Presented pursuant to GRA Act 2000 c20. s6

Charity Commission

Resource Accounts 2004-05

LONDON: The Stationery Office
HC 97

10 October 2005
£5.50

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(For the year ended 31 March 2005)

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Resource Accounts: Charity Commission

Annual Report

This Annual Report is prepared and published as part of the Charity Commission's Resource Accounts for 2004-05 as required by the Resource Accounting Manual produced by HM Treasury.

Further details of the Commission's activities, operations and performance against its targets for the year can be found in its principal statutory Annual Report for 2004-05, entitled "Charity working at the heart of society". Each year a statutory Annual Report is prepared for the Secretary of State for the Home Department pursuant to Section 1(5) of the Charities Act. It also contains details of any significant developments in the operating environment during the year as identified at the time of publication.

The statutory Annual Report for 2004-05 can be found on the Commission's website at: http://www.charitycommission.gov.uk

Scope

The Charity Commission is established by law as the regulator and registrar of charities in England and Wales.

As at 31 March 2005 there were 189,531 charities listed on the Commission's Register of Charities, of which 166,014 were main charities with the remainder being subsidiaries or branches of main charities. In 2004-05, the gross annual income of all registered main charities exceeded £36 billion. The majority of the main charities have an income of £10,000 or less. They represent nearly 60% of registered main charities but have less than 1% of the income recorded. There are 521 charities with income over £10 million that attract over 45% of the total income.

Aim

The Commission's aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' efficiency and effectiveness and promote public trust and confidence.

Objectives and Principal Activities

The Charity Commission's first three-year strategic corporate plan was published in April 2003. In March 2005 a new strategic plan was issued for consultation covering the period up to March 2008. This new strategic plan is described in more detail later on in this report.

The 2003-06 corporate plan includes the period covered by this Annual Report and identifies the following three business objectives and related principal activities:

Objective One: Enabling charities to maximise their potential within an effective legal, accounting and governance framework, keeping pace with developments in society, the economy and the law.

- registration of charities and recognition of new charitable purposes;
- conducting several hundred visits to charities each year to review their activities, constitutions and administration and identifying good and bad practice;
- the making of legal schemes or orders in order to modernise the constitutions of existing charities; and
- working with charities, umbrella bodies and the rest of Government to develop the legal and accounting framework within which charities operate, and to develop and promote appropriate standards.

Objective Two: Promoting sound governance, better working and accountability.

- provision of information in the form of leaflets, presentations and through electronic means to trustees and others;
- provision of guidance and advice directly to trustees and others on matters affecting the efficiency and proper administration of particular charities, and charities in general;
- maintenance of, and provision of public access to, an up-to-date and accurate Register of Charities;
- obtaining annual accounts and returns for charities, and monitoring or pursuing the issues arising; and
- publishing and monitoring compliance with regulatory reports on best practice and accountability within the sector.

Objective Three: Securing compliance with charity law and dealing with abuse and poor practice.

- evaluation and, where appropriate, investigation of allegations and suspicions of maladministration or serious abuse;
- enforcement of the submission of late annual returns and accounts;
- working in partnership with other regulators;
- protection of charity assets through the use of statutory powers;
- co-operation with prosecuting authorities; and
- development of intelligence systems.

The Charity Commission and Regulation

Further to its Corporate Plan, in 2003 the Commission also published “The Charity Commission and Regulation”. This is a statement on the Commission’s regulatory stance and values produced in response to the Cabinet Office Strategy Unit’s 2002 review paper on charity law and regulation “Private Action, Public Benefit”.

“The Charity Commission and Regulation” explains why there is a need to regulate charities and how the Commission’s work addresses that need. It also explains how the Commission approaches its regulatory work. As a modern regulator the Commission will be updating this publication during 2005-06 in order to apply the five principles recommended by the Better Regulation Task Force. Our work will be transparent, accountable, consistent, proportionate and targeted.

Other Sources of Performance Information

In addition to this Annual Report and the statutory Annual Report, further information on the Commission’s performance may be found in its Annual Departmental Report (ADR), which was published in June 2005 (Cm6529). The ADR also contains an overview of the Commission’s structure, performance and its use of resources in 2004-05 together with details of the Commission’s plans and targets for 2005-06.

Operating and Financial Review

Review of Operational Performance

A summary of the Commission's performance against key Service Delivery Agreement (SDA) targets by objective is contained in Table 1 below. This shows that the Commission successfully achieved 12 of its 13 SDA targets with 16 of the 17 target outturns achieved.

The Commission has also adopted one benchmarked impact measure for each of its three objectives. These are designed to monitor the Commission's impact over a number of years, whether up or down. They are set out in Table 2 below. The Commission exceeded the benchmark for the first two measures.

Additionally, the Commission has a Service First target of responding to 90% of correspondence within an average of 15 working days. The Commission exceeded this standard during the year with 94% of correspondence receiving a reply within the target period and an overall average response time of 9.6 days (2003-04 94%-6.3 days).

The Commission also has a target of paying 100% of non-disputed invoices within 30 days. During the year the percentage of invoices paid within this target period was 98.1%, a slight improvement on the previous year's performance of 97.5%.

Table 1: Commission objectives and SDA targets-31 March 2005 Outturn (31 March 2004 in parentheses)

