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Department for International Development

Resource Accounts 2006-07

(For the year ended 31 March 2007)

LONDON: The Stationery Office
HC 896

19 July 2007
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Contents

ANNUAL REPORT

1. Coverage of the Accounts

The Department for International Development (DFID) is responsible for leading the Government's efforts to promote international development and eliminate poverty. These accounts cover DFID activities carried out from headquarter offices in London and East Kilbride; and offices in many developing countries. They do not consolidate the results of the limited number of non-departmental bodies or other organisations for which DFID has policy responsibility (section 2 below).

DFID also pays, from separate funds, pensions and related benefits to certain former overseas civil and public servants. A separate resource account (Department for International Development: Overseas Superannuation) reports expenditure and other information about these pension schemes. DFID accounts include the administrative costs associated with this function.

For public expenditure control purposes, DFID's resource budget includes an attributed cost for the UK share of spending from the budget of the European Communities on development purposes. UK payments to the EC budget are made from the Consolidated Fund. In accordance with the Financial Reporting Manual (FReM) rules on treatment of payments out of the Consolidated Fund, attributed costs for development expenditure are not included in the primary statements. Information about the total resource budget is included in the Management Commentary.

2. Public Sector Bodies

DFID, on behalf of the Government, owns 100 per cent of the issued share capital of the CDC Group plc. In 2004, fund management activities previously carried out by CDC were transferred to a newly formed limited liability partnership (Actis llp). Our accounts include as assets the Government's shareholding in CDC and the cost of its investment in Actis. Both CDC and Actis publish their own annual report and accounts. Note 14 of the accounts provides key summary data.

DFID is also responsible for the following Non-Departmental Public Bodies:

- Commonwealth Scholarship Commission
- Crown Agents Holding and Realisation Board

None of these bodies employ any staff or have any facilities.

3. Other Reporting

DFID publishes an Annual Report each year that supplements these accounts and provides information to Parliament and the public on DFID's activities. The Annual Report 2007 was presented to Parliament pursuant to section one of the International Development (Reporting and Transparency) Act 2006 on 15 May 2007 (HC 514). This report combined our old Departmental Report with the new requirements of last year's Act into an "Annual Report". The statistical annexes have also been expanded to comply with specific Act requirements. The report gives details of DFID's work and key developments in 2006-07, together with agreed budget allocations for the period to 2007-08. A further update on performance will be provided in the Autumn Performance Report (planned for December 2007).

Each year DFID also publishes "Statistics on International Development" which contain a detailed breakdown of development expenditure. The next report, including 2006-07, will be published in October 2007.

4. Ministers

During the year to 31 March 2007, DFID's Ministers were:

Hilary Benn MP, Secretary of State for International Development

Gareth Thomas MP, Parliamentary Under-Secretary of State for International Development

Baroness Valerie Amos, Leader of the House of Lords, spoke on DFID business in the House of Lords

Following the appointment of a new Prime Minister in June 2007, Douglas Alexander has been appointed as Secretary of State for International Development, replacing Hilary Benn. Three Parliamentary Under-Secretaries of State were also appointed:

- Shahid Malik MP
- Gareth Thomas has been re-appointed
- Shriti Vadera, who has also been appointed as a Baroness, and will represent DFID in the House of Lords.

5. Management Commentary

5.1 Aims and objectives

DFID's aim is the elimination of poverty. It works with developing countries and the international community to achieve eight Millennium Development Goals (MDGs), endorsed at the UN Millennium Summit in September 2000 as milestones of global progress in tackling poverty. The Goals are to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

5.2 Legislation

The International Development Act 2002 allows the Secretary of State for International Development to provide development assistance for sustainable development and welfare; in doing so he has to be satisfied that the assistance is likely to contribute to poverty reduction. The Act allows him to provide support for development awareness and advocacy work, and to use a wider range of financial instruments including securities and guarantees; it also provides for continued assistance to the UK's Overseas Territories and allows DFID to provide rapid humanitarian assistance.

In July 2006, the International Development (Reporting and Transparency) Act 2006 passed into law. The Act requires the Secretary of State for International Development to report annually on various areas, including expenditure on international aid, progress towards the United Nations' target for Official Development Assistance (ODA) to make up 0.7% of gross national income (GNI) (which the UK plans to reach by 2013, two years ahead of the UN target), and the effectiveness and transparency of aid.

Our analysis of the challenges of eliminating poverty, and our policies to respond to these, were most recently set out in the White Paper published in July 2006 (Cm 6876). Two previous White Papers were published in 1997 and 2000.

5.3 Performance measurement

We measure *the resources we use for development* in two main ways:

- Spending from agreed resource budgets as reported in these accounts.
- UK Official Development Assistance (ODA), including as a proportion of UK Gross National Income (GNI).

DFID's final budget (Departmental Expenditure Limit) for 2006-07 was £5.0 billion, increased from £4.5 billion in 2005-06. The budget is planned to increase to £5.3 billion by 2007-08. This is an average annual increase of 9.2 per cent in real terms over the current three year spending review period.

ODA is a measure agreed by members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development. Net costs reported in these accounts are a major part of ODA. However, ODA also includes items not reported in these accounts (e.g. equity investments made through CDC and ECGD debt relief) and is measured by calendar rather than financial years.

There is a longstanding target that donors' ODA should reach 0.7 per cent of GNI. In 2006, UK ODA was £6.85 billion, 0.52 per cent of GNI. This includes significant one-off amounts (not included in these accounts) for debt relief of £1.89 billion, of which debt relief to Nigeria accounts for £1.65 billion. The Government has committed to increasing total ODA to 0.7 per cent of GNI by 2013.

5.4 Outputs and outcomes

We measure *the results we aim to achieve* and we manage our performance against Public Service Agreement (PSA) objectives and targets. The 2005–08 PSA has six objectives:

1. Reduce Poverty in Sub-Saharan Africa.
2. Reduce Poverty in Asia.
3. Reduce Poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa.
4. Increase the impact of the international system in reducing poverty, preventing conflict and responding effectively to conflict and humanitarian crises.
5. Develop, support and promote policy that assists poverty reduction and the achievement of the MDGs.
6. Improve the impact and effectiveness of DFID's bilateral programme.

In Africa and Asia we assess progress towards the MDGs in 25 priority "PSA countries".

Annex 4 of the Annual Report 2007 provides more detail on the 2005-08 PSA objectives and targets and a report on progress. The Statement of Operating Costs by Departmental Aim and Objectives in the accounts shows how much we spent in 2006-07 against each of the main objectives.

Our management units (Divisions) are closely aligned to the PSA objectives. Note 8 to the accounts shows the average number of staff who worked on each objective in the year.

5.4.1 Delivery

We work with a wide range of partners and rely on a wide range of official, commercial and non-governmental delivery agents to achieve our aims. We regularly assess the performance of delivery agents and consider whether our partnerships and the channels we use are still the right ones and whether we should support different, or help create new, institutions.

In 2005, donors and partner countries agreed the "Paris Declaration on Aid Effectiveness". This outlined five partnership commitments to improve aid: *ownership* by partner countries of the development process; *alignment* by donors to country priorities, institutions and systems; harmonisation of donor support; *management for development results* to improve decision making and resource management; and *mutual accountability* of donors and partner governments for development results.

In July 2006 we published a medium-term action plan on aid effectiveness as a response to the Paris Declaration and we plan to update this in 2007. The action plan provides a set of actions that DFID will take at country, regional, corporate and international levels to improve aid effectiveness.

Also during 2006, the OECD-DAC undertook a baseline survey of performance by donors and partner countries against the Paris Declaration indicators. The baseline survey showed that performance is highly variable across partner countries, between donors and between indicators. The DAC analysis showed that DFID performed well on the Paris Declaration indicators in the 21 countries covered, having met three targets and being close to all the remaining targets.

5.4.2 Risks to delivery

There are significant risk factors which will affect whether or not the contributions we make will produce the results we aim to achieve. The main risks to the achievement of our goals include macro-economic trends in developed and developing countries and economic shocks, the impact on developing countries of climate change and conflict; major public health trends which affect development (such as avian flu or HIV/AIDS); and any potential weakening of commitment to poverty elimination by partner governments. We identify and monitor these and other risks; the Management Board reviews how we should react to them, or respond where we can mitigate the risk; and systems for monitoring and managing risk are embedded at all levels in the organisation.

We also monitor and manage the risks arising from weakness or failure in DFID's own processes and systems, e.g. IT and financial. The Statement on Internal Control provides more detail on the management of risk.

5.4.3 2007 Comprehensive Spending Review (CSR)

In addition to setting Budgets and spending plans for the years from 2008-09 to 2010-11, the 2007 CSR will also see significant changes made to the system of PSA targets across government.

Each department will agree and publish a new, comprehensive set of Departmental Strategic Objectives (DSOs) at the CSR. Departments will use these objectives to manage and report on performance and to inform resourcing decisions, ensuring a more holistic, coherent and better aligned framework for performance and financial management across the board.

Alongside Departmental Strategic Objectives, a new set of PSAs will set out the highest priority outcomes for the Government for the CSR 07 period, with less than a third of the number of PSAs than in the current spending review period. Recognising that delivery of the Government's highest priority outcomes requires public services to adopt collaborative approaches across organisational boundaries, both at Whitehall and the frontline, these PSAs will not be constrained by departmental boundaries but will reflect a government wide set of priorities, articulating the most important areas for collective action.

To ensure coherent cross–departmental working as well as buy-in throughout the delivery chain, each cross-cutting PSA will be underpinned by a single, published Delivery Agreement setting out plans for delivery, the role of each organisation in the delivery chain, and how progress towards the outcome will be measured and strengthening accountability at all levels. Departments are working together to draw up Delivery Agreements involving local authorities, frontline professionals, such as teachers and nurses, and service users so that frontline expertise informs the definition, measurement and delivery of priorities.

DFID will lead on a PSA on international poverty reduction. A number of other Government Departments will also be involved in delivering this PSA, including HMT, FCO, DEFRA, DTI and MoD. DFID will contribute to PSAs led by other Government Departments, such as DEFRA on climate change.

5.4.4 Capability Review

In October 2005, the Cabinet Secretary, Sir Gus O'Donnell, announced to the Public Administration Select Committee that one of his key priorities as head of the Home Civil Service was to improve the capability of the civil service to meet today's delivery objectives and to be ready for the challenges of tomorrow.

He announced that he would work with Permanent Secretaries to develop departmental Capability Reviews that would both assess how well equipped departments are to meet these delivery challenges and provide targeted support to make any improvements required.

The report on DFID was published on 27th March 2007. It recognised DFID as a "world leader" and praised our "passionate and committed" staff. It commented on our clear mission, the high quality of our research, analysis and policy development and our sound business model. It recognised that there are challenges ahead for DFID, in particular as we operate increasingly in difficult environments. The review identified, for example, that we will need to make tough choices about our priorities and to step up our response on managing people and working with other parts of government.

DFID has responded with an Action Plan showing what we will do to step up our response over the next two years. We will:

- Have a clear vision for DFID, showing how we will prioritise and deliver effectively in a more complex world with limited administration resources.
- Strengthen DFID's culture of decision-making, accountability and challenge, led by the Management Board.
- Increase the flexibility of DFID's business processes to cope with risk and uncertainty.
- Continue to develop effective relationships across Whitehall and with other international development organisations.
- Communicate powerful arguments for international development.
- Further develop leadership, people management and financial management capabilities.

5.5 Current and future trends

We continue to plan our activities in response to progress against the Millennium Development Goals (MDGs). International commitment to the Goals was renewed in 2005 during the UK Presidency of the G8 and the EU and through the Millennium Review Summit. Current progress on the MDGs is reported at www.developmentgoals.org. The most serious challenge continues to be in Africa. Better economic management by African governments has contributed to an average sub-Saharan Africa growth rate that has been above the world average for the fifth year in a row. Fourteen African countries had growth rates of over 5% in 2005, but this is still short of the 7% or more necessary to achieve the MDGs.

We share a commitment by rich and poor countries to work together to deliver the MDGs. In 2005 the G8 agreed to double aid worldwide by 2010, with half of the additional resources going to Africa; to cancel all debts owed by the world's poorest countries to the International Monetary Fund (IMF) and the concessional arms of the World Bank and the African Development Bank; and EU Member States agreed new spending targets which will double aid to over US$80 billion by 2010, and increase it further to reach 0.7 per cent of gross national income by 2015.

2006 was the year in which the UK, and the rest of the world, began work to make good on the promises made in 2005 at the G8 Summit in Gleneagles, under the UK's Presidency of the EU and through the Commission for Africa. To do this, the UK published its third White Paper on international development (Cm 6876) in July 2006, which sets out how we intend to respond to the big challenges for international development. The White Paper builds on the work done in the earlier White Papers (1997 and 2000) and sets out what the UK government will do to meet the new global challenges that have emerged and, in particular, how we plan to deliver the ambitious commitments made in 2005.

