

Chapter 4:

Financial Overview

Section 4.1

About the financial information in this report

4.1 The financial information in this report is shown from two different perspectives:

- the Budgeting boundary, which is the budgetary spend of the “Departmental family”, including the core Department and its delivery partners outlined in annex 4; and
- the Accounting boundary, which comprises the Consolidated Resource Accounts for the core Department and those of its delivery partners that are consolidated in the Resource Accounts.

Budgets

The Departmental family delivers on its objectives through its budgets. The Department is ultimately responsible for these resources and the bodies who spend them. The financial tables at the end of the sections in chapter 2, and in annex 8 set out the total spend of all bodies within the Departmental family required to deliver the Department’s objectives. The budgetary spend shown here is published by HM Treasury in the 2008 Public Expenditure Outturn White Paper.

Accounts

The Department’s audited Consolidated Resource Accounts in chapter 5 include only the results of the Department; the Department’s elements of the administration expenditure of UKTI (a joint BERR and FCO operation); the Insolvency Service¹⁴⁸ (an executive agency); and Acas (a Crown Executive NDPB). The other delivery partners within the Departmental family are not included in the Consolidated Resource Accounts, apart from the Department’s cash funding of these bodies by grant in aid.

In common with other central Government bodies, the Department’s Consolidated Resource Accounts are audited by the National Audit Office on behalf of the Comptroller & Auditor General. Most of BERR’s delivery partners that sit outside of the Accounting boundary produce their own resource accounts.

¹⁴⁸ The Insolvency Service also receives monies, under the Insolvency Service Act 1986, which are excluded from these accounts because they are subject to a different financial control framework. Under Section 403 of the Act, sums are received from the realisation of assets from bankruptcies and company liquidations. The monies are held by the Secretary of State and interest earned on balances is surrendered to HM Treasury in accordance with Section 405 of the Act. Further details are available in the published accounts of the Insolvency Service which can be obtained from: <http://www.insolvency.gov.uk>

- 4.2** The Department is represented on an expert working group supporting HM Treasury's "Clear Line of Sight" Project. The aim of this project is to *"create a single, coherent financial regime that is effective, efficient and transparent, enhances accountability to Parliament and the public, and underpins the Government's fiscal framework, incentivises good value for money and supports delivery of excellent public services by allowing managers to manage"*. Implementation of the new framework is likely to take place before April 2010.

Other financial information

- Section 4.2 provides details of the way in which Government accounting and budgeting is managed and controlled, and explains how this applies to BERR.
- Section 4.3 looks at the relationship between estimates, budgets and accounts.
- Section 4.4 provides a financial review of the year, including analysis of some of the key information in the Consolidated Resource Accounts.

- 4.3** In June 2007 the work and staff associated with Science and Innovation in the former Department of Trade and Industry were transferred to the new Department for Innovation, Universities and Skills as a Machinery of Government (MoG) change. The transfer also included sponsorship responsibility for the following NDPBs and agencies: British Hallmarking Council, Design Council, the Research Councils, Technology Strategy Board, Council for Science and Technology, Copyright Tribunal, the National Weights and Measures Laboratory, and the UK Intellectual Property Office (UKIPO). The transfer was backdated to 1 April 2007.
- 4.4** At the same time, the Better Regulation Executive was transferred to the Department from the Cabinet Office. The transfer included the sponsorship responsibility for the following NDPBs: the Local Better Regulation Office and the Better Regulation Commission. The transfer was backdated to 1 April 2007.
- 4.5** On 1 April 2007 the Office of Civil Nuclear Security, together with other nuclear safeguards activities, were transferred to the Health and Safety Executive. On 1 March 2008 the responsibility for the collection of construction statistics and six related surveys transferred to the Office for National Statistics. The transfer was backdated to 1 April 2007.

Section 4.2

The resources available to the Department

4.6 The resources available to the Department, and how it reports on and is held accountable for these resources, must be seen within the context of the wider Government financial environment. This section sets out the broad principles of budgeting and accounting in Government, explains some of the key terms which are used and describes how the Department manages its resources in this context.

The Spending Review process

4.7 The Spending Review (SR) is the process by which the Government sets spending plans, usually for the coming three years. This determines the overall Control Total, Total Managed Expenditure (TME). TME is made up of two components, the Department Expenditure Limit (DEL) and Annually Managed Expenditure (AME). The DEL is set annually within the context of the Department's three-year SR settlement and AME is set in consultation with HM Treasury through twice yearly reviews. DEL Budgets for the three-year period 2005-06, 2006-07 and 2007-08 were set in Spending Review 2004.

4.8 In October 2007, the Comprehensive Spending Review 2007 (CSR07) was agreed with HM Treasury, setting DEL budgets for 2008-09, 2009-10 and 2010-11. BERR's CSR Settlement gave the Department an approximately flat cash allocation across the three CSR years, and, as with all departments, directed that BERR must meet or surpass the following cross-Government benchmarks:

- at least three per cent net cashable value for money gains per annum; and
- five per cent annual real reductions in Administration Budgets.

From budgets to estimates to accounts

4.9 The following paragraphs explain the process that BERR, in common with other Government departments, goes through to obtain the resources that are ultimately reported on in their Resource Accounts, as well as explaining the differences between budgets, Estimates and the accounts.