Objective	SDA target or other measure	Performance Indicators	Target	Achieved
1. To ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework.	To determine charitable status within an average of 87 working days of an application for registration being received.	Average time taken to process a successful registration application	**87 days** (88 days)	**44 days** (69 days)
	To undertake 3,500 cases where the Commission exercises its legal authority.	Number of times legal authority exercised	**3,500** (3,500)	**5,129** (5,140)
	To increase the percentage of cases where legal authority is exercised at the Commission's instigation to 10% by 2003-04.	Number of times legal authority exercised which arose at our instigation	**368** (350)	**942** (757)
	To improve the framework within which charities operate for their proper purposes by completing at least three authoritative regulatory reports per year on issues affecting the charitable sector.	Number of Regulatory Reports	**3 reports** (3 reports)	**3 reports** (3 reports)
2. To improve the governance, accountability, efficiency and effectiveness of charities.	To undertake 24,750 cases where substantive advice on governance or administration is given.	Number of times guidance was given on charity governance or administration	**24,750** (24,500)	**27,054** (27,896)
	To initiate giving substantive guidance on governance and administration in 10% of all guidance cases.	Number of times guidance was given on charity governance or administration which arose at our instigation	**2,475** (2,450)	**3,775** (3,274)
	To monitor the target group of charities (charities with an annual income over £10k).	% of charities accounts and annual reports received- £250K+	**97.6%** (97.5%)	**98.1%** (97.5%)
		% of charities accounts and annual reports received- £100k to £250k	**95.5%** (95.0%)	**96.5%** (94.4%)
		% of charities accounts and annual reports received-£10k to £100k	**88.0%** (87.0%)	**89.1%** (87.2%)
	To maintain an accurate Register by obtaining and accurately processing register check forms.	% of register database entries complete and accurate	**96.0%** (95.0%)	**97.6%** (100%)
	Undertake at least 600 visits to charities having a total combined income of at least £525 million per year.	Number of charities receiving review visits	**600** (600)	**603** (604)
		Income of charities visited	**£563m** (£525m)	**£4,028m** (£976m)
3. To identify and deal with abuse and poor practices.	Increase the cost-effectiveness of the use of the Commission's investigative resources so that at least 90% of all investigations undertaken lead to concerns being substantiated and rectified.	% of investigations where concerns substantiated and rectified	**90%** (90%)	**91%** (91%)
	Increase the number of investigations undertaken to 315 annually.	Number of investigations completed	**315** (315)	**325** (327)
	Charitable resources protected by investigations completed.	Amount directly protected arising at our instigation	**£3.8m** (£2.6m)	**£28.7m** (£9.1m)
		Amount directly protected	**£29.3m** (£28.6m)	**£34.2m** (£23.3m)

Objective	SDA target or other measure	Performance Indicators	Target	Achieved
	Exercise the Commission's legal authority in 6% of charities receiving a review visit as a consequence of that visit, and ensure that 90% of such legal authorities are exercised within 12 months of the final report of the visit.	% of charities receiving review visits that require the exercise of legal authority as a consequence of the review visit	**6%** (6%)	**6%** (6%)
		% of legal authority exercised within 12 months of final visit report	**90%** (90%)	**78%** (91%)

Table 2: Commission impact measures – position as at 31 March 2005

(31 March 2004 in parentheses)

Objective	Impact Measure	Bench mark	Achieved
1. Enabling charities to maximise their potential within an effective legal, accounting and governance framework, keeping pace with developments in society, the economy and the law.	Resources made available for charitable use as a result of the Commission exercising its legal authority	**£588m** (£560m)	**£608m** (£606m)
2. Promoting sound governance, better working and accountability.	% of charities deriving benefit as a result of guidance given	**8.9%** (8.6%)	**14.2%** (13.6%)
3. Securing compliance with charity law and dealing with abuse and poor practice.	Number of reports of abuse or poor practice	**645** (660)	**515** (615)

Financial Review

The following table contains a summary of outturn against key Estimate financial limits.

Key Financial Limits	Estimate	Outturn	Surplus
	£000	£000	£000
Net Resources	29,509	27,623	1,886
Gross Administration Costs	29,753	27,779	1,974
Capital	2,179	2,154	25
Net Cash Requirement	30,733	28,411	2,322

The surplus of £1,886k between the Estimate Net Resources limit and the final outturn arose from the following main sources:

- planned savings on the pay budget of £400k arising from unfilled posts relating to a freeze on recruitment established by the Commission's Efficiency Review; and
- savings on general administration expenditure of £1,500k arising, in particular, as a result of changes in timing of planned accommodation changes across the Commission's offices, a reduction in recruitment costs and a reduced depreciation charge.

These savings are planned to be spent in 2005-06 as part of further investment in e-business and as the outcomes of the Commission's strategic review are implemented.

The surplus of £2,322k arising in the Commission's Net Cash Requirement arises from the expenditure patterns explained above and increases in working capital due to:

- an increase in creditors as a change in payroll provider has caused a rephasing in the timing of payments for income tax and social security; and
- an increase in deferred income as a seminar planned by the International Outreach Project has been rephased for 2005-06.

Employees' pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded, statutory scheme, which provides benefits on a "final salary" basis at normal retirement age of 60. From 1 October 2002, civil servants may be in one of three "final salary" defined benefit schemes ("classic", "premium", and "classic plus") within the overall PCSPS. New entrants after 1 October 2002 may choose between membership of the premium scheme or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (a "partnership pension account"). Descriptions of the various schemes, details of the Commission's contributions to the PCSPS and further information on benefits for officials derived from the schemes can be found in Note 2 to the Resource Accounts 2004-05.

Future Operations and Financing

During 2004-05 the Commission worked closely with the Home Office in the preparation of a Charities Bill. This was introduced in Parliament in December 2004 and debated in the House of Lords. When Parliament was dissolved for the general election the Bill was lost but since then a new Bill has been introduced.

The Bill contains clauses on:

- a corporate structure for the Commission with redefined objectives;
- new descriptions of charitable purposes and of public benefit;
- a new structure for charities-the charitable incorporated organisation;
- changes to the legal framework to help charities to respond to changes in society;
- the creation of an independent tribunal as a means of appealing against decisions of the Charity Commission; and
- a new role for the Commission as part of a modernised regime to regulate anyone who collects funds in public places for good causes.

In March 2005 the Commission published "Charity working at the heart of society-The way forward 2005–2008" which is the result of a wide-scale strategic review providing a blueprint for the way the Commission will go forward over the next three years. The Commission's objective is to be a modern regulator, focussing on the needs of charities and the public. The publication describes the Commission's new vision and the four strands of the new mission:

- enabling charities to maximise their impact;
- ensuring compliance with legal obligations;

- encouraging innovation and effectiveness; and
- championing the work of the sector.

The full document "Charity working at the heart of society-The way forward 2005-2008" can be found on our website at http://www.charitycommission.gov.uk

The Commission's submission in respect of SR04 reflected its work responding to both the Lyons Review and the Gershon Efficiency Review. The Commission had already relocated the majority of transactional and operational support work outside of London and the South East, prior to publication of the Lyons report. As a consequence of its response to the Gershon Review the Commission's underlying pattern of expenditure will see a shift away from the financing of administrative support functions towards its frontline operations. Much of this is expected to arise from the implementation of e-business initiatives. Leaving aside any new monies required to fund specific, one-off items, the Commission's overall planned expenditure on administration will fall in line with the Chancellor of the Exchequer's required 2.5% per annum savings in real terms over the SR04 period.

