.3m in relation to this, which has remained with DEFRA. The remaining difference is offset by lower receipts in the Non-Budget side.

(j) £2.1m underspend in relation to ARINI. This is primarily a result of slippage in capital projects being undertaken at ARINI, with a consequential reduction in the Department's capital grant expenditure.

(k) £1.6m underspend in NIFHA due to slippage on a range of capital projects, the most significant being the Kilkeel North/South Pier.

(l) £1.7m underspend on notional costs due primarily to lower than anticipated accommodation costs and a lower cost of capital in relation to EU debtors

Note: Additional explanations of variances are given in the Operating and Financial Review

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

		2005-06 £'000			2004-05 £'000
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	2	267,932	323,829	55,897	265,074
Prior Period Adjustments		-	-	-	-
Non-supply Income (CFERs)	5	(31,832)	(25,659)	6,173	(25,285)
Non-supply Expenditure	22	-	-	-	-
Net Operating Cost		236,100	298,170	62,070	239,789

3(b) Outturn against final Administration Budget

		2005-06 £'000		2004-05 £'000
	Note	Budget	Outturn	Outturn
Gross Administration Budget (DEL)		126,382	124,301	119,443
Income allowable against the Administration Budget*	12	(8,610)	(9,267)	(1,892)
Net outturn against final Administration Budget		117,772	115,034	117,551

*includes excess accruing resources of £991,022.37 (2004-05: £1,025,120.19)

4. Reconciliation of resources to cash requirement

	Note	Estimate £'000	Outturn £'000	Net total outturn compared with estimate: saving/(excess) £'000
Resource Outturn	2	323,829	267,932	55,897
Capital				
Acquisition of fixed assets	14, 15	27,039	20,610	6,429
Investments		-	-	-
Non-operating accruing resources				
Proceeds of fixed asset disposals	24(b)	(5,978)	(5,777)	(201)
Receipt of capital grants	23(c)	(13)	(13)	-
Accruals adjustments				
Non-cash items		(56,143)	(46,758)	(9,385)
Changes in working capital other than cash		2,000	(3,984)	5,984
Changes in creditors falling due after more than one year	20	-	-	-
Use of provision	21	1,500	628	872
Excess cash receipts surrenderable to the Consolidated Fund	5	-	-	-
Net cash requirement		292,234	232,638	59,596

Non-cash items	£'000
Staff costs (note 9)	452
Other administration costs (note 10)	10,444
Programme costs (note 11)	35,979
Note 24(a)	46,875
Less interest paid to NI Consolidated Fund for RRI Loans	(117)
Note 4	**46,758**

Explanation of the variation between Estimate and outturn

The main reasons for the variance of £59.6m are as follows:

(a) £55.9m net resource underspend. The main reasons for this are given in Note 2 to the accounts and in the Financial Review.

(b) £6.4m capital underspend largely due to the suspension of capital works at the College of Agriculture Food and Rural Enterprise (CAFRE) pending the outcome of the College Review together with some delays in capital works for the Science Service. Subject to the necessary approvals this under-spending will be carried forward under the terms of the End Year Flexibility Scheme.

(c) £6.0m variance on the movement in working capital due to a decrease of £4.0m in working capital rather than the anticipated increase of £2.0m.

(d) £0.9m less cash was expended than anticipated in relation to provisions made in previous years

The above are offset by a £9.4m variance in relation to non-cash items primarily due to the Estimate including an anticipated £9.3m in relation to a disallowance provision as described in Note 2.

5. Analysis of income payable to the Consolidated Fund

In addition to accruing resources, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics)

		2005-06 £'000		2004-05 £'000	
	Note	Income	*Receipts*	Income	*Receipts*
Operating income and receipts - excess accruing resources		-	*-*	2,063	*2,063*
Other operating income and receipts not classified as accruing resources		25,659	*26,780*	29,769	*29,352*
Sub-Total of operating income and receipts	22	25,659	*26,780*	31,832	*31,415*
Non-operating income and receipts - excess accruing resources	7	-	*-*	-	*-*
Other non-operating income & receipts not classified as accruing resources	8	-	*-*	-	*-*
Other amounts collectable on behalf of the Consolidated Fund		-	*-*	-	*-*
Excess cash surrenderable to the Consolidated Fund	4	-	*-*	-	*-*
Total income payable to the Consolidated Fund		25,659	*26,780*	31,832	*31,415*

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

		2005-06 £'000	2004-05 £'000
	Note		
Administration income	12	10,986	3,733
Programme income	12	372,031	238,906
Gross income		383,017	242,639
Income authorised to be accruing resources		(22,145)	(17,496)
CAP income netted off against programme expenditure		(329,040)	(199,858)
Operating income payable to the Consolidated Fund	5	31,832	25,285

7. Non-operating income - Excess accruing resources

	2005-06 £'000	2004-05 £'000
Proceeds on disposal of fixed assets	-	-
Other	-	-
Non-operating income - excess accruing resources	-	-

8. Non-operating income not classified as accruing resources

The Department had no non-operating income not classified as accruing resources during the financial year 2005-06. (2004-05: £nil)

9. Staff numbers and related costs

9(a) Staff costs:

	2005-06 £'000					2004-05 £'000
	Total	Permanently employed staff	Others	Ministers	Special Advisers	Total
Wages and salaries	91,906	91,904	2	-	-	91,033
Social security costs	6,698	6,698	-	-	-	6,730
Other pension costs**	15,782	15,782	-	-	-	11,011
Sub-Total	114,386	114,384	2	-	-	108,774
Less recoveries in respect of outward secondments	(112)	(112)	-	-	-	(160)
Total net costs*	114,274	114,272	2	-	-	108,614
Of which:						
Core department £'000	96,812					

*Of the total, £1,727,000 has been charged to capital.
**Includes £452,000 for increase in early departure costs provision (see note 21)

	2005-06 £'000		2004-05 £'000	
Distribution	Core dept.	Consolidated	Core dept.	Consolidated
Administration costs	85,336	101,183	79,827	95,667
Programme costs	11,476	11,476	11,405	11,405
Capitalised	-	1,727	-	1,702
Total staff costs as above	96,812	114,386	91,232	108,774

The Principal Civil Service Pension Scheme of Northern Ireland (PCSPS[NI]) is an unfunded multi-employer defined benefit scheme which produces its own resource accounts, but the Department of Agriculture and Rural Development is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2003 and details of this valuation are available in the PCSPS[NI] resource accounts.