5.6 Financial Review

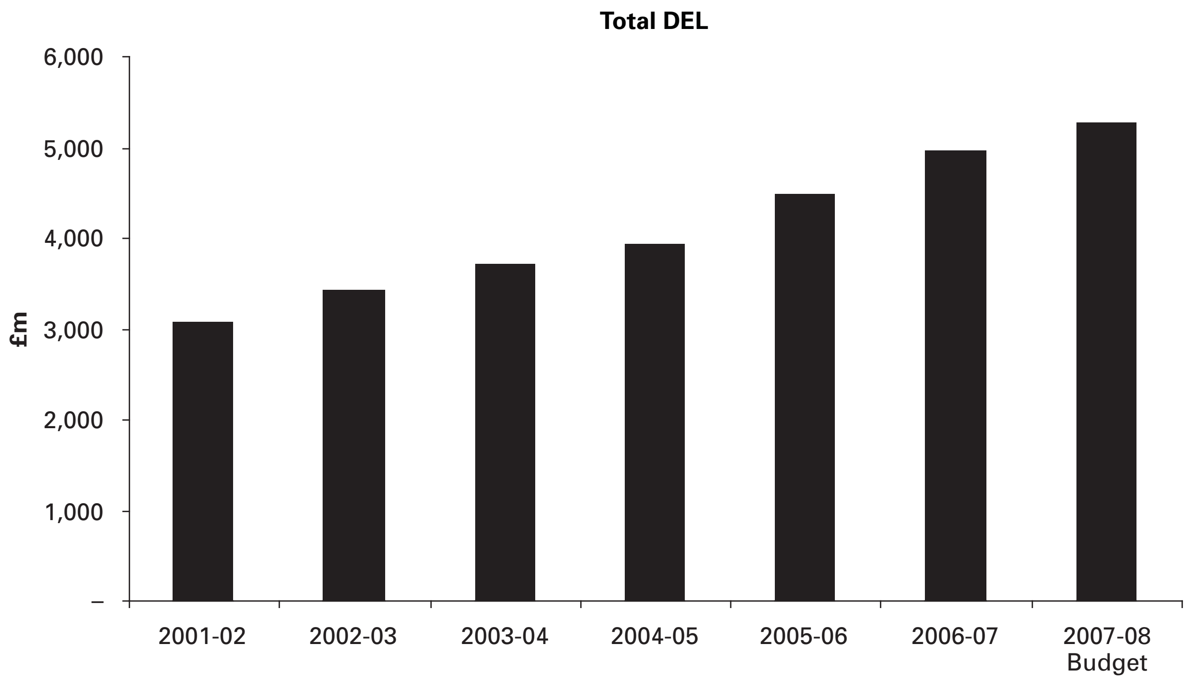
5.6.1 Resource budgets

DFID has two separate budget allocations within the total amount of public expenditure which are controlled through setting of Departmental Expenditure Limits (DEL). The two budgets are for net resource (current) spending (including a ring-fenced amount for administration costs) and for net capital expenditure. DFID has a separate budget allocation within the part of public expenditure controlled as Annually Managed Public Expenditure (AME).

DFID's total DEL budget for 2006/07 was £5.016 billion. Following the outcome of the 2004 government-wide Spending Review, our budget will increase to £5.3 billion in 2007/08 compared with £3.9 billion in 2004/05, an average annual increase of 9.2% in real terms over the three years of the spending review period. This follows the 8.1% real terms increase in DFID's budget announced in the 2002 spending review and the 6.2% increase in the 2000 spending review. DFID's budget for 2008/09 to 2011/12 will be set during the government-wide Comprehensive Spending Review in 2007.

The chart below illustrates this increasing budget, showing total DEL outturn from 2001-02 to 2006-07, and the budget for 2007-08:

Chart 1: Total DEL



The following table shows the changes in budgets between allocations at April 2006 and final budgets for 2006-07:

Table 1: 2006-07 Changes in budgets				
£ million	**Resource DEL voted[1]**	**Resource DEL non-voted**	**Capital DEL**	**AME**
Original	**4,260**	**701**	**20**	**279**
Transfers from non-voted to voted	15	(16)	–	–
Take–up of End Year Flexibility	77	–	–	–
Transfers to other departments[2]	–	(20)	–	–
Classification changes[3]	(665)	–	665	–
Changes in forecast AME	–	–	–	105
Final	**3,687**	**665**	**685**	**384**

1. Including depreciation
2. The budget includes all of the original budget for the Africa Conflict Pool: during the year resources are transferred to FCO and MoD and spent through their Estimates; DFID in turn receives transfers from FCO which holds the original budget for the Global Conflict Pool
3. Grants to certain International Financial Institutions have been reclassified as Capital DEL for budget purposes, but continue to be shown as a resource cost in these accounts and in Estimates.

The resource DEL budget is divided between amounts voted in Estimates and non-voted amounts; the capital DEL budget and the AME budget are both voted in the Estimates. Outturn against the components of the DEL budget is shown in Table 2 below. Note 2 to the accounts is a detailed breakdown and comparison of outturn against Estimates provision for voted resource DEL and AME. Outturns shown below may differ from those shown in DFID's 2007 Annual Report and the Public Expenditure Outturn White Paper which were based on forecasts made before the end of the financial year.

Table 2: 2006-07 Final DEL budgets and outturn			
£ million			
DEL	**Budget**	**Outturn**	**Variance**
Voted Resource DEL: RfR 1	3,674.1	3,574.1	73.0
Voted Resource DEL: RfR 2	40.2	33.0	7.2
Non–voted DEL (EU attribution)[1]	665.0	665.0	–
Other adjustments	–	–	–
Unallocated reserve	–	–	–
Total Resource DEL	**4,352.3**	**4,272.1**	**80.2**
of which:			
Administration budget	*265.0*	*256.0*	*9.0*
Capital DEL (voted)	**685.4**	**693.8**	**(8.4)**
Less: Depreciation	22.0	16.2	5.8
Total DEL[2]	**5,015.7**	**4,949.7**	**66.0**
AME (voted RfR 1)	**383.9**	**403.6**	**(19.7)**

1. Latest forecast; the final charge to DEL budget will be based on later EU reports.
2. Depreciation, which forms part of resource DEL is excluded from total DEL since capital DEL includes capital spending, therefore to include depreciation of the assets purchased would be double counting.

Total DEL outturn represents a 10.4% increase from 2005-06.

Table 3 below shows a reconciliation of resource expenditure outturn between Estimates, Accounts and Budgets.

Table 3: Reconciliation of resource expenditure between Estimates, Accounts and Budgets		
£000	**2006-07**	**2005-06**
Net Resource Outturn (Estimates)	**4,720,205**	**3,903,503**
Operating income not treated as Resource A-in-A	(3,568)	(12,868)
Operating expenditure not included in voted Resource	–	1,604
Excess Operating A-in-A	(3,027)	(452)
Net Operating Cost (Accounts)	**4,713,610**	**3,891,787**
Non-voted DEL (EU attribution)	665,000	657,000
Capital Grants included above classified as Capital DEL in Budget	(702,901)	(363,853)
Resource Budget Outturn (Budget)	**4,675,709**	**4,184,934**
of which:		
Departmental Expenditure Limit (DEL)	4,272,130	4,113,500
Annually Managed Expenditure (AME)	403,579	71,434

5.6.2 Operating costs: Poverty Elimination

- Spending in the year increased in line with the increased budget provision agreed in the 2004 Spending Review. Total voted resource expenditure on poverty elimination increased by 21 per cent to £4.7 billion (2005-06: £3.9 billion). The agreed non-voted deduction for aid spending by the EU was £665 million (2005-06: £657 million).
- The under spend against budget for Poverty Elimination (Request for Resources 1) was 0.2 per cent of the Estimate compared to 0.5 per cent in 2005-06. This reflects continuing good in-year budget management and year end monitoring.
- Within the spending on bilateral programmes, £1,138 million was spent in Africa (2005-06: £1,129m), maintaining our commitment to spend at least £1 billion in Africa by 2005-06.
- Capital charges increased by 12.5 per cent, predominantly due to a large increase in the value of our investment in CDC Group plc, which is based on the net asset value of CDC.
- Administration costs increased by 14 per cent from 2005-06, but this includes a one-off charge for £25m arising from a provision being made against a payment due in 2014 on a leased property (see note 20 to the accounts). Excluding this, underlying administration costs increased by 2.7 per cent. Salary costs within administration costs increased by 1.2 per cent, resulting from the annual indexation to salaries and increased employer pension contributions, partially offset by a reduced headcount; non-salary costs (excluding the £25m provision) increased by 3.7 per cent on 2005-06.
- Total staff costs, including staff attached full time to development projects and within conflict prevention RfR2, increased by 0.2 per cent, reflecting a reduced headcount (see note 8 to the accounts). Costs per staff member (average employed in the year) were £38,786 (2005-06: £36,580).

5.6.3 Operating Costs: Conflict prevention

- Two joint Conflict Prevention Pools were set up in 2001-02 with the Foreign and Commonwealth Office and Ministry of Defence; these are subject to joint decision-making but with each department being accountable for those projects within its sphere of responsibility. Spending is recorded under Request for Resources 2. This programme also includes spending on the Post-Conflict Reconstruction Unit which began work during 2005-06. Total spending by DFID was £33 million (2005-06: £33 million) against an Estimate of £40 million (2005-06: £48 million).

5.6.4 Capital expenditure and Balance Sheet movements

- Total net assets in the Balance Sheet decreased by 22 per cent (£559 million), primarily as a result of increased provisions, and an increased promissory note creditor at 31 March 2007.
- In 2006-07 we spent £25.4 million on additions to fixed assets (2005-06: £30 million) and added £6.3 million to loans and investments (2005-06: £25 million). We are continuing to make a significant fixed asset investment in IT equipment and systems which will contribute to improved effectiveness and efficiency.
- At 31 March 2007, DFID's tangible fixed assets were valued at £88 million (2005-06: £83 million). This represents our administrative assets and approximately 50 per cent relates to our freehold and leasehold assets. Assets used directly in the programme delivery of our business are defined as programme, or project, assets and do not appear on our Balance Sheet.
- The decrease in the value of investments in International Finance Institutions (IFIs) of 2.6 per cent (£58 million) reflects exchange rate losses of £202 million partially offset by equity increases; the largest change being in investments in the World Bank (IBRD) and the European Bank for Reconstruction and Development (EBRD). Note 14 to the accounts gives details.
- Loan debtors reduced by £40m as a result of repayments received; no new bilateral loans were made during the year. Prepayments and advances are similar to last year at £110m (2005-06: £114m).
- Creditors due within one year have increased by 27 per cent (£124 million) largely due to an increase in promissory note creditors. Creditors due after 1 year are in line with the previous year at £375m (2005-06: £376m).
- Provisions have increased significantly to £438 million (2005-06: £99 million). This is mostly the result of two new provisions being made during the year:
  - The IFFIm provision has been made for £318 million for the present value of current payment obligations of $812.5m to 2016. See note 20 to the accounts, and paragraph 5.7.3 below for further details.
  - The second provision is for a payment obligation at the end of the main lease term on a property occupied by a former Executive Agency of the Department. DFID is obligated to make a payment in 2014, in return for which DFID will acquire a lease at a peppercorn rent for a further 74 years. It is expected that the cost of this obligation will be partly offset by the sale of the lease in 2014 to the current occupiers of the property. It is estimated that the net cost to DFID will be £24.8m, which is the amount provided for in these accounts (see note 20 to the accounts).
- We report contingent liabilities as required under Financial Reporting Standard (FRS 12), see Note 28 to the accounts. For the purpose of parliamentary accountability we also report contingent liabilities which would not be shown under FRS 12 since the likelihood of a transfer of economic benefit is remote. These liabilities amount to £6,534.6 million (2005-06: £7,227.9 million).

5.6.5 Variances

Over and under spends against the Parliamentary Estimates are shown in Note 2 to the accounts. Over spends in some sections are offset by savings elsewhere in the Estimate. There were no variances greater than 10% against Estimate with RfR1. The reasons for variances over 10% within RfR2 were as follows:

<u>Conflict Prevention (DEL)</u>

- Africa (39 per cent under Estimate) – slippage in a number of DFID approved projects within the Africa Conflict Pool meant funds allocated were unspent. Significant underspends occurred on projects in the Democratic Republic of Congo, Burundi and Uganda.
- Global (11 per cent over Estimate) – overspend is £1.4m, mostly reflects movements in accruals and prepayments.

5.6.6 Net Cash Requirement

The Outturn Net Cash Requirement in the Statement of Parliamentary Supply was 4.7 per cent below Estimate (2005-06: 5 per cent below). This is mainly due to a larger than expected increase in Promissory Note deposits outstanding at the end of the year.

5.7 Long term and future commitments

In the course of its business, DFID discusses and formalises arrangements with partners and agents for projects and programmes which cover payments over a number of years. These are subject to various terms and conditions; transactions arising from these arrangements are recognised in these accounts when the transfers take place or conditions of grant are met.

5.7.1 Poverty Reduction Budget Support

We have actively promoted and followed the principles now set out in the Paris Declaration, including improving the predictability of aid. We also expect to provide more of our aid in future years as Poverty Reduction Budget Support (PRBS) and we try to give partner governments high level assurances that resources will continue to be provided so long as they are committed to policies which will eliminate poverty, observe human rights and continue to have effective financial management. In 2006/07 we provided PRBS to 16 countries, totalling £552 million. Chapter 5 of the Annual Report 2007 describes this policy in more detail and provides figures for the PRBS we have formally indicated to countries we plan to provide: the figures indicated are £547 million in 2007, £453 million in 2008 and £367 million in 2009.