The Commission's SR04 agreed allocations were announced on 12 July 2004 and were as follows:

SR04 agreed allocations	2004–05 £m	2005-06 £m	2006-07 £m	2007-08 £m
Net Resources	28.535	30.243	30.243	30.243
Capital	1.399	1.399	1.399	1.399

The Commission's net administration costs limit for the period will be equal to the Net Resources limit shown above.

Governance

The Charity Commission is a non-ministerial government department. In January 2004, the Home Office and the Charity Commission announced changes to the senior management structure of the Commission. The Chief Charity Commissioner, appointed by the Home Secretary, would become the non-executive Chairman of the Charity Commission, and a full-time Chief Executive would be appointed by the Commission. The Chief Executive would also be the Commission's Accounting Officer.

These changes were recommended by the Cabinet Office's Strategy Unit review of the regulation of charities and took effect when Chief Charity Commissioner John Stoker's appointment reached its term on 7 July 2004.

In May 2004 it was announced that Geraldine Peacock CBE had been appointed as the Chief Charity Commissioner and Chairman of the Charity Commission. She took up her post on 8 July 2004.

The Commission appointed its first Chief Executive, Andrew Hind, who took up his post on 4 October 2004. From 7 July 2004 until that date Nick Allaway, the Commission's Director of Resources, undertook the role of Accounting Officer.

As at 31 March 2005 the Board and Directors comprised:

Board of Commissioners

Chief Commissioner and Chairman	Geraldine Peacock CBE
Commissioner	David Taylor
Commissioner	Lindsay Driscoll
Commissioner	John Williams*
Commissioner	David Unwin

Executive Directors

Chief Executive	Andrew Hind**
Director of Policy and Strategy	Rosie Chapman
Director of Legal Services	Kenneth Dibble
Director of Resources	Nick Allaway

*Appointed 4 January 2005 to replace Geraldine Peacock CBE on her appointment to Chief Commissioner and Chairman.

**Appointed 4 October 2004.

David Taylor left the Commission on 30 April 2005 at the end of his period of office and Tess Woodcraft was appointed a Commissioner on 1 May 2005.

The Chief Commissioner and Chairman and the Commissioners were appointed by the Home Office via open competition for 3-year fixed term appointments, with the option of extension for a further two years. This option has been exercised in the case of David Unwin. Two Commissioners, David Unwin and Lindsay Driscoll, appointed in this way are legally qualified as is required by legislation.

The Chief Executive, Andrew Hind, was appointed via open competition for a period of four years commencing 4 October 2004.

Two Directors, Rosie Chapman and Nick Allaway, were appointed via open competition. The other director, Kenneth Dibble, was appointed through an internal competition. All the Directors were appointed under permanent staff terms and their contracts can be terminated (subject to an agreed period of notice, relevant to the circumstances, given in writing) by the individual Director, by the Commission or by mutual consent.

The remuneration of the Chief Executive and other members of senior management is informed by the Senior Salaries Review Body. Details on the salaries and pension entitlements for the Commission's Board and senior managers can be found at Note 2 to the Resource Accounts.

Public Interest

Charity Commission: Values

As well as the principles that underpin the Commission's regulatory approach the Commission's strategic review publication "Charity working at the heart of society-The way forward 2005-2008" refers to its five core values, which are as follows:

Effective

We deliver on our promises and get the basics right. We are focussed on the outcome rather than the process. Our work is targeted and efficient and provides value for money. We do things well and are accountable to our stakeholders.

Expert

We have a unique perspective and reservoir of knowledge on the charity sector and charity law. We use this expertise to add value to the work of individual charities and the work of the charity sector as a whole.

Fair

We treat all stakeholders consistently and without bias. Any actions we take are proportionate, fair and reasonable. We behave in an open, honest and transparent way. We take account of, and value, diversity.

Innovative

We are willing to adapt and change and try new ways of doing things. We are imaginative and flexible in the way we respond to the issues we face.

Responsive

We listen to the needs of trustees and their charities. We respond swiftly and in a way which is supportive and enabling. We work in partnership with other organisations and stakeholders, and build effective relationships.

Equality and Diversity

The Commission's diversity policy is as follows:

"The Commission is committed to a policy, which values equality and diversity. We will provide not only a working environment that is free from discrimination, harassment and victimisation, where everyone will receive fair and equal treatment related to effective performance in their job, but also where we harness the different perspectives and skills of everyone, and make full use of them in our work. We must create an ethos throughout the Commission in which we respond to the needs of our colleagues and customers, where diversity is truly valued and where everyone is treated with dignity and respect."

The Commission's employment policies incorporate relevant employment law and best practice to ensure the organisation does not discriminate against anyone who works for it or comes into contact with the

Commission. The Commission monitors its workforce against diversity targets covering ethnicity, gender and disability, and provides diversity training to all staff.

The Commission adheres to the Civil Service Code of Practice on the Employment of Disabled People. The Code ensures that the Commission does not discriminate on grounds of disability. Access to employment and career advancement is based solely on competence required for the job and individual ability. The Commission also participates in the "two ticks" Disability Symbol programme, and has established a Disability Forum for the benefit and support of staff.

Employee Relations

The Commission is committed to creating and maintaining effective employee relations, both directly between line managers and their staff, and indirectly between management and the trade unions (PCS and FDA). The Commission's senior management promotes a spirit of co-operation and partnership between all concerned, in the interests of productivity, efficiency and the well being of all Commission staff. This means recognising the responsibilities of managers to manage, the need for good communications with staff and their representatives, and timely consultation (and where appropriate, negotiation) on issues affecting staff and their conditions of service.

Payment of Suppliers

The Commission has signed up to the CBI's Better Payment Practice Code and it is committed to paying all undisputed invoices within 30 days of the later of receipt of goods and services or receipt of the invoice.

Register of Interests

In common with other public bodies, the Commission has arrangements under which potential conflicts of interest can be recognised and managed. Commissioners on appointment are able to continue to serve as trustees or officers in charities. It is also normal for those whose livelihood involves professional involvement with charities, to continue with it, provided that it is transparent and is not inconsistent with the Commission's regulatory role.

Where the circumstances of a Commissioner or Director involves, or might appear to involve, clear potential for a material conflict of interest in his or her official role, he or she will declare this position, and withdraw from related Commission business and discussions.

The register of interests, listing the involvement of Commissioners and Directors with charities, both current and past, is open to the public and is published on our website.