The Department's budget

4.10 The Departmental family measures and manages its expenditure through its budgets. The Department has two types of budgets which are described below:

- *DEL*: The Department can largely control DEL expenditure, though some elements may be demand-led. It is set annually within the context of the Department's three year financial settlement, determined in the Spending Review;

- *AME*: This expenditure is demand-led, volatile, and therefore difficult to predict. AME budgets are set in consultation with HM Treasury through twice yearly reviews. The majority of BERR's AME expenditure relates to nuclear provisions, coal health liabilities, the Post Office revolving loan and the Redundancy Payments Service.

4.11 Within DEL and AME, there are resource budgets (broken down into administration and programme budgets) and capital budgets. The Department's DEL budget for 2007-08 was £3,997 million (2006-07 £3,700 million) and the AME budget amounted to £(367) million (2006-07 £348 million). The 2006-07 figures have been restated to reflect MoG changes.

4.12 Some of BERR's DEL budgets are ring-fenced by HM Treasury. This means the budgets are allocated for specific purposes and any underspends generated cannot be used in aid of other activities. 61% of the 2007-08 DEL was ring-fenced leaving £1,558 million available for discretionary allocation by the Department.

4.13 There are also further classifications of expenditure within resource budgets termed "near cash" and "non cash".

- *Near cash items*: These transactions result in real cash flows in the near future and include pay costs, procurement of goods and services, and grants. Importantly they also include cash expenditure against provisions.
- *Non cash items*: These components reflect the full economic cost of activities and the usage of long term assets. Non cash items include depreciation, cost of capital, profit or loss on disposal of balance sheet assets and changes in provisions.

4.14 BERR is responsible for all of the resources allocated to the Departmental family and has put in place a strong budgetary control process to effectively discharge this responsibility. BERR allocates annual budgets in March of each year and monitors them on a monthly basis. Forecasts of expenditure are reviewed monthly and updated where appropriate. More in-depth reviews of forecasts are carried out quarterly with particular emphasis on end December reviews (used by HM Treasury as a basis for total spend across Government for the year) and end January reviews (to identify changes to be made through the Spring Supplementary Estimate). A corporate financial report is delivered to the monthly Management Board, highlighting emerging issues and advising where action may be required, and a monthly financial update is given to the Secretary of State.

4.15 Budgets are usually amended via Winter and Spring Supplementary Estimates. The Supplementary Estimates provide access to savings in DEL budgets achieved in previous years (a process known as End Year Flexibility) in addition to other changes.

The Estimates process

- 4.16** The Department's budgets are agreed in the Spending Review process, but additional Parliamentary approval must be sought annually for the issue of public funds. Main Estimates are the means by which departments seek Parliamentary authority for their spending each year.
- 4.17** The detailed Estimates include DEL and AME expenditure of the consolidated Department and the grant in aid paid to the other delivery partners outside the accounting boundary. Grant in aid is essentially the provision of cash financing, and does not count as budgetary expenditure. Notes to the Estimates demonstrate the relationship between the Estimates total and the total budget for the Department including its delivery partners. All changes to budgets are approved as part of the Estimates process.
- 4.18** BERR seeks approval from Parliament for its Main Estimates for the year in April. Supplementary Estimates can be submitted in the summer, winter and spring. Estimates follow a standard format, comprising a Request for Resources (RfR) which set a limit on the resources required for each main activity, a request for capital funding and a Net Cash Requirement (NCR), which represents the actual cash made available by the Exchequer to fund the Department's activities. Each Estimate is accompanied by a formal description (or ambit) of the services to be financed under it. Funds voted by Parliament can only be used to finance services that fall within the ambit of the Estimate.

The Resource Accounts

- 4.19** The Department's Estimate has a single Request for Resources (RfR), entitled Increasing UK Competitiveness. The Department also has a separate Estimate and RfR for the effective management of the UKAEA pension schemes. These are separate from the Consolidated Resource Accounts contained in this report. Copies of the UKAEA pensions accounts are available from the UKAEA pensions website.¹⁴⁹ At the end of the year, the Department is required to report actual expenditure against Estimates in its Consolidated Resource Accounts.

¹⁴⁹ UKAEA pensions website: www.ukaeapensions.org.uk

Section 4.3

Reconciling Estimates, Accounts and Budgets

4.20 As explained in section 4.2, there are different boundaries for the Department's Estimates, Accounts and Budgets. This section explains their relationship and includes the following reconciliations:

- *Estimates to Accounts:* This shows how the Net Resource Outturn (voted by Parliament), shown in the Statement of Parliamentary Supply on page 159, is reconciled to the Net Operating Cost which is shown in the Operating Cost Statement in the Accounts on page 160; and
- *Accounts to Budgets:* This shows how the Net Operating Cost is reconciled to the Resource Budget Outturn shown on page 253.

Estimates to Accounts

The Estimate is reconciled to the Net Operating Cost through three adjustments:

- The first adjustment adds expenditure which is included in the Operating Cost Statement, but does not require formal approval by Parliament in the Supply Estimates. For the Department, this comprises expenditure on statutory redundancy payments funded by the National Insurance Fund, the cost of capital credit on the net liabilities of Royal Mail Holdings plc and the cost of capital charge on the net assets of BNFL plc. Further details are provided in Note 3 to the Accounts.
- The second adjustment adds any Consolidated Fund Extra Receipts (CFERs) which are classified as operating income and therefore included in Net Operating Cost. CFERs arise from the operating activities of the Department, but are not classified as income for Estimates purposes. The receipts are paid directly to HM Treasury.
- The third adjustment shows the difference between the amount of operating income received and that authorised to be Appropriated in Aid of expenditure.

Accounts to Budgets

There are four main types of adjustment required to reconcile resource expenditure in the Operating Cost Statement in the Resource Accounts to the resource expenditure of the Departmental family in the Department's budget.