5.7.2 Debt relief

Following a UK proposal agreed at the G8 summit in 2005, the World Bank and African Development Bank have agreed, under the Multilateral Debt Relief Initiative (MDRI), to cancel the debts of certain Heavily Indebted Poor Countries (HIPC) which have met relevant conditions. Donors have agreed to provide resources in future years to the International Development Association (IDA) and African Development Fund (AfDF) to replace the inflows the institutions would otherwise have received as debt service. In May and June 2006 Parliament authorised DFID to provide £592 million to IDA and £79 million to the African Development Fund over the years 2006-2016 for this purpose. Transfers to IDA and the AfDF will be recorded in these accounts as promissory notes are deposited or payments are made. Other amounts within the total authorised by Parliament are included in contingent liabilities with other amounts for agreed replenishments which have not yet resulted in deposit of promissory notes.

5.7.3 International Finance Facility for Immunisation

In September 2005, the UK and other donors agreed to provide resources to an International Finance Facility for Immunisation (IFFIm); this facility will front-load support to immunisation programmes by using funds borrowed on international markets with repayment guaranteed by government pledges. It is estimated that this facility could help save the lives of 5 million children over the next decade. The legal agreements for IFFIm were signed in July 2006. The UK has pledged a total of £1.38 billion through to 2026, representing 65% of the total amounts pledged at 31 March 2007. The first 5 year bonds of $1bn were issued in October 2006, with a 5% coupon, giving a total liability of $1.25bn. The UK is therefore liable for $812.5m at 31 March 2007, which will be covered by payment obligations through to 2016. The present value of this liability of £318m has been recognised in these accounts as an expense.

5.7.4 Advance Market Commitment

The Advance Market Commitment (AMC) is an innovative, market-based mechanism with the potential to save millions of lives by accelerating the development and production of vaccines for the world's poorest countries, vaccines that would not otherwise be available for many years. The first AMC will target pneumococcal disease, bringing potentially life-saving vaccines more quickly to 100 million children and preventing over 5 million deaths by 2030.

The pilot AMC for pneumococcal disease will provide $1.5 billion in future financial commitments to the poorest countries, giving them the purchasing power to buy a suitable vaccine at discounted prices when one becomes available. By creating a market for vaccines in the poorest countries, the AMC creates incentives for the pharmaceutical companies to invest in research, development and production capacity for new vaccines that serve the poor.

The pilot AMC was launched in February 2007, with commitments being made by Canada, Italy, Norway, Russia, the UK, and the Gates Foundation. The UK government has pledged $485m of the $1.5bn total, with payments expected to begin in 2007-08.

5.7.5 Environmental Transformation Fund

In the 2007 CSR, the UK Government has announced that it will create a new international window of the Environmental Transformation Fund (ETF) with £800 million of ODA to support development and poverty reduction through environmental protection, and help developing countries respond to climate change. This fund will be used through bilateral projects in developing countries as well as multilateral facilities such as the World Bank and Regional Development Banks' Clean Energy Investment Frameworks. It will support adaptation and provide access to clean energy, and help tackle unsustainable deforestation. The UK will make an initial contribution of £50 million from the Fund to help protect the rainforests of the Congo Basin.

5.7.6 Other initiatives

The Government may also announce intentions for spending which will in due course be realised through more specific arrangements with partners and delivery agents. As an indication of the type and size of these targets, DFID has announced that we plan to use resources already allocated in the 2004 spending review:

- to spend £1.25 billion per year in Africa by 2007-08;
- to spend £1.5 billion over three years to combat HIV and AIDS;
- to have an ODA/GNI ratio of 0.47 per cent in 2007-08.

Budgets and spending plans for the years from 2008-09 to 2010-11 will be decided in the 2007 Comprehensive Spending Review (CSR), due to be published in July 2007.

In April 2006 the Chancellor of the Exchequer and Secretary of State for International Development announced that the UK would spend at least £8.5 billion on aid for education over the next ten years. DFID has now signed ten-year education plans and Development Partnership Arrangements with Mozambique, Ghana, Afghanistan, Pakistan and Vietnam.

Other indications of future plans are in the White Paper published in July 2006.

There were no other significant new risks or uncertainties such as potential environmental liabilities or contingent liabilities, during the year or subsequently, that materially affect DFID's future position.

5.8 Future business developments

5.8.1 2006 White Paper

The 2006 White Paper, published in July 2006, sets out our objectives over the next few years to:

- accelerate progress against Millennium Development Goals (MDGs), help countries, particularly those that risk falling ever further behind the rest of the world, do better in bringing security and managing conflict, stimulate rapid, fair and sustainable growth, and deliver basic services for all;
- improve governance; help governments and citizens make politics work for the poor, and work to ensure the international economy supports country development;

- address natural resources issues and climate change in developing countries; and
- improve the effectiveness of international institutions to ensure the international system is fit for the 21st century.

In parallel, we prepared for the 2007 CSR by carrying out a series of reviews designed to maximise the impact and effectiveness of our programme spending and improve operational efficiency in Corporate Services, policy and operational work and in country office management. The findings of these reviews informed the CSR discussion.

5.9 Financial Instruments

The department's overall approach to the management of risk is described in the Statement on Internal Control. The department is funded from Parliamentary Supply with funds provided through Paymaster and therefore has no significant exposure to either liquidity or cash-flow risk. The department's equity interest in CDC Group plc is subject to market performance and currency risk: numerical disclosures and a description of measures taken to manage these risks are in CDC's own financial statements. DFID's ownership interest in International Financial Institutions and part of the loan portfolio are denominated in foreign currencies and subject to currency risk. In line with HMG policy, DFID does not undertake any hedging or derivative transactions to manage this risk. Numerical disclosures required by Financial Reporting Standard (FRS) 13 are included in relevant notes showing the value of financial instruments. As permitted by FRS 13, these disclosures do not cover short-term debtors or creditors.

5.10 Payment of Suppliers

DFID is committed to the Better Payment Practice Code. In line with Government policy, DFID's procurement procedures comply with BS 7980, the British Standard for achieving good payment performance in commercial transactions. Our aim is to pay bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of the goods or services or the presentation of a valid invoice. The percentage of invoices settled within the 30-day period in financial year 2006-07 was 96 per cent (2005-06: 97 per cent). No payments in respect of interest were paid during 2006-07 under the Late Payment of Commercial Debts (Interest) Act 1988.

5.11 Efficiency

Our target is to achieve £420 million of sustainable efficiencies by the end of 2007-08. We will do this by spending DFID money in more effective ways, influencing others to do so, and increasing the quality of our projects and programmes, as well as making more traditional savings in procurement and administration costs. Efficiency gains achieved in 2006/07 were £434 million; Further details of targets and outturn are in Annex 7 of the Departmental Report.

We aim to reduce headcount (UK-based staff) from a revised baseline of 1,907 in 2004-05 to 1,610 at 31 March 2008. Headcount at 31 March 2007 was 1719, slightly short of the interim milestone of 1715. We have a similar target for Staff Appointed in Country (SAIC) to reduce headcount from 1162 to 950 which was met by September 2005 when we reached a total of 914 staff. We also exceeded, by 3, our target of relocating a further 85 posts from London to East Kilbride. Staff were advised that voluntary early departure terms would be available to a limited number of staff in 2005-06, 2006-07 and 2007-08. Within 2006-07, 28 staff agreed departure dates under this scheme, and the Management Board agreed to a further early departure scheme for approximately 73 staff. Costs of £7.9 million for early departure costs are included within administrative expenses.

There will be continuing pressures on administration costs as we combine scaling up of programmes with headcount reductions. Examples of how efficiencies will be met include the introduction of ARIES during 2007-08 (our new management information system), and increased sharing of services with, for example, the FCO.

6. STAFFING AND RELATED ISSUES

We are committed to recruiting people with the right attributes (skills, knowledge and behaviours) in an efficient and responsive way. All appointments are made on merit on the basis of fair and open competition in accordance with the Civil Service Commissioners' Recruitment Code. DFID is also accredited under the Disability Two Ticks Scheme, which guarantees an interview for applicants with disabilities.

We have also hosted a series of seminars run by the Employer's Forum on Disability to raise awareness of disability related issues, and continue to meet our obligations under the Disability Discrimination Act 1995. 51 UK based staff (2.8 per cent of the total) have declared themselves as disabled.

We also continue to progress diversity initiatives. A Diversity Champion at Management Board level provides leadership on diversity and encourages wider accountability for the agenda. We provided diversity awareness training to most staff, and are now developing a range of e-learning modules (covering all the major strands of diversity) to target specific development needs and enhance skills around managing diversity. We established 3 diversity employee network groups for women, ethnic minority staff and those interested in disability issues. And in 2007 we will be establishing a Lesbian, Gay, Bisexual and Transgender staff network.

We support the Civil Service wide bursary scheme organised by the Cabinet Office for staff with disabilities to help develop their skills and competences. A DFID Disability Group ensures we provide appropriate support to disabled people. It is making progress against four key areas: employability, access, culture change and integrating diversity into our mainstream programme work. The Disability Forum Network (DFN) allows staff to discuss disability issues in an open and comfortable atmosphere; and working with our Human Resources Division will be taking steps to further raise disability awareness in the Department. We have also recently appointed a Champion for Disability and a Disability Liaison Officer who advises on reasonable adjustments.

To enhance our existing level of good employee relations, we are applying considerable effort and resource to improving the skills of our line managers. We now offer a broader range of leadership and management development programmes, and have more trained facilitators to deliver these. Recently, a new process had been embedded in the performance management process to enable impact measurement of Learning and Development via more direct involvement of the employee and their line manager.

Details of arrangements for pension provision for employees are given in Note 8 to the Accounts. Pension arrangements for Ministers and senior staff are set out in the Remuneration section of this Report.

6.1 Health and Safety

DFID is committed to providing a safe and healthy workplace and work environment for all staff, to helping all staff understand their duty of care, to act appropriately at all times and to achieving high standards of health and safety throughout our offices.

The Permanent Secretary recognises and accepts responsibility for providing a healthy workplace and DFID's policy with respect to the health and safety at work of employees complies with the Health and Safety at Work etc Act 1974. Directors, Heads of Department, Heads of Overseas Offices, Managers, Supervisors and staff will give due care and attention to matters concerning the health, safety and welfare of those who may be affected by their acts, omissions or operational decisions, while working for or on behalf of DFID, by assessing the impact of their decisions and taking appropriate action to mitigate any identified issues or hazards.

DFID has established an overall Health and Safety Committee which consists of representatives of management and staff whose function is to promote and develop measures to ensure health and safety at work and to check their effectiveness. Equally, it is the duty of every member of staff to take reasonable care for the health and safety of themselves and of their colleagues or other persons who may be affected by their actions at work and to co-operate with DFID managers to enable them to fulfil statutory requirements.

Over the last year there has been extensive health and safety training for Line Managers which has been well received. DFID has carried out a risk assessment for stress in accordance with HSE Management Standards and has a toolkit to assist staff in this area. All the information regarding work related stress can be found under our "Better Balance" campaign on DFID's intranet.

6.2 Environmental Policy

DFID intends to meet the new Sustainable Operations on the Government Estate (SOGE) environmental targets which were launched in June 2006. In the recent Sustainable Development in Government (SDIG) 2006 report, DFID was ranked fourth out of twenty one Government Departments and was the only Government department to stay in the top five for the last two years. We have met the targets for implementing Environment Management Systems at our UK offices, water efficiency, waste reduction and use of renewable energy. Our principal overseas offices have also began to monitor and record their energy and water usage.

DFID has introduced internal targets to reduce our air miles flown by 5% by 2007-08, relative to 2006-07 levels. The baseline year is 2006-07 as this is the first year we captured data for all our overseas offices as well as flights booked in the UK. DFID achieved a 5% reduction on air miles flown during 2006-07, relative to 2005-06 levels, based on flights which had been booked through the UK.

We have also conducted feasibility studies to determine what are the most appropriate renewable technologies on site for DFID, such as a Combined Heat and Power Plant, Solar Panels, Biomass boilers, Tri-generation and even a Wind Turbine at our East Kilbride office. We plan to implement some form of renewable energy on both UK sites during 07/08 We have signed up to the Carbon Trust (CT) Energy Efficiency programme and continue to work closely with the CT to consider further opportunities to improve our energy efficiency.

7. Corporate Governance

7.1 Permanent Head of Department and Management Board

Suma Chakrabarti, Permanent Secretary and Principal Accounting Officer, is the official Head of Department. He was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service, with the agreement of the Secretary of State for International Development. His appointment to DFID is an extensible term appointment under the terms of the Senior Civil Service Contract. Provisions for termination are those in Chapter 11 of the Civil Service Management Code.

DFID has a 6-member Management Board:

- Suma Chakrabarti, chair (appointed 2002)
- Mark Lowcock, Director General, International and Policy (appointed 2003)
- Sue Owen, Director General, Corporate Performance (appointed 2006)
- Nemat Shafik, Director General, Regional Programmes (appointed as non-executive director 2002-2004, as executive director general 2004)
- Bill Griffiths, Non-Executive Director and chair of Audit Committee (appointed 2002)
- Helen Ghosh, Non-Executive Director (appointed 2004)

In April 2006, Masood Ahmed left the Management Board to become Director of External Relations of the International Monetary Fund. Mark Lowcock succeeded him as DG International and Policy; Sue Owen, formerly Director of Operations at HM Treasury, was appointed as DG Corporate Performance following an open competition.