For 2005-06, employers' contributions of £15,298,786 were payable to the PCSPS[NI] (2004-05 £11,052,540) at one of four rates in the range 16.5 to 23.5 per cent (2004-05: 12 to 18 per cent) of pensionable pay based on salary bands. The contribution rates reflect benefits as they are accrued, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £31,568 (2004-05 £31,756) were paid to one or more of a panel of four appointed stakeholder pension providers. Employers' contributions are age-related and range from 3 to 12.5 per cent (2004-05: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employers' contributions of £1,976.94 (2004-05: £2,446.68), 0.8 per cent of pensionable pay, were payable to the PCSPS[NI] to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £nil. There were no contributions prepaid at that date.

Twenty-eight persons (2004-05: twenty-six persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £28,873 (2004-05: £22,335).

9(b) Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below. These figures include those working in the department as well as in agencies and other bodies included within the consolidated departmental resource account.

					2005-06 Number	2004-05 Number
Objective	Total	Permanent staff	Others	Ministers	Special Advisers	Total
Request for Resource A	4,029	4,029	-	-	-	4,112
Of which: core department	3,297					

10. Other Administration Costs

		2005-06 £'000		2004-05 £'000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Travel and subsistence		3,615	4,372	3,779	4,605
Training and development		560	722	559	706
Operating leases		149	149	217	217
Accommodation costs:					
Rates		846	1,041	795	976
Utilities		1,215	1,405	844	1,007
Repairs & maintenance		3,640	3,665	4,075	4,093
Communications		816	957	1,440	1,593
Computer charges		1,203	1,203	905	905
Postage, stationery & printing		1,817	1,837	2,217	2,237
OSNI Hard charges		645	1,128	722	1,193
Other Office Services		273	318	369	376
Contracted Out Services		1,000	1,160	1,009	1,155
Other expenses		2,460	2,593	2,620	2,731
Sub-Total		18,239	20,550	19,551	21,794
Non-cash items:					
Depreciation of tangible fixed assets		2,127	2,306	1,605	1,772
Amortisation of intangible fixed assets		350	400	197	212
Permanent diminution of fixed assets		75	83	272	283
Profit on disposal of fixed assets		-	-	-	-
Loss on disposal of fixed assets		10	10	4	4
Cost of capital charge		(485)	(469)	(364)	(322)
Provisions	21	267	259	58	62
Notional charges:					
Accommodation		5,967	6,447	3,916	4,309
Auditors' remuneration & expenses		90	129	97	141
Others		1,155	1,279	1,409	1,592
Sub-Total		9,556	10,444	7,194	8,053
Total		27,795	30,994	26,745	29,847

11. Programme Costs

		2005-06 £'000		2004-05 £'000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Current expenditure:					
Operating leases		199	267	314	367
Rates		419	419	406	406
Utilities		654	654	679	679
Repairs & maintenance - buildings		774	787	1,838	1,846
Repairs & maintenance - other		421	1,721	375	1,738
Contracted Out Services		2,299	4,108	1,963	4,467
Private Veterinary Practioners fees & expenses		6,375	6,375	7,578	7,578
Exchange rate losses/gains		-	-	-	-
Materials		3,607	5,805	3,713	6,087
Disease testing programmes		4,472	4,472	3,762	3,762
Disease compensation		12,169	12,169	16,591	16,591
Livestock and Aquatic Costs		880	880	1,770	1,770
Contribution for National Fallen Stock Company		-	-	1,667	1,667
Non-capital plant & equipment purchases		1,232	1,271	973	1,044
Weather Aid		4,566	4,566	-	-
Other expenses		8,213	8,838	6,333	6,880
Sub-Total		46,280	52,332	47,962	54,882
Common Agriculture Policy:					
EU funded element		328,592	329,040	198,818	199,858
National match funded element		13,860	14,544	21,398	22,030
Sub-Total		342,452	343,584	220,216	221,888
Grants:					
Grant-in-aid		5,083	5,083	4,518	4,518
Capital grants		8,141	8,141	4,005	4,005
Current grants		30,345	30,345	28,725	28,725
Sub-Total		43,569	43,569	37,248	37,248
Non-cash items:					
Depreciation of fixed assets		4,316	7,770	3,865	6,769
Permanent diminution of fixed assets		1,852	3,533	19	1,136
Release from donated assets reserve		(7)	(7)	(6)	(6)
Release from government grant reserve		(58)	(58)	(14)	(14)
Profit on sale of fixed assets		(461)	(618)	(20)	(64)
Loss on sale of fixed assets		120	170	26	107
Cost of capital		5,731	24,626	5,441	23,351
Interest on RRI loan		114	114	74	74
Provisions	21	459	449	180	138
Sub-Total		12,066	35,979	9,565	31,491
Total		444,367	475,464	314,991	345,509

12. Income

	Note	2005-06 £'000		2004-05 £'000	
		Core Department	Consolidated	Core Department	Consolidated
ADMINISTRATIVE INCOME					
Fees and charges:					
To Food Standards Agency		7,251	7,251	-	-
To other departments		1,618	2,016	1,653	1,892
Sub-Total		8,869	9,267	1,653	1,892
To external customers		998	1,719	1,084	1,841
Total administration income		9,867	10,986	2,737	3,733
PROGRAMME INCOME					
EU income					
Common Agriculture Policy		328,592	329,040	198,818	199,858
Other		29,626	29,626	22,954	22,954
Sub-Total		358,218	358,666	221,772	222,812
Other income					
Seconded Staff		112	112	160	160
Timber & other forest produce		-	5,547	-	5,174
Meat Inspection fees		-	-	3,146	3,146
BR/TB Salvage Revenue		2,599	2,599	4,109	4,109
Other		4,483	5,107	3,176	3,505
Sub-Total		7,194	13,365	10,591	16,094
Total programme income		365,412	372,031	232,363	238,906
Total income		375,279	383,017	235,100	242,639

13. Analysis of net operating cost by spending body

	2005-06 £'000		2004-05 £'000
	Estimate	Outturn	Outturn
Spending body:			
Core department	242,875	188,302	192,405
Rivers Agency	30,763	29,182	28,626
Forest Service Agency	17,061	14,865	15,253
ARINI	5,516	3,380	3,051
NIFHA	1,955	371	454
Net operating cost	298,170	236,100	239,789