- The first adjustment removes capital grants (classed as resource items in the accounts, but as capital items in the budgeting framework).
- The second adjustment removes the cash grant in aid to the Department's delivery partners (not counted as budgetary expenditure).
- The third adjustment adds the income and expenditure of these delivery partners on an accruals basis.
- The fourth adjustment removes those CFERs that are classed as being outside of the budgeting boundary. There are usually other adjustments depending on particular circumstances.

Reconciliation of Estimates to Accounts to Budgets

	Notes	2007-08 £000	2006-07 (restated) £000
Net Resource Outturn (Estimates)	1	3,767,122	2,748,260
Adjustments in respect of:			
Non- Supply expenditure in the Operating Cost Statement (OCS)	2	155,852	3,563
Consolidated Fund Extra Receipts (CFER) in the OCS		-274,407	-1,845,538
Excess Appropriations in Aid	3	-213,663	
Net Operating Cost (Accounts)		3,434,904	906,285
Adjustments in respect of:			
Capital Grants treated as Resource in Accounts, but Capital in Budgets	4	794,805	694,019
Expenditure in OCS not included in budgets	5	-4,962,122	-3,996,740
Resource consumption of delivery partners		8,734,140	8,361,776
Other CFER not in budgets		14,316	1,829,240
Budgeting classification differences	6	267,400	
Adjustment to budgeting outturn for MoG change	7	14,498	15,871
Other	8	37,514	
Resource Budget Outturn		8,335,455	7,810,451
<i>of which DEL</i>		2,105,290	2,001,484
<i>AME</i>		6,229,065	5,808,967

Notes

- 1 Disclosed in the Statement of Parliamentary Supply on page 159 of the Resource Accounts
- 2 See Note 3 to the Resource Accounts
- 3 The amount of operating income received in excess of that authorised to be Appropriated in Aid
- 4 Capital grant receipts in excess of expenditure
- 5 Mainly grant in aid payments to delivery partners
- 6 This covers two items: the Special Dividend from BNFL is treated as Resource in Accounts, but Capital in Budgets, and payments to British Shipbuilders are treated as Capital in Accounts, but Resource in Budgets
- 7 Budgeting outturns include Defence Export Services Organisation, transferred from Ministry of Defence
- 8 Mainly relates to adjustments to Accounts after PEOWP deadline for budgeting outturns (particularly a £34m adjustment to cost of capital on Coal Pension Schemes)

Section 4.4

Financial review

4.21 This section reviews the Department's financials for 2007-08. It covers both the performance of the consolidated Department in the context of the Resource Accounts, and how the Department has performed compared to the final Estimate.

The Primary Statements in the Consolidated Resource Accounts

4.22 The primary statements in the Consolidated Resource Accounts comprise:

- the Statement of Parliamentary Supply;
- the Operating Cost Statement;
- the Statement of Recognised Gains and Losses;
- the Balance Sheet;
- the Consolidated Cash Flow Statement; and
- the Consolidated Statement of Operating Costs by Departmental Aim and Objectives.

Statement of Parliamentary Supply

4.23 This is the accountability statement for parliamentary reporting purposes. It records the Net Resource Outturn compared to Estimate and only includes expenditure and income (Appropriations in Aid) allowable against the Estimate. Explanation of why the outturn in 2007-08 was different from the Estimate is given below. This statement also includes a comparison of non-operating cost Appropriations in Aid with the amount voted by Parliament in the Estimate, and discloses amounts payable to the Consolidated Fund as Extra Receipts (CFERs).

4.24 Non-operating cost Appropriations in Aid reduced by £2,152 million, from £8,635 million in 2006-07 to £6,483 million due to a reduction in loan repayments on the Post Office revolving loan.

4.25 CFERs decreased by more than £4,409 million compared to 2006-07, where there were exceptional items related to the repayment of the BNFL debenture; and liquidation of the Nuclear Liabilities Investment Portfolio (NLIP).

4.26 Net Resource Outturn for 2007-08 (as shown in the Statement of Parliamentary Supply) was £3,767 million. This is an increase of £1,019 million compared to the outturn for 2006-07 of £2,748 million, which was restated to account for MoG changes. The increase was mainly the result of increased expenditure on nuclear decommissioning activity, support for the Royal Mail, and onerous property lease provisions. This compares to a final Estimate of £4,296 million, giving an underspend of £529 million. The most significant reasons (where the variance is greater than £10.5 million and 10% of the Estimate) for the underspend are given below (the disclosure here is based on Note 2 to the Resource Accounts):