Auditors

The Comptroller and Auditor General is the external auditor of the Commission, and is appointed under statute, reporting to Parliament. The notional cost of the statutory audit for 2004-05 was £54,050 (£62,000 for 2003–04).

Andrew Hind
Chief Executive and Accounting Officer 6 July 2005

Statement of Accounting Officer's Responsibilities

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

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

HM Treasury has appointed Andrew Hind, Chief Executive, as the Accounting Officer of the Charity Commission, with responsibility for preparing the Commission's accounts and for transmitting them to the Comptroller and Auditor General.

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

(a) observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

(b) make judgements and estimates on a reasonable basis;

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

(d) prepare the accounts on a going-concern basis.

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

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Charity Commission'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.*

The Charity Commission is the independent regulator for charitable activity. Its primary aim is to increase charities' effectiveness and promote public trust and confidence in their activities by providing the best possible regulation of charities in England and Wales.

As Accounting Officer I am accountable to Parliament and report to them annually. In managing risk I involve the Board and work with the Commission's Executive Group.

The Board comprises the Commissioners and is chaired by Geraldine Peacock CBE. They meet on a regular basis to consider the plans and strategic direction of the organisation. The Executive Group, which meets on a monthly basis, comprises the Chief Executive, the three Directors, and three other senior managers. The duties of the Executive Group include implementing the strategic framework of programmes and policies established by the Board and ensuring effective service delivery.

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 the Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Charity Commission for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Leadership is given to the Commission's risk management process through a risk policy which defines the role and responsibilities of the Board, Audit Committee, Executive Group, and Directors. This is cascaded to risk managers with clear responsibility for improving controls and minimising the impact of risks that may be realised.

Guidance for risk managers and for staff is available on our intranet, and risk management awareness is included in our induction training for new staff. We take best practice into consideration when updating the risk policy, key documents and guidance.

The risk and control framework

The Board and Executive Group identify and evaluate the top priority risks that are expected to have the greatest impact on the Commission's business if realised. These top priority risks are supported by detailed subsidiary risk registers covering the main business functions. The subsidiary registers have designated owners who are responsible for maintaining the registers and for overseeing the effective management of identified risks including monitoring progress on the development of additional controls where the need for this has been identified.

A monitoring and reporting system has been established that ensures that timely reports are made to the Executive Group, Audit Committee and Board on the extent to which risks are being controlled effectively. Management of risk is embedded in policy-making, planning and service delivery. This includes formal assessment of risks for all issues considered by the Board and the Executive Group.

This framework enables us to take a risk-focussed approach to targeting resources on the regulation and enablement of charities. It encourages our staff to actively identify, evaluate and manage risks in the conduct of day to day business.

We are aware that a key risk area is the development of systems and services to support e-business initiatives where a major investment is being undertaken. When establishing both programme and project board structures for e-business initiatives, it was acknowledged that we did not have sufficient breadth of experience to resource all these functions internally. From the outset the decision was made to appoint skilled external advisers to support these key roles and manage the associated risks. In addition some e-business initiatives have been subject to the Gateway review process.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Commission 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 and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

During 2004-05 the Board has maintained strategic oversight and review of internal control and developing risk management arrangements. The Audit Committee has given detailed consideration to: individual internal audit reports and management responses; progress on implementation of previous audit recommendations; the Internal Auditor's annual report and opinion on the adequacy of our internal control system; NAO audit reports and recommendations; and development of the Commission's approach to risk management.

At the end of the financial year letters of assurance were provided by owners of risk registers in which they confirmed the adequacy of the risk management and control arrangements for which they had responsibility.

Conclusion

During 2004-05 action has been taken where appropriate to address internal control issues and recommendations made by the Commission's auditors, Audit Committee and Board.

I am aware that further work is needed to strengthen controls in the area of business continuity and in recording changes to IT applications and systems. Action on these areas is being undertaken. A new business continuity plan has been drafted and senior managers have received training. We expect to complete putting in place incident response plans and other arrangements by August 2005. Our IT controls over recording changes to systems and applications have been made more robust and are currently subject to further audit testing.

We have also formed a working group with NAO and charity sector representatives to improve our systems covering Annual Return submissions and SORP compliance.

The internal auditors have concluded that, in their opinion, the Charity Commission has adequate and effective control processes in place to manage the achievement of the organisation's objectives.

Andrew Hind
Chief Executive and Accounting Officer 6 July 2005

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

I certify that I have audited the financial statements on pages 17 to 37 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 to 24.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 12, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

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

I review whether the statement on pages 13 to 14 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Charity Commission at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

12 July 2005

National Audit Office
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London SW1W 9SP

SCHEDULE 1

Summary of Resource Outturn
2004-05

	2004–05 Estimate			Outturn				2003–04
	Gross Expenditure 1	*A in A* 2	*NET TOTAL* 3	*Gross expenditure* 4	*A in A* 5	*NET TOTAL* 6	*Net Total Outturn compared with Estimate saving/ (excess)* 7	*Prior-year Outturn* 8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Note 5)	29,753	(244)	29,509	27,779	(156)	27,623	1,886	26,145
Total Resources	**29,753**	**(244)**	**29,509**	**27,779**	**(156)**	**27,623**	**1,886**	**26,145**
Non-Operating-Cost A in A	—	—	—	—	—	—	—	—
Net Cash Requirement	—	—	**30,733**	—	—	**28,411**	**2,322**	**26,329**

Summary of income payable to the Consolidated Fund

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

		Forecast 2004-05		Outturn 2004-05	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	*£000*
Total	4	—	—	9	*9*

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

The surplus of £1,886k between the Estimate Net Resources limit and the final outturn arose from the following main sources:

— £400k from planned savings on the pay budget arising from unfilled posts, relating to a freeze on recruitment, established by the Commission's efficiency review

— £1,500k savings on general administration expenditure, in particular as a result of changes in timing of planned accommodation expenditure across the Commission's offices, a reduction in recruitment costs, and a reduced depreciation charge.

Explanation of the variation between Estimate net cash and requirement and outturn (net cash requirement):

The surplus of £2,322k in the Commission's Net Cash Requirement arose from:

— The resource expenditure patterns explained above;

— Increase in working capital movements arising from increased trade creditors due to the move to a new payroll provider resulting in changes to year end accounting procedures-ie an accrual instead of cash for tax and NI payover

— Increase in working capital movements arising from an increase in deferred income due to rephasing, into 2005-06, of a seminar planned by the International Outreach Project.