14. Tangible fixed assets

	Land & Buildings £'000	Plant & Machinery £'000	Transport Equipment £'000	Information Technology £'000	Infrastructure assets £'000	Cultivated assets £'000	Payments on Account & Assets under Construction £'000	Total £'000
Cost or valuation								
At 1 April 2005	253,708	24,131	8,463	11,237	321,088	127,616	14,121	760,364
Additions	972	3,543	1,332	2,758	4,687	2,850	3,928	20,070
Donations	-	-	-	-	-	-	-	-
Disposals	(2,634)	(1,541)	(1,143)	(197)	-	(2,336)	-	(7,851)
Reclassifications	1,019	117	-	86	1,949	-	(3,171)	-
Revaluations	26,252	1,155	244	180	105,161	7,921	(42)	140,871
Impairments	(1,888)	(229)	-	(220)	-	-	-	(2,337)
At 31 March 2006	277,429	27,176	8,896	13,844	432,885	136,051	14,836	911,117
Depreciation								
At 1 April 2005	12,548	11,876	4,206	3,420	53,819	-	-	85,869
Charged in year	2,906	2,332	904	2,292	1,642	-	-	10,076
Disposals	(49)	(1,351)	(925)	(187)	-	-	-	(2,512)
Reclassifications	(2)	2	-	-	-	-	-	-
Revaluations	(14,893)	558	62	43	31,609	-	-	17,379
Impairments	(17)	(103)	-	(137)	1,536	-	-	1,279
At 31 March 2006	493	13,314	4,247	5,431	88,606	-	-	112,091
Net book value at 31 March 2006	276,936	13,862	4,649	8,413	344,279	136,051	14,836	799,026
Net book value at 31 March 2005	241,160	12,255	4,257	7,817	267,269	127,616	14,121	674,495
Asset financing:								
Owned	276,115	13,862	4,649	8,413	344,279	136,051	14,836	798,205
Land at Baronscourt	821	-	-	-	-	-	-	821
Net book value at 31 March 2006	276,936	13,862	4,649	8,413	344,279	136,051	14,836	799,026
Analysis of tangible fixed assets								
The net book value of tangible fixed assets comprise:								
At 31 March 2006								
Core department	132,142	9,421	2,268	8,036	-	-	12,690	164,557
Agencies	144,794	4,441	2,381	377	344,279	136,051	2,146	634,469
At 31 March 2005								
Core department	112,597	8,353	1,931	7,366	-	-	10,597	140,844
Agencies	128,563	3,902	2,326	451	267,269	127,616	3,524	533,651

Notes:

(a) Land and Buildings includes Heritage Assets

(b) Land and Buildings were valued as at 1st April 2005 for both the Core Department and Rivers Agency. Land of the Forest Service agency was valued as at 1st April 2003 and Buildings as at 1st April 2004. All these valuations were on the basis of existing use value by an independent surveyor, Valuation and Lands Agency.

The Rivers Agency flood defences (i.e. sea defences) were revalued by RPS Consulting Engineers at 31 March 2006.

The Rivers Agency culvert network was revalued, by in-house staff using an industry standard recognised methodology, at 1 April 2005 and indexation applied at 31 March 2006 for these accounts.

Other tangible assets were revalued using the latest available indices.

(c) There were no donated asset additions during the 2005-06 financial year.

15. Intangible fixed assets

	Forest Land Rights £'000	Software Licences £'000	Total £'000
Cost or valuation			
At 1 April 2005	151	2,448	2,599
Additions	-	540	540
Donations	-	-	-
Disposals	-	(10)	(10)
Reclassifications	-	-	-
Revaluations	18	59	77
Impairments	-	-	-
At 31 March 2006	169	3,037	3,206
Amortisation			
At 1 April 2005	-	855	855
Charged in year	-	400	400
Disposals	-	(10)	(10)
Reclassifications	-	-	-
Revaluations	-	19	19
Impairments	-	-	-
At 31 March 2006	-	1,264	1,264
Net book value at 31 March 2006	169	1,773	1,942
Net book value at 31 March 2005	151	1,593	1,744
Analysis of intangible fixed assets			
The net book value of intangible fixed assets comprise:			
At 31 March 2006			
Core department	-	1,473	1,473
Agencies	169	300	469
At 31 March 2005			
Core department	-	1,288	1,288
Agencies	151	305	456

16. Investments

Ordinary £1 shares of United Dairy Farmers Ltd. (held within core department)

	Nominal Value £'000
Balance at 1 April 2005	19
Additions	-
Disposals	-
Balance at 31 March 2006	19

These shares are held by CAFRE who supplied milk to United Dairy Farmers Ltd from the campuses at Greenmount and Enniskillen. If CAFRE ceases to supply milk to United in future then United will redeem the shares at par. Alternatively shareholders who cease to supply milk to United can opt to convert their ordinary shares to preference shares with no voting rights (preference share dividend calculated on base rate minus 1%)

17. Stocks and work in progress

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Stocks	1,711	2,291	1,760	2,428
Work in progress	-	-	-	-
Balance at 31 March	1,711	2,291	1,760	2,428

18. Debtors

18 (a) Analysis by type

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Amounts falling due within one year:				
VAT	78	570	2,299	2,804
Trade debtors	2,760	3,730	3,748	4,729
Other debtors	11,568	11,570	10,909	10,922
Prepayments & accrued income	1,832	1,963	1,748	1,753
Amounts due from RPA in relation to the Common Agriculture Policy (CAP)	86,174	86,241	39,105	39,235
EU grants receivable (excluding the CAP)	31,360	31,360	30,938	30,938
	133,772	135,434	88,747	90,381
Amounts due from the Consolidated Fund in respect of supply	21,671	21,671	21,963	21,963
Total at 31 March due within one year	155,443	157,105	110,710	112,344
Amounts falling due after more than one year:				
Prepayments	340	340	360	360
Total at 31 March due after more than one year	340	340	360	360

EU grant income is recognised by the Department in the Operating Cost Statement but as it is CFER income, it is not reflected in the Statement of Parliamentary Supply with EU receipts remitted to the Consolidated Fund. The Department has reviewed the level of debtors in respect of EU grant income receivable and is satisfied with the figures as shown in the accounts. In total, £31,369,000 (2004-05: 30,952,000) of debt is to be remitted to the Consolidated Fund on receipt.