Helen Ghosh was formerly Director General, Corporate Services, HM Revenue and Customs; in November 2005 she was appointed Permanent Secretary, Department of Environment Food and Rural Affairs.

The Permanent Secretary appoints members to the Management Board. Those who are also civil servants serve under the terms of the Senior Civil Service Contract.

Remuneration of Management Board members is determined in line with the recommendations of the Senior Salaries Review Body. Details of the remuneration of Ministers and most senior managers are given in the Remuneration Report below. Board members are expected to notify and register any existing or potential conflicts of interest with the Board Secretary.

DFID observes the Code of Good Practice on Corporate Governance in Central Departments. The Management Board operates collectively to review the performance of DFID. It has agreed objectives and plans its work on a cycle so that it regularly considers the strategic policies and resource allocation decisions, and management of risk, on which it is advised by the Audit Committee.

Each quarter, the Board receives reports on the performance of the department as a whole and of key operational units against agreed objectives, and of financial budgets and forecasts for the year as a whole.

7.2 Board Committees

The Board is supported by four committees: for Audit, Human Resources, Development Policy and Senior Civil Service (SCS) Management. Each of the Committees has agreed terms of reference and is chaired by a member of the Board. The Board receives and reviews annual reports from each Committee about its work.

The chairman of the Audit Committee is a qualified accountant with significant private sector experience. The Audit Committee has undergone further changes in 2006-07. This includes strengthening the external challenge function by appointing an additional non executive member, bringing to 3 the number of non executives. The Finance Director and Head of Internal Audit Department attend most Audit Committee meetings, but not as members. Some members only meetings are also held. The Committee functions in accordance with the Audit Committee handbook issued by HM Treasury, and regularly considers internal control, risk and financial reporting. As part of its work, the Committee decides the programme of, and considers reports from, the Internal Audit Department which operates in accordance with Government Internal Audit Standards.

7.3 Review of performance

The Board reviews its performance and those of its sub-committees each year. In 2005 this involved a review by consultants Egon Zehnder. Their report was overwhelmingly positive and reported, among other things, that the Board was "more effective than most public and private sector boards" they have reviewed.

Staff have the opportunity to observe meetings of the Board and its Committees, other than the SCS committee which discusses sensitive HR issues (Egon Zehnder noted that this was the only Board they had assessed that allowed observers in this way). Country offices are encouraged to view meetings via video facilities; and the Board's annual review of Director's Delivery plans are web cast. Except where confidential, papers considered by the Board, and minutes of meetings, are published on DFID's intranet and on the DFID external web pages.

7.4 Skills and Experience

Members of the Board are appointed to provide an appropriate range of skills and experience. The Egon Zehnder report highlighted the strength of the Board in terms of cohesiveness and complementary skills of its members, and in this context noted the importance of succession planning. Succession arrangements are kept under review. New members of the Board are appointed through open and transparent procedures. Given the small size of the Board, induction programmes for new members are tailored to individual needs, based on past experience.

DFID considers that the two non-executive members are appropriately independent of the Department. Non-executive Directors are given terms of reference as part of their contract, informed of the processes for performance appraisal and given a full induction programme. The Permanent Secretary has periodic meetings with the Non-Executive Directors.

DFID believes that the Board is adequately configured to deal with financial management issues, including members with skills in the measurement and management of performance and financial resources.

8. Remuneration Report

8.1 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.

8.2 Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' 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. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Masood Ahmed was on secondment from the International Monetary Fund from 1 July 2003 until 30 April 2006.

Nemat Shafik is on secondment from the World Bank commencing on 1 October 2004 until October 2008. Nemat remains on the World Bank terms and conditions during the period of the secondment.

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

8.3 *Salary and pension entitlements (audited)*

The following sections provide details of the remuneration and pension interests of the Ministers and the Management Board members of the department.

8.3.1 Remuneration

Ministers	**2006-07**		**2005-06**	
	Salary (£)	Benefits in kind (to nearest £100)	Salary (£)	Benefits in kind (to nearest £100)
Hilary Benn *Secretary of State*	75,963	–	74,902	–
Gareth Thomas *Parliamentary Under Secretary of State*	29,909	–	29,491	–

The above figures show only payments made by the Department and recorded in these accounts.

Management Board	**2006-07**		**2005-06**	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Suma Chakrabarti *Permanent Secretary*	170–175	–	165–170	–
Masood Ahmed *Director General* (until 30 April 2006)	30–35 (160–165 full year equivalent)	–	215–220	–
Mark Lowcock *Director General*	120–125	–	105–110	–
Nemat Shafik *Director General* #1	155–160	–	145–150	–
Sue Owen *Director General* (from 18 April 2006)	100–105 (105–110 full year equivalent)	–	N/A	N/A

#1 on secondment to DFID, salary is paid directly from the World Bank. Amounts shown reflect the reimbursement of these costs from DFID to the World Bank.

'Salary' above 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.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£60,277 from 1 November 2006, £59,686 from 1 April 2006, 2005-06 £59,095) and various allowances to which they are entitled are borne centrally.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. No benefits in kind were provided.

8.3.2 Pension Benefits (audited)

Ministers	**Accrued pension at age 65 as at 31/3/07**	**Real increase in pension at age 65**	**CETV at 31/3/07**	**CETV at 31/3/06**	**Real increase in CETV**
	£000	£000	£000	£000	£000
Hilary Benn *Secretary of State*	5–10	0–2.5	61	46	7
Gareth Thomas *Parliamentary Under Secretary of State*	0–5	0–2.5	20	14	2

Ministerial pensions

Pension benefits for 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 may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that choose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of 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 from 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 26.8% of the ministerial salary.

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

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. 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 pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This is the increase in accrued pension due to the department's contributions to the PCPF, and excludes increases due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

(Audited)

Management Board	**Accrued pension at age 60 as at 31/3/07 and related lump sum**	**Real increase in pension and related lump sum at age 60**	**CETV at 31/3/07**	**CETV at 31/3/06**	**Real increase in CETV**
	£000	£000	£000	£000	£000
Suma Chakrabarti *Permanent Secretary*	40–45 plus lump sum of 130–135	0–2.5 plus lump sum of 5-7.5	733	683	33
Masood Ahmed #1 *Director General* (until 30 April 2006)	–	–	–	–	–
Mark Lowcock *Director General*	25–30 plus lump sum of 85–90	2.5–5 plus lump sum of 7.5–10	431	386	37
Nemat Shafik #1 *Director General*	–	–	–	–	–
Sue Owen *Director General* (from 18 April 2006)	30–35 plus lump sum of 95–100	5–7.5 plus lump sum of 20–22.5	593	433 #2	127

None of the officials named above are members of a partnership pension scheme.

#1 on secondment to DFID and not a member of the Civil Service Pension Scheme arrangements

#2 CETV at 17/4/06

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 as per 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. 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). None of the officials named above are members of a stakeholder pension scheme.

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

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 Cabinet Office’s Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

9. Auditors

These accounts are audited by the Comptroller and Auditor General. Through his staff, DFID's Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information. So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware.

Fees charged were £234,500 for the audit of the main account and £26,000 for other audit services.

10. Post Balance Sheet Events

The Department for International Development Resource Accounts' are laid before the Houses of Parliament by HM Treasury. FRS 21 requires DFID to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Department for International Development to HM Treasury.

The authorised date for issue is 16 July 2007.

Suma Chakrabarti 13 July 2007
Accounting Officer for the Department for International Development

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for International Development to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year, and the use of resources by the Department during the year.

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

In preparing the accounts I am required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

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

make judgements and estimates on a reasonable basis;

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

prepare the accounts on a going concern basis.

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

Suma Chakrabarti 13 July 2007
Accounting Officer for the Department for International Development

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 Department for International Development's (DFID) 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*.

Senior managers take an active lead to support and promote improvements in risk management. Ministers decide on high-level policy risks based on advice from officials. The Secretary of State takes decisions on the Department's overall policy, and key components of policy, on the basis of submissions which usually include an assessment of risk. There are clear lines of delegation covering both policy and expenditure.

DFID's operating environment

The development world and DFID's operating environment is becoming increasingly complex. Much of DFID's work is in high risk environments. Staff must be safeguarded, financial controls must take account of weak governance systems in development partner organisations, and the impact of investments on poverty cannot be guaranteed. DFID's systems are designed to provide a consistent level of assurance in the UK and overseas, but often have to use local controls in difficult environments to achieve this.

The risks to the Department's performance include:

- financial and resource management risks. DFID operates a single system of financial accounting, management and procurement in its offices in the UK and overseas. Each office is expected to comply with UK professional and HM Treasury standards. In this decentralised structure, where each office is responsible for local recruitment and training of administrative staff, management works to ensure that each office has the right mix of financial management skills, that there is a common culture of financial management across the whole organisation and that there are robust measures against corruption and fraud. A major update to DFID's corporate financial systems is currently being taken forward under the ARIES programme. By automating more financial management functions, this will reduce risks of non-compliance;
- security and staff safety. Government offices and the staff who work in them are sometimes at risk of criminal and terrorist attack and need appropriate protection. Physical environments in which we operate are more challenging than the UK and measures are needed to safeguard health and safety;
- delivery and impact. The process of change in developing countries is complex, and it is not always easy to predict the impact of development interventions. Risks which may affect the delivery of benefits or reduce the impact of programmes are identified, monitored and, where possible, mitigated;
- efficiency and management improvement. Specific internal projects to improve DFID's efficiency, for instance through the introduction of new IT and transformation of human resource systems, bring risks which require specialist risk management;
- working with partners. There are many different ways to support development, each with their own specific risks. DFID can work with partner governments, multilaterals, civil society and other bilateral donors. We can also procure goods and services ourselves, fund projects, or provide financial resources directly to partners. Some development programmes involve disbursement to partners who manage finances under their own systems of internal control. In some countries DFID's funds are given to the host government directly as Poverty Reduction Budget Support (PRBS) and accounted for through their public financial management systems. There are particular risks associated with this approach and DFID uses specific Fiduciary Risk Assessments (FRAs) and monitoring to ensure control;

- fragile states. In some countries, such as Afghanistan and Iraq, a combination of the above risk areas makes control especially difficult. Such environments are often subject to rapid and unpredictable change, conflict or post conflict reconstruction, and limited local governance. DFID's control systems must be robust enough to cope with operations in these circumstances.

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 DFID for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

I chair the DFID Management Board which has overall responsibility for leading on risk management for both strategic level risks and key delivery risks. The Board has adopted a risk management policy and ensures that staff throughout DFID have the skills and resources necessary to manage risks appropriate to their level of authority and duties.

Risk management is integrated at all levels:

- at the corporate level, the Management Board takes direct responsibility for strategic and key delivery risks. The Board maintains a Corporate Risk Register (CRR) to record high-level risks and the mitigation actions being taken to address those risks;
- Divisional Directors manage risk in their divisions. Directors' Delivery Plans (DDPs) incorporate risk analysis and management similar to the CRR.
- at country level, risk assessment is part of the Country Assistance Plan (CAP); typically three year plans which are reviewed annually. All CAPs are quality assured by a cross Divisional Quality Assurance Group;
- risk is assessed during planning and design of programmes and projects, and reviewed at least annually during implementation. Programme managers are responsible for risk management and receive training, guidance and technical support from Finance and Corporate Performance Division;
- Internal Audit Department undertakes financial audits throughout DFID and leads on the implementation of fraud policies;
- The Financial Accountability and Anti-Corruption team establish policy and guidance on fiduciary risk assessment (FRA), particularly in relation to budget support. DFID has conducted FRAs as part of the appraisal of all budget support operations since 2004 and will shortly be introducing FRAs for all country programmes.

DFID maintains web-enabled guidance on mandatory rules and procedures in the Essential Guide to Rules and Tools (The Blue Book) complemented by further examples, information and "How to" notes in the Best Practice Guide. The Blue Book covers a range of corporate activities including project cycle management from identification and design to implementation, monitoring and evaluation. The rules and procedures are continuously reviewed and updated and are used at all levels of management.

A primary responsibility of DFID's country offices is the regular monitoring of all projects and programmes. The offices overseas enable DFID to maintain close and regular contact with programme implementers, and to review progress on the ground. DFID's mandatory system of internal project monitoring incorporates learning from experience and identifying good practice. The system is further enhanced by country level studies by Evaluation Department which review long term impact and performance against objectives and are based on DAC evaluation criteria. Both monitoring and evaluation lead to updates in the Blue Book and Best Practice Guide to allow on-line dissemination of best practice to all staff.

The risk and control framework

High level controls include a formal corporate governance and internal control system detailing the aims and principles through which DFID conducts its business. This includes procedures and manuals setting out operational and financial procedures and delegated authorities, codes and standards expected of staff, an anti-fraud strategy and response plan including a whistle blowing policy to enable staff and the public to report concerns over any aspect of DFID's business.

DFID's control framework is set by the Management Board under advice from the Audit Committee, Internal Audit Department and Finance and Corporate Performance Division. Specifically, the Board has established:

- a clear policy framework within which risks are identified, managed and regularly reviewed;
- guidance to staff, partners and the public on DFID's attitude to risk, with specific identification of very low risk appetite areas such as staff security, fraud and corruption;
- clear prioritisation of risks and mitigation measures;
- guidance and training to staff on assessing, managing and monitoring risks;
- internal auditing and controls to ensure compliance with policies and procedures;
- regular horizon scanning to identify potential changes in DFID's operating environment and opportunities to expand influence.