- Net outturn on Extending Competitive Markets (Estimate Function B) was £12 million (17%) less than Estimate as a result of underspends across a range of consumer support programmes, including the Face to Face Debt Advice programme.
- Net outturn on Sustainability and the Environment (Estimate Function D) was £19 million (31%) less than Estimate due to slippage in capital grants for sustainable energy programmes.
- Net outturn on Enterprise Growth and Business Investment (Estimate Function E) was £14 million (13%) less than Estimate primarily due to a lower than expected increase in the Small Firms Loan Guarantee Scheme provision, and higher than expected premium receipts.
- Net administrative expenditure by UK Trade and Investment (Estimate Function G) was £3 million (10%) less than Estimate as a result of unfilled vacancies, and associated staff cost reductions, lower payments to the Department for Communities and Local Government because of the reduction of Government Offices staff working on UKTI business, and reduced IT costs due to slippage in the Joint Infrastructure Project and other associated IT projects.
- Net outturn on Corporate Activity and Insolvency Framework (Estimate Function I) was £9 million (13%) less than Estimate as a result of savings in the administration costs budget of the Better Regulation Executive following its transfer from the Cabinet Office, and lower than expected outturns on Insolvency Service programmes.
- Net outturn on activities in support of all Objectives (Estimate Function L) was £65 million (14%) less than Estimate due to a combination of factors: the cost of capital credit on working capital (for which no Estimate was made); the write-back of some restructuring provisions; and the realisation of in-year savings in staff costs as part of Departmental efficiency measures.
- Net outturn on Assets and Liabilities (Estimate Function W) was £362 million (11%) less than Estimate as the estimated figure for grant in aid to the NDA was set to allow for the possibility that certain significant income streams would not materialise before year end; in the event the income did materialise, so the NDA's cash requirement from the Department was reduced as a consequence.
- Net outturn on Nuclear Security and Export Control (Estimate Function X) was £2 million (65%) lower than Estimate due to the lower than anticipated grant in aid requirements of the Civil Nuclear Police Authority, largely due to slippage in capital expenditure.

Operating Cost Statement

4.27 The Operating Cost Statement is similar to an Income and Expenditure account in not-for-profit bodies and includes all operating income and expenditure relating to the consolidated bodies on an accruals accounting basis, including that which sits outside of the Estimate. The Net Operating Cost for 2007-08 was £3,435 million, an increase of £2,529 million compared to the restated figures as a result of the MoG

changes for 2006-07 of £906 million. This was mainly due to the exceptional receipt of the BNFL dividend of £1,800 million in 2006-07, increased levels of support for the Royal Mail and the Nuclear Decommissioning Authority and the creation of the onerous property lease provision in 2007-08.

- 4.28** The differences between Net Operating Cost and Net Resource Outturn are disclosed in Note 3 to the accounts. The main differences relate to expenditure for the redundancy payments payable from the National Insurance Fund, the cost of capital credit on the net liabilities of Royal Mail Holdings plc; the cost of capital charge on the net assets of BNFL plc which are not included in Estimates; and income payable to the Consolidated Fund for a special dividend from BNFL plc.
- 4.29** Operating income includes dividends declared by Companies House. These dividends represent the return on investment of Public Dividend Capital (PDC), as shown in Note 16 of the accounts. The Companies House dividend, at £2.116 million, represented a return of 3.5% on the Companies House average capital employed.
- 4.30** Grant in aid and other grants represented nearly 90% of gross expenditure for programmes in 2007-08. This ratio is similar to 2006-07.
- 4.31** Total expenditure on consultancy, according to definitions issued by the OGC, amounted to £25 million in 2007-08. This compares to £29 million in 2006-07, and follows the introduction of stringent controls over the procurement of consultancy services. Following discussions with HM Treasury, most Departmental expenditure on consultancy is now recorded under administration costs, and a transfer of £20 million programme budgets into administration budgets was agreed in the Winter Supplementary Estimate.

Statement of Recognised Gains and Losses

- 4.32** This statement reflects the unrealised element of revaluations to fixed assets and investments. These gains have not been reflected in the Operating Cost Statement.

Balance Sheet

- 4.33** The Balance Sheet discloses the assets and liabilities of the Department at the balance sheet date. The main changes in the Department's assets and liabilities during the year are described below.
- 4.34** The Consolidated Department had total Net Assets of £2,845 million in 2007-08, compared to £2,368 million in 2006-07. The main reasons for this change relate to the increase in cash at bank, a consequence of the MoG changes where the Department was reimbursed for cash spent on activities transferred to other departments, and a reduction in Coal Health provisions as outstanding claims under closed schemes are being settled, though these were offset by reductions in the value of Coal Pension Fund investments. More detail is set out below and in the notes to the Accounts.

- 4.35** Tangible fixed assets increased by £11 million resulting from an increase in assets under construction including work on improvements to buildings on the Departmental estate and spend on major IT projects.

Royal Mail Holdings Plc

- 4.36** Royal Mail Holdings plc is a company that is wholly owned by Government. Its core operating subsidiary is Royal Mail Group Limited (mails business). Post Office Limited (POL) is the subsidiary of the Group that provides the post office network arm of the business. The Government has provided financial support to the Royal Mail Group of companies via three routes (equity injection, debt financing and subsidy payment).

- *Equity injection:* The Department owns shares at a total value of £430 million. The primary purpose of this equity purchase is to inject funds into POL as part of the 2002-03 POL funding agreement, approved by the EU Commission. The valuation of the shares has been subject to an impairment review by the Department as at 31 March 2008, the result of which indicates that no impairment is required.
- *Debt financing:* On 6 February 2001 Royal Mail utilised a £500 million National Loans Fund (NLF) loan facility that was made available to it, to assist with the company's acquisitions which included German Parcel. The facility comprises 20 separate tranches of £25 million each, the first tranches of which do not begin to mature until 20 March 2021. Therefore, the outstanding balance for this NLF loan on 31 March 2008 remains at the full £500 million. Royal Mail makes bi-annual interest payments on the loan amounting to £29.17 million per annum.

At the end of 2002, the Government agreed a financing package with the Royal Mail mails business. This package initially comprised £1,044 million of debt finance from Government (subsequently reducing to £844 million) on commercial terms to provide Royal Mail with access to funds to assist it in delivering its 3 year restructuring programme for the mails business.

