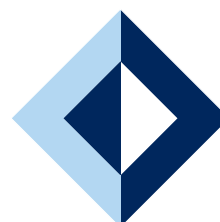


Northern Ireland Prison Service

**ANNUAL REPORT
AND ACCOUNTS
2005/06**

July 2006



NORTHERN IRELAND
PRISON SERVICE

Northern Ireland Prison Service Annual Report and Accounts 2005/06

Presented to Parliament in accordance with the Northern Ireland (Modification of Enactments No.1) Order 1973 (S.I, 1973 No.2163), modifying section 5 of the Prison Act (Northern Ireland) 1953.

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DIRECTORS' REPORT

History and Statutory Background

The Northern Ireland Prison Service (the Agency) was established as an Executive Agency of the Northern Ireland Office (NIO) in April 1995 under the Government's Next Steps Initiative. The Agency operates under the control of the Secretary of State for Northern Ireland, within a statutory framework governed by the Prison Act (Northern Ireland) 1953 and the Prison and Young Offenders Centre Rules (Northern Ireland) 1995.

Aims and Objectives

The Northern Ireland Prison Service is responsible for providing prison services in Northern Ireland. The Agency is a major component of the wider criminal justice system and contributes, alongside other partners, to achieving the system's overall aims and objectives such as supporting the political process, increasing public confidence in the criminal justice system in Northern Ireland and assisting progress towards a normal peaceful society. The Agency aims, through its staff, to serve the community by keeping in secure, safe and humane custody those committed by the courts. It seeks to work with prisoners and other organisations to reduce the risk of re-offending; and in so doing aims to protect the public and contribute to peace and stability in Northern Ireland.

Management

The Northern Ireland Prison Service is headed by a Director General who is supported by a Management Board consisting of three Executive Directors, one Associate Director and two Non-Executive Directors, and the Governing Governor of each of the Agency's three operational establishments.

The Agency's Management Board is responsible for the strategic and business management of the Agency's operations. At 31 March 2006, the Management Board was as follows:

Robin Masefield CBE - Director General

Douglas Bain - Director of Services

Max Murray - Director of Operations

Mark McGuckin - Director of Finance & Personnel

Dr Philip McClements - Associate Director of Health & Healthcare

Alan Longwell - Governing Governor, Maghaberry Prison

Alan Craig - Governing Governor, Magilligan Prison

Steve Davis - Governing Governor, Hydebank Wood YOC & Prison

Sid McDowell CBE - Non-Executive Director

Ruth Laird - Non- Executive Director

Mark McGuckin replaced Pauline Shepherd as Director of Finance & Personnel on 13 June 2005. Ruth Laird was appointed as a second Non-Executive Director on 12 September 2005. Douglas Bain left the Prison Service on 12 May 2006.

Alan Longwell, Alan Craig & Steve Davis were appointed to the Management Board with effect from 1 April 2005.

Appointments to the Management Board (except for the Associate Director of Health & Healthcare and the Non-Executive Directors) are made in accordance with the Civil Service Commission's general regulations.

Details of the salary and benefits of the Management Board Members are disclosed in the Remuneration Report on pages 6 to 10.

Board Members Interest

Details of all Board Members' interests which may conflict with their management responsibilities are disclosed in Note 22 of the financial statements on page 49.

Business Review & Future Developments

The total net operating cost for the year was £130,956k (2004-05, £115,495k). A full review of the business during the year and its future development is set out in the Operating & Financial Review on pages 11 to 21, and in the Agency's Corporate and Business Plan 2006-2009.

Pension Liabilities

The Northern Ireland Prison Service makes employer contributions to the following pension schemes:

Principal Civil Service Pension Scheme GB

Principal Civil Service Pension Scheme NI

Details of the pension arrangements of the above schemes are disclosed in the Remuneration Report.

Equality

Section 75 of the Northern Ireland Act 1998 requires public authorities to promote equality of opportunity and good relations. These duties are designed, in particular, to ensure that equality issues are integral to the whole range of public policy decision making. The NIO, which includes the Prison Service, has submitted its Equality Scheme to the Equality Commission for Northern Ireland. The Prison Service is fully committed to the Equality Scheme and will ensure that appropriate training is delivered to staff.

The average number of disabled persons employed during the year was 59.

Employee Consultation

The Northern Ireland Prison Service recognises the importance of good industrial relations and is committed to effective employee communications. Regular meetings are held with representatives of trade unions.

Health & Safety

The Northern Ireland Prison Service is committed to providing for staff, prisoners and visitors an environment that is as far as possible safe and free from risk to health. In line with this commitment, the Agency complies with the relevant health & safety legislation.

Charitable Donations

There were no charitable donations made by the Northern Ireland Prison Service during the year.

Payment of Suppliers

In line with the Better Payment Practice Code, the Agency's policy is to pay all invoices not in dispute within 30 days or agreed contractual terms if otherwise specified.

During the year ended 31 March 2006 the Agency paid 96.8% (2004-05, 94.6%) of all invoices received within the terms of its payment policy.

Accounting Responsibilities

The Agency's financial statements have been prepared in accordance with a direction issued by Treasury in pursuance of Section 7(2) of the Government Resources and Accounts Act 2000.

Audit

The financial statements are audited by the Comptroller and Auditor General (C&AG) who is appointed by statute and reports to Parliament on the audit examination. His certificate and report is produced at pages 30 and 31.

The Director General has taken appropriate steps to make himself aware of relevant audit information and to establish that the C&AG is aware of that information.

The notional audit fee for the work performed by the staff of the C&AG during the reporting period and which relates solely to the audit of these financial statements was £42k. The C&AG may also undertake other statutory activities that are not related to the audit of the Agency's financial statements such as Value for Money reports. No such activity took place during the year.

Robin Masfield
20 June 2006

MANAGEMENT BOARD REMUNERATION REPORT

Remuneration of the Management Board

The Northern Ireland Prison Service does not have a remuneration committee. As civil servants, the remuneration of executive senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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 public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- The funds available to departments as set out in the Government's departmental expenditure limits;
- The Government's inflation target.

The review body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com

The remuneration of the Governing Governors on the Management Board is set by the Prison Service Pay Review Body. In reaching its recommendations, the Review Body has regard to the following considerations:

- Treasury's focus in Northern Ireland to reduce the cost per prisoner place;
- The Government's modernisation agenda.

The remuneration of the Non-Executive Directors is determined by the Director General taking account of guidance issued by Office of the First Minister & Deputy First Minister on the appointment of independent Non-Executive Directors.

The amount paid for the services of the Associate Director of Healthcare is a percentage of his salary as a consultant employed by the Royal Hospitals Trust which is determined by the Review Body on Senior Salaries.

Service Contracts

Civil Service contracts are made in accordance with the Civil Service Commissioners' Recruitment Code which requires appointment on merit on the basis of fair and open

competition but also includes circumstances when appointments may otherwise be made. Unless otherwise stated, the individuals covered by this report hold appointments which are open-ended until they reach normal retiring age. Early termination other than for misconduct would result in the individual receiving compensation as set out in the Civil service Compensation Scheme.

Philip McClements was appointed as Associate Director of Healthcare on a non-fixed term contract on 1 January 2003 which will run until the responsibility for Healthcare is transferred to the Department of Health & Social Services & Public Safety during the 2007-2008 financial year.

Sid McDowell was appointed as a Non-Executive Director on a three year contract on 1 December 2004. Ruth Laird was appointed as a Non-Executive Director on a three year contract on 12 September 2005.

Bonuses

Non-consolidated bonuses are payable to Senior Civil Servants to reward in-year performances in relation to agreed objectives, or short term personal contribution to wider organisational objectives.

Non-consolidated bonuses are payable to the Governing Governors on the Management Board to reward exceptional performance based upon recommendation by the Director of Operations and countersigned by the Director General.

Salary

As Non-Executive Directors, Sid McDowell CBE received total remuneration of £6,500 (2004-05, £1,364 from 1 December 2004) and Ruth Laird received total remuneration of £3,394 from 14 September 2005 (2004-05, £nil).

An amount of £41,479 (2004-05, £40,273) was paid to the Royal Victoria Hospital, Belfast in respect of Dr McClements' role as Associate Director of Health & Healthcare.