Prior-period adjustments

There were no material prior period adjustments during the year.

Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate saving/(excess) £000
Net Total Resources		29,509	27,623	1,886
Capital:				
–Acquisition of fixed assets	9	2,179	2,154	25
–Investments		—	—	—
Non-operating cost A in A				
–Proceeds of fixed asset disposals		—	—	—
Accruals adjustments:				
–Non-cash items	3	(979)	(811)	(168)
–Changes in working capital other than cash	10	(66)	(706)	640
–Changes in creditors falling due after one year			–	–
–Use of provision	14	90	151	(61)
Net cash requirement (Schedule 4)		30,733	28,411	2,322

The notes on pages 23 to 37 form part of these accounts.

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2005

		2004–05		2003–04	
	Note	£000	£000	£000	£000
Administration Costs					
Staff costs	2	16,550		15,772	
Non-Staff administration costs	3	11,229		10,559	
Gross administration costs			**27,779**		**26,331**
Operating income	5		(165)		(197)
Net administration costs			**27,614**		**26,134**
Net Operating Cost	7		**27,614**		**26,134**
Net Resource Outturn	7		**27,623**		**26,145**

All income and expenditure are derived from continuing operations

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

	Note	2004–05 £000	2003–04 £000
Receipts of donated asset	16	4	4
The reduction in the value of fixed assets arising from revaluation has been recognised in the Operating Cost Statement		—	—
Total recognised gains and losses for the financial year		**4**	**4**

The notes on pages 23 to 37 form part of these accounts.

SCHEDULE 3

Balance Sheet
as at 31 March 2005

		31 March 2005		31 March 2004	
	Note	£000	£000	£000	£000
Fixed Assets:					
Tangible assets	9		**4,675**		**3,129**
Debtors falling due after more than one year	11		**64**		**87**
Current Assets:					
Debtors	11	1,210		1,165	
Cash at bank and in hand	12	2,331		1,845	
		3,541		3,010	
Creditors (amounts falling due within one year)	13	(3,801)		(2,587)	
		(3,801)		(2,587)	
Net Current Assets			**(260)**		**423**
Total Assets less Current Liabilities			**4,479**		**3,639**
Provisions for liabilities and charges	14		**(223)**		**(357)**
			4,256		**3,282**
Taxpayers' equity:					
General Fund	15		4,253		3,279
Donated asset reserve	16		3		3
			4,256		**3,282**

Andrew Hind
Accounting Officer

6 July 2005

The notes on pages 23 to 37 form part of these accounts.

SCHEDULE 4

Cash Flow Statement
for year ended 31 March 2005

	2004–05	2003–04
	£000	£000
Net cash outflow from operating activities[a]	**(26,248)**	**(24,974)**
Capital expenditure and financial investment[b]	**(2,154)**	**(1,344)**
Payments of amounts due to the Consolidated Fund	**(11)**	**(6)**
Financing[c]	**28,899**	**27,219**
Increase/(decrease) in cash in the period	**486**	**895**

Notes
[a] See the table below giving a reconciliation of operating cost to operating cash flows.
[b] See the table below giving an analysis of capital expenditure and financial investment.
[c] See the table below giving an analysis of financing and a reconciliation to the net cash requirement.

Reconciliation of operating cost to operating cash flows

	2004–05	2003–04
Net Operating Cost	**27,614**	**26,134**
Adjustments for non-cash transactions (see Note 3)	(811)	(1,011)
Adjustments for movements in working capital other than cash (see Note 10)	(706)	(235)
Use of provision (see Note 14)	151	86
Net cash outflow from operating activities	**26,248**	**24,974**

Analysis of capital expenditure and financial investment

	2004–05	2003–04
Tangible fixed asset additions (see Note 9)	2,154	1,344
Net cash outflow from investing activities	**2,154**	**1,344**

Analysis of financing and reconciliation to the net cash requirement

	2004–05	2003–04
From Consolidated Fund (Supply)-current year[1]	30,733	28,163
From Consolidated Fund (Supply)-prior year[2]	(1,834)	(944)
Net financing	28,899	27,219
(Increase)/decrease in cash	(486)	(895)
Net cash flows other than financing	**28,413**	**26,324**
Adjustments for payments and receipts not related to Supply:		
Amounts due to the Consolidated Fund-received in a prior year and paid over	(11)	(6)
Amounts due to the Consolidated Fund-received and not paid over	9	11
Net cash requirement (Schedule 1)	**28,411**	**26,329**

[1] Amount of grant actually issued to support the net cash requirement £30,733,00.00
[2] Amount of grant actually issued to support the prior year net cash requirement £1,833,621.16

The notes on pages 23 to 37 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives

for the year ended 31 March 2005

	2004–05 Gross	2004–05 Income	2004–05 Net	2003–04 Gross	2003–04 Income	2003–04 Net
	£000	£000	£000	£000	£000	£000
Aim: to give the public confidence in the integrity of charity						
Objective 1:	6,945	(41)	6,904	6,319	(47)	6,272
Objective 2:	14,167	(84)	14,083	14,746	(111)	14,635
Objective 3:	6,667	(40)	6,627	5,266	(39)	5,227
Net Operating Costs	**27,779**	**(165)**	**27,614**	**26,331**	**(197)**	**26,134**

The department's objectives were as follows:

Objective 1-to ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework.

Objective 2-to improve the governance, accountability, efficiency and effectiveness of charities.

Objective 3-to identify and deal with abuse and poor practices.

See Note 17.

The notes on pages 23 to 37 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the *2004-05 Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in the *RAM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The Commission'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, at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £1,000 is capitalised. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All tangible fixed assets are restated to current value each year, using indices published by the Office for National Statistics (ONS) appropriate to the category of asset to estimate value.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight line basis over their estimated useful lives. Assets in the course of construction are depreciated from the point at which the asset is brought into use.

Asset lives are normally in the following ranges:

IT Equipment	3-7 years
Office Equipment	5-7 years
IT Databases	7 years

1.4 Assets under Construction

Assets under Construction comprise the costs of creating business critical databases, which are transferred to IT Databases, and are subject to depreciation and revaluation, once they go live.

1.5 Donated assets

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

1.6 Relifed assets

Assets which have reached the end of their useful economic life, but are still in service, have been "relifed", ie credited with a nominal value, to acknowledge their continued existence. The relifed assets are not subject to depreciation or revaluation.