18 (b) Intra-Government Balances

		Amounts falling due within one year		Amounts falling due after more than one year
	£'000	£'000	£'000	£'000
	2005-06	2004-05	2005-06	2004-05
Balances with other central government bodies	109,832	65,863	-	-
Balancies with local authorities	14	6	340	360
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Sub-Total: intra-government balances	109,846	65,869	340	360
Balances with bodies external to government	47,259	46,475	-	-
Total debtors at 31 March	157,105	112,344	340	360

19. Cash at bank and in hand

		2005-06 £'000		2004-05 £'000
	Core department	Consolidated	Core department	Consolidated
Balance at 1 April	(19,642)	(19,543)	(27,539)	(27,486)
Net change in cash balances	429	382	7,897	7,943
Balance at 31 March	(19,213)	(19,161)	(19,642)	(19,543)
The following balances at 31 March were held at:				
Commercial banks and cash in hand	(19,213)	(19,161)	(19,642)	(19,543)
Balance at 31 March	(19,213)	(19,161)	(19,642)	(19,543)
The balance comprises:				
Cash	75	127	59	158
Bank overdraft	(19,288)	(19,288)	(19,701)	(19,701)

20. Creditors

20 (a) Analysis by type

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Amounts falling due within one year:				
Bank overdraft (net of uncashed payable orders)	19,288	19,288	19,701	19,701
Other amounts falling due within one year:				
Taxation and Social Security	93	381	62	270
Trade creditors	3,918	4,762	3,538	4,316
Other creditors	19,828	20,059	18,887	19,022
Accruals and deferred income	6,106	7,299	7,071	8,542
EU grant creditors - Common Agriculture Policy	86,174	86,241	39,105	39,235
EU grant creditors - Other	9,526	9,526	8,420	8,420
Sub-Total	125,645	128,268	77,083	79,805
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	-	-	-
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:				
Received - EU	282	282	123	123
Received - Other	2,201	2,228	2,293	2,297
Receivable - EU	31,360	31,360	30,938	30,938
Receivable - Other	13	9	14	14
Sub-Total	33,856	33,879	33,368	33,372
Total at 31 March due within one year	178,789	181,435	130,152	132,878
Amounts falling due after more than one year:	-	-	-	-

20 (b) Intra-Government Balances

		Amounts falling due within one year		Amounts falling due after more than one year
	£'000	£'000	£'000	£'000
	2005-06	2004-05	2005-06	2004-05
Balances with other central government bodies	37,042	35,191	-	-
Balancies with local authorities	73	119	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Sub-Total: intra-government balances	37,115	35,310	-	-
Balances with bodies external to government	144,320	97,568	-	-
Total creditors at 31 March	181,435	132,878	-	-

21. Provisions

	Core Department			Consolidated		
	Early departure costs £'000	Legal costs £'000	Total £'000	Early departure costs £'000	Legal costs £'000	Total £'000
Balance at 1 April 2005	163	4,126	4,289	185	4,196	4,381
Provided in the year	452	744	1,196	452	763	1,215
Provisions not required written back	-	(18)	(18)	-	(55)	(55)
Provisions utilised in the year	(93)	(520)	(613)	(99)	(529)	(628)
Unwinding of discount	-	-	-	-	-	-
Balance at 31 March 2006	522	4,332	4,854	538	4,375	4,913

Early departure costs:
The department and its agencies meet the additional costs of benefits beyond the normal PCSPSNI benefits in respect of employees who retire early by paying the required amounts annually to the PCSPSNI over the period between early departure and normal retirement date. The department and its agencies provide for this in full when early retirement programme becomes binding by establishing a provision for the estimated payments.

Legal costs:
Legal claims under £300,000 are assessed together and a provision of 50% of the likely maximum claim value is made. This percentage is reviewed on an ongoing basis to ensure it continues to represent a reasonable estimate of the expenditure of the department on such claims. Claims greater than or equal to £300,000 are assessed on a case by case basis, and provided for in full or disclosed as a contingent liability.

22. General Fund

The General Fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Balance at 1 April	(94,557)	(417,005)	(88,503)	(410,817)
Net Parliamentary Funding:				
Drawn down	(185,788)	(210,850)	(195,852)	(220,300)
Year end adjustment:				
Supply Creditor/(Debtor)	(21,671)	(21,671)	(21,963)	(21,963)
Net transfer from operating activities:				
Net operating cost	193,695	236,100	197,868	239,789
CFERs repayable to Consolidated Fund	31,768	31,832	25,274	25,285
Non-cash costs:				
Notional costs	(7,212)	(7,855)	(5,422)	(6,042)
Cost of capital	(5,246)	(24,157)	(5,077)	(23,029)
RRI loan interest*	(114)	(114)	(74)	(74)
Transfer from Revaluation Reserve	(2,189)	(2,471)	(808)	(403)
Internal Asset Transfers	(6)	-	-	-
Transfer of Heritage Asset elements to Revaluation Reserve	-	-	-	419
Transfer of Assets to Waterways Ireland	-	-	-	130
Balance at 31 March	(91,320)	(416,191)	(94,557)	(417,005)

* Under the Reinvestment and Reform Initiative (RRI), loans were made available to the Northern Ireland Block. These loans were paid to departments as increased supply via the NI Consolidated Fund. In order to make interest repayments on theses loans the NI Consolidated Fund must annually retain an amount of supply that would otherwise be issued to departments. For 2005-06 a further cash amount of £117,241.91 (2004-05: £49,407.79) was due to the department but was not actually issued in order to pay for the interest on loans made applicable to this department. This interest charge has been included in the net cash requirement of the department. The amount of £113,771,21 (2004-05: £74,302.67) included in the operating cost statement and net resource outturn is the amount of interest applicable to the financial year calculated on an accruals basis.

23. Reserves

23(a) Revaluation Reserve

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

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Balance at 1 April	(25,624)	(236,866)	(20,459)	(213,124)
Opening balance adjustment	-	-	-	3,221
Arising on revaluation during the year	(24,854)	(123,550)	(5,981)	(26,955)
Transfer to General Fund of realised element	2,189	2,471	808	403
Transfer to donated asset reserve	15	15	3	3
Transfer to Government Grant Reserve	11	518	5	5
Transfer of Heritage Asset elements	-	-	-	(419)
Balance at 31 March	(48,263)	(357,412)	(25,624)	(236,866)

23(b) Donated Asset Reserve

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

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Balance at 1 April	(130)	(130)	(133)	(133)
Additions during the year	-	-	-	-
Release to the operating cost statement	7	7	6	6
Transfer from Revaluation Reserve	(15)	(15)	(3)	(3)
Balance at 31 March	(138)	(138)	(130)	(130)

23(c) Government Grant Reserve

The government grant reserve reflects the net book value of assets purchased with government grants.