The salary and pension details of the remainder of the Management Board for 2005-06 are disclosed in the Table below. Salaries include gross salaries and any allowances or performance bonuses payable. The salary range reflects remuneration for the months in office. The Agency did not make any contributions to a Board Member's partnership pension account nor did it pay any compensation or make any award to former members of the Management Board.

Director General

The Director General received total remuneration excluding pension contributions of £91,377 (2004-05, £22,121 – from 1 December 2004). The Director General is an ordinary member of the Principal Civil Service Pension Scheme (GB).

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Robin Masefield CBE received living accommodation and associated housing costs provided at public expense. The tax payable on this benefit was also paid by the NIO.

Pensions

Pension benefits are provided through the Principal Civil Service pension arrangements. From 1 October 2002, civil servants may join 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 Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

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 1st 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).

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

Cash Equivalent Transfer Value

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

Real Increase in CETV

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

Robin Masefield
20 June 2006

Salary & Benefits of full time executive members of the NI Prison Service Management Board for the 2005-06 Financial Year

Board Members	Salary & allowances	Benefits in Kind ¹	Real increase in pension & related lump sum ²	Total accrued pension and related lump sum at 31 March 2006 ²	CETV at 31 March 2005 or at date of joining ²	CETV at 31 March 2006 or at date of leaving ²	Real increase in CETV after adjustment for inflation and changes in market investment factors ²	Employer contribution to partnership pension account including risk benefit cover
	£'000	£	£'000	£'000	£'000	£'000	£'000	£'000
Robin Masefield Director General	90-95k (20-25k)*	5,700 (3,800)	2.5-5.0k and 7.5-10.0k lump sum	35-37.5k and 110-115k lump sum	545	746	63	-
Douglas Bain Director of Services	80-85k (70-75k)	-	0-2.5k and 2.5-5.0k lump sum	32.5-35k and 100-102.5k lump sum	588	752	27	-
Max Murray Director of Operations	75-80k (40-45k)*	-	0-2.5k and 5.0-7.5k lump sum	25-27.5k and 77.5-80k lump sum	380	444	34	-
Pauline Shepherd Director of Finance & Personnel (until 11 May 2005)	5-10k* (50-55k)	-	0-2.5k and 0-2.5k lump sum	17.5-20k and 52.5-55k lump sum	203	270	1	-
Mark McGuckin Director of Finance & Personnel (from 13 June 2005)	45-50k* (-)	-	0-2.5k and 2.5-5.0k lump sum	22.5-25k and 72.5-75k lump sum	302	350	31	-
Alan Longwell Governing Governor	85-90k (-)	-	0-2.5k and 5.0-7.5k lump sum	15-17.5k and 47.5-50k lump sum	172	206	-	-
Alan Craig Governing Governor	65-70k (-)	-	0-2.5k and 0-2.5k lump sum	22.5-25k and 67.5-70k lump sum	382	407	12	-
Steve Davis Governing Governor	60-65k (-)	-	0-2.5k and 5.0-7.5k lump sum	12.5-15k and 42.5-45k lump sum	158	189	24	-

1 The estimated monetary value of benefits in kind covers any benefits provided and treated by Revenue and Customs as taxable income. The net benefits in kind shown above are in respect of detached duty allowances and expenses, on which the tax payable is met by the Department. The above amounts exclude benefits in kind arising from payments under the Assisted Home Removals Scheme as a result of the October 2002 Security Breach.

2 Excludes consolidation of Governor Allowances, effective 1 April 2006.

* indicates that the individual was in post for part of year only. 2004-05 amounts are bracketed.

FINANCIAL AND OPERATING REVIEW

Financial Review

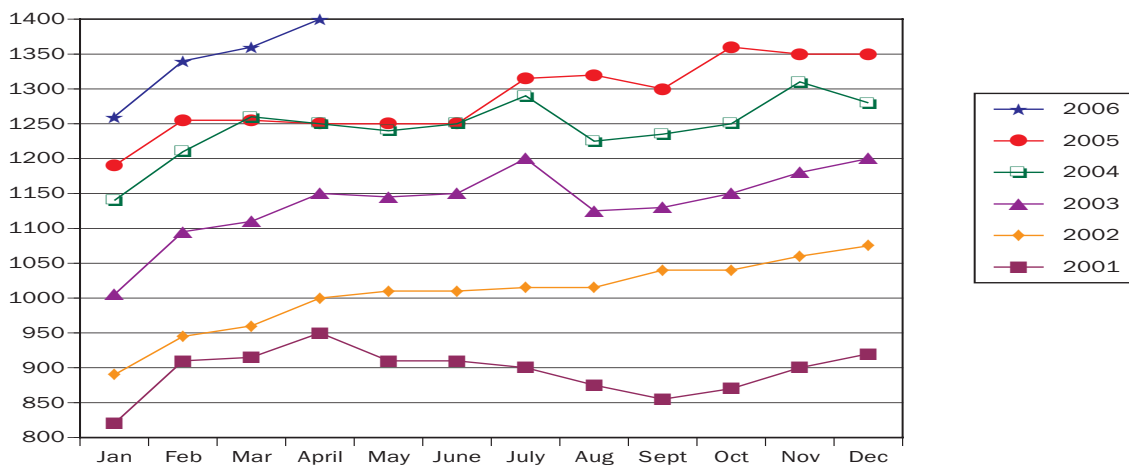
Financial Provision & Cash Flow

The Prison Service is financed as part of the overall Northern Ireland Office (NIO) Departmental Expenditure Limit voted by Parliament. The total cash requirement for the year from NIO was £126,488k (2004-05, £121,746k).

Prisoner Population

The NI Prison Service held on average through 2005/06 a total of 1328 prisoners, representing an increase of 4% in prisoner population over the same period last year. The growth in prisoner numbers impacted consistently across the prison estate leaving most establishments now at or close to operational capacity. Prisoner population has increased by 43% in the last five years.

Prison Population 2001-2006



Capital Costs

During the year the NI Prison Service invested further in its prison estate and infrastructure incurring £10,300k (2004-05, £11,890k) in expenditure on capital assets. Details of the movement of fixed assets are set out in Notes 8 and 9 to the financial statements.

Major capital projects progressed during 2005/06 include the refurbishment of female accommodation at Hydebank Wood, the upgrade of prisoner workshop facilities and the visitors centre at Maghaberry and the roll out of a computerised Prisoner Record and Information Management System (PRISM) across establishments.

Resource Costs

The net cost of operations for the year as shown in the Operating Cost Statement on page 32 is £130,956k (2004-05, £115,495k). The Prison Service incurred expenditure during the year as follows:

Operating Costs	2005/06 £k	2004/05 £k
Staff Costs	86,678	82,237
Net Running Costs	26,693	24,021
Depreciation	9,842	8,531
Finance Charges	5,478	4,800
Impairment of fixed assets	(358)	912
Operating Expenditure	128,333	120,501
Consolidation Governor allowances	1,100	-
Billy Wright Inquiry Costs	456	-
Staff Reduction Programme	59	47
Prison Service Trust Grant	240	237
Security Breach Provision	160	(5,629)
Prisoner Ombudsman costs	608	339
Net Operating Costs	130,956	115,495

Operating Expenditure increased by £7,832k (6.5%) during 2005/06 principally underpinned by the additional costs associated with the growth in prisoner numbers, higher employer pension contribution rates as determined by the Government Actuary and the revaluation of capital assets by the Valuation & Lands Agency. Movements in Operating Costs are explained in the notes to the accounts.

Cost per Prisoner Place

The Northern Ireland Office Public Service Agreement sets out the targets the Department will deliver in return for the resources it has been allocated. Performance target No 4 of the NIO Public Service Agreement states that the Department will provide a cost effective Prison Service, by ensuring that the annual cost per prisoner place in Northern Ireland falls to £82,500 by 2007-08. Interim targets have also been set for 2005/06 and 2006/07 of £86,290 and £85,250 respectively. The actual Cost per Prisoner Place in Northern Ireland over 2005/06 was £85,900.

	2005/06 Actual	2005/06 Target
Operating Expenditure (£k)	128,333	137,028
Prisoner places (C N A)	1,494	1,588
Cost per Prisoner Place (£)	85,900	86,290

OPERATING REVIEW

History and Statutory Background

Details on the history and statutory background of the Northern Ireland Prison Service can be found in the Directors' Report section of this document.