1.7 Stocks

The Commission has no stocks of significant value.

1.8 Operating income

Operating income is income which relates directly to the operating activities of the Commission. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with *RAM* is treated as operating income. Operating income is stated net of VAT.

1.9 Administration expenditure

Administration costs reflect the costs of running the Commission. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the cost-control

Notes to the Accounts *(continued)*

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. The classification of expenditure and income as administration follows the definition of administration costs set by HM Treasury.

1.10 Capital charge

A charge, reflecting the cost of capital utilised by the Commission, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, where the charge is nil.

1.11 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes which are described in note 2. The defined benefit schemes are unfunded and non-contributory except in respect of dependents' benefits. The Commission 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 Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Commission recognises the contributions payable for the year.

1.12 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Commission, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding. For the year 2004-05 the Commission is committed to one finance lease, the prepayments for which are due to commence in 2005-06, but all others are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.13 Provisions

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

1.14 Value Added Tax

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

1.15 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Commission discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise all items which are required by the Resource Accounting Manual to be noted in the resource accounts. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

Notes to the Accounts *(continued)*

2. Staff numbers and related costs

Staff Costs

Staff costs comprise:

	2004-05	2003-04
	£000	£000
Wages and salaries	13,430	12,943
Social security costs	1,013	959
Other pension costs	1,797	1,721
Agency staff	486	344
Sub Total	**16,726**	**15,967**
Inward secondments	0	0
Total	**16,726**	**15,967**
Less recoveries in respect of outward secondments	0	(5)
Charged to capital	(176)	(190)
Total Net Costs	**16,550**	**15,772**

The Commission is a non-Ministerial Government Department and employs no Special Advisers. Therefore, all pay costs relate to Officials.

The Principal Civil Service Pensions Schemes (PCSPS) of which most of the Commission's employees are members are unfunded multi-employer defined benefit schemes but the Charity Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, normal employer's contributions of £1,797,588 were payable to the PCSPS (2003-04 £1,721,112) at rates in the range 12 to 18.5% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary.The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership account, which is a stakeholder pension with an employer contribution. Employer's contributions of £13,949.17 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £737.06, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of 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.

Contributions prepaid at that date were Nil.

Average number of persons employed

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

	2004-05	2003-04
	Number	Number
Objective 1	140	145
Objective 2	286	315
Objective 3	113	129
Staff engaged on capital projects	6	5
Total	**545**	**594**
Agency staff*	22	
Total	**567**	

*FTE for 2003–04 not available.

Notes to the Accounts *(continued)*

Salary and pension entitlements

The salaries and pension entitlements of the Commissioners and Directors of the Commission were as follows:

	2004-05		2003-04
	Salary £000	Benefits in kind (to nearest £100)	Salary £000
G Peacock CBE* *Chief Commissioner and Chairman*	55-60	-	15-20 (25-30 full year equivalent)
L Driscoll* *Commissioner*	25-30	-	10-15 (25-30 full year equivalent)
D Taylor* *Commissioner*	30-35	-	30-35
D Unwin* *Commissioner*	25-30	-	25-30
*J Williams** *Commissioner* *(from 4 January 2005)*	0-5 (10-15 full year equivalent)	-	0
J Stoker *Chief Commissioner* *(until 7 July 2004)*	35-40 (105-110 full year equivalent)	-	100-105
A Hind *Chief Executive* *(from 4 October 2004)*	55-60 (110-115 full year equivalent)	-	0
N Allaway *Director*	70-75	-	15-20 (70-75 full year equivalent)
R Chapman *Director*	70-75	-	65-70
K Dibble *Director*	95-100	-	90-95
S Gillespie *Director* *(until 1 October 2004)*	45-50 (75-80 full year equivalent)	-	75-80

**Indicates part time non-executive.*

(Benefits in kind data is available from 2004-05 only)

D Taylor left the Commission on 30 April 2005 at the end of his period in office

T Woodcraft joined the Commission as a Commissioner on 1 May 2005

	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2005 and related lump sum	CETV at 31 March 2005	CETV at 31 March 2004	Real increase in CETV
	£000	£000	£000	£000	£000
G Peacock CBE* *Chief Commissioner and Chairman*	0-2.5	0-5	22	8	12
L Driscoll* *Commissioner*	0-2.5	0-5	9	7	0
D Taylor* *Commissioner*	0-2.5 plus 5.0-7.5 lump sum	0-5 plus 5-10 lump sum	31	24	30
D Unwin* *Commissioner*	0-2.5 plus 2.5-5.0 lump sum	0-5 plus 0-5 lump sum	23	15	29
J Williams *Commissioner* *(from 4 January 2005)*	0	0-5	0	0	0
J Stoker *Chief Commissioner* *(until 7 July 2004)*	2.5-5.0 plus 12.5-15.0 lump sum	40-45 plus 125-130 lump sum	734	706	76
A Hind *Chief Executive* *(from 4 October 2004)*	0	0-5	2	0	0
N Allaway *Director*	5.0-7.5 plus 20.0-22.5 lump sum	20-25 plus 60-65 lump sum	294	264	92
R Chapman* *Director*	5.0-7-5 plus 0-2.5 lump sum	0-5 plus 0-5 lump sum	42	28	53
K Dibble *Director*	15.0-17.5 plus 47.5-50.0 lump sum	35-40 plus 110-115 lump sum	686	612	275
S Gillespie *Director* *(until 1 October 2004)*	0-2.5	5-10	58	48	4

**Indicates part time non-executive.*

Other Notes

a) Salary

"Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. None of the senior management and non-executive directors received benefits in kind.

b) Pension

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

Notes to the Accounts *(continued)*

i) Classic Scheme

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

ii) Premium Scheme

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

iii) Classic Plus Scheme

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

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

iv) Partnership Pension Account

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

c) Cash Equivalent Transfer Value (CETV)

CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and figures shown in these accounts are provided to the Commission by the Pay and Pensions Agency.

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme.

The real increase in the value of the CETV:

This takes account of the increase in accrued pension due to inflation and contributions paid, and is calculated using common market valuation factors for the start and end of the period.