Management and control systems are established according to the type of risk.

- Financial and resource management risks.

An Audit Committee, comprising three non-executive members including the Chair who sits on the Management Board, leads on ensuring that DFID is a financially sound and efficient organisation which makes full and effective use of resources in support of DFID objectives.

Financial controls, including procurement systems, are regularly reviewed and audited by Internal Audit Department, and are currently being strengthened by implementation of ARIES. A fraud response unit investigates and makes recommendations on all fraud allegations.

- Security and staff safety.

Security issues are directly assessed and managed by the Management Board, supported by an ad hoc Security Committee to cover specific threats. All UK and overseas offices have security plans which are reviewed and updated regularly. Contingency plans have been drawn up for offices overseas and in the UK for threats to the security and effectiveness of our staff and key systems overseas and where possible to maintain continuity of operations.

- Delivery and impact.

All programmes with a commitment value over £1 million are assessed for risk and monitored at least annually. The assessment considers both immediate risks as well as longer term risks which could affect the sustainability of benefits. DFID uses its project monitoring information database (PRISM) to monitor risk to the portfolio at many levels, including by programme type, by sector, by country and by region. Directors use the system to track the portfolio of programmes under their delegated authority.

- Efficiency and management improvement.

Major internal projects such as Catalyst and HR transformation are subject to special scrutiny. Development and procurement infrastructure and IT systems comply with standard Government procedures that require full risk assessment and risk management processes. Programme and project management disciplines are observed, including appointing a Senior Responsible Owner, who reports to a Project Board overseeing such new developments.

- Working with partners: using DFID's management systems.

DFID works with partner governments, multilaterals, civil society and other bilateral donors. Where DFID procures goods and services directly we have strong procurement capacity and appropriate strategies to ensure best procurement practice. All projects and programmes are subject to our own risk and control framework. Where we engage with multilaterals and civil society the reporting, monitoring and auditing are subject to scrutiny as set out in the Blue Book and maintain the same level of compliance as internal financial management.

- Working with partners: using partner government systems.

Poverty Reduction Budget Support (PRBS) can be a highly effective form of aid, but involves particular risks where local financial management systems are weak. We have established systems for assessing and monitoring fiduciary risk in relation to PRBS. Before providing PRBS, we work with partner governments and other donors to undertake thorough fiduciary risk assessments, and to ensure that there is a credible programme of reform to address identified weaknesses in public financial management (PFM). We ensure that these programmes of reform have adequate support. In many cases, DFID supports PFM reform directly in countries where we provide budget support. PFM reform programmes typically include support to the audit function.

Each year, country offices providing PRBS carry out systematic reviews of both fiduciary risk and progress on strengthening local systems. These assessments inform the risk reporting of the responsible Directors. We recognise that sometimes it can take several years before PFM reforms result in strengthened systems and reduced risk. Where weaknesses in the assurance available through national systems persist, we carry out supplementary monitoring procedures, including public expenditure monitoring by DFID and other development partners, but we recognise there is scope for further improvement in this area. We will continue to report separately to Parliament and others through the Department's Annual Report on the wider impact and effectiveness of PRBS, as well as on fiduciary and public financial management issues.

- Fragile states.

The recent Capability Review reported that an expansion of DFID's activities in fragile states will challenge DFID to review its skills requirements and its recruitment and staffing processes. It will also test DFID's commitment to certain delivery mechanisms - such as PRBS. The Review, which we have endorsed, recommends our overall portfolio risk management should be readjusted to reflect the increased risk of working in these states. In response we are currently developing guidance on scenario and contingency planning in fragile states for inclusion in new Country Assistance Plans.

Review of effectiveness

As Accounting Officer, I 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 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.

The effectiveness of the system of internal control was maintained and reviewed through:

- the Management Board which met regularly to consider strategic direction and performance against objectives. The Board receives Quarterly Management Reports on performance and approves and advises Ministers on the recommendations of the annual internal resource allocation exercise;

- a network of sub-Committees to support the main Board whose Terms of Reference, workplans and performance are reviewed by the Board on an annual basis to complement on-going dialogue throughout the year;
- an Audit Committee, comprising three non executive members, provides assurance to me by monitoring and reviewing the risk, control and governance systems in the organisation, and the associated assurance processes. The Committee provides oversight and guidance, where necessary, on the work of Finance and Corporate Performance Division. It also reviews the work programme of Internal Audit Department, discusses external audit strategies, and provides a key interface between DFID and the National Audit Office;
- Internal Audit Department (IAD) who provide an independent and objective opinion on the adequacy of systems of risk management, control and governance, by measuring and evaluating their effectiveness in achieving DFID's objectives. In addition, IAD's findings and recommendations are beneficial to line management in the audited areas;
- a specialist fraud response unit within the Internal Audit Department;
- all Directors providing me with an annual statement covering identification and management of risk and an assurance on compliance with management and control systems. These statements include key performance data, an outline of action planned to remedy shortfalls in expected performance and a reconsideration of delivery risks. Directors' assurance statements are informed by departmental systems on management of performance and by in-year monitoring of these systems including sample testing;
- the work of the external auditor in forming an opinion on the financial statements and in reporting the results of value for money examinations relating to DFID's activities.

I am satisfied with the overall control environment that has been in place in DFID for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts; that any weaknesses have been properly assessed; and that appropriate action has been taken to address them.

The operating environment for DFID will remain in many cases a challenging one. However, we will continue to attach high priority to identifying and managing the risks we face in the best way possible.

Suma Chakrabarti 13 July 2007
Accounting Officer for the Department for International Development

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Department for International Development for the year ended 31st March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report is consistent with the financial statements. 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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. I consider the implications for my certificate 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 opinions

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.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs 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 HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report is consistent with the financial statements.

Audit Opinion on Regularity

- In my opinion, 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.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
16 July 2007

Note on website publication

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

		Estimate			Outturn			2006-07 £000 Net total outturn compared with Estimate	2005-06 £000 Outturn
Request for Resources	Note	Gross expenditure	A in A	Net Total	Gross expenditure	A in A	Net Total	saving/ (excess)	Net total
Eliminating Poverty in Poorer Countries	2	4,700,580	4,233	4,696,347	4,691,449	4,233	4,687,216	9,131	3,870,559
Conflict Prevention	2	40,215	–	40,215	32,989	–	32,989	7,226	32,944
Total Resources	3	4,740,795	4,233	4,736,562	4,724,438	4,233	4,720,205	16,357	3,903,503
Non–operating cost A in A		–	26,565	26,565	–	26,565	26,565	–	25,117

Net cash requirement 2006-07

	Note	Estimate	Outturn	2006-07 £000 Net total outturn compared with Estimate saving/ (excess)	2005-06 £000 Outturn
Net cash requirement	4	4,285,039	4,083,801	201,238	3,673,417

Summary of Income payable to the Consolidated Fund

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

		Forecast 2006-07		Outturn 2006-07	
	Note	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Total	5	(500)	*(500)*	(15,351)	*(15,351)*

Variances of Estimate against Outturn by objective are given in Note 2 and explanations of significant variances are provided in the Management Commentary within the Annual Report.

The Notes on pages 36 to 66 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2007

	Note	Staff costs	2006-07 £000 Other costs	Income	2005-06 £000
Administration Costs					
Eliminating Poverty in Poorer Countries					
Staff Costs	8	94,748			93,595
Other admin costs	9		160,755		131,798
Operating income	11			(5,169)	(5,680)
Conflict Prevention					
Staff Costs	8	1,215			969
Other admin costs	9		1,734		1,694
Operating income	11			–	–
Programme Costs					
Eliminating Poverty in Poorer Countries					
Staff Costs	8	4,951			6,401
Programme Costs	10		4,430,996		3,644,136
Income	11			(5,660)	(13,010)
Conflict Prevention					
Staff Costs	8	38			212
Programme Costs	10		30,002		30,068
Income	11			–	–
Non voted					
Expenditure	10				1,604
Totals		100,952	4,623,487	(10,829)	
Net Operating Cost	3(a)			4,713,610	3,891,787

All expenditure and income relates to DFID core department.

All expenditure and income are derived from continuing operations.

There were no material acquisitions or disposals in the year.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	2006-07	2005-06
	£000	£000
Net gain/(loss) on revaluation of fixed asset investments	(59,235)	440,888
Gain on revaluation of tangible fixed assets	262	853
(Loss) on revaluation of tangible fixed assets	(68)	(136)
Total recognised gains and losses for the financial year	(59,041)	441,605

Balance Sheet

as at 31 March 2007

	Note	31-Mar-2007 £000	31-Mar-2007 £000	31-Mar-2006 £000
Fixed Assets:				
Tangible Assets	12	88,313		82,997
Intangible Assets	13	1,558		162
Investments	14	2,920,358		2,978,750
			3,010,259	**3,061,909**
Debtors falling due after more than one year	15		**224,178**	**278,736**
Current Assets:				
Debtors and Prepayments	16(a)	149,658		133,612
Cash at bank and in hand	17	6,867		13,178
		156,525		**146,790**
Creditors (amounts falling due within one year)	18(a)	(580,052)		(455,747)
Net Current Liabilities			**(423,527)**	**(308,957)**
Total Assets less Current Liabilities			**2,810,910**	**3,031,688**
Creditors (amounts falling due after one year)	18(a)	(375,490)		(375,747)
Provisions for Liabilities and Charges	20	(437,515)		(98,790)
			(813,005)	**(474,537)**
			1,997,905	**2,557,151**
Taxpayers' Equity				
General Fund	21		1,222,409	1,722,356
Revaluation reserve	22		775,496	834,795
			1,997,905	**2,557,151**

Suma Chakrabarti
Accounting Officer for the Department for International Development

13 July 2007

Cash Flow Statement

for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Net cash outflow from operating activities	23(a)	(4,073,627)	(3,646,519)
Capital expenditure and financial investment	23(b)	5,117	(7,369)
Payment of amounts due to the Consolidated Fund		(13,241)	(14,323)
Financing	23(d)	4,075,380	3,637,819
Decrease in cash in the period	17	(6,311)	(30,392)

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

	2006-07			2005-06		
Aim	**Gross £000**	**Income £000**	**Net £000**	**Gross £000**	**Income £000**	**Net £000**
1. Africa	1,139,654	(1,726)	1,137,928	1,133,089	(4,196)	1,128,893
2. Asia	811,046	(1,405)	809,641	775,736	(3,017)	772,719
3. Europe, Central Asia and elsewhere	225,898	(1,107)	224,791	298,411	(1,689)	296,722
4. Impact of multilateral agencies	2,238,667	(3,093)	2,235,574	1,345,152	(4,496)	1,340,656
5. Evidence based policy	71,389	(138)	71,251	133,881	(525)	133,356
6. Other and unclassifiable	237,785	(3,360)	234,425	224,208	(4,767)	219,441
TOTAL	**4,724,439**	**(10,829)**	**4,713,610**	**3,910,477**	**(18,690)**	**3,891,787**

DFID's Aim is to Eliminate Poverty in Poorer Countries through achievement of the Millennium Development Goals.

Within this it has the following objectives:

1. Reduce poverty in sub Saharan Africa (includes target shared for conflict reduction shared with FCO and MOD).
2. Reduce poverty in Asia.
3. Reduce poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa.
4. Increase the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises (includes target for debt relief shared with HM Treasury and target for reduction in trade barriers shared with FCO and DTI).
5. Develop evidence-based, innovative approaches to international development.

Numbers of staff employed by objective are shown in Note 8. Some support and other activities cannot readily be allocated to objectives and have been shown as a separate line.

Capital Employed by objective is shown in Note 24.

Notes to the Financial Statements

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006-07 *Financial Reporting Manual (FReM)*. The particular accounting policies adopted by DFID are described below. 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 DFID by reference to their current costs and the revaluation of fixed asset investments by reference to their current estimated value.

1.2 Coverage of Accounts

These accounts cover the activities of DFID only. DFID is the sponsor department for CDC Group plc (CDC), a self-financing Public Corporation and Actis llp, a fund management company. CDC and Actis results are not consolidated in these accounts since under FReM rules Public Corporations are outside the departmental resource accounting boundary. DFID's ownership interest is recognised in fixed asset investments.

In line with FReM rules on activities charged direct to the Consolidated Fund, the primary statements in these accounts do not include amounts attributed to DFID for the purpose of public expenditure control to reflect spending on development activities by the European Community from the EC budget. The EC also supports development activities through the extra-budgetary European Development Funds (EDF). UK contributions to EDF are included in programme expenditure in the Operating Cost Statement.

Operating costs in prior years include a non-voted, non-cash amount representing the loss of interest income to the Consolidated Fund from conversion of loans to grants under a programme of retrospective terms adjustment (RTA). The current year loss of interest is now reflected directly as an adjustment in DFID's budgets. The notional expense is therefore no longer included in the operating cost statement.