Structure and Location

The Service currently has three operational establishments:-

Maghaberry Prison – a high security prison housing adult male long-term sentenced and remand prisoners, both in separated and integrated conditions. The Governor also has responsibility for a facility in Belfast for prisoners nearing the end of their sentence and male immigration detainees held on behalf of the Immigration and Nationality Directorate.

Magilligan Prison – a medium security prison housing shorter term sentenced adult male prisoners which also has low security accommodation for selected prisoners nearing the end of their sentence.

Hydebank Wood Young Offenders Centre and Prison – separately accommodating male remand and sentenced young offenders and adult female prisoners, female young offenders and female immigration detainees.

A staff training facility, the Prison Service College, is located at Millisle, Co Down.

Prison Service Headquarters is situated on the Stormont Estate.

Business Objectives and Strategy

Statement of Purpose, Vision and Values

The Prison Service has a Statement of Purpose, a Vision and a set of Values.

The Northern Ireland Prison Service, through our staff, serves the community by keeping in secure, safe and humane custody those committed by the courts; by working with prisoners and with other organisations seeks to reduce the risk of re-offending; and in so doing aims to protect the public and to contribute to peace and stability in Northern Ireland.

The Vision

To be recognised as a model of good practice in dealing with prisoners and to be valued and respected for our service to the community.

Values of the NI Prison Service

- Recognising that the Service requires **commitment** of us all;
- **Leading** well and behaving with **integrity**;
- Upholding prisoners' **human rights** and working with them as **individuals** to become law-abiding;
- Ensuring that we each have the required **skills** and **competences**;
- Accepting **responsibility** and **accountability**;
- Managing resources, including our time, **cost-effectively**;
- Showing an **innovative** approach to our work;
- **Teamworking** and acting in **partnership** with other organisations;
- Demonstrating a commitment to **fairness**, **equality** and **respect** for each other and those we are in contact with.

Strategic Aims 2005/06

Security

To maintain a proportionate level of security for all those in our custody, whether in a prison establishment, at court or elsewhere.

To integrate security management to inform better and support the safety of all the people in our prisons.

Safety and Prisoner Health

To maintain a humane and caring environment where all persons are safe and to promote and improve the health and social well being of all.

Regimes and Reducing Re-offending

In partnership with other criminal justice organisations and an increasing range of social agencies in both statutory and voluntary sectors, to assist family re-integration and help reduce re-offending by providing prisoners with relevant skills, activities, services and resettlement programmes. To remain committed in particular to working in partnership with the Probation Board (PBNI) and other statutory and voluntary agencies.

Staff and Developing the Service

At all Prison Service locations:

To have the right number of staff on duty at the right time and deployed effectively;

To develop staff, equipping them with the right skills to do their job;

To maximise staff attendance, promoting and supporting staff welfare, health and morale;

To have effective employee relations;

To continue to develop a workforce plan to meet staffing needs and reduce costs.

Finance, Corporate Governance and Improving Business Performance

To improve value for money, and reduce the cost per prisoner place;

To improve business performance and awareness of costs and outputs by internal and external benchmarking;

To increase the professionalism and use of best practice in support functions;

To continue to rationalise and use IT in support of business gains;

To develop the Prison Service estate in line with business and strategic need.

Performance against Key Targets

Key performance targets are identified for each core element of the Prison Service's key business areas. These are reviewed annually as part of the Service's planning process and following approval, by the Northern Ireland Office Departmental Sponsor and the Minister responsible for Prisons, are published in the Prison Service Corporate and Business Plan.

The Service met 10 of the 11 key performance targets. A comprehensive programme of development objectives was also set for the Service and of these 17 were achieved, 16 partially met and substantial progress made towards meeting the remaining 5. The targets and outturns for the year 2005/06 are detailed in the table that follows.

KEY BUSINESS AREA	KEY TARGETS	OUTTURN
SECURITY	No escape for top and high-risk prisoners.	Not met – On 7 June 2005, a high risk prisoner escaped from the custody of Maybin Security Services at Lisburn Magistrates Court.
	No more than 3 escapes per 1000 medium and low risk prisoners.	Met – No escapes in this category.
SAFETY	The number of staff assaulted by prisoners is less than a ratio of 3 per 100 prisoners.	Met – Outturn for the year was 0.5%.
	The number of prisoners assaulted by prisoners is less than a ratio of 4 per 100 prisoners.	Met – Outturn for the year was 0.4%.
REGIMES AND REDUCING RE-OFFENDING	An average of at least 20 hours constructive activity per week for each sentenced prisoner.	Met – 20.3 hours per week achieved.
	An average of at least 10 hours constructive activity per week for each remand prisoner.	Met - 13.5 hours per week achieved.
	To ensure 87% of prisoners serving six months or more are working to a resettlement plan and that 97% of lifers work to a resettlement plan, including preparation of the plan, in the first six months from sentence.	Met – Outturn of 94% for determinate prisoners. Met – Outturn of 98.9% for life sentence prisoners.
STAFF AND DEVELOPING THE SERVICE	Each member of staff should receive an average of 5 training days.	Met – The actual average training days delivered was 5.9 per member of staff.
	Reduce the rate of absenteeism across the Service by 10%.	Met – A total of 14.2 days per officer was achieved, bettering target of 14.5 days.
FINANCE, CORPORATE GOVERNANCE AND IMPROVING BUSINESS PERFORMANCE	Ensure the average cost per prisoner place does not exceed £86,290.	Met – The actual cost per prisoner place in 2005/06 was £85,900.
	Lay the Annual Report and Audited Accounts before Parliament prior to the summer recess.	Met – The 2004/05 Annual Report and Accounts were laid in Parliament on 19 July 2005.

Business Review

A full review of the Prison Service's business for the year is provided in a separate document "The Northern Ireland Prison Service Annual Review 2005/2006".

Corporate Social Responsibility

The Northern Ireland Prison Service is committed to operating in a socially, ethically and environmentally responsible manner in every aspect of its business activities.

Employee Policy and Performance

Through the Strategic Development Programme the Service is committed to examining the role of officers to progress from the traditional focus on control and supervision towards positive engagement with prisoners in delivering better prospects for resettlement. Crucial to success is having committed and motivated staff in place with the right skills. Therefore, the Service aims to align personnel policies with key business drivers and to have in place effective arrangements for selecting and developing staff and for managing their performance. The Service is currently developing strategies and policies to embrace diversity both in wider society and more openly within the workplace.

Environment Policy and Performance

The Prison Service has begun the preparation of an environment policy and actively takes steps to reduce energy and water consumption as well as using recycled materials where possible, to minimise its effect on the local and global environment. It is also committed to the safe disposal of all hazardous or environmentally damaging substances and has adopted a sustainable transport policy.

Social and Community Policy and Performance

In working towards its purpose of protecting the public by reducing the risk of re-offending, the Prison Service places considerable emphasis on its civic role and its position in the wider Criminal Justice system. Through various initiatives it is working to promote wider understanding and contribute to greater confidence in the criminal justice system.

Prison staff make a significant contribution through their outreach work and commitment to the Prison Me – No Way programme in schools and youth clubs across Northern Ireland. Also, the Service is engaging with bodies and organisations within the community to develop relationships and partnerships through which it can work to enable individual offenders to understand the impact of their offences on others and also to appreciate the effect on the wider civic community. A further example of the developing partnership approach is the proposed new arrangements for healthcare services, through which the Prison Service will work in partnership with Health & Personal Social Services Trusts. The aim is to improve the delivery through shared responsibility and to be able to deal holistically with vulnerable and dangerous individuals who may be at risk of harming themselves or others.

Future Development

Investment to improve future performance

The Prison Service recognises the need for long-term strategic plans and continuous improvement for the effective management of the prisoner population and the development of the prison estate.

The unique and difficult operating conditions of the past 30 years have constrained the Service in developing the estate and its functions in a way conducive to positive reintegration of prisoners back into the community and to reducing re-offending on release.

Current conditions, including the continuing peace process in Northern Ireland, the prospect of a restored local assembly and recent criminal justice measures, have provided the Service with the opportunity to take a fresh look at the prison estate and its core business to ensure that the way people are held in custody better meets the expectations of the courts, respects their human rights and takes forward the agenda to reduce re-offending.