Notes to the Accounts *(continued)*

3. Non-Staff administration costs

	2004-05		2003-04	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	631		492	
Other operating leases	2,342	2,973	2,247	2,739
Non cash items[a]:				
Depreciation of fixed assets	272		198	
Impairment of assets	98		481	
Loss on disposal of fixed assets	70		5	
Cost of capital charge	132		108	
Auditor's remuneration and expenses	54		62	
Provisions				
provided/(reversed) in year	17		162	
unwinding of discount on provisions	0	643	0	1,016
Other expenditure[b]		7,613		6,804
		11,229		**10,559**

Notes

a) The total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	2004-05	2003-04
	£000	£000
Other administration costs-non-cash items (as above)	643	1,016
Other non-cash amounts charged to operating expenditure*	168	(5)
Less non-cash income:		
profit on sale of assets	0	0
Total non-cash transactions	**811**	**1,011**

*Other non-cash amounts charged to operating expenditure includes an amount pertaining to the write off of project expenditure which related to prior years (see note 9)

b) Other expenditure by category of spend was as follows:

	2004-05	2003-04
	£000	£000
Personnel related	1,335	1,123
Accommodation	1,600	1,590
Office Services	2,611	2,084
Consultancy/Agency	1,271	568
Specialist Services	630	1,241
Losses and Special Payments	28	31
International Outreach Project	138	167
Total other expenditure	**7,613**	**6,804**

Notes to the Accounts *(continued)*

4. Analysis of income payable to the Consolidated Fund

Analysis of income payable to the Consolidated Fund

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

	Note	2004-05 Income £000	Forecast *Receipts* £000	2004-05 Income £000	Outturn *Receipts* £000
Operating income and receipts– excess A in A	5	–	–	–	–
Non operating income and receipts– excess A in A	5	–	–	–	–
Sub total		–	–	–	–
Other operating income and receipts not classified as A in A	5	–	–	9	*9*
Other non-operating income and receipts not classified as A in A	5	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund	5	–	–	–	–
Total		–	–	**9**	***9***

5. Income and appropriations in aid

Operating income

Operating income not appropriated in aid (ie surrendable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 7). In 2004-05 all operating income not classified as A in A was within public expenditure.

	2004-05			
	Resource outturn		Operating cost statement	
	A in A	Netted off gross expenditure	Payable to Consolidated Fund	Income
	£000	£000	£000	£000
Administration income:				
Fees and charges to external customers	18	–	9	27
Profit on disposal of assets	–	–	–	–
Other*	138	–	–	138
	156	–	**9**	**165**

	2003-04			
	Resource outturn		Operating cost statement	
	A in A	Netted off gross expenditure	Payable to Consolidated Fund	Income
	£000	£000	£000	£000
	186	–	**11**	**197**

*Other Appropriations in Aid relate to funding from FCO in respect of the International Outreach Project

Notes to the Accounts *(continued)*

6. Administration cost limit

The outturn within the administration costs control regime shown against the limit is as follows:

	2004-05		2003-04	
	Outturn	**Limit**	**Outturn**	**Limit**
	£000	£000	£000	£000
Request for Resources 1 (Gross Limit)	27,623	29,509	26,145	27,492
Total within administration cost control	27,623			
Administration expenditure excluded from administration cost limit	-			
Total administration outturn	27,623			

7. Reconciliation of net operating cost and net resource outturn

	2004-05	**2003-04**
	£000	**£000**
Net operating cost[a]	27,614	26,134
Add: Operating income not classified as A in A	9	11
Net resource outturn[a]	**27,623**	**26,145**

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

8. Analysis of net resource outturn and reconciliation to Operating Cost Statement

	2004-05						**2003-04**
	Admin.	**Gross Resource Expenditure**	**A in A**	**Net total**	**Estimate**	**Net total outturn compared with Estimate**	**Prior year outturn**
	£000	£000	£000	£000	£000	£000	£000
Request for resources	27,779	27,779	(156)	27,623	29,509	1,886	26,145
Total resources	**27,779**	**27,779**	**(156)**	**27,623**	**29,509**	**1,886**	**26,145**
Reconcilliation to Operating Cost Statement							
Income payable to the Consolidated Fund			(9)	(9)			(11)
Gross operating expenditure		**27,779**					
Operating income			**(165)**				
Net operating cost				**27,614**			**26,134**

Notes to the Accounts *(continued)*

9. Tangible Fixed Assets *(see also notes 1.2-1.6)*

	IT Equipment	IT Databases	Office Equipment	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2004	875	424	169	2,606	4,074
Additions	145	–	12	1,997	2,154
Donations	5	–	–	–	5
Relifed assets	21	–	–	–	21
Disposals/transfers	(333)	894	(10)	(894)	(343)
Revaluation	(38)	(105)	(6)	—	(149)
Write off*	–	–	–	(176)	(176)
At 31 March 2005	**675**	**1,213**	**165**	**3,533**	**5,586**
Depreciation					
At 1 April 2004	686	113	142	–	941
Charged in year	84	173	15	–	272
Disposals	(264)	–	(9)	–	(273)
Revaluations	(16)	(9)	(4)	–	(29)
At 31 March 2005	**490**	**277**	**144**	–	**911**
Net book value					
At 31 March 2005	**185**	**936**	**21**	**3,533**	**4,675**
Net book value					
At 31 March 2004	**189**	**311**	**27**	**2,606**	**3,133**

The net balance brought forward from 2003-04 has been restated by a net £4k, to take account of an amendment in the ONS revaluation indices, and to incorporate changes to the asset base, highlighted by a routine asset survey.

*The write off pertains to £89k of project expenditure from prior years which was incorrectly classified as capital (note 3) and £87k constructive losses (see note 21) relating to two aborted projects.