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Balance at 1 April	(288)	(288)	-	-
Additions during the year	(13)	(13)	(297)	(297)
Release to the operating cost statement	58	58	14	14
Transfer from Revaluation Reserve	(11)	(518)	(5)	(5)
Balance at 31 March	(254)	(761)	(288)	(288)

24. Notes to the Consolidated Cash Flow Statement

24(a) Reconciliation of operating cost to operating cash flows

	Note	2005-06 £'000	2004-05 £'000
Net operating cost	13	(236,100)	(239,789)
Adjustments for non-cash transactions:			
Staff costs	9	452	(46)
Other Admin costs	10	10,444	8,053
Programme costs	11	35,979	31,491
Movements in working capital other than cash:			
(Increase)/Decrease in Stock		137	176
(Increase)/Decrease in Debtors		(44,741)	(10,592)
less movements in debtors relating to items not passing through the OCS		(292)	(8,197)
Adjustment for investments		-	(19)
Increase/(Decrease) in creditors - excluding overdraft		48,970	24,053
less movements in creditors relating to items not passing through the OCS:			
- Capital expenditure accruals		(528)	(252)
- Consolidated Fund Extra Receipts		(507)	3,994
Use of provisions	21	(628)	(405)
Net cash outflow from operating activities		(186,814)	(191,533)

24(b) Analysis of capital expenditure and financial investment

	Note	2005-06 £'000	2004-05 £'000
Tangible fixed asset additions	14	(20,070)	(24,011)
Adjustment for capital creditors & accruals		528	252
Government grants received for fixed assets acquisition		13	297
Intangible fixed asset additions	15	(540)	(758)
Proceeds of disposal of fixed assets		5,777	2,515
Net cash outflow from investing activities		(14,292)	(21,705)

24(c) Analysis of capital expenditure and financial investment by Request for Resource

	Capital expenditure £'000	Loans etc. £'000	Accruing resources £'000	Net Total £'000
Request for Resource A	20,610	-	(5,790)	14,820
Net movement in debtors/creditors	(528)	-	-	(528)
	20,082	-	(5,790)	14,292

24(d) Analysis of financing

	Note	2005-06 £'000	2004-05 £'000
From the Consolidated Fund (Supply) - current year	22	210,850	220,300
From the Consolidated Fund (Supply) - prior year		21,963	30,160
From the Consolidated Fund (non-Supply)	22	-	-
Net financing		232,813	250,460

Note:
During the year the Department benefited from additional supply monies of £Nil (2004-05: £1.017m), which were made available through the Strategic Investment Programme (part of the Reinvestment and Reform Initiative). These monies were used to fund grants to support infrastructure additions.

24(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2005-06 £'000	2004-05 £'000
Net cash requirement		(232,638)	(242,312)
From the Consolidated Fund (Supply) - current year	24(d)	210,850	220,300
From the Consolidated Fund (Supply) - prior year	24(d)	21,963	30,160
Interest on RRI loans paid from Consolidated Fund		117	49
Amounts due to the Consolidated Fund:			
Received in a prior year and paid over		(2,420)	(2,674)
Received and not paid over		2,510	2,420
Increase/(decrease) in cash		382	7,943

25. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

Allocation of programme grants and other current expenditure
As the Department has only one objective, no allocation between objectives is required.

Capital Employed by Departmental Aim and Objectives at 31 March
As the Department has only one objective, the total capital employed, as stated in the balance sheet, relates to this objective.

26. Capital commitments

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Contracted capital commitments at 31 March for which no provision has been made:	707	712	1,232	2,681

27. Commitments under leases

27.1 Operating leases

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

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
Obligations under operating leases comprise:				
Land and buildings:				
Expiry within 1 year	27	27	38	39
Expiry after 1 year but not more than 5 years	91	91	62	62
Expiry thereafter	25	25	21	21
	143	143	121	122
Other:				
Expiry within 1 year	21	21	35	35
Expiry after 1 year but not more than 5 years	88	88	53	53
Expiry thereafter	-	-	-	-
	109	109	88	88

27.2 Finance leases

The Department had no finance leases during 2004-05 or 2005-06.

28. Commitments under PFI contracts

The Department had no PFI contracts during 2004-05 or 2005-06, so there are no commitments at 31 March 2006.

29. Other financial commitments

The Department and its agencies have entered into non-cancellable contracts (which are not leases or PFI contracts), to give financial assistance to farmers and others who meet appropriate criteria. A commitment is deemed to arise for the balance of the total possible payment unpaid, unclaimed and not yet due to be claimed at 31 March 2006. The payments to which the Department and its agencies are committed during 2005-06 are shown in the following table.

	2005-06 £'000		2004-05 £'000	
	Core department	Consolidated	Core department	Consolidated
EU Grants/Schemes:				
Environmentally Sensitive Areas (ESA's)	2,763	2,763	5,233	5,233
New Environmentally Sensitive Areas (NESA's)	28,322	28,322	10,611	10,611
Countryside Management Scheme (CMS)	92,568	92,568	62,419	62,419
Building Sustainable Prosperity (BSP) – Rural Development	9,752	9,752	10,029	10,029
Building Sustainable Prosperity (BSP) – Fisheries	3,167	3,167	6,218	6,218
Building Sustainable Prosperity (BSP) – Other	5,292	5,292	4,963	4,963
Leader+	10,268	10,268	14,000	14,000
PEACE II-Natural Resource Rural Tourism Initiative	1,538	1,538	1,298	1,298
PEACE II-Other	7,752	7,752	15,513	15,513
Interreg IIIA-Rural Development	1,456	1,456	1,004	1,004
Interreg IIIA – Fisheries	487	487	1,763	1,763
Habitat Improvement Scheme	-	-	19	19
Forestry	-	9,000	-	11,000
Total EU Grants/Schemes*	163,365	172,365	133,070	144,070
National Grants/Schemes	12,984	12,984	1,395	1,395
Student Awards	799	799	560	560
Other financial commitments	-	-	942	942
GRAND TOTAL	177,148	186,148	135,967	146,967

*The EU Grants/Schemes commitment includes both the EU and the Departmental share. The EU and Departmental shares vary from scheme to scheme. The split of the total commitment of £172m is EU £127m (74%) and DARD £45m (26%).