Prison Service Management has developed a holistic long-term strategy for the Service. This will include recruiting and deploying its staff more representatively and more efficiently to provide for the full range of prisoner engagement and supervision responsibilities, reducing costs and structuring the prison estate to meet the expected prisoner population trends for the next 10-15 years. This will be achieved through a range of measures including:-

- a Human Resource Strategy,
- a Prison Service Estate Strategy,
- a review of prisoner security classifications, and
- a learning and skills strategy.

Strategies and Objectives

Further details on the Blueprint for the Future Development of the Service along with key targets and development objectives can be found in the Northern Ireland Prison Service Corporate and Business Plan 2006-2009. This may be accessed on the Prison Service website – www.niprisonservice.gov.uk

Corporate Governance

Prison Service Management Board

The Prison Service Management Board is committed to high standards of corporate governance. The Director General, as Accounting Officer, is responsible for maintaining a sound system of internal control that supports the achievement of the Service's key targets and objectives.

As provided for in the Prison Service Framework Document the Management Board's purpose is to support the Director General in his day to day responsibilities. The Board which comprises the Director General, three executive Directors, one Associate Director of Health and Healthcare, three Governing Governors and two Non-Executive Directors meets monthly to focus on the following corporate areas:-

- Strategy,
- Operational and other policies,
- Planning, Financial Management and Priority Setting,
- Corporate Performance Monitoring including the use of human and other resources,
- Risk Management and Corporate Governance.

In addition strategic planning seminars are held to consider these issues in more depth.

Since September 2005 the Board includes two non-executive directors who offer constructive challenge across all the Board's business and ensure that all aspects of strategy and delivery of policy are scrutinised for effectiveness and efficiency.

Corporate Compliance Committee

During the year the Corporate Compliance Committee, chaired by Sid McDowell, Non-Executive Director, met three times. The Committee is a sub-committee of the Management Board and provides support to the Accounting Officer in monitoring the corporate governance and control systems in place, testing and challenging the assurance provided to the Accounting Officer and the way in which these assurances are developed. The Committee considers and reports to the Accounting Officer and the Board on the adequacy of risk management and internal control through reviewing:-

- the mechanisms for providing assurance on risk, control and governance and the Statement of Internal Control,
- the accounting policies and the accounts of the organisation,
- the planned activity and results of both internal and external audit,
- adequacy of management response to issues identified by audit activity,
- assurances relating to the corporate governance requirements for the organisation.

At meetings during 2005/06 the Committee received:-

- reports on improvements to the Service's risk registers and internal controls,
- reports from the Head of Internal Audit,
- reports from the Northern Ireland Audit Office.

Risk Management

The Northern Ireland Prison Service has a risk management strategy to, at the appropriate level, identify, evaluate and assign ownership of risks to all areas of activity. These risks are incorporated in a risk matrix which assesses impact and likelihood and assigns ownership. External risks, which would affect the ability of the Service to conduct its business effectively, are identified and managed by the Management Board. Risks to the Service's key targets are also managed at Board level and actions reviewed regularly.

Regulatory risk

Under the delegated authority of the Secretary of State for Northern Ireland the Northern Ireland Prison Service is responsible for the general regulation and control of prisons in Northern Ireland.

The Prison Service operates within a robust regulatory framework of statutory and non-statutory measures. The Prison Act (Northern Ireland) 1953 and the Prison and Young Offenders Centre Rules 1995 are the principal elements of the legislative framework for the Prison Service. The management of specific regulatory risk within this framework is the responsibility of the Prison Service Management Board.

The Northern Ireland Prison Service policies are developed through an open and inclusive process and an integrated system of impact assessments and appraisal tools are used to determine the response needed to each of the issues identified.

Business performance risk

Business performance risk is the risk that the Service's objectives at Directorate and Establishment level may not be achieved due to obstacles or potential difficulties either within or outside the control of the Service. To minimise the detrimental impact of these events occurring, risks are managed within each of the business area risk frameworks.

Health and safety risk

The Management Board is committed to developing and improving a safe working environment for both staff and inmates. The health and safety risks arising from operations continue to be monitored and managed by senior management through, the strong promotion of a health and safety culture, well defined risk assessments and safety policies in place at all establishments. The Prison Service Management Board receives a Health and Safety Annual Report.

Management Development

The Service's long term success in achieving its objectives will depend in large part on the effectiveness of leaders and managers throughout the organisation. Therefore, particular focus is being given to how to identify and nurture talent. A Management Development Scheme is being developed for prison grades with the aim of better enabling talented staff to

assume future leadership roles. The Service will also more widely be conducting a skills analysis and drawing up programmes to address skills gaps identified.

Work will also be taken forward to identify other opportunities of further enhancing leadership and management skills through, for example, developmental projects, interchange, mentoring and secondments.

**NI Prison Service
Financial Statements
for the year ended
31 March 2006**

Statement of Agency's and Director General's Responsibilities

- (i) Under Section 7 of the Government Resources and Accounts Act 2000, Treasury has directed the Northern Ireland Prison Service Agency to prepare a statement of account for the financial year ended 31 March 2006 in the form and on the basis set out in its accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.
- (ii) In preparing the accounts the Agency is required to:
- Observe the accounts direction issued by 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 have been followed and disclose and explain any material departures in the financial statements;
 - Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.
- (iii) The Accounting Officer of the Northern Ireland Office has designated the Director General of the Northern Ireland Prison Service as the Accounting Officer for the Agency. The relevant responsibilities as Agency Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by Treasury.

STATEMENT OF INTERNAL CONTROL

1. Scope of responsibility

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

I am accountable for the effective, efficient and economic use of resources provided to the Prison Service, for the regularity and propriety of its expenditure, and for ensuring that the requirements of Government Accounting are adhered to.

2. The purpose of the system of internal control

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

3. Capacity to handle risk

As a Prison Service, management of risk is central to our operational activities at every level. The Accounting Officer, Directors and Governing Governors are accountable for risk management within their areas of responsibility and throughout the Service active management of risk is an ongoing daily activity. The Prison Service Management Board drives the risk management process and key risks to the Service are reviewed by the Board on a quarterly basis and consideration given to emerging risks. The review process involves assessing the effectiveness of the systems in place to manage the risks and the extent to which the Service has control over the risks.

Risk management is also considered and discussed within the planning process at both Corporate and Branch/Establishment planning days.

During 2005/06 Risk Management workshops were rolled out to each of the Prisons and a Prison Service risk management toolkit made available to staff.

4. The risk and control framework

The Prison Service has in place a risk management strategy, which identifies, evaluates and assigns ownership of risks attached to all areas of business activity. Risks are incorporated in a risk matrix, which assesses impact/likelihood and assigns ownership. Risk assessments are held centrally and inform the overall Prison Service risk register.

External risks, which could affect the ability of the Prison Service to conduct its business effectively, are identified by the Management Board. The risks are assigned to a risk owner at Director level and then managed to avoid or minimise any potential impact.

Risks to the Corporate and Business plan key targets are identified and managed at Management Board level. The Service submits a quarterly performance report detailing targets, objectives and their associated risk assessments to both the Northern Ireland Office Departmental Sponsor and the Minister.

Risks to the Service's development objectives and to Establishments' strategic plans are managed across the Service.

Heads of Branch and Heads of Management Support Services undertake risk management in all areas of activity. Project risks are identified and managed by the Project Manager and are reviewed by the Project Board. The Management Board determines appetite for risk on a project-by-project basis.

5. Review of effectiveness

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

I have established the following processes to maintain and review the effectiveness of the system of internal control and risk management:

- A Management Board which meets monthly to consider the policies and strategic direction of the Service and to monitor performance against key targets and financial expenditure. The Board comprises the Director General, the three Agency Directors, the Associate Director of Health and Healthcare, the two Non-Executive Directors and the three Governing Governors. The monitoring and review of the key risks associated with the ability of the Service to conduct its business is included as a regular item on the Board agenda.