1.3 Value Added Tax (VAT)

Expenditure is shown net of VAT where output tax is charged or input tax is recoverable. Amounts owed to or by HM Revenue & Customs for VAT at the balance sheet date are included in creditors and debtors. Irrecoverable VAT is included in amounts shown in the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

1.4 Foreign Exchange

Transactions in foreign currencies are accounted for at the sterling equivalent at the exchange rate for the date of each transaction. Realised gains and losses on transactions, including discharge of creditors where the obligation is expressed in foreign currency, are charged or credited to operating costs. Fixed asset investments and other balance sheet items where the underlying value is expressed in foreign currencies are re-translated into sterling at the exchange rates for the balance sheet date. Changes in value arising from exchange rate movements are dealt with as part of other changes in value (Note 1.7).

1.5 Fixed Assets

Title to freehold land and buildings is held in the name of, or on behalf of, the Secretary of State for International Development. Land and buildings are shown at current cost based on professional valuations carried out at not more than five year intervals.

Refurbishments to freehold and leasehold properties are capitalised at the actual costs incurred. Other tangible fixed assets are recognised in the accounts where they are used for general administration and acquired from administrative or programme capital funds. Asset costs include salaries and expenses of departmental staff arising directly from the development, construction and acquisition of the asset. Tangible fixed assets do not include items purchased from programme expenditure on behalf of overseas governments and others with the intention that ownership will in due course be transferred to them.

Fixed assets are capitalised above a threshold of £1,000 for individual assets. Items of office and domestic furniture and IT equipment and systems, some of which may individually cost less than £1,000, are capitalised on a grouped basis. IT systems in development (and other assets under construction) are capitalised on the basis of actual costs incurred during the period until the work is completed and the asset is available for use and reclassified accordingly.

Fixed assets are valued at current replacement cost.

1.6 Depreciation

Freehold land is not depreciated. Depreciation is provided on other tangible fixed assets on a straight line basis over the remaining useful lives of the assets. Depreciation on improvements to leaseholds and systems under development is provided from the point at which these come into use. The useful lives for main asset categories are as follows:

Office accommodation (freeholds)	30 years
Domestic property (freeholds)	20 years
Improvements to freeholds	15 years
Improvements to leaseholds	Over the remaining term of the lease
Motor vehicles	5 years
Office and domestic furniture and equipment	Mainly at 5 and 10 years
IT equipment	1 to 3 years
IT systems	Over individually assessed estimated useful lives

1.7 Investments

Investments include the United Kingdom interest in certain International Financial Institutions (IFIs). Shares in these bodies are not traded securities and these investments are valued on the basis of the UK share of the net assets attributable to shareholders taken from audited accounts taking account of any further contributions to capital during the year.

Increases in the value of investments, including those arising from retranslation to sterling of underlying values of investments which account in foreign currencies or from market movements, are taken to revaluation reserve. Reductions in value are taken to revaluation reserve to the extent that value is no lower than that at which assets were taken into the balance sheet, or to the extent that the reduction below this cost is judged to be of a temporary nature which will be recovered in the medium term. Permanent impairments below this cost are charged to the operating cost statement.

In accordance with the FReM, investments in public corporations falling outside the resource accounting boundary are recognised at cost.

1.8 Intangible Assets

Software licences are valued at purchase cost or replacement cost if materially different. Depreciation is provided on a straight line basis over the life of the licence.

1.9 Long Term Loans

Loans to overseas governments, including a portfolio of public sector loans managed for DFID by Actis llp, are shown at realisable principal values net of provisions. These provisions include amounts which the UK has formally agreed will not be repaid under a programme to convert loans to grants. Repayments forecast to be made within one year are included in debtors.

1.10 Stocks

DFID does not hold material levels of stock items. Purchases of stock items such as stationery and office supplies are charged to the operating cost statement when acquired.

1.11 Cash: Third Party Monies

Cash balances in the primary statements exclude amounts held for third parties as custodian or trustee but in which neither DFID nor Government more generally has a direct beneficial interest. Amounts held at the balance sheet date are disclosed by way of note.

1.12 Provisions

Provisions are made where at the balance sheet date DFID has present obligations from past events to make future transfers of economic benefit and reasonable estimates of the value of the obligations can be made.

Where the time value of money is material, provisions are stated at discounted amounts.

1.13 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:

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

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

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

1.14 Administration and Programme Expenditure

The operating cost statement illustrates administration and programme costs. Administration costs are those which fall within the administration cost control regime, together with associated operating income. Income is analysed between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit and other operating income.

Programme costs reflect payments of grants and other disbursements by the department and certain staff costs where they relate directly to service delivery.

2. Analysis of Net Resource Outturn by section

	Outturn						2006-07 £000 Estimate		2005-06 £000
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net total	Net Total	Net total outturn compared with Estimate	Prior year outturn
Eliminating Poverty in Poorer Countries (DEL)									
A: Sub-Saharan Africa	51,041	171,559	873,995	1,096,595	10	1,096,605	1,091,960	(4,645)	1,094,239
B: Asia	32,749	96,809	651,027	780,585	(169)	780,416	787,717	7,301	748,676
C: Rest of the World	22,118	63,537	118,483	204,138	(785)	203,353	195,564	(7,789)	276,283
D: Multilateral Aid effectiveness	11,730	94,049	1,681,569	1,787,348	(264)	1,787,084	1,811,364	24,280	1,245,304
E: Innovative Approaches to Development	18,775	10,855	39,902	69,532	(27)	69,505	69,189	(316)	130,841
F: Multiple Objectives	8,708	125,261	94,709	228,678	–	228,678	237,570	8,892	217,633
G: Central Departments	110,381	3,898	–	114,279	(2,998)	111,281	112,812	1,531	80,687
H: Gibraltar Social Insurance Fund	–	–	6,716	6,716	–	6,716	6,300	(416)	5,462
Spending in Annually Managed Expenditure (AME)									
J: Multiple objectives (AME)	–	91,459	–	91,459	–	91,459	88,970	(2,489)	71,434
K: Grants to IFFIm	–	312,119	–	312,119	–	312,119	294,900	(17,219)	–
Non-budget									
EU Research Grants (Net)	–	–	–	–	–	–	1	1	–
Total RfR1	**255,502**	**969,546**	**3,466,401**	**4,691,449**	**(4,233)**	**4,687,216**	**4,696,347**	**9,131**	**3,870,559**
Conflict Prevention (DEL)									
A Africa	–	7	13,758	13,765	–	13,765	22,625	8,860	13,631
B Global	–	26	13,992	14,018	–	14,018	12,590	(1,428)	15,294
C Post conflict reconstruction	2,949	5	2,252	5,206	–	5,206	5,000	(206)	4,019
Total RfR 2	**2,949**	**38**	**30,002**	**32,989**	**–**	**32,989**	**40,215**	**7,226**	**32,944**
Total RfR 1&2	**258,451**	**969,584**	**3,496,403**	**4,724,438**	**(4,233)**	**4,720,205**	**4,736,562**	**16,357**	**3,903,503**

An explanation of variances between Estimate and Outturn is included in the Management Commentary.

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

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

	Note	2006-07 £000 Outturn	2006-07 £000 Supply Estimate	2006-07 £000 Outturn compared with Estimate	2005-06 £000 Outturn
Net Resource outturn	2	4,720,205	4,736,562	(16,357)	3,903,503
Operating income not treated as Resource A in A	5	(3,568)	–	(3,568)	(12,868)
Operating expenditure not included in voted Resource	10	–	–	–	1,604
Excess Operating A-in-A	5	(3,027)	–	(3,027)	(452)
Net Operating Cost		4,713,610	4,736,562	(22,952)	3,891,787

A reconciliation between Resource Outturn shown in these accounts and Resource Budget is included in table 2 in the Management Commentary within the Annual Report.

3(b) Outturn against final Administration Budget

	2006-07 £000 Budget	2006-07 £000 Outturn	2005-06 £000 Outturn
Gross Administration Budget	267,512	258,451	226,852
Income allowable against the Administration Budget	(2,500)	(2,500)	(4,900)
Net Outturn against final Administration Budget	265,012	255,951	221,952

4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000
Resource Outturn		4,736,562	4,720,205	16,357
Capital				
Acquisition of fixed assets	12 & 13	30,065	25,354	4,711
Additions to loans and investments	14 & 15	16,500	6,239	10,261
Non-operating A in A				
Loan Repayments		(26,512)	(26,409)	(103)
Proceeds of fixed asset disposals		(53)	(156)	103
Accuals adjustments				
• Cost of Capital charges	9 & 10	(141,186)	(144,694)	3,508
• Depreciation	9	(22,010)	(16,202)	(5,808)
• Other non-cash items		(260)	(12,076)	11,816
• New provisions	20	(328,290)	(351,916)	23,626
• Use of provisions	20	16,204	13,191	3,013
• Other changes in working capital	19	4,019	(129,992)	134,011
Changes in creditors falling due after more than one year		–	257	(257)
Net cash requirement		4,285,039	4,083,801	201,238

An explanation of variances between Estimate and Outturn is included in the Management Commentary.

5. Analysis of income and receipts payable to the Consolidated Fund

		Forecast 2006–07		Outturn 2006–07	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	*£000*
Operating income and receipts – excess A in A		–	–	(3,027)	*(3,027)*
Other operating income and receipts not classified as A in A		–	–	(3,568)	*(3,568)*
Subtotal		–	–	(6,596)	*(6,596)*
Non-operating income – excess A in A	7	–	–	(8,755)	*(8,755)*
Other non-operating income not A in A		–	–	–	–
		–	–	(8,755)	*(8,755)*
Other amounts collectable on behalf of the Consolidated Fund		(500)	*(500)*	–	–
Total income payable to the Consolidated Fund		**(500)**	***(500)***	**(15,351)**	***(15,351)***

Actual receipts surrenderable to the consolidated fund were £15,351,252.56

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

	Note	2006-07 £000	2005-06 £000
Operating income	11	(10,829)	(18,690)
Income authorised to be Appropriated in Aid		(4,233)	(5,370)
Operating income payable to the Consolidated Fund		(6,596)	(13,320)

7. Non-operating income – Excess A-in-A

	Note	2006-07 £000	2006-06 £000
Principal repayments of voted loans	15	(35,164)	(33,750)
Proceeds on disposal of fixed assets		(156)	(395)
Income authorised to be appropriated in aid		26,565	25,117
Non-operating income payable to the Consolidated Fund		(8,755)	(9,028)

8. Staff numbers and related costs

Staff costs comprise:	2006-07					2005-06
	Total	Permanently employed staff	Others	Ministers	Special Advisers	Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	86,001	80,708	5,134	99	60	86,429
Social security costs	4,200	4,184	–	10	6	4,216
Other pension costs	12,971	12,957	–	–	14	12,326
Gross Total*	**103,172**	**97,849**	**5,134**	**109**	**80**	**102,971**
Less recoveries in respect of outward secondments	(234)	(234)	–	–	–	(465)
Total net costs	**102,938**	**97,615**	**5,134**	**109**	**80**	**102,506**

***Analysis of gross total**	
RfR1 Administration	94,748
RfR2 Administration	1,215
RfR1 Programme	4,951
RfR2 Programme	38
Capital	2,220
	103,172

Pensions for most employees are provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. DFID is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, employers' contributions of £12,841,608.40 were payable to the PCSPS (2005-06 £12,188,160.67) at one of four rates in the range 17.1% to 25.5% per cent of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same.

The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £121,893.72 (2005-06 £128,680.53) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £8,030.50 (2005-06 £8,940.27), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £nil. Contributions prepaid at that date were £nil.

One individual retired early on ill-health grounds (2005-06: 2 individuals); the total additional accrued pension liabilities in the year amounted to £1,204 (2005-06: £3,673).

8. Staff numbers and related costs (continued)

Average number of persons employed during the year

					2006-07	Restated 2005-06
	Total	Permanent staff	Others	Ministers	Special Advisers	Total
Reduce poverty in sub Saharan Africa	**724**	714	10	–	–	**766**
Reduce poverty in Asia	**515**	514	1	–	–	**576**
Reduce poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa	**270**	265	5	–	–	**290**
Increase the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises	**166**	155	11	–	–	**164**
Develop evidence based innovative approaches to international development	**250**	237	13	–	–	**265**
Other expenditure and expenditure unallocable to individual objectives	**672**	652	16	2	2	**685**
Staff engaged on capital projects	**42**	42	–	–	–	**42**
Total Request for Resources 1	**2,639**	**2,579**	**56**	**2**	**2**	**2,788**
Request for Resources 2:						
Conflict Prevention	**21**	15	6	–	–	14
Total	**2,660**	**2,594**	**62**	**2**	**2**	**2,802**

Staff numbers for 2005-06 have been restated to reflect the reclassification of some activities to a different objective.