30. Financial Instruments

Introduction

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

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

Liquidity risk

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

Interest rate risk

100 percent of the Department's financial assets and 99 percent of its financial liabilities carry nil or fixed rates of interest and it is not therefore exposed to significant interest rate risk.

Foreign Currency Risk

With the introduction of the Single Farm Payment scheme, farmers are now entitled to receive their farm subsidy payments in Euros. In 2005/06 DARD made some £2m such payments in Euros. The Department is protected from exposure to significant currency risk in relation to these payments as the funding is received in Euros at the same time as the payments are made. The Department's exposure to foreign currency risk therefore remains negligible.

Fair values

The book values and fair values of the Department's financial assets and liabilities at March 2006 are not considered materially different.

31. Contingent liabilities disclosed under FRS 12

Legal Cases

It is possible that claims may be brought against the Department for the following for which the Department disputes liability: -

- in respect of legislation implemented by the Department. If such a claim was successfully pursued by the claimant, it is estimated that the cost to the Department could be circa £315,000.
- in respect of Agri-Environment Scheme cases that have been submitted for arbitration.
- in respect of charges made for meat plant inspection assistants.

As a result of the NIAO report on the 2004/05 accounts, the Department is currently undertaking a review of tendering in relation to earlier years of the Processing and Marketing grant scheme. Whilst there is currently no indication that the EU will disallow claimed expenditure, it is possible, if results are unfavourable, that repayment of some funding to the EU could be required. It will not be possible to quantify the likely amount involved, if any, until the review has concluded.

In addition to the above issues involving the Core department, it is possible that the DARD Forest Service agency may have to refund to the European Union an estimated £50,000 in respect of woodland grants.

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

There were no contingent liabilities reported to Parliament which are not covered by provisions (Note 21) or Note 31 above.

33. Losses and special payments

33(a) Losses Statement

	2005-06 £'000	2004-05 £'000
Total of 186 cases (2004-05: 269)	175	206

These cases include abandoned claims, constructive losses, other losses, malicious damage, theft, cash losses, accidental damage, fruitless payments, forest fires, and unvouched or incompletely vouched expenditure. No individual case exceeded £250,000.

33(b) Special Payments

	2005-06 £'000	2004-05 £'000
Total of 245 cases (2004-05: 178)	841	226

These cases include Ex Gratia payments, compensation payments, and Extra Statutory payments. No individual case exceeded £250,000.

34. Related-party transactions

The Department of Agriculture and Rural Development is the parent Department of the Forest Service agency and the Rivers Agency and sponsors the Agricultural Research Institute for NI (ARINI), Agricultural Wages Board (AWB) for NI, Livestock and Meat Commission (LMC) for NI, NI Fishery Harbour Authority (NIFHA), Loughs Agency of the Foyle, Carlingford and Irish Lights Commission and Pig Production Development Committee (PPDC). These bodies are regarded as related parties with which the Department has had various transactions during the year.

The Department receives EU funding through the Department for Environment Food and Rural Affairs (DEFRA) and the Rural Payments Agency, an agency of DEFRA, both of which are UK government bodies.

In addition, the Department has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with Northern Ireland departments and their executive agencies.

In terms of related party interests of the Department's officials, in the interests of transparency and in common with 2004-05 the Department has widened the interpretation of declarable related party interest to include:

- Any interests in DARD other than through the normal relationship of employee/employer, for example receipt of grants/subsidies for family farms;
- Any interest in any body with which DARD has dealings including membership of Boards of those bodies even when such membership is part of the officer's job;
- Any such interest held by a close family member.

The members of staff asked to declare any such interest include top managerial officials as well as the Departmental Board. The following interests were declared:

Some officers by virtue of their employment were members of one or more of the following bodies:

- Agricultural Research Institute of Northern Ireland (ARINI)
- Board of Farm Quality Assurance
- Gangmaster Licensing Authority
- NI-CO (trading name of Northern Ireland Public Sector Enterprises Limited)
- North of Ireland Veterinary Association
- Royal Ulster Agricultural Society (RUAS)

Six officers had an interest in small parcels of agricultural land that may be eligible for grant aid from DARD.

A brother of one official was self-employed and tendered for DARD contracts. The official was not involved for DARD in awarding such contracts.

The brother of one official was a member of the Board of Coillte Teoranta, with which body the Forest Service agency had very occasional dealings. The official was excluded from involvement in any such dealings.

The wife of one official had connections with a number of organisations that dealt with DARD in respect of grant aid. The DARD official was not involved in these dealings.

All the above interests are regarded as immaterial.

35. Third-party assets

The Department held third-party assets at 31 March including bank accounts, Consolidated Fund investments, shares in the Northern Ireland Central Investment Fund for Charities, and Government Stocks. These are not Departmental assets and are not included in the accounts. The balances at 31 March are shown in the following tables.

Northern Ireland Central Investment Fund for Charities Description	No. of Shares	Market Value at 31/03/06 £	Market Value at 31/03/05 £
DARD Moore Memorial Fund	96	970.42	838.56
DARD Thomson Memorial Account	990	10,007.42	8,647.65
DARD Thompson Bequest Account	11,763	118,906.29	102,749.81
Vaughan Charity	181,395	1,818,503.01	1,584,485.33
Vaughan Charity – Fermanagh Pig Project	1,099	11,017.58	9,599.77
DARD Drainage Trusts	3,008	30,406.36	26,274.88
Totals	198,351	1,989,811.08	1,732,596.00

Government Stocks Description	Nominal Value £	Market Value at 31/03/06 £	Market Value at 31/03/05 £
DARD Drainage Trusts:			
2.5% Treasury Stock	119	71	63
8.5% Treasury Stock	1,160	1,220	1,256
Totals	1,279	1,291	1,319