- Each year key performance targets are set by the Minister and performance against these is reviewed by the Management Board at their monthly meeting.
- Executive members of the Board meet weekly to discuss operational and other issues and the associated risks.
- Mid and end year stewardship statements are completed by each of the Directors, Governing Governors and Heads of Branches covering the key areas for which they are responsible. They provide confirmation that all necessary steps required to implement effective internal control have or have not been taken during the course of the financial year.
- A Fraud Policy and Response Plan is in place. It is reviewed annually.
- The Prison Service Framework Document, which outlines the Service's relationship with the Northern Ireland Office, its accountability to Ministers and Parliament, its financial framework and planning, and staff responsibilities was updated and published in December 2005. This process happens every five years.
- The Corporate Compliance Committee which is chaired by a Non-Executive Director met three times during the 2005-2006 financial year. The Committee advises on the adequacy of corporate governance arrangements including internal and external audit, risk management and standards compliance. The CCC endorses Internal Audit plans and reviews reports from both Internal and External Audits. In line with government priorities the NIAO is represented at all CCC meetings.
- An Internal Audit Unit operating to the Government Internal Audit Standards covers the Agency. Internal Audit submit regular reports, including the Head of Internal Audit's independent opinion, on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement. An annual meeting with the Head of Internal Audit is held to discuss the audit programme and emerging issues.
- The Service has an Integrated Standards Programme, which is designed to provide staff with the information they require to carry out their work. Alongside this programme is an integrated audit system that measures performance against these standards. Trained staff conduct the audits and provide regular reports on their activities. Standards are published on the Prison Service website.
- Annual audits of Health and Safety and Fire Prevention are carried out to ensure compliance with Health and Safety standards within the Agency.
- A system for developing Clinical Governance within the Agency has been endorsed by the Prison Service Management Board and a clinical governance manager was appointed to take up post on 1 April 2006.

- The Service has adopted the OGC Gateway Review process to assist in the management of risk on ongoing procurement projects.
- The Strategic Development Programme – Blueprint - is being undertaken in line with PRINCE 2.
- All projects are required to apply appropriate elements of PRINCE 2 methodology and every project has a Senior Responsible Owner.
- The Service has revised its policy on the acceptance of gifts and hospitality.
- The Service complies with NIO guidance on the use of consultants.
- A register is in place to record conflicts of interest.
- The Prison Service operates a Procurement Policy in line with European Procurement Rules and other national and international agreements.

Robin Masfield
Accounting Officer
20 June 2006

Northern Ireland Prison Service Agency

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

I certify that I have audited the financial statements of the Northern Ireland Prison Service for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Director General and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of the Management Board Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 26 to 29 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Management Board Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Director General in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency'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 Management Board Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Management Board Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the net cost of operations, recognised gains and losses and cashflows of the year then ended;
- the financial statements and the part of the Management Board 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
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

Date: 3 July 2006

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

OPERATING COST STATEMENT

For the Year Ended 31 March

	Notes	2006 £'000	2005 £'000 restated (Note 1)
Operating Income	2	<u>(187)</u>	<u>(201)</u>
Administration Costs			
Staff Costs	3	8,634	7,913
Other Administration Costs	4	<u>5,520</u>	<u>5,022</u>
Gross Administration Costs		<u>14,154</u>	<u>12,935</u>
Programme Costs			
Staff Costs	3	79,350	74,324
Prisoner Ombudsman	7	608	339
Depreciation	8&9	9,842	8,531
Impairment of Tangible Fixed Assets	8	(358)	912
Cost of Capital Charges	6	5,478	4,800
Other Programme Costs	4	<u>21,829</u>	<u>13,618</u>
Gross Programme Costs		<u>116,749</u>	<u>102,524</u>
Grant	5	240	237
Net Operating Costs		<u><u>130,956</u></u>	<u><u>115,495</u></u>

The net cost of operations arises wholly from continuing operations

STATEMENT OF RECOGNISED GAINS & LOSSES

For the Year Ended 31 March

	Notes	2006 £'000	2005 £'000
Unrealised surplus on revaluation of fixed assets	16	8,444	12,590
Recognised gains for the year		<u><u>8,444</u></u>	<u><u>12,590</u></u>

The notes on pages 35 to 51 form part of these financial statements

BALANCE SHEET

As at 31 March

	Notes	2006 £'000	2005 £'000
Fixed Assets			
Intangible fixed assets	9	339	495
Tangible fixed assets	8	186,159	177,682
		<u>186,498</u>	<u>178,177</u>
Current Assets			
Stock	10	1,356	1,220
Debtors due in less than one year	11	1,006	846
Debtors due in more than one year	11	4,319	4,876
Cash at bank and in hand	12	76	53
		<u>6,757</u>	<u>6,995</u>
Current Liabilities			
Creditors due within one year	13	(15,701)	(12,890)
		<u>(8,944)</u>	<u>(5,895)</u>
Net Current Liabilities			
		<u>(8,944)</u>	<u>(5,895)</u>
Total Assets less Current Liabilities			
		<u>177,554</u>	<u>172,282</u>
Creditors due after more than one year	13	(9,836)	(14,752)
Provisions for liabilities and charges	15	(5,711)	(6,521)
		<u>162,007</u>	<u>151,009</u>
Taxpayers' Equity			
General Fund	16	124,544	120,685
Revaluation Reserve	16	37,463	30,324
		<u>162,007</u>	<u>151,009</u>

Signed _____

Robin Masefield
Accounting Officer

20 June 2006

The notes on pages 35 to 51 form part of these financial statements

CASH FLOW STATEMENT
For the Year Ended 31 March

	Notes	2006 £'000	2005 £'000
Operating Activities			
Net cash outflow from operating activities	17	(117,750)	(109,279)
Capital Expenditure and Financial Investment			
Purchase of fixed assets	17	(8,756)	(12,476)
Proceeds of disposals of fixed assets		18	9
Net Cash Outflow from Investment Activities		<u>(8,738)</u>	<u>(12,467)</u>
Net Cash Outflow Before Financing		(126,488)	(121,746)
Financing from the Consolidated Fund	16	125,340	123,098
(Decrease) / Increase in Cash	17	<u>(1,148)</u>	<u>1,352</u>

The notes on pages 35 to 51 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

Accounting Convention

The financial statements have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks, at their value to the Agency by reference to their current costs.

Tangible Fixed Assets

Freehold land & buildings on the NI Prison Service Estate are capitalised where title is held by the Agency. Land & buildings are subject to professional valuation at least once every five years and revalued using Valuation and Lands Agency indices in intervening years.

Other capital assets are carried at current cost using indices compiled by the Office for National Statistics. The standard threshold for capitalisation is £1,000, with minor works and cell furniture written off in the year of purchase. Lower thresholds apply to certain types of IT equipment.

Properties regarded by the Agency as operational are valued on the basis of existing use, or where this could not be assessed because there is no market value for the property, its depreciated replacement cost. Properties regarded by the Agency as non-operational are valued on the basis of open market value.

Intangible Fixed Assets

Purchased computer software is capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Intangible assets are stated at their market value. Intangible fixed assets are amortised on a straight-line basis over the expected useful lives of the assets concerned.

NOTES TO THE FINANCIAL STATEMENTS

Depreciation

Freehold land is not depreciated.

Provision for depreciation is made to write-off the cost of fixed assets on a straight-line basis over the expected useful lives of the assets concerned. Land, assets under construction, or assets awaiting disposal are not depreciated. The expected useful lives of assets are as follows:

- Permanent buildings	up to 55 years
- Temporary buildings	10 – 25 years
- Plant and Equipment	3 – 25 years
- Furniture and Office Equipment	3 – 10 years
- Computer Equipment and Software	3 – 8 years
- Vehicles	5 – 20 years

Realised Element of Depreciation from Revaluation Reserve

Depreciation is charged to expenditure on the revalued amount of assets. An element of the depreciation therefore arises due to the increase in valuation and is in excess of the depreciation that would be charged on the historical cost of assets. The amount relating to this excess is a realised gain on revaluation and is transferred from the Revaluation Reserve to the General Fund.

Stocks

Stocks are valued at the lower of cost or net realisable value.

Provision for Liabilities & Charges

The Agency provides for legal and constructive obligations, which are of uncertain timing, or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the estimated cash flows are discounted.