On 26 March 2007, the Secretary Of State confirmed via written statement to Parliament finalisation of a new financing framework for Royal Mail. Part of this framework includes new debt facilities of £900 million to be provided by the NLF on commercial terms (comprising a revolving facility of up to £300 million and a separate facility of up to £600 million). This new package replaces and increases the current package agreed in 2002 (for borrowing facilities of £844 million) and these debt facilities are further supplemented by a £300 million shareholder loan, also to be provided on commercial terms. The agreed package will allow the company to embark on an investment programme so that it can further transform its effectiveness and secure the efficiency improvements required under the latest regulatory settlement. The new debt facilities became effective from 23 March 2007, but had not been utilised before 31 March 2008.

The Department has also made available to POL, through an agreement reached on 17 October 2003, a revolving loan facility based on commercial terms of up to £1.15 billion. This is to help the company fund its working capital requirements in branch. The package was agreed against the background of the migration of state benefits to a system of direct payment and the loss of pre-funding to POL from

DWP, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and in full, from Post Office branches. POL began utilising this facility on 1 December 2003. The facility matures on 31 March 2011 by when any outstanding amounts will need to have been repaid. The outstanding balance as at 31 March 2008 was £390 million.

- *Post Office Network Support:* On 17 May 2007, the Government announced investment of up to £1.7 billion to the end of 2010-11 to support the post office network. This included continuation of the £150 million annual Social Network Payment, aimed at supporting the provision of rural post offices by helping to cover POL's costs of keeping open non-commercial branches. This funding package initially received State Aid approval up until the end of 2007-08, and in November 2007, the approval was given for payments up to 2010-11. The investment will enable POL to change to meet the challenges it faces and will enable the Post Office to expand financial services for customers including a roll out of up to 4,000 free-to-use ATMs across the network.

In conjunction with the announcement, the Department published its response to a 12 week national public consultation on the network, which covered a range of proposed measures to modernise and reshape the network and put it on a more stable footing. Some offices will have to close, but the new "access criteria" will preserve the national network while protecting the vital social and economic role of post offices in local communities. Post Office Limited has now put in place a Network Change programme, involving the compulsory compensated closure of up to 2,500 branches, replacing around 500 of these with innovative new "Outreach" service points for small remote communities, including mobile post offices and services in village halls, community centres and pubs. The programme started in October 2007 and will be completed over a 12 to 18 month period.

European Commission state aid investigation

- 4.37** The European Commission are currently examining some aspects of the support package provided by the Government to Royal Mail, to determine whether they constitute state subsidies or whether they meet 'market investor' conditions. Broadly speaking, provision of funding on terms which would be acceptable to a private investor operating in a market economy is not considered state aid. The Department is clear that it has taken appropriate steps to ensure that all areas under examination represent funding on commercial terms.

Coal Pension Investment Reserve

- 4.38** The Investment Reserves are Government assets held within the closed coal pension schemes. Immediately prior to the privatisation of British Coal in 1994, the Corporation's two pension schemes (the British Coal Staff Superannuation Scheme (BCSSS) and the Mineworkers' Pension Scheme (MPS)) were closed and Government guarantees were introduced to safeguard the real value of members' pension entitlements.
- 4.39** Investment Reserves were established in each of the two schemes using British Coal's unused share of pre-privatisation valuation surpluses. The Investment Reserves act as a first line of defence in the event of any periodic deficit in the scheme sub-funds which support pension entitlements. To the extent they are not required for

this purpose, the Investment Reserves are ultimately payable to Government. The Government agreed in 1994 that it would leave Reserves in place until at least 2019 and indicated that, conditional on the recommendations of the schemes' actuary (the Government Actuary), withdrawals were likely to be weighted towards the second half of the 25 year period.

- 4.40** Funds from the Investment Reserves were deployed to support pension liabilities following deficits at 2002 and 2003 valuations in the MPS and BCSSS respectively. In 2006/7, in accordance with the Guarantee arrangements, these monies were repaid along with the appropriate capital gains after surpluses were identified in subsequent valuations (MPS: 2005, BCSSS: 2006). Further detail on the investments and the pension scheme accounts can be found in Note 16 to the accounts.
- 4.41** As guarantor to the coal pension schemes the Government is entitled to 50% of any valuation surplus. This money is held in a separate sub-fund known as the Guarantor's Fund and is payable to the Government in annual instalments over a 10 year period. In 2007-08 the fund was revalued downwards by £15.3 million and £286 million was released to the Guarantor. Further details on these funds can be found in Note 19 to the accounts.

Launch Investments

- 4.42** The Department provides support to the aerospace industry in the form of 'launch investments' for the development of aerospace products; historic investments are covered by the Department's portfolio of Launch Investment contracts. The investments are repayable to the Department at a rate of return, usually via levies on subsequent sales of the products developed. The Department forecasts sales and the future levies expected from each investment and the resulting cash flow is discounted to determine the value of the portfolio.
- 4.43** During 2007-08 the value of the investments fell by £35 million from £1,543 million at the end of 2006-07 to £1,508 million at the end of 2007-08, as a result of levy income offset by a valuation increase.

Capital for Enterprise Limited

- 4.44** Capital for Enterprise Limited (CfEL) has been set up to manage the Department's investment funds and the Small Firms Loans Guarantee Scheme. The Department owns 49,901 shares in CfEL and provides cash funding as grants in aid. CfEL commenced full business activity on 1 April 2008.

Nuclear Provisions

- 4.45** The Department retains the liability to cover the costs of the decommissioning of the United Kingdom Atomic Energy Authority (UKAEA) Culham site, and it assists British Energy (BE) in meeting its contractual historic fuel liabilities. The total nuclear provisions reduced by £57 million from £2,544 million at the end of 2006-07 to £2,487 million at the end of 2007-08.