10. Movements in working capital other than cash

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

	2004-05	2003-04
	£000	**£000**
(Decrease)/increase in debtors	22	(57)
(Increase)/decrease in creditors	(1,214)	(1,073)
	(1,192)	**(1,130)**
Adjustment: movement in working capital not related to net operating costs	486	895
	(706)	**(235)**

11. Debtors

	2004-05	2003-04
	£000	£000
Amounts falling due within one year:		
VAT	198	248
Deposits and advances	14	15
Other debtors	188	81
Prepayments and accrued income	810	821
	1,210	1,165
Amounts falling due after one year:		
Prepayments	64	87
	1,274	**1,252**

Notes to the Accounts *(continued)*

12. Cash at Bank and in Hand

	2004-05	2003-04
	£000	£000
Balance at 1 April	1,845	950
Net Cash inflow/(outflow)	486	895
Balance at 31 March	**2,331**	**1,845**
The following balances at 31 March are held at		
Office of HM Paymaster General	2,330	1,844
Cash in hand	1	1
	2,331	**1,845**
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	2,322	1,834
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	9	11
	2,331	**1,845**

13. Creditors: amounts falling due within one year

	2004-05	2003-04
	£000	**£000**
Taxation and social security	—	—
Trade creditors	596	298
Other creditors	173	100
Accruals and deferred income	701	344
Amounts issued from the Consolidated Fund for supply but not spent at year end	2,322	1,834
Consolidated Fund extra receipts received and receivable due to be paid to the Consolidated Fund	9	11
	3,801	**2,587**

14. Provision for liabilities and charges *(see also note 1.12)*

	2004-05 Early departure costs
	£000
Balance at 1 April 2004	357
Increase/(decrease) in provision	17
Amounts utilised in year	(151)
Balance at 31 March 2005	**223**

Early departure costs

The Commission meets the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Commission provides in full for this when the early retirement programme becomes binding on them, by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5% in real terms. In past years the Commission paid in advance some of its liability for early retirement by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The balance remaining is treated as a prepayment.

Notes to the Accounts *(continued)*

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

	2004-05	2003-04
	£000	£000
Net operating cost for the year (Schedule 2)	**(27,614)**	**(26,134)**
Income not appropriated in aid payable to the Consolidated Fund	(9)	(11)
	(27,623)	**(26,145)**
Net parliamentary funding	28,899	27,219
Consolidated Fund creditor for cash unspent	(2,322)	(1,834)
Settlement of previous year Consolidated Fund creditor for cash unspent	1,834	944
Non-cash charges:		
Cost of capital	132	108
Auditor remuneration	54	62
Net increase/(decrease) in general fund	**974**	**354**
General fund at 1 April 2004	3,279	2,925
General fund at 31 March 2005 (Schedule 3)	**4,253**	**3,279**

16. Reserves

	2004-05 Donated asset reserve	2003-04 Donated asset reserve
	£000	£000
Balance at 1 April 2004	3	4
Donations in year	4	4
Released to General Fund	(4)	(5)
Balance at 31 March 2005	**3**	**3**

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

17. Note to Schedule 5

The Commission's capital is used exclusively for administration purposes. Its distribution amongst objectives is therefore not markedly different from the proportion of the related gross administration cost.

Wherever possible, administration costs have been attributed to objectives in accordance with the Commission's normal management accounting practices. To facilitate this process, the activities undertaken by the Commission are identified as being either "direct" or "support" activities; the costs of the latter are reapportioned to the former using bases such as the proportion of floorspace occupied, the number of staff in post, or the proportion of the total Commission budget held. The full cost of each "direct" activity contributes to a Commission output, which, in turn, contributes to a Commission objective.

Income has been attributed to objectives on the same proportionate basis as expenditure.

18. Capital commitments

Both at 31 March 2004 and at 31 March 2005, the Commission had not entered into any contracted commitments of a capital or non-cancellable nature other than leases. See note 19.2.

Notes to the Accounts *(continued)*

19.1 Commitments under operating leases

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

	2004-05	2003-04
	£000	£000
Buildings		
Expiry within one year	—	—
Expiry after one year, but not more than five years	—	—
Expiry thereafter	2,642	1,959
	2,642	**1,959**
Other		
Expiry within one year	—	—
Expiry after one year, but not more than five years	634	530
Expiry thereafter	—	—
	634	**530**

19.2 Commitments under finance leases

At 31 March 2005, the Commission had entered into a contracted, non-cancellable commitment to pay £442,492 for the first component delivered under a finance lease. The lease payments are due to commence in August 2005.

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

	2004-05	2003-04
	£000	£000
Rentals due within one year	208	—
Rentals due after one year but within five years	832	—
Rentals due thereafter	—	—
	1,040	0
Less interest element	(205)	—
	835	**0**

20. Contingent liabilities *(see also note 1.15)*

There were no instances of non-FRS 12 contingent liabilities which required separate notification to Parliament during the year.

21. Losses and special payments

	No.	£000
Losses Statement:		
Total losses for the year*	**11**	**90**
Special Payments:		
Total special payments for the year	**10**	**24**

*The total of losses for the year includes an amount of £87k of constructive losses relating to aborted Capital project work. See also note 9.

Notes to the Accounts *(continued)*

22. Related Party Transactions

The Commission has no bodies which might be regarded as related parties. The Commission has, therefore, undertaken no related party transactions.

None of the Board members, key management staff or other related parties has undertaken any material transactions with the Commission during the year.

23. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments,* requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the Charity Commission 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 Commission has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks it faces in undertaking its activities.

Liquidity risk

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

Interest rate risk

All of the Charity Commission's financial assets and financial liabilities carry a nil rate of interest, and the Commission is not therefore exposed to any interest rate risk.

Foreign currency risk

The Charity Commission's exposure to foreign currency risk is negligible. Foreign currency income is negligible and foreign currency expenditure is not significant. The Commission therefore has no standing policy to eliminate currency exposures on high value transactions.

Fair Value

Set out below is a comparison by category of book values and fair values of the Charity Commission's financial assets and liabilities as at 31 March 2005.

	Book Value	Fair Value	Basis of fair
	£000	£000	valuation
Primary financial instruments			
Financial assets			
Cash at bank (see note a)	2,331	2,331	
Financial liabilities			
Provisions	(223)	(223)	Note b

Notes:

a) Cash at bank and in hand is available on demand.

b) Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the real rate set by HM Treasury (currently 3.5 per cent).

Notes to the Accounts *(continued)*

24. Intra-government balances

	Debtors: amounts falling due within one year	Creditors: amounts falling due within one year
	£000	£000
Balances with other central government bodies	327	485
At 31 March 2005	**327**	**485**
Balances with other central government bodies	248	24
At 31 March 2004	**248**	**24**

25. Post Balance Sheet Events

The Commission was given due notice by HMRC under its Memorandum of Terms of Occupation to vacate its Liverpool offices by 31 March 2006. The Commission took advantage of the option to vacate the premises early and left in May 2005. As a result it will pay six months rental charges, £474k, in settlement of its obligations for the full year.

Printed in the UK by The Stationery Office Limited
On behalf of the Controller of Her Majesty's Stationery Office
179951 07/05 19585 309319

Published by TSO (The Stationery Office) and available from:

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www.tso.co.uk/bookshop

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ISBN 0-10-293326-X

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