Pension Costs

The Agency's staff are members of the Principal Civil Service Pension Scheme (GB) (PCSPS (GB)) and the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS (NI)). Liability for payment of future benefits is a charge to the PCSPS (GB) and PCSPS (NI). The Agency meets the cost of pension cover through the payment of charges calculated on an accruing basis. Contributions are charged to the Operating Cost Statement as incurred.

Operating Leases

Operating lease rentals are charged to the Operating Cost Statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS

Grants

Grants payable to third parties are charged to the operating cost statement as the recipient carries out the activity that creates entitlement.

Early Retirement Costs

The Agency is required to meet the cost of paying pensions of employees who retire early from the date of their retirement until they reach normal pension age. The Agency provides in full for this cost when the early retirement programme is announced.

VAT

The majority of the activities of the Agency are outside the scope of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Notional Costs

Some of the costs directly related to the running of NIPS are borne by other Government Departments or organisations. These costs have been included on the basis of the estimated cost incurred by the providing organisation.

A notional cost reflecting the cost of capital utilised by the Agency is included in operating costs. The charge is calculated at the Government's standard rate of 3.5% of the average capital employed, defined as total assets less total liabilities.

Insurance

Except where there is a statutory requirement to do so, the Agency does not take out general insurance. Instead, expenditure in connection with uninsured risks is charged as incurred.

Funding

The Northern Ireland Prison Service is financed by supply estimates voted by Parliament. Its provision is currently set out in Request for Resources 1 of the Northern Ireland Office.

Third Party Assets

The Agency holds as custodian, certain assets belonging to third parties. These are not recognised in the accounts since neither the Agency nor the government more generally has a direct beneficial interest in them.

Prior Year Adjustment

2004/2005 comparatives have been adjusted to reflect the reclassification of NI Prison Service expenditure between administration and programme costs in accordance with HM Treasury instruction.

NOTES TO THE FINANCIAL STATEMENTS

2. OPERATING INCOME

	2005-06 £'000	2004-05 £'000 restated (Note 1)
Administration Income		
Sale of goods & services	22	6
Miscellaneous	-	11
	<u>22</u>	<u>17</u>
Programme Income		
Sale of goods & services	97	120
Prisoner productions	21	16
Video-link services	24	21
Staff accommodation	11	10
Miscellaneous	12	17
	<u>165</u>	<u>184</u>
Total Operating Income	<u><u>187</u></u>	<u><u>201</u></u>

3. STAFF COSTS & NUMBERS

(i) Staff costs consist of:

	Permanently Employed Staff £'000	Others £'000	Total 2005-06 £'000	Total 2004-05 £'000 restated (Note 1)
Administration Costs				
Wages & salaries	6,744	120	6,864	6,496
Social security costs	544	-	544	512
Other pension costs	1,226	-	1,226	905
Total administration staff costs	<u>8,514</u>	<u>120</u>	<u>8,634</u>	<u>7,913</u>
Programme Costs				
Wages & salaries	61,288	400	61,688	60,107
Social security costs	5,224	-	5,224	5,203
Other pension costs	12,438	-	12,438	9,014
Total programme staff costs	<u>78,950</u>	<u>400</u>	<u>79,350</u>	<u>74,324</u>
Total staff Costs	<u><u>87,464</u></u>	<u><u>520</u></u>	<u><u>87,984</u></u>	<u><u>82,237</u></u>

Included in Programme staff costs for the year are costs totalling £206k (2004-05, £nil) relating to the enquiry into the murder of Billy Wright in the Maze Prison in 1997 - see also Note 4.

Included in Programme Other Pension Costs is a provision of £1,100k (2004-05, £nil) in respect of past service costs arising on consolidation of Governors' allowances into pensionable pay.

NOTES TO THE FINANCIAL STATEMENTS

- (ii) Employee Nos: The average number of persons employed during the year is set out below.

	Permanently Employed Staff Nos.	Others Nos.	Total 2005-06 Nos.	Total 2004-05 Nos. (restated)
Uniformed grades	1,633	-	1,633	1,608
Admin & support staff	417	45	462	460
	2,050	45	2,095	2,068

Note: Staff numbers in 2004-05 have been reclassified and included certain casual and support grades paid through the Prison Service payroll.

- (iii) Pensions : For 2005-06 employer's contributions of £12.6m (2004-05, £9.9m) were paid to the PCSPS (GB) and the PCSPS(NI) at rates determined by the Government Actuary. These rates were in the range 16.2% to 25.6% (2004-05, 12% to 20.5%) of pensionable pay, based upon salary bands.

Employer contributions are reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued and reflect past experience of the scheme.

The PCSPS (GB) and PCSPS (NI) are unfunded defined benefit schemes which produce their own resource accounts. The NI Prison Service is unable to identify its share of underlying assets and liabilities. The most up to date actuarial valuations were carried out as at 31 March 2003 and interim actuarial valuations of the schemes' liabilities are currently underway.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £9k were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age related and range from 3% to 12.5% of pensionable pay.

Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1k (0.8 per cent of pensionable pay) were payable to the PCSPS (NI) to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £1k (2004-05, £1k). Contributions prepaid at that date were £nil (2004-05, £nil).

NOTES TO THE FINANCIAL STATEMENTS

4. OTHER ADMINISTRATION & PROGRAMME COSTS

	2005-06 £'000	2004-05 £'000 restated (Note 1)
(i) Other Administration Costs		
Staff related costs	1,217	1,088
Rent & rates	385	367
Heat light & power	120	126
Repairs & maintenance	132	194
Rentals under operating leases – non land & buildings	13	22
Hospitality	11	10
Other costs	2,204	1,797
	<u>4,082</u>	<u>3,604</u>
Notional Administration Costs Provided by Parent Department		
IT support	1,080	946
Legal costs	23	56
Miscellaneous	140	79
Notional Administration Costs Provided by Other Departments & Agencies		
Audit fee	42	39
Miscellaneous	153	298
Total Notional Administration Costs	<u>1,438</u>	<u>1,418</u>
Total Other Administration Costs	<u>5,520</u>	<u>5,022</u>
(ii) Other Programme Costs		
Prisoner accommodation and related expenditure	2,776	2,719
Prisoner healthcare	1,702	1,648
Prisoner education, training & initiatives	1,459	1,251
¹ Security breach costs	160	(5,629)
³ Staff related costs	2,009	1,984
Rent & rates	1,348	1,301
Heat light & power	2,507	2,199
Repairs & maintenance	1,725	1,569
Contracted-out costs	2,309	1,484
² Staff Reduction Programme	59	47
Rentals under operating leases – non land & buildings	180	127
³ Hospitality	14	12
Loss on disposal of fixed assets	1	13
Permanent diminution of fixed assets	557	191
Write-off of fixed assets	363	529
³ Other costs	3,967	3,895
	<u>21,136</u>	<u>13,340</u>
Notional Programme Costs Provided by Parent Department		
³ Legal costs	658	224
Notional Programme Costs Provided by Other Departments & Agencies		
Prisoner healthcare costs	34	53
Miscellaneous	1	1
Total Notional Programme Costs	<u>693</u>	<u>278</u>
Total Other Programme Costs	<u>21,829</u>	<u>13,618</u>

NOTES TO THE FINANCIAL STATEMENTS

4. OTHER ADMINISTRATION & PROGRAMME COSTS (cont'd)

¹ Security Breach Costs

These costs relate to amounts incurred following the discovery of the disclosure of prison officers' personal details in October 2002.

² Staff Reduction Programme Costs

These costs relate to amounts arising on early retirement following the downsizing of the Prison Service, the Good Friday Agreement and the closure of the Maze Prison.

³ Billy Wright Inquiry

Included within Other Programme Costs is £39k relating to expenditure incurred by the Agency during the year on the inquiry into the murder of Billy Wright in the Maze prison in 1997. An additional £211k of notional legal costs of the Crown Solicitor's Office are included within 'Notional Programme Costs provided by Parent Department'. Including the £206k of staff costs disclosed in Note 3 the total cost of the inquiry to the Agency during 2005-06 was £456k (2004-05, £nil).

5. GRANT

Grant of £240k (2004-05, £237k) was expended during the year by the NI Prison Service Trust to provide health care, life planning and support services for family members of murdered prison officers, officers who died in service, and officers who retired on health grounds. The unspent balance of grant paid to the Trust at 31 March 2006 of £3k (2004-05, £13k) is carried as a prepayment at the year-end.