Third-party account balances At 31 March	Bank Accounts 2006 £	 2005 £	Consolidated Fund 2006 £	 2005 £
DARD Pig Production Development	19,406.87	26,712.44		
DARD Horse Racing Fund Account	25,963.93	4,526.76	119,942.00	256,242.00
Enniskillen College of Agriculture (ECA)				
Sport and Tuck Shop	3,405.20	899.77		
ECA Equine and Business	1,612.00	1,880.00		
ECA Show Jumping Club	154.11	3,467.07		
ECA Travel Fund	3,805.16	8,318.15		
ECA – Flo Milling Award	3,890.88	3,753.08		
ECA Vaughan Charity – current account	28,644.09	7,846.86		
ECA Vaughan Charity – deposit account	25,794.96	45,075.12		
Greenmount College Floristry Club	1,493.25	1,662.66		
Greenmount College Sports Fund	4,421.68	5,664.98		
Greenmount College Sports and Recreation Club	7,051.09	6,360.26		
GCR Enterprise Management	2,028.22	690.49		
Greenmount Travel – Current	13,453.27	16,689.14		
Greenmount Travel – Business Reserve	13,282.19	3,234.11		
Greenmount Travel – One Month Bus.				
(closed 12/09/05)	-	18,632.89		
Greenmount – Projects	18,725.02	4,282.53		
Greenmount – Cream Advisory	22,523.81	21,830.19		
Greenmount College Rugby Club*	705.50	234.15		
Greenmount College Football Club*	269.91	38.29		
Greenmount College Golf Society*	378.00	309.16		
Greenmount College Gaelic Club*	1,648.00	1,238.56		
Greenmount Horse Riding Club*	192.28	152.57		
Greenmount Hockey Club*	210.35	210.35		
Loughry Coffee Bar Account (closed 23/02/06)	-	1,516.27		
Loughry Student Development Account				
(closed 21/02/06)	-	5,614.02		
Loughry Student Affiliation Account	7,162.67	4,823.27		
Drainage Trust Investment Accounts	53,983.11	51,415.14		
DARD Agricultural Loans Fund	6.42	7.14	1,145.00	6,650.00
DARD Land Purchase Annuities	10.16	897.91		
DARD Moore Memorial Fund	60.37	70.58	1,200.00	1,100.00
DARD Thomson Memorial Account	111.10	87.16	7,770.00	7,070.00
DARD Thompson Bequest Account	61.59	83.20	4,460.00	9,800.00
Totals	260,455.19	248,224.27	134,517.00	280,862.00

* These accounts, which had a total of £2,183.08 at 31 March 2005, were omitted in error from the 2004-05 resource accounts.

In addition, the Department grant aided a company that went into liquidation. As a result the Department is effectively in control of the assets of the company. It is anticipated that the assets will be sold in the near future.

36. Entities within the Departmental boundary

The entities within the boundary during 2005-06 were On-Vote agencies as follows:

- Forest Service agency
- Rivers Agency

The annual reports and accounts of Forest Service agency and Rivers Agency are published separately.

Report of the Comptroller and Auditor General

Department of Agriculture and Rural Development Resource Accounts 2005-06

Waste disposal services - non compliance with procurement rules

Background

1. The Department of Agriculture and Rural Development undertook animal health and welfare statutory, diagnostic, analytical and research work through its Veterinary Science Division (VSD) until 31 March 2006. This function was then transferred to the Agri Food and Biosciences Institute, a newly formed Non Departmental Public Body, which the Department sponsors.

2. A by-product of this work is clinical waste, which must be disposed of in accordance with appropriate legislation. The incinerator at the VSD site in Stormont is authorised by the Department under Animal By Products legislation, to destroy animal carcasses and associated waste. It is also authorised by the Environment and Heritage Service (EHS) Industrial Pollution and Radiochemical Inspectorate to dispose of small quantities of radioactive waste. In recent years there has been incineration of a large number of brain tissue samples and their associated containers, resulting from surveillance required by an EC Directive for Transmissible Spongiform Encephalopathies (TSE), a group of brain diseases which includes BSE and scrapie. These samples are examined in high level containment facilities. Under Animal By Products legislation this waste needs to be disposed of by incineration. EHS did not consider these samples and their containers, which were sent to VSD separately from the animal carcass, to be associated waste. In February 2004, following one of EHS's regular inspections it informed the Department that this practice must cease unless it applied to have its authorisation upgraded and complied with the requirements of the Waste Incineration Regulations (Northern Ireland) 2003.

3. During my audit of the 2005-06 resource accounts I noted that the Department had subsequently employed the services of a contractor to dispose of this waste without following proper procurement procedures. A charge of £411,078 is included in the Department's 2005-06 Accounts for the provision of waste disposal services by this supplier, of which approximately 90% relates to clinical waste.

4. I also noted that the Department's replacement of an incinerator at its Omagh site, costing £280,000 was not conducted in line with proper procurement procedures.

Options available for the disposal of waste from TSE monitoring

5. The incineration of this waste at the Department's Stormont site had to cease in Spring 2004 when EHS informed the Department that it would have to apply for its authorisation to be upgraded and that it would have to comply with the Waste Incineration Regulations (Northern Ireland) 2003. The Department had been consulted on the draft regulations in April 2003 and should therefore have been aware that it created emission limits and monitoring requirements that the existing incinerator could not achieve without extensive modification. It could therefore have used this opportunity to consider the options available, which would have reduced the need for interim measures which the Department undertook to dispose of this waste. The Department told me that it was subsequently advised by the incinerator manufacturer that it would not be cost effective or achievable to upgrade the present incinerator to comply with these regulations.

6. In February 2004 the Department asked the supplier of the existing incinerator for an estimate for a replacement which was compliant with the regulations. I asked the Department to explain why it had not sought a range of quotes. The Department told me that "the purpose of this request was to inform an indicative strategic bid to the Budget 2004 process. It was aware that a range of options would have to be considered for a definitive solution to the waste disposal problem and considering the complexity of the issue, that this would take some time. Should installation of a clinical waste disposal plant prove to be the most cost effective and safe option then it would be important to have future monies earmarked to finance this in the future. Hence the Budget 2004 bid." The supplier provided two quotes for a combined animal carcass and clinical waste incinerator, and a dedicated clinical waste incinerator for medical and laboratory waste. The Department viewed this as an initial step to identify the options for clinical waste disposal in a process of active consultation with EHS, the Health and Safety Executive (HSE) and the Department of Finance and Personnel's Central Procurement Directorate (CPD).

