

Department of Trade and Industry

Consolidated Resource Accounts 2003-04

Department of Trade and Industry Consolidated Resource Accounts 2003 - 04

(For the year ended 31 March 2004)

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ANNUAL REPORT

AIMS AND OBJECTIVES

The DTI drives our ambition of 'Prosperity for All' by working to create the best environment for business success in the UK. We help people and companies become more productive by promoting enterprise, innovation and creativity.

We champion UK business at home and abroad. We invest heavily in world-class science and technology. We protect the rights of working people and consumers. And we stand up for fair and open markets in the UK, Europe and the world.

AIM

To deliver Prosperity for All by driving up productivity and competitiveness through world class science and innovation, successful enterprise and business, and fair, competitive markets.

OBJECTIVES

I) SUPPORTING SUCCESSFUL BUSINESS

The DTI's aim is to close the UK's productivity gap with better-performing G7 countries. It will do this by supporting the UK businesses to raise their productivity and to increase enterprise and by working in export markets to champion UK businesses. The DTI works in partnership with businesses, England's Regional Development Agencies (RDAs), other Government Departments, the devolved administrations and others.

II) PROMOTING WORLD-CLASS SCIENCE AND INNOVATION

Innovation is a vital part of economic growth and development in modern advanced economies. In the future, the UK will achieve success in the global market only by making the most of the UK's science, engineering and technology. The DTI is working to create a virtuous circle of innovation: from the very best research to the successful exploitation of ideas and knowledge by business and others.

III) ENSURING FAIR MARKETS

Fair markets at home and abroad have a central role in raising productivity and delivering prosperity for all, through providing choice for consumers and businesses, fostering innovation and providing quality jobs for employees. The DTI is working to develop strong, competitive markets with a regulatory framework that promotes fairness and sustainability.

Liabilities and assets management

The Department manages, on behalf of the Government, the residual liabilities arising from the coal and nuclear industries' past activities and continues to improve the way we manage these obligations.

The way we work

As a Department, our challenge is to ensure we have the right people, with the right skills and support, to deliver the Business Plan and serve our customers most effectively.

SCOPE

ENTITIES CONSOLIDATED

This Report and Accounts presents the consolidated results for the financial year 2003–04 of the following entities:

- The DTI, including DTI elements of administration expenditure for UK Trade & Investment, (UKTI) an entity whose administration costs are shared between DTI and the Foreign and Commonwealth Office (FCO), and shown in their respective resource accounts. UKTI’s programme expenditure is presented in its own resource accounts for the year;
- Executive Agencies:
 - Employment Tribunals Service;
 - The Insolvency Service;
 - National Weights and Measures Laboratory;
 - Radiocommunications Agency (to 28 December 2003 only)¹;
 - Small Business Service;
- The Advisory, Conciliation and Arbitration Service (ACAS), a Crown Executive Non-Departmental Public Body (NDPB).

The principal activities undertaken by the Agencies and by ACAS in pursuit of the aims and objectives of the Department are summarised below. Further details of each entity can be found in their respective annual reports and accounts available from The Stationery Office or as detailed on page 87.

Body	Principal Activities
The Employment Tribunals Service	Provides administrative support to Employment Tribunals and their appellate body, the Employment Appeals Tribunal.
The Insolvency Service	Deals with compulsory corporate and individual insolvencies in England and Wales, investigates fraud and misconduct in insolvencies and administers the Redundancy Payments Service.
National Weights and Measures Laboratory	Regulates equipment used for trade weighing and measurement, and represents the UK in international discussions of the technical requirements for measuring instruments.
Radiocommunications Agency	Managed the use of most non-military radio spectrum in the UK and represented the UK in international discussions on radio matters.
Small Business Service	Works as a strong voice for small business at the heart of Government, develops and maintains a world-class business support service; champions entrepreneurship; and helps reduce the burden of regulation on smaller businesses.
ACAS	Provides an independent and impartial service to prevent and resolve disputes and build harmonious relationships at work and resources two independent statutory authorities: the Central Arbitration Committee (CAC), which provides voluntary arbitration and exercises judicial arbitration powers; and the Certification Officer who is responsible for ensuring compliance with statutory provisions relating to trade unions and employers’ associations.

¹ The Radiocommunications Agency (RA) ceased to exist on 28 December 2003 and its functions transferred to the Office of Communications (Ofcom), a public corporation, on 29 December 2003. RA’s financial results to 28 December 2003 only are therefore consolidated into these accounts.

ENTITIES NOT CONSOLIDATED

Public bodies for which the DTI has lead policy responsibility within Government, but which are outside of the consolidation boundary for accounting purposes, are set out below. All these bodies publish their own annual reports and accounts, detailing their financial activity during the year. These can be obtained from The Stationery Office or the relevant body.

Trading Funds

- Companies House
- The Patent Office

Public Corporations

- British Coal Corporation²
- British Nuclear Fuels plc
- British Shipbuilders
- Nuclear Generators' Decommissioning Fund³
- Ofcom⁴
- Royal Mail Holdings plc

Non-Departmental Public Bodies (NDPBs)

- British Hallmarking Council
- Coal Authority
- Consumer Council for Postal Services - "Postwatch"
- Competition Commission
- Competition Service and Competition Appeal Tribunal⁵
- The Design Council
- Equal Opportunities Commission
- Gas and Electricity Consumer Council - "Energywatch"
- Hearing Aid Council
- National Consumer Council (also a company limited by guarantee)
- National Research Development Corporation (a shadow body that does not produce an annual report and accounts)
- The Regional Development Agencies (RDAs):
 - Advantage West Midlands
 - East Midlands Development Agency
 - East of England Development Agency
 - North West Regional Development Agency
 - One North East
 - South East England Development Agency
 - South West of England Regional Development Agency
 - Yorkshire Forward

² The British Coal Corporation was dissolved with effect from 27 March 2004

³ The Nuclear Generators' Decommissioning Fund (NGDF), previously a private company set up on the privatisation of British Energy in 1996, was re-classified as a Public Corporation by the Office of National Statistics with retrospective effect to the date of its inception.

⁴ The functions of five communications regulators, including the Radiocommunications Agency, transferred to the Office of Communications (Ofcom) on 29 December 2003. Ofcom is responsible to both DTI and DCMS.

⁵ The Competition Service and the Competition Appeal Tribunal were established in April 2003

- The Research Councils:
 - Biotechnology and Biological Sciences Research Council
 - Council for the Central Laboratory of the Research Councils
 - Economic and Social Research Council
 - Engineering and Physical Sciences Research Council
 - Medical Research Council
 - Natural Environment Research