6. COST OF CAPITAL

Cost of Capital – The Agency bears a notional charge calculated at the government standard rate of 3.5% on the average capital employed, defined as total assets less total liabilities. In 2005-06, the Prison Service incurred £5,478k in cost of capital charges (2004-05, £4,800k).

7. PRISONER OMBUDSMAN

The Agency incurred £608k during the financial year (2004-05, £339k) in respect of the costs of the Prisoner Ombudsman.

NOTES TO THE FINANCIAL STATEMENTS

8. TANGIBLE FIXED ASSETS

	Land & Buildings £'000	Furniture & Fittings & Fittings £'000	Vehicles £'000	Computer Assets £'000	Plant & Equipment £'000	Assets Under Construction (AUC) £'000	Assets Awaiting Disposal £'000	Total 2005-06 £'000
Cost or Valuation								
At 1 April 2005	179,068	1,322	2,108	5,737	23,917	3,018	-	215,170
Transfers	(254)	-	-	-	4	-	250	-
Additions	-	43	24	1,289	580	8,349	-	10,285
Completed AUC	4,818	21	-	174	1,430	(6,443)	-	-
Revaluation	9,351	9	15	(1,006)	1,050	-	-	9,419
Disposals	-	-	(60)	(141)	(459)	-	-	(660)
Impairment	247	-	-	-	-	-	-	247
Write-off	-	-	-	-	-	(363)	-	(363)
At 31 March 2006	193,230	1,395	2,087	6,053	26,522	4,561	250	234,098
Depreciation								
At 1 April 2005	21,461	192	1,287	2,691	11,857	-	-	37,488
Charge for Year	7,461	69	191	766	1,252	-	-	9,739
Revaluation	1,404	2	11	(517)	564	-	-	1,464
Disposals	-	-	(60)	(136)	(445)	-	-	(641)
Impairment	(111)	-	-	-	-	-	-	(111)
At 31 March 2006	30,215	263	1,429	2,804	13,228	-	-	47,939
Net Book Value								
At 31 March 2005	157,607	1,130	821	3,046	12,060	3,018	-	177,682
At 31 March 2006	163,015	1,132	658	3,249	13,294	4,561	250	186,159

All land & buildings disclosed above are freehold.

Included within land & buildings is land valued at £4,779k (2004-05, £3,396k) which is non-depreciable. The Valuation & Land Agency (VLA) carried out a full valuation of land and buildings at 31 March 2001, in accordance with the RICS Appraisal and Valuation Manual. The next full valuation of land and buildings will be 1 April 2006.

Included in land & buildings is an impairment write-back of £358k following the revaluation by the VLA of the Prison Service College site at 31 March 2006.

Included in Assets Awaiting Disposal is Girdwood Barracks, in which the Prison Service holds an interest, valued by VLA as at 31 March 2006 at £250k.

NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE FIXED ASSETS

The Agency's intangible fixed assets comprise purchased computer software licenses

	2005-06 £'000	2004-05 £'000
Cost or Valuation		
At 1 April	623	197
Additions	15	437
Revaluation	(100)	(11)
Disposals	-	-
At 31 March	<u>538</u>	<u>623</u>
At 1 April	128	106
Charge for year	103	29
Revaluation	(32)	(7)
Disposals	-	-
At 31 March	<u>199</u>	<u>128</u>
Net Book Value		
At 31 March	<u>495</u>	<u>91</u>
At 31 March	<u>339</u>	<u>495</u>

10. STOCKS

	2005-06 £'000	2004-05 £'000
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The main categories of stock are:

Consumables & equipment	741	706
Trade stores	222	220
Fuel stores	393	294
	<u>1,356</u>	<u>1,220</u>

11. DEBTORS

(i) **Amounts Due in Less Than 1 year**

Recoverable VAT	314	249
Prepayments	229	226
Other Debtors	463	371
	<u>1,006</u>	<u>846</u>

(ii) **Amounts Due in More Than 1 year**

Other Debtors	<u>4,319</u>	<u>4,876</u>
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Amounts due in more than one year include £4,309k (2004-05, £4,862k) in salary advances re-payable by prison officers over the next twelve years. The salary advances have been made under the Assisted Home Removals Scheme.

NOTES TO THE FINANCIAL STATEMENTS

12. CASH AT BANK AND IN HAND

	2005-06 £'000	2004-05 £'000
Cash in Hand	76	53
	<u>76</u>	<u>53</u>

The amounts above do not include prisoners' private cash or prisoners' amenities funds which have been classified as a third party asset and disclosed in Note 25.

13. CREDITORS

(i) Due Within One Year

Trade creditors	1,212	544
DFP superannuation	4,900	4,900
Taxation & social security	1,922	1,716
Bank overdraft	1,706	535
Capital retentions	30	115
Other creditors	1,233	1,112
Accruals & deferred income	4,698	3,968
	<u>15,701</u>	<u>12,890</u>

(ii) Due After More Than One Year

DFP superannuation	9,800	14,700
Other creditors	36	52
	<u>9,836</u>	<u>14,752</u>

Due within 2-5 years	9,836	14,752
Due after more than 5 years	-	-
	<u>9,836</u>	<u>14,752</u>

Included in creditors is an amount of £14.7m (£4.9m payable within one year and £9.8m payable after more than one year) due to the Department of Finance & Personnel (2004-05, £19.6m). This represents the outstanding liability on the 1995 consolidation of a non-pensionable allowance into the pensionable remuneration of prison officers.

NOTES TO THE FINANCIAL STATEMENTS

14. INTRA GOVERNMENTAL BALANCES

	Debtors: Amounts Falling due within one year £'000	Debtors: Amounts Falling due after one year £'000	Creditors: Amounts Falling due within one year £'000	Creditors: Amounts Falling due after one year £'000
Included in debtors and creditors are the following intra-governmental balances at 31 March 2006				
NIO core, its agencies & NDPBs	-	-	181	36
Other Central Government Bodies	-	-	6,407	9,800
Local Authorities	-	-	1	-
NHS Trusts	-	-	36	-
Public corporations & trading funds	-	-	-	-
Bodies External to Government	1,006	4,319	9,076	-
	1,006	4,319	15,701	9,836

**Included in debtors and creditors
are the following intra-governmental
balances at 31 March 2005 (restated)**

NIO core, its agencies & NDPBs	40	-	250	52
¹ Other Central Government Bodies	-	-	6,120	14,700
Local Authorities	-	-	1	-
NHS Trusts	-	-	20	-
Public corporations & trading funds	-	-	-	-
¹ Bodies External to Government	806	4,876	6,499	-
	846	4,876	12,890	14,752

¹ Classification revised.

NOTES TO THE FINANCIAL STATEMENTS

15. PROVISIONS FOR LIABILITIES & CHARGES

	Security Breach £'000	Staff Reduction Programme £'000	Litigation £'000	Consolidation of Governors' Allowances £'000	Other £'000	Total 2005-06 £'000
At 1 April 2005	1,829	748	3,924	-	20	6,521
Amounts utilised	(1,716)	(558)	(790)	-	(22)	(3,086)
Amounts released	(74)	-	(668)	-	-	(742)
Unwinding of discount	-	-	-	-	-	-
Additional provisions during the year	234	59	1,604	1,100	21	3,018
At 31 March 2006	273	249	4,070	1,100	19	5,711

The provisions for liabilities and charges represent the best estimate of the amounts payable at the balance sheet date.

The Security Breach provision represents security related costs incurred following the discovery of the disclosure of prison officers' personal details in October 2002. The remaining provision will be settled during 2006-07.

The provision for the Staff Reduction Programme arises from the downsizing of the Prison Service following the Good Friday Agreement and the closure of the Maze Prison. The provision consists of additional pension costs due to the Department of Finance & Personnel (DFP), payable through to 2010-11.

The litigation provision relates to legal claims against the Prison Service by staff, prisoners and third parties for injuries and other damages including fair employment and industrial tribunal cases. The provision reflects all known claims where it is considered that it is probable that the claim will be successful and the amount can be reliably estimated. The timing of the settlement of claims depends on the circumstances of each case.