7. In my view, once the Department became aware of the requirement to comply with the Waste Incineration Regulations (Northern Ireland) 2003 it would have been prudent to undertake a business case, assessing relevant options using a range of quotes from several suppliers and considering the cost effectiveness of the options over the medium to long term, before verbally agreeing an interim measure with the waste disposal contractor. The Department told me that even had action been taken immediately it became aware of the nature of the Waste Incineration Regulations 2003, considering the timescale required for such deliberations, it would not have been possible for these to have been completed in time to avoid having to put in place an interim arrangement. However, whilst I accept this, in my view, the Department should have commenced drawing up a business case at an earlier juncture and ensured that the interim arrangement was only used in the short term. As such the Department's actions have not resulted in the most cost effective solution to the problem and have not been based on sound financial data. In the absence of a proper business case, the Department cannot be confident about the value for money of any of the procurement decisions taken in respect of its waste disposal solutions.

8. The current limit over which such contracts should be advertised in the EC's Official Journal is £93,738 and is defined in The Public Contracts Regulations 2006. Procurement procedures such as public advertisement are an important control in the prevention of fraud and ensuring value for money. Services for clinical waste disposal had not been awarded using these procedures, and the Department could not tell me when general waste services were last subject to public advertisement. I would at least have expected the Department to take action during 2004-05 when information on its financial systems should have alerted it that the Official Journal limit had been breached. I asked the Department in the absence of these procedures being followed how it ensured that value for money was being achieved. The Department told me that it had established that due to the specialized nature of the waste any contractor appointed would be forced to use either of the only two commercial clinical waste incinerators in mainland GB. The Department already used a contractor to transport hazardous chemical waste to these GB incinerators and for general waste disposal. It told me that it had therefore engaged this contractor to dispose of the TSE waste as an interim emergency measure and recognising the increasing volume of material being transported had been proactive in renegotiating two price reductions for this waste transport.

9. Public procurement procedures do not permit so large an addition to an existing contract, since it significantly changes the contract. In my opinion this interim measure has surpassed any reasonable time limit and seems to have been undertaken without a clear action plan to resolve the issue. The Department told me that it had been involved in a process of active consultation with EHS, HSE and CPD to develop an action plan to resolve the issue. As part of this process it had recently employed consultants to conduct a waste audit and recommend the best course of action for the future disposal of clinical waste. The Department expects this report by January 2007. However, even if the procurement of a new incinerator for clinical waste is recommended the Department has estimated that it would take a number of years to make operational. In the intervening period the Department would have to continue to fund contractor's costs for clinical waste disposal.

10. The Department was unable to provide me with copies of contracts for either clinical waste, or general waste disposal. The absence of a formal contract creates a risk that the terms and conditions have not been clearly defined or communicated to the contractor. This is critical to ensuring that the disposal of this waste complies with relevant legislation. The Department told me that it ensured that it engaged an EHS-licensed hazardous waste carrier/broker. The contractor is given written details of the volume and type of waste in each batch and DARD has carried out physical checks to ensure that the contractor was transporting to point of transfer for authorised disposal sites. However the absence of a written contract still increases the risk of non compliance with legislation.

Procurement of replacement incinerator for Omagh site

11. I note that the Department replaced an incinerator at its Omagh site during 2005-06. The procurement process for this was conducted through CPD. A contract had been awarded to both design and build (D&B) the structure, meaning that a single contractor was responsible for the entire project. This original contract was however terminated by mutual agreement and CPD then decided to split the project into separate contracts for works and supplies. The new contract for the incinerator itself was awarded to the same company which the initial design and build contractor was going to use. The nature of the contract had changed considerably, but CPD had awarded it without going back to the market place.

12. The cost of this new incinerator was £280,000 and therefore should have been advertised in the EC's Official Journal in accordance with public procurement rules. I asked the Department and CPD why proper procurement procedures had not been followed in this case. CPD told me that the original contract was well below the works threshold for advertising in the EC's Official Journal. However when the contract was terminated and it was decided to procure the incinerator separately from the works, the supply of the incinerator exceeded the much lower EC threshold for supplies. CPD told me that this point had not been appreciated at the time of procurement. However it said that value for money was not adversely affected, as it was able to procure the incinerator for the same price as in the original contract, which therefore represented a fair market price. It also assured me that, to avoid a recurrence, a revision of the Contracts Code is soon to be published which gives clear advice about dealing with this specific situation.

13. The renewal of this incinerator would seem to have provided the Department with a potential opportunity to resolve the clinical waste disposal problem. The Department told me that:

    - In its view this would not have been a safe long term, or cost-effective option. Most waste was generated at the Stormont site and would therefore require transportation 80 miles to Omagh;
    - The old incinerator at Omagh required replacement before new emission standards came into legal force in January 2006. The long and unpredictable lead-in time for a new incinerator due to public procurement procedure, planning, public consultation etc, would have meant that carcass incineration had to cease at Omagh until any new clinical waste incinerator had been commissioned. Until then DARD would have had insufficient incinerator capacity to dispose of carcass material, including that which might have arisen from outbreaks of notifiable disease;
    - To conclude that installation of a clinical waste incinerator was the best solution would also pre-empt the outcome of the waste audit currently underway by external consultants.

Lessons arising

14. Key lessons arising from my examination of this issue are:

- It is essential that those responsible for procuring goods and services within the Department are fully aware of procurement rules, and that any non compliance, such as the use of interim measures, is reported immediately to senior management and carefully monitored to ensure that the position is regularised as soon as possible;
- The terms and conditions relating to the procurement of goods and services should be clearly defined in a written contract;
- The Department should ensure that staff are familiar with relevant legislation, and that the impact of the legislation is assessed and action taken on a timely basis;
- All options should be carefully researched and evaluated so that value for money can be secured. This should be well documented and should not restrict the consideration of cost to short term implications.

15. I asked the Department what action it intended to take in this instance, and how it would prevent a similar issue arising in the future. The Department told me that as soon as it was informed that formal contracts did not currently exist for waste disposal services, it took urgent action in conjunction with CPD to rectify the situation and this is ongoing. A specification for tenders for disposal of the clinical waste from AFBI sites is presently with CPD. The Department has detailed procurement procedures in place and is taking steps to remind relevant staff of the importance of complying with these procedures through seminars and guidance notes provided by CPD.

16. I am concerned that during the consultation process on the draft legislation the Department did not fully consider the impact of the new legislation on its own waste disposal and therefore may have missed the opportunity to implement a more cost effective, planned solution.

17. It is important for the Department to disseminate the lessons from this report throughout the organisation to ensure that value for money is secured, and procurement processes are open and transparent.

J M Dowdall CB
Comptroller and Auditor General

26 October 2006

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