9. Other and total Administration Costs

	2006-07		2005-06	
	£000	£000	£000	£000
Eliminating Poverty in Poorer Countries (RfR1)				
Operating leases rentals	19,947		20,557	
Hire of plant and machinery	55		46	
		20,002		20,603
Other current expenditure		89,861		86,063
Non Cash items				
Depreciation: Tangible Fixed Assets	16,076		21,106	
Depreciation: Intangible Fixed Assets	126		200	
Impairment/Revaluation of Fixed Assets	697		780	
Audit fees – resource account *	235		235	
Audit fees – other *	26		26	
Cost of capital charge *(includes civil estate)**	1,007		1,183	
Movement in provisions	31,021		1,214	
		49,188		24,744
Loss on disposal of fixed assets		1,704		388
Other Administration Costs (RfR1)		**160,755**		**131,798**
Administration income (Note 11)		(5,169)		(5,680)
Staff Costs (Note 8)		94,748		93,595
Net Administration Costs (RfR1)		**250,334**		**219,713**
Conflict Prevention (RfR2)				
Staff Costs	1,215		969	
Other Admin Costs	1,734		1,694	
Net Administration Costs (RfR2)		**2,949**		**2,663**
Net Total Administration Costs		**253,283**		**222,376**

* Notional expenses taken to General Fund. Cost of capital charge is calculated using the standard rate of 3.5%

10. Programme Costs

	2006-07		2005-06	
	£000	£000	£000	£000
Eliminating Poverty in Poorer Countries (RfR1)				
Staff Costs	4,951		6,401	
Grants/current expenditure – Bilateral	2,309,330		2,328,901	
Grants and other current expenditure – Multilateral	817,766		711,285	
Other – Gibraltar Social Insurance Fund	6,716		5,462	
Contributions to international financial institutions: promissory notes	828,595		471,505	
Loan management charges	890		86	
		3,968,248		3,523,640
Non Cash items				
Cost of capital charge*	143,686		127,439	
Movements in provisions	317,236		2,407	
Loss on disposal of fixed assets	46		378	
		460,968		130,224
Loss/(Gain) on foreign exchange	6,731		(3,327)	
		6,731		(3,327)
Total: Eliminating Poverty in Poorer Countries (RfR1)		4,435,947		3,650,537
Conflict Prevention (RfR2)				
Africa Staff Costs	7		98	
Africa Other Expenditure	13,758		13,533	
Global Staff Costs	26		114	
Global Other Expenditure	13,992		15,180	
Post-conflict Reconstruction Staff Costs	5		–	
Post-conflict Reconstruction Other Expenditure	2,252		1,355	
Total: Conflict Prevention (RfR2)		30,040		30,280
Charge for loss of interest income to Consolidated Fund on conversion of loans to grants **		–		1,604
Total Gross expenditure		4,465,987		3,682,421
Programme income (Note 11)		(5,660)		(13,010)
Total Net Programme Costs		**4,460,327**		**3,669,411**

* *Notional expense taken to General Fund. Cost of capital charge is calculated using the standard rate of 3.5%, except for the investment in CDC which is calculated using a rate of 5%. See note 14 for further details.*

** *Previous accounts have included an expense item representing the notional loss of interest to the Treasury on loans converted to grants. Interest accruals on the loans ceased when they were written off in the 1970s and the current year loss to the Treasury of accrued interest is now reflected directly as an adjustment in DFID's budgets. The notional expense is therefore no longer included in the operating cost statement.*

11. Income

			2006-07	2005-06
			£000	£000
	RfR1	RfR2	Total	Total
Administrative Income:				
Rents from non-Government bodies	(4,451)	–	(4,451)	(4,343)
Other	(610)	–	(610)	(1,262)
Recovery of salary – EBRD Director	(108)	–	(108)	(75)
Sub total	**(5,169)**	**–**	**(5,169)**	**(5,680)**
Programme Income				
Non-capital appropriations in aid	128	–	128	(142)
Other operating income not classified as A in A	(3,568)	–	(3,568)	(10,806)
Loan Interest	(2,220)	–	(2,220)	(2,062)
Sub total	**(5,660)**	**–**	**(5,660)**	**(13,010)**
Total	**(10,829)**	**–**	**(10,829)**	**(18,690)**

12. Tangible Fixed Assets

	Freehold Land and buildings	Leasehold related assets	Vehicles	Furniture and equipment	IT equipment and systems	Assets being constructed	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2006	**10,879**	**39,718**	**6,782**	**15,774**	**66,461**	**13,429**	**153,043**
Additions	138	2,098	1,241	2,091	4,684	13,549	23,801
Revaluation	(370)	–	48	343	(1,627)	–	(1,606)
Brought into use	200	2,413	–	–	–	(2,613)	–
Reclassification	(433)	399	–	(43)	77	–	–
Disposals	(12)	(1,689)	(1,351)	(2,432)	(34,375)	(564)	(40,423)
At 31 March 2007	**10,402**	**42,939**	**6,720**	**15,733**	**35,220**	**23,801**	**134,815**
Depreciation							
At 1 April 2006	(255)	(9,109)	(3,710)	(6,368)	(50,604)	–	(70,046)
Charged in year	(546)	(2,479)	(1,088)	(1,614)	(10,349)	–	(16,076)
Depreciation on revaluation	302	–	(13)	(116)	930	–	1,103
Reclassification	43	(40)	–	4	(7)	–	–
Disposals	11	1,405	1,181	2,180	33,740	–	38,517
At 31 March 2007	**(445)**	**(10,223)**	**(3,630)**	**(5,914)**	**(26,290)**	**–**	**(46,502)**
Net Book Value at 31 March 2007	**9,957**	**32,716**	**3,090**	**9,819**	**8,930**	**23,801**	**88,313**
At 31 March 2006	**10,624**	**30,609**	**3,072**	**9,406**	**15,857**	**13,429**	**82,997**

Additions (accruals basis)	23,801
Movement in Capital creditor	(1,449)
As shown in Cash flow	22,351

The department's freehold property in East Kilbride was valued at 31 March 2006 by GVA Grimley LLP International Property Advisers using RICS guidelines and reported a revised existing use valuation of £9,250,000 (land £1,575,000, buildings £7,675,000). There has been no material change in value since 31 March 2006, and the valuation has therefore not been updated to 31 March 2007.

Overseas properties were valued at 31 March 2007 by Pam Golding Properties, for our Zimbabwe properties, and by SFS Property Consultants, for our Malawi properties.

13. Intangible Assets

	2006-07
	£000
Cost	
At 1 April 2006	1,861
Additions	1,553
Disposals	(812)
At 31 March 2007	**2,602**
Depreciation	
At 1 April 2006	(1,699)
Charged in year	(126)
Disposals	811
At 31 March 2007	**(1,014)**
Net book value at 31 March 2007	**1,588**
Net book value at 31 March 2006	**162**

14. Fixed Asset Investments

	International Financial Institutions	CDC Group Plc	Actis llp	Total
	£000	£000	£000	£000
At 1 April 2006	**2,212,037**	**765,036**	**1,677**	**2,978,750**
Additions	843	–	–	**843**
Revaluations	(59,235)	–	–	**(59,235)**
At 31 March 2007	**2,153,645**	**765,036**	**1,677**	**2,920,358**
Additions (accruals basis)	843	–	–	843
Non-cash adjustments including capital subscriptions made in the form of Promissory Notes	–	–	–	–
Amounts included in Note 23 (b)	843	–	–	843

Subsidiaries and associates: key data

	CDC Group plc		Actis llp	
	2006	Restated 2005	2006	2005
	£m's	£m's	$m's	$m's
Revenue	19.9	34.9	107.7	82.1
Surplus on revenue account	57.5	55.8	19.0	14.0
Capital return (before tax)	317.5	352.2	–	–
Total return after tax	375.0	425.8	18.6	13.2
Total net assets (valuation basis)	2,014.8	1,639.8	4.7	5.2

CDC Group plc prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).

Programme operating costs include capital charges of £91,365,000 which represents 5.0% of CDC annual average assets of £1,827,300,000 (2005-06 £71,345,000 @ 5.0 per cent) and £94,315 which represents 3.5% of Actis annual average assets of £2,694,722 (2005-06 £88,565 @ 3.5%). There were no dividend or interest payments (2005-06 £nil).

14. Fixed Asset Investments (continued)

International financial institutions

Base currencies of investments in International Financial Institutions are shown below. $(US) figures include those bodies for which US$ are used as the working equivalent for units of account formally expressed in Special Drawing Rights (SDR). Revaluations for IFIs include £202 million (net) of unrealised losses (2005-06: gain of £126 million) arising from changes in exchange rates.

	2006-07		2005-06	
	Currency '000	£000	Currency '000	£000
International Bank for Reconstruction and Development	$1,609,598	819,947	$1,702,888	981,718
International Finance Corporation	$566,980	288,826	$501,560	289,150
European Bank for Reconstruction and Development	1,047,522	711,535	845,567	589,944
Asian Development Bank	$268,772	136,916	$253,198	145,969
Inter–American Development Bank	$190,751	97,171	$180,341	103,967
African Development Bank (in Units of Account)	74,629	57,557	66,722	55,413
Caribbean Development Bank	$43,560	23,059	$43,560	25,113
Multilateral Investment Guarantee Agency	$36,580	18,634	$36,016	20,763
		2,153,645		2,212,037

15. Debtors: amounts due after more than one year

	Bilateral and other	Loans managed by Actis llp	Total
	£000	**£000**	**£000**
Gross Value less provisions for debt relief and non-payment			
At 1 April 2006	280,298	18,350	298,648
Additions	5,396	23	5,419
Repaid	(39,691)	(1,017)	(40,708)
(Increase)/Decrease in provision	443	–	443
Utilisation of Provision	48,462	–	48,462
Written off (incl foreign exchange gain/(loss))	(53,326)	–	(53,326)
At 31 March 2007	241,582	17,356	258,938
Due within one year	33,396	1,364	34,760
Total: Debtors falling due after more than 12 months*	**208,186**	**15,992**	**224,178**
At 31 March 2006	**261,403**	**17,333**	**278,736**
** of which*			
falling due after 1 year less than 2 years	33,398	1,585	34,983
falling due after 2 years less than 5 years	98,382	3,812	102,194
falling due after 5 years	76,406	10,595	87,001
	208,186	15,992	224,178
Additions included above	5,396	23	5,419
Rescheduling of loans	–	(23)	(23)
Included in cash flow statement – Note 23(b)	5,396	–	5,396
Repayments included above	(39,691)	(1,017)	(40,708)
Management charges deducted from repayments – included in expenditure	4,653	890	5,543
Principal repayments accrued 2006–07	–	4	4
Principal repayments accrued 2005–06	–	(3)	(3)
Included in cash flow statement – Note 23(b)	(35,038)	(126)	(35,164)

16. Debtors: Amounts Falling Due Within One Year

16 (a) Analysis by type

	2006-07 £000	2005-06 £000
Loans repayable within one year*	34,760	19,912
Deposits and advances	28,718	44,460
Prepayments and accrued income**	80,837	69,223
Amounts due from the Consolidated Fund in respect of supply	5,326	–
Other amounts due from Consolidated Fund	17	17
Total	**149,658**	**133,612**
Decrease in working capital debtors (excluding loans and Consolidated Fund)	(4,128)	(38,397)

* Of which £3,789 relates to Principal repayments accrued 2006-07 (2005-06 £2,728).

**Accrued income includes £nil which will be surrendered to the Consolidated Fund when received (2005-06 £14,878).

Consolidated Fund debtor in respect of supply	2006-07 £000	2005-06 £000
2006-07 Supply drawn down	(4,075,380)	(3,637,819)
"Deemed" supply (retained from 2005-06)	(3,095)	(38,693)
	(4,078,475)	(3,676,512)
Net cash required	4,083,801	3,673,417
Supply debtor/(creditor)	5,326	(3,095)
Actual supply debtor/(creditor)	£5,326,178.68	(£3,094,865.82)

16 (b) Intra-Government balances

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2006-07	2005-06	2006-07	2005-06
Balances with other central government bodies	7,577	2,512	–	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Subtotal: intra-government balances	7,577	2,512	–	–
Balances with bodies external to government	142,081	131,100	224,178	278,736
Total debtors at 31 March 2007	**149,658**	**133,612**	**224,178**	**278,736**

17. Cash at bank and in hand

	2006-07	2005-06
	£000	£000
Balance at 1 April 2006	13,178	43,570
Net Cash (outflow)/inflow	(6,311)	(30,392)
Balance at 31 March 2007	**6,867**	**13,178**

Balances at 31 March 2007 were held at:

	2006-07	2005-06
HM Paymaster General	(371)	6,053
Imprest accounts	7,238	7,125
Total	**6,867**	**13,178**

Analysis of Balances at 31 March

	2006-07	2005-06
Consolidated Fund (debtor)/creditor for Supply	(5,326)	3,095
Due to the Consolidated Fund Other Receipts	410	603
Due to the Consolidated Fund Excess A-in-A	11,783	9,480
Total	**6,867**	**13,178**

Other CFER	**£**	**£**
Held at 1 April	603,067	1,616,014
Arising during the year	3,568,370	10,185,304
Paid over during the year	(3,761,212)	(11,198,251)
Held at 31 March	**410,225**	**603,067**

Cash balances at Paymaster in 2006-07 and 2005-06 were held in sterling. Imprest balances are held in a variety of local currencies, none individually greater than £836k.

At 31 March 2007, in addition to the amounts shown above, the Department held £7,629,528 of cash provided by other development agencies as part of jointly funded programmes (2005-06: £4,513,207).