The provision for the Consolidation of Governors' Allowances represents pension costs payable to DFP in respect of Governors past service following consolidation of Governor allowances into pensionable pay in line with the recommendation of the Prison Service Pay Review Body published in March 2006. The provision will be settled during the 2006-07 financial year.

Other provisions as at 31 March 2006 relate to an estimated Inland Revenue tax liability arising from Additional Housing Cost payments to prison officers under the Assisted Home Removals Scheme. The provision will be settled during the 2006-07 financial year.

NOTES TO THE FINANCIAL STATEMENTS

16. RECONCILIATION OF MOVEMENT IN RESERVES

	General Fund £'000	Revaluation Reserve £'000	Total 2005-06 £'000	Total 2004-05 £'000
At 1 April	120,685	30,324	151,009	123,253
Net Vote funding in year	125,340	-	125,340	123,098
Transfer of assets from parent department	561	-	561	1,067
Net cost of operations	(130,956)	-	(130,956)	(115,495)
Surplus on revaluation - cost	-	10,425	10,425	14,394
Surplus on revaluation - depreciation	-	(1,981)	(1,981)	(1,804)
Transfer in respect of the realised element of the revaluation reserve	1,305	(1,305)	-	-
Notional costs	2,131	-	2,131	1,696
Interest on capital employed	5,478	-	5,478	4,800
At 31 March	<u>124,544</u>	<u>37,463</u>	<u>162,007</u>	<u>151,009</u>

17. NOTES TO THE CASH FLOW STATEMENT

(i) Reconciliation of Net Cost of Operations to Net Cash Flow from Operating Activities	2005-06	2004-05
Net cost of operations	(130,956)	(115,495)
Adjustment for Non-Cash Transactions		
Depreciation	9,842	8,531
Impairment of fixed assets	(358)	912
Diminution in value of fixed assets	557	191
Write-off of fixed assets	363	529
Loss on disposal of fixed assets	1	13
Notional cost of capital	5,478	4,800
Notional costs	2,131	1,696
Provisions provided/(released) in year	2,276	(4,622)
Adjustments for Working Capital Other Than Cash		
(Increase)/Decrease in stock	(136)	162
Decrease/(Increase) in debtors	397	(52)
Increase in creditors less than 1 year	657	3,183
Decrease in creditors greater than 1 year	(4,916)	(4,952)
Use of provisions	(3,086)	(4,175)
Net Cash Outflow From Operating Activities	<u>(117,750)</u>	<u>(109,279)</u>

NOTES TO THE FINANCIAL STATEMENTS

17. NOTES TO CASH FLOW STATEMENT (cont'd)

	2005-06 £'000	2004-05 £'000
(ii) Reconciliation of Net Cash Flow to Movement in Net Funds		
(Decrease)/Increase in Cash During the Year	<u>(1,148)</u>	<u>1,352</u>
Change in net funds resulting from cash flows	(1,148)	1,352
Net funds at start of year	<u>(482)</u>	<u>(1,834)</u>
Net funds at end of year	<u><u>(1,630)</u></u>	<u><u>(482)</u></u>
Net funds comprise of:		
Cash at bank and in hand	76	53
Bank Overdraft	<u>(1,706)</u>	<u>(535)</u>
Net funds at end of year	<u><u>(1,630)</u></u>	<u><u>(482)</u></u>
(iii) Reconciliation of Purchase of Fixed Assets		
Additions per fixed assets notes		
- tangible assets	10,285	11,453
- intangible assets	15	437
Less assets transferred from parent department	(561)	(1,067)
Movement in creditors less than 1 year related to the acquisition of fixed assets	<u>(983)</u>	<u>1,653</u>
Purchase of Fixed Assets	<u><u>8,756</u></u>	<u><u>12,476</u></u>
(iv) Reconciliation of Movement in Creditors Less than 1 Year		
Movement in creditors less than 1 year other than cash	1,640	1,530
Movement in creditors less than 1 year related to the acquisition of fixed assets	<u>(983)</u>	<u>1,653</u>
Movement in Creditors Less Than 1 Year (Note 17(i))	<u><u>657</u></u>	<u><u>3,183</u></u>

18. CAPITAL COMMITMENTS

Capital expenditure, which at year-end was contracted for but not provided for in the accounts, amounts to £1,427k (2004-05, £813k).

NOTES TO THE FINANCIAL STATEMENTS

19. GRANT COMMITMENTS

At the year-end, the Agency is committed to the following grant payments to the NI Prison Service Trust:	2005-06 £'000	2004-05 £'000
Payable within 1 year	288	243
Payable within 2 to 5 years	290	-
	<u>578</u>	<u>243</u>

20. LEASING COMMITMENTS

Non Land & Buildings

Commitments under operating leases to pay rentals are as follows:

Expiry within 1 year	113	6
Expiry within 2 to 5 years	6	114
	<u>119</u>	<u>120</u>

21. Contingent Liabilities

At year-end the NI Prison Service has estimated contingent liabilities of £1,179k (2004-05, £944k) in respect of litigation claims against the Agency. These claims have not been provided for in the financial statements as the Prison Service considers it unlikely that they will be successful.

22. Related Party Transactions

The Northern Ireland Prison Service is an Executive Agency of the Northern Ireland Office, which is regarded as a related party. The Agency also transacts with other entities for which the NIO is the parent Department, viz:

- The Crown Solicitor's Office
- Forensic Science Northern Ireland
- The Compensation Agency
- The Youth Justice Agency
- NI Policing Board
- Police Service of Northern Ireland
- The Probation Board for Northern Ireland

The Agency also has various transactions with other Government Departments and central government bodies. Most of these transactions have been with the Department of Health & Social Services, the Department of Finance & Personnel and related Agencies. During the year, none of the key management staff or other related parties have undertaken any material transactions with the Agency.

During the year amounts totalling £132k were paid to Asset Co, (a company in which Sid McDowell, Non-Executive Director, holds a directorship) for the leasing and maintenance of prisoner transportation vehicles. An amount of £4k was also paid for a car-parking facility to the Northern Ireland Transport Holding Company (a company in which Ruth Laird, Non-Executive Director, has also been a Non-Executive Director since July 2005). Neither individual played a part in the award of these contracts and all transactions were conducted on a commercial basis at arms length.

NOTES TO THE FINANCIAL STATEMENTS

23. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which it is financed, the Northern Ireland Prison Service is not materially exposed to the degree of financial risk faced by many business entities. The Northern Ireland Prison Service has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change risks facing the Service in undertaking its activities.

Liquidity Risk

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

Interest Rate Risk

The Northern Ireland Prison Service is not materially exposed to any interest rate risk.

Foreign Currency Risk

The Northern Ireland Prison Service is not materially exposed to any foreign currency risk.

24. Post Balance Sheet Events

There are no post balance sheet events impacting on the understanding of these financial statements.

25. Third Party Assets

Prisoners have a private cash (PPC) facility for the lodgement of prison earnings and funding of tuck-shop purchases. When prisoners are discharged they are paid in full the balance on their PPC account. The average prisoner private cash balance at 31 March 2006 was £104.

Each prison establishment administers a Prisoners' Amenities Fund. Payments from the Fund are used for the welfare/benefit of all prisoners. Fund receipts include income from the sale of tuck-shop items, phone-credits and donations.

NOTES TO THE FINANCIAL STATEMENTS

	31 March 2005 £'000	Gross Inflows £'000	Gross Outflows £'000	31 March 2006 £'000
Monetary assets such as bank balances and balances on deposit				
Prisoners Private Cash Accounts	148	2,526	2,536	138
Prisoners' Amenities Funds	102	102	94	110
	<u>250</u>	<u>2,628</u>	<u>2,630</u>	<u>248</u>

26. Special Payments

Included in the litigation provision note (Note 15) are special payments. Amounts utilised during the year included 113 compensation payments totalling £483k. No individual payment exceeded £250k. The Prison Service does not hold general insurance, but instead charges expenditure in connection with uninsured risks as incurred.



**NORTHERN IRELAND
PRISON SERVICE**

Dundonald House
Upper Newtownards Road
Belfast BT4 3SU
Tel: 028 9052 2922
Fax: 028 9052 5284
Website: www.niprisonservice.gov.uk
Email: info@niprisonservice.gov.uk

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