Coal Provisions

- 4.46** The liabilities of British Coal transferred to the Department on 1 January 1998 (under the terms of the Coal Industry Act 1994). There are two schemes to compensate coal miners and their families in relation to respiratory disease (chronic obstructive

pulmonary disease (COPD) and Vibration White Finger (VWF)). The liabilities in relation to these provisions as at 31 March 2008 were £232 million and £57 million respectively. The schemes are now closed to new claimants. Around 762,000 claimants have been registered in both schemes.

- 4.47** Additionally there is a further health provision, which incorporates other injury-related compensation claims such as deafness, accidents and miscellaneous diseases. This also covers payments under British Coal's Pneumoconiosis Compensation Scheme and associated administration costs of managing the health claims. The value of the provision as at 31 March 2008 was £106 million.
- 4.48** Coal provisions reduced by £793 million, mainly due to a reduction in the COPD provision of £450 million due to payments of claims totalling £295 million and a decrease of £171 million in the provision based on the model used to predict future cash flows. This scheme closed in 2004. All other coal provisions have decreased.
- 4.49** Handling agreements for the COPD and VWF were negotiated with a group of solicitors (for each disease) who were the chosen representatives for the large numbers of firms involved. The agreements are necessarily complex as they define exactly how claims will be dealt with by claimants' solicitors, the Department's claims handlers, the medical assessors etc. They specify the compensation a claimant would have expected to get if he had pursued his claim under common law through the courts. They give claimants a fair entitlement tailored to reflect their disability. They are not flat rate schemes and reflect other factors set out in the Court judgements.
- 4.50** Apart from the health provisions, the Department has a responsibility to provide either solid fuel or a cash alternative to over 102,000 beneficiaries. Approximately three quarters of these have opted for the cash alternative which is index-linked to fuel and light prices. The value of the provision as at 31 March 2008 is estimated to be £386 million; payments in the year amounted to £47 million.

British Shipbuilders

- 4.51** The Department has taken responsibility for providing funds to British Shipbuilders Corporation for liabilities arising from personal injury to former employees as a result of exposure to asbestos, to the extent that these liabilities cannot be met from residual funds of the Corporation.
- 4.52** The total liability increased by £36 million from £79 million at the end of 2006-07 to £115 million at the end of 2007-08, following an independent revaluation of future liabilities.

Other provisions

- 4.53** Other provisions have increased by £144 million, mainly due to the creation of a provision for losses against the existing leases on properties that are determined surplus to existing and future requirements under the Department's "two-roof" accommodation strategy. The Department has attempted to mitigate potential losses by issuing sub-leases, but these do not cover the full costs to the Department of the existing head lease. The provision has therefore been made for the gap between costs and expected income

Revaluation reserve

4.54 The revaluation reserve, which records gains and losses on revaluation of assets in the period, stands at £3,916 million at 31 March 2008, compared to £4,487 million at 31 March 2007, largely due to the release of Coal Pension Fund surpluses and net charges to the value of the Launch Investment portfolio.

Cash Flow Statement

4.55 The Department also has to estimate how much cash it is going to need in the year (the Net Cash Requirement). The amount of cash required to fund the Department's activities during 2007-08 was £4,761 million compared to an Estimate of £6,025 million, an underspend of £1,264 million.

4.56 The underspend was mainly due to two factors:

- The estimated cash requirement for the Post Office working capital revolver loan (£650 million) is set to cover the maximum possible cash call allowable under the statutory provisions; outturns for 2007-08 meant that none of this was required at year end.
- The estimated grant in aid for the NDA was set to allow for the possibility that certain significant income streams of around £400 million would not materialise before year end; in the event these did materialise, so the NDA's cash requirement from the Department was reduced as a consequence.

4.57 Additionally, cash expenditure against provisions was £58 million lower than estimated, particularly in respect of coal health provisions.

Statement of Operating Cost by Departmental Aim and Objectives

4.58 The Statement of Operating Costs by Departmental Aim and Objectives shows how resources, as set out in the Operating Cost Statement, have been deployed to each of the Department's Strategic Objectives (DSOs). These are outlined in detail in section 1.3 and annex 3.

4.59 The DSOs differ from the Objectives disclosed in the Department of Trade and Industry Annual Report and Accounts 2006-07. Specifically:

- activities covered by the former Objective "Promoting world class science and engineering" have been transferred to the Department of Innovation, Universities and Skills;
- the former Objective "Supporting successful business" has been redefined as new DSO "Promoting the creation and growth of business";
- DSO "Ensuring better regulation" reflects the work of the Better Regulation Executive transferred from the Cabinet Office during 2007-08;
- DSO "Delivering free and fair markets" is broadly equivalent to the former "Free and fair markets" Objective;

- activities covered by the former Objective “Secure, sustainable and affordable energy” are now covered by DSO “Ensuring clean, safe and competitively priced energy” and DSO “Managing energy liabilities”
- DSO “Ensuring the Government acts as an effective shareholder” is new for 2007-08; and
- expenditure on activities now covered by DSO “Professional support, capability and infrastructure” were previously apportioned across the other objectives.

Other information

Risks and uncertainties that might affect the Department’s long-term position

4.60 The Management Board reviews each month, except August, the Department’s principal risks that might affect the organisation’s position either in the immediate or long term future. During the year these risks have included:

- potential major company failures;
- energy price rises/fuel poverty;
- better regulation;
- UK energy policy;
- Royal Mail/Post Office Ltd;
- Nuclear Decommissioning Authority; and
- budget funding.