18. Creditors

18(a) Analysis by type

	2006-07		2005-06	
	£000	£000	£000	£000
Amounts Falling Due Within One Year				
Taxation	1,103		1,077	
Social Security	631		790	
Other creditors	1,472		1,361	
Accruals and deferred income	123,164		102,725	
		126,370		105,953
Promissory Notes: due within 12 months		438,488		333,615
Consolidated Fund creditor:				
Supply issued and not used	–		3,095	
Other amounts received – to be paid over	410		603	
Other amounts – to be paid over	3,001		3,001	
Excess Appropriations in Aid	11,783		9,480	
		15,194		16,179
Total		**580,052**		**455,747**
Decrease in working capital creditor (excludes Promissory Notes and Consolidated Fund)		20,417		(33)
Amounts Falling Due After More Than One Year				
Promissory notes: due after 12 months		**375,490**		**375,747**

18. Creditors (continued)

Promissory note creditor: movement during the year	£000	£000
Balance at 1 April 2006		(709,362)
Charge to operating costs in 2006-07 - new deposits (Note 10)	(828,596)	
Increase in subscriptions to International Financial Institutions (Note 14)	–	
Cash drawn down against notes previously issued	723,391	
Foreign Exchange gains/(losses)	589	
		(104,616)
Balance at 31 March 2007		(813,978)
of which		
Forecast to be drawn within 12 months		(438,488)
Forecast to be drawn after 1 year less than 2 years		(212,430)
Forecast to be drawn after 2 years less than 5 years		(143,556)
Forecast to be drawn after 5 years		(19,504)
		(813,978)

Promissory note creditor: analysis by institution at 31 March 2007	Capital £000	Resource £000
European Bank for Reconstruction and Development	(11,716)	
Other capital	(1,095)	
International Development Association		(356,433)
African Development Fund		(222,800)
Global Environment Fund		(23,009)
Asian Development Fund		(71,178)
Global Fund to fight Aids, TB and Malaria		(100,400)
Other (CDB, Montreal Fund, UNFCC)		(27,347)
Total	**(12,811)**	**(801,167)**

18. Creditors (continued)

18(b) Intra-Government balances

	Amounts falling due within one year £000		Amounts falling due after more than one year £000	
	2006-07	2005-06	2006-07	2005-06
Balances with other central government bodies	(24,672)	(26,843)	–	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Subtotal: intra-government balances	(24,672)	(26,843)	–	–
Balances with bodies external to government	(555,380)	(428,904)	(375,490)	(375,747)
Total creditors at 31 March 2007	**(580,052)**	**(455,747)**	**(375,490)**	**(375,747)**

19. Movements in Working Capital Other Than Cash

	2006-07 £000	2005-06 £000
Decrease in debtors	4,128	38,397
Increase in creditors	20,417	33
Movement in working capital	24,545	38,430
Movement in debtors for accrued income to be surrendered to the Consolidated Fund	(15)	(151)
Net increase included in working capital movement in Resource Outturn	**24,530**	**38,279**
Movement in working capital as above	24,545	38,430
Movement in creditor for capital purchases not included in cash flows	(1,449)	(1,027)
Net increase in working capital other than cash	**23,096**	**37,403**
Capital accruals	1,449	1,027
Movement in accrued interest	(15)	(151)
Promissory note deposits	828,596	471,505
Promissory notes drawn down	(723,391)	(408,825)
Adjustment for change in creditors falling due after more than one year	257	(117,629)
Other changes in working capital (Note 4)	**129,992**	**(16,670)**

20. Provisions For Liabilities and Charges

	IFFIm	ATP Agreements	Early Retirement Costs	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2006	**–**	**60,135**	**4,483**	**34,172**	**98,790**
Arising during year	317,679	–	7,926	26,336	351,941
Release of provision	–	–	–	(25)	(25)
Use of provision	–	(7,203)	(2,417)	(3,571)	(13,191)
Balance at 31 March 2007	**317,679**	**52,932**	**9,992**	**56,912**	**437,515**
Pre-funded Early Retirement costs			87		
Gross Early Retirement Provision			10,079		

Provision for the International Finance Facility for Immunisations (IFFIm) represents the net present value of committed payments to cover the UK share of currently issued bonds. IFFIm is a new international development financing institution that is supported by sovereign donors, each of whom have signed legally binding payment obligations. IFFIm will borrow operating funds in the international capital markets over the next 10 years backed by these pledges. The UK has pledged a total of £1.38bn through to 2026, representing 65% of the total amounts pledged at 31 March 2007. The first 5 year bonds of $1bn were issued in October 2006, with a 5% coupon, giving a total liability of $1.25bn. The UK is therefore liable for $812.5m at 31 March 2007, which will be covered by payment obligations through to 2016.

Provisions for ATP agreements represent sums which DFID is committed to pay to the Export Credit Guarantees Department (ECGD) for interest make-up and insurance premiums under former mixed credit agreements (Aid and Trade Provision) projects. The ATP scheme is effectively closed and will not significantly affect the amount of the provision.

Provisions for early retirement represent the full estimated cost of payments to be made by DFID to early retirees up to the normal retirement age. The timing of calls on the provision can be forecast with reasonable accuracy. The amount provided is uncertain only to the extent that adjustments may need to be made for up-rating of benefits and for unexpected changes in the number of beneficiaries. Amounts provided are likely to be used within at most 10 years.

Other provisions represent:

(a) sums for rents payable by the University of Greenwich for property occupied by a former Executive Agency of the Department, when the work of the Agency was taken over by the University. The rent received is lower than payments by the Department under the main lease. The provision covers the shortfall of rents receivable against rents payable over the main lease period to 2014.

(b) obligation for payment at the end of the main lease term on the lease of the property in (a), in return for which DFID will acquire a lease at a peppercorn rent for a further 74 years. It is expected that the cost of this obligation will be partly offset by the sale of the lease in 2014 to the current occupiers of the property. It is estimated that the net cost to DFID will be £24.8m, which is the amount provided for in these accounts.

(c) certain non-statutory pension obligations (most pension obligations for which DFID is responsible are included in the separate overseas superannuation account).

(d) estimated liabilities at the 31st March of overseas offices in respect of terminal gratuity payments to staff appointed in country.

(e) redundancy liabilities for redundancies agreed at 31st March.

21. General Fund

		2006-07
	£000	£000
General fund at 1 April 2006		**1,722,356**
Net operating costs for the year		(4,713,610)
Net parliamentary funding	4,075,380	
Supply Reissued	3,095	
Debtor for Supply	5,326	
Financing provided		**4,083,801**
Notional costs within operating costs		144,955
Realised element of revaluation reserve		258
Operating income payable to Consolidated Fund		(3,568)
Excess A-in-A payable to the Consolidated Fund		(11,783)
Net (increase)/decrease in General Fund		**(499,947)**
General fund at 31 March 2007		**1,222,409**

22. Revaluation Reserve

	2006-07
	£000
Reserve at 1 April 2006	**834,795**
(Loss)/Gain on revaluation – International Financial Institutions	(59,235)
(Loss)/Gain on revaluation – Land & Buildings	(68)
(Loss)/Gain on revaluation – Furniture and Equipment	227
(Loss)/Gain on revaluation – Vehicles	35
Realised element to General Fund	(258)
Balance at 31 March 2007	**(775,496)**

23. Notes to the Cash Flow statement

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

	2006-07 £000	2005-06 £000
Net Operating Cost	**(4,713,610)**	**(3,891,787)**
Adjustments for non-cash charges	1,353,468	631,590
(Increase)/Decrease in Debtors	(1,198)	38,397
Movement in debtors for items not passing through the OCS	5,326	–
Increase/(Decrease) in creditors	19,433	(27,524)
Movement in creditors for items not passing through the OCS	985	27,556
Working capital movement: capital items	(1,449)	(1,027)
Use of provisions	(13,191)	(14,899)
Draw down of promissory notes	(723,391)	(408,825)
Net cash outflow from operating activities	**(4,073,627)**	**(3,646,519)**

23(b) Analysis of capital expenditure and financial investment

	2006-07 £000	2005-06 £000
Intangible fixed asset additions	(1,553)	(12)
Tangible fixed asset additions	(22,351)	(28,887)
Proceeds of disposal of fixed assets	156	395
Additions to investments	(843)	(6,579)
Additions to loans	(5,396)	(6,036)
Repayment of loans to other bodies	35,164	33,750
Net cash inflow/(outflow) from investing activities	**5,177**	**(7,369)**

23(c) Analysis of Capital Expenditure, Financial Investments and Associated A-in-A

	Fixed assets £000	Investments £000	A in A £000	2006-07 Net total £000
Administration	23,904	–	–	23,904
Programme: Long term loans	–	5,396	(35,164)	(29,768)
Programme: Investments	–	843	–	843
Programme: Investments non cash	–	–	–	–
Programme: CDC	–	–	–	–
Other Receipts	–	–	(156)	(156)
Total	**23,904**	**6,239**	**(35,320)**	**(5,177)**
Excess A in A to be surrendered to the Consolidated Fund			8,755	
Non Operating A in A (Note 4)			(26,565)	

23. Notes to the Cash Flow statement (continued)

23(d) Analysis of financing, and reconciliation to the net cash requirement

	2006-07 £000	2005-06 £000
From the Consolidated Fund (Supply) – Current Year	4,075,380	3,637,819
From the Consolidated Fund (Supply) – Prior Year	–	–

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

	2006-07 £000	2005-06 £000
Net cash requirement	(4,083,801)	(3,673,417)
From the Consolidated Fund (Supply) current year	4,075,380	3,637,819
Amounts due to the Consolidated Fund – received in a prior year and paid over	(10,083)	(4,877)
Amounts due to the Consolidated Fund – received and not paid over	410	603
Amounts due to the Consolidated Fund – Excess A-in-A	11,783	9,480
Decrease in cash	**(6,311)**	**(30,392)**

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

Capital Employed by Departmental Aim and Objectives at 31 March 2007

Aim	**2006-07 £000**	**2005-06 £000**
1. Africa	(658)	3,495
2. Asia	(468)	2,390
3. Europe, Central Asia and elsewhere	(177)	849
4. Impact of multilateral agencies	1,999,385	2,549,296
5. Evidence based policy	(39)	423
6. Other and unclassifiable	(138)	698
TOTAL	**1,997,905**	**2,557,151**

Capital employed has been directly allocated to aims where there is a clear relationship between the capital employed and the departmental aim. Where this has not been possible, capital employed has been allocated in proportion to gross expenditure.

25. Financial instruments

Bilateral and other loans include gross principal amounts denominated in Euro of £222 million (2005-06: £261 million).

Financial Liabilities: Interest and currency risk	**2006-07**	**2005-06**
	£000	**£000**
	No interest	No interest
Sterling	801,167	688,067
Euro	11,716	20,055
US Dollars	1,095	1,240
Total	**813,978**	**709,362**

26. Capital Commitments

	2006-07	**2005-06**
	£000	**£000**
Contracted capital commitments at 31 March 2007 for which no provision has been made.	12,808	17,023

27. Commitments Under Operating Leases

	2006-07	**2005-06**
	£000	**£000**
Payments due within 12 months on leases expiring:		
Within 1 year	2,385	3,226
After 1 year but not more than 5 years	4,507	11,009
After 5 years	12,427	4,954
Total	**19,319**	**19,189**

28. Contingent Liabilities

Contingent liabilities with an approximate value of £1.1 million (2005-06: £1.1 million) exist in respect of guarantees to the European Investment Bank's lending to UK Overseas Territories. Additional contingent liabilities of £1,087 million (2005-06: £1,497 million) exist in respect of contributions due to international organisations which have been subject to formal approval by Parliament but which are not yet supported either by promissory notes or cash payments.

In addition to contingent liabilities disclosed above in accordance with FRS 12, the department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These amount to £6,534.6 million (2005-06: £7,227.9 million) and comprise:

£6,525.9 million (2005-06: £7,216.6 million) in respect of guarantees, including callable capital, to international banks, financial institution, and for contractor performance;

Maintenance of the value of subscriptions paid to capital stock of regional development banks and funds (unquantifiable);

Indemnities in respect of the transfer of ownership of the Natural Resources Institute (unquantifiable);

£8.70 million (2005-06: £11.33 million) in respect of other items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement.

29. Related Party Transactions

DFID is the 100 per cent shareholder in CDC Group plc. DFID had no material transactions with CDC during the year.

DFID has a 40 per cent interest in Actis llp. Actis manages loans on behalf of DFID (Note 15) for which Actis received fees of £0.890 million (2005-06: £1.174 million).

In addition DFID has had a number of transactions with other Government Departments and other Central Government bodies, including the National Audit Office (NAO). Most of these transactions have been with the Foreign and Commonwealth Office.

During the year DFID entered into the following transactions with the Law & Development Partnership Limited, a company in which the wife of a DFID director is the sole owner:

Purchase of consultancy services totalling £62,020.

All such transactions were undertaken at arms-length, and procedures are in place to ensure that any potential conflict of interest is dealt with in line with the Civil Service Management Code issued by the Cabinet Office.

30. Accountability Notes

	2006-07	2005-06
	£000	£000
Total – 137 cases (2005-06: 214 cases)	646	10,827
Losses		
Total – 96 cases (2005-06: 162 Cases)	597	10,220
Fruitless payments and constructive losses		
Total – 30 cases (2005-06: 36 cases)	17	36
Claims waived or abandoned		
Total – 2 cases (2005-06: 1 case)	1	1
Special Payments		
Total – 9 cases (2005-06: 15 cases)	31	570

There were no individual cases greater than £250,000 during the year.

Audited statements are required from overseas Governments to cover advances.
Final audited statements that were due to be certified covering issues totalling £nil (2005-06 £13.79 million) had not been certified at 31 March 2007.

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