Liquidity and currency risk

4.61 The Department has no borrowings and relies primarily on voted funds from Parliament for its cash requirements. It is therefore not exposed to liquidity risk. It has no material deposits so it is not exposed to interest rate risk and all material assets and liabilities are denominated in sterling, so it is not exposed to material currency risk. Further disclosures are provided in Note 33 to these accounts.

Pension liabilities

4.62 The Department’s staff can become members of the Principal Civil Service Pension Scheme (PCSPS). The Department’s employer’s contributions into the scheme are reflected in the Resource Accounts within staff costs. The PCSPS is an unfunded multi-employer defined benefit scheme and the Department is consequently unable to identify its share of the underlying assets and liabilities. There is therefore no reflection of the scheme on the Department’s Balance Sheet. Further details can be found in Note 9 to the accounts.

Payment of suppliers

4.63 The Department’s policy is to comply with the Better Payment Practice Code, which includes the Late Payments of Commercial Debts (Interest) Act 1988. The Department’s standard terms and conditions for the supply of goods or services specify payment within 30 days, or other agreed credit terms, of receipt of goods or

services or a valid invoice, whichever is the later. In 2007-08, the core Department paid 100% of undisputed invoices within the 30 days (98.3% in 2006-07), and the Consolidated Department paid 99.1% of undisputed invoices within the 30 days (98.1% in 2006-07).

Post balance sheet events

4.64 *Defence Export Service Organisation*: On 25 July the Prime Minister announced changes to how defence trade should be handled, namely that:

- the Government would look to move responsibility for defence trade promotion from the Defence Export Service Organisation to UK Trade and Investment.
- no change was envisaged to existing and planned agreements between the Ministry of Defence and other Governments which will continue to be administered by the Ministry of Defence.

4.65 With effect from 1 April 2008 the Defence Export Service Organisation was transferred to UK Trade & Investment, under the Machinery of Government change, and renamed the Defence & Security Organisation.

Auditors

4.66 These financial statements have been audited, under the Government Resources and Accounts Act 2000, by the Comptroller and Auditor General (C&AG), who is appointed under statute and reports to Parliament. The audit opinion is on pages 156 to 158. The notional cost to the Department of the external audit of the core account by the National Audit Office for the C&AG was £240,000 (2006-07: £266,000). The total cost of work on the Consolidated Account was £309,000 (2006-07: £328,000).

4.67 The NAO also completed other work relating to the core Department's activities. The main areas of work where subsequent reports were published by the Public Accounts Committee during 2007-08 or subsequently are set out below. These are discussed in detail in annex 7.

- *The Shareholder Executive and Public Sector Businesses* (42nd Report of 2006-07, HC 409, 20th September 2007)
- *The Restructuring of British Energy* (43rd Report of 2006-07, HC 892, 19th July 2007)
- *The Compensation Scheme for former Icelandic Water Trawlersmen* (11th Report of 2007-08, HC 71, 26th February 2008)
- *Coal Health Compensation Schemes* (12th Report of 2007-08, HC 350, 4th March 2008)

4.68 During 2007-08, and subsequently, the NAO also published reports on:

- *Evaluation of Regulatory Impact Assessments*¹⁵⁰: The report focused on regulatory impact assessments produced by the Department of Health and the Department for Communities and Local Government. The report concluded that

¹⁵⁰ Evaluation of Regulatory Impact Assessments (July 2007):
http://www.nao.org.uk/publications/nao_reports/06-07/0607606.pdf

all too often the regulatory impact assessments were not an integral part of the policy making process. The report noted that the relationship between the Better Regulation Executive and the departments had been strengthened. The Report recommended that the Better Regulation Executive and departments should work together to identify the key measures of good quality regulatory impact assessments (HC 606, 2006-2007, issued 11 July 2007).

- *Reducing the Cost of Complying with Regulations – The Delivery of the Administrative Burdens Reduction Programme*¹⁵¹: The report noted that, for the first time, as part of the Administrative Burdens Reduction Programme, the Government had estimated the burden on business of complying with the information obligations created by regulations. By setting targets and monitoring progress, it had established a means of holding departments to account for delivering reductions in the regulatory burdens on business. The report recommended that the Better Regulation Executive should build on the work already done by the DTI and develop a methodology for assessing the total cumulative cost to business of regulation. It also concluded that the Better Regulation Executive and departments needed to improve how they communicate with business about changes to the regulatory environment. (HC 615, 2006-2007 issued 25 July 2007).
- *The Nuclear Decommissioning Authority – Taking Forward Decommissioning*¹⁵²: The report concluded that the Authority, and previously the DTI, had developed a comprehensive and consistent framework for drawing up decommissioning plans at site level. The quality of the plans had improved over a number of iterations particularly in setting out what needs to be done and, in broad terms, how it might be done and when. The report noted that at the end of 2007 the Department transferred responsibility for the governance of the Authority from its policy team to its Shareholder Executive. The report urged the Department to ensure these new arrangements keep it fully aware of developing financial and other major issues affecting the decommissioning programme and enable it to assess key risks to the Authority's programme (HC 238, 2007-2008 issued 30 January 2008).

4.69 In addition, the NAO is currently engaged on work in the following main areas:

- UK Trade and Investment: Support for Trade with High Growth Markets; and
- Ensuring High Quality Impact Assessments.

¹⁵¹ Reducing the Cost of Complying with Regulations - The Delivery of the Administrative Burdens Reduction Programme (NAO, July 2007): http://www.innovazionepa.it/dipartimento/docs_pdf/Reducing_the_Cost_of_Complying_with_Regulations.pdf

¹⁵² The Nuclear Decommissioning Authority - Taking Forward Decommissioning (NAO, January 2008): http://www.nao.org.uk/publications/nao_reports/07-08/0708238.pdf

London Development Agency

- 4.70** The London Development Agency (LDA) is a local authority body and its accounts are not audited by the NAO but by the Audit Commission (AC).
- 4.71** The AC is in the process of undertaking its fieldwork in order to enable it to provide an opinion on the LDA's 2007-08 accounts. It is also considering a report prepared by the Finance Director of the LDA, with input from Deloitte, for the LDA Board. The Department is in close contact with the Commission and will be discussing with the Commission and the Agency any relevant findings from that audit and their views on the Finance Director's report.
- 4.72** The Department has written to the Audit Commission asking for more formal assurances. The Audit Commission has agreed to regular keep in touch arrangements with BERR for future financial years and as a first step, to discuss with us the outcome of their 2007-08 audit of the LDA, both financial and regarding systems and procedures, including regularity.
- 4.73** The Department will also press on with what it considers a robust set of monitoring arrangements, and has set out the detail of that role for the LDA (and the other RDAs) in its Sponsorship Assurance Framework.

Disclosure of audit information

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



Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary
10 July 2008

Section 4.5

Budgetary spend from year to year

Departmental Expenditure Limit (DEL)	
Comparison of 2006-07 and 2007-08 Budgeting Outturns	£m
Resource DEL Outturn 2006-07	2,001
<i>Increased expenditure on:</i>	
Support for Royal Mail ¹	379
Onerous property lease	193
Consumer Protection, including Face to Face Debt Advice	21
Enterprise Fund (including Small Firms Loan Guarantee Scheme)	15
Other programmes	10
<i>Offset by reduced expenditure on:</i>	
Nuclear Decommissioning Authority (arising from increase in income)	(217)
Concessionary Fuel	(136)
Regional Development Agencies	(93)
Administration costs	(46)
WEEE Directive	(22)
Resource DEL Outturn 2007-08	2,105
Capital DEL Outturn 2006-07	1,149
<i>Increased expenditure on:</i>	
Nuclear Decommissioning Authority	20
Other	2
<i>Offset by reduced expenditure on:</i>	
Regional Selective Assistance/Selective Finance for Investment in England	(38)
Capital Grants for renewable energy	(25)
Capital DEL Outturn 2007-08	1,108
Comparison of 2007-08 Outturns to 2007-08 Budgets	
Resource DEL Outturn 2007-08	2,105
<i>Underspends against budgets:</i>	
Nuclear Decommissioning Authority ²	562
Other non ring fenced budgets	64
Administration costs	32
Regional Development Agencies	14
Enterprise Fund (including Small Firms Loan Guarantee Scheme)	13
Insolvency Service	11
Face to Face Debt Advice project	2
Resource DEL Budget 2007-08	2,803
Capital DEL Outturn 2007-08	1,108
<i>Underspends against budgets:</i>	
Enterprise Capital Funds	40
Nuclear Decommissioning Authority	10
Regional Selective Assistance/Selective Finance for Investment in England	9
Capital Grants for renewable energy	8
Launch Investments	4
Other (including Departmental unallocated provision)	15
Capital DEL Budget 2007-08	1,194

Annually Managed Expenditure (AME)	
Comparison of 2006-07 and 2007-08 Budgeting Outturns	
Resource AME Outturn 2006-07	5,808
<i>Increased expenditure on:</i>	
Nuclear Decommissioning Authority ³	532
<i>Offset by reduced expenditure on:</i>	
Coal Health provisions and pension schemes	(78)
British Energy	(33)
Resource AME Outturn 2007-08	6,229
Capital AME Outturn 2006-07	
Capital AME Outturn 2006-07	(689)
<i>Increased expenditure on:</i>	
BNFL (smaller special dividend received in 2007-08)	290
Coal Pensions	150
<i>Offset by reduced expenditure on:</i>	
Post Office Working Capital revolving loan facility	(10)
Equity purchase in Royal Mail (2006-07 only) 4	(430)
Capital AME Outturn 2007-08	(689)
Comparison of 2007-08 Outturns to 2007-08 Budgets	
Resource AME Outturn 2007-08	6,229
<i>Underspends against budgets:</i>	
Coal Health provisions and pension schemes	136
Redundancy Payments Service	85
Other	1
<i>Overspends against budgets:</i>	
Nuclear Decommissioning Authority 5	(6,766)
British Energy	(23)
Resource AME Budget 2007-08	(338)
Capital AME Outturn 2007-08	
Capital AME Outturn 2007-08	(689)
<i>Underspends against budgets:</i>	
Post Office Working Capital revolving loan facility 6	660
Capital AME Budget 2007-08	(29)

Notes

- 1 Additional support to the Post Office network announced in May 2007
- 2 The underspend against budget was the result of additional income by the NDA arising from highly complex commercial contracts which were not finalised until December 2007. The final determination of the accounting and budgeting treatment of these contracts were not concluded until the year end.
- 3 The increase is mainly the result of an increase in decommissioning provisions
- 4 The purchase of shares Royal Mail shares took place in 2006-07; there was no similar transaction in 2007-08
- 5 The increase in the value of decommissioning provisions had not been determined when the final budget for the year was made.
- 6 The budget allows for the maximum amount of loan to be issued according to the agreement with the Post Office; at year end all outstanding loans issued in year had been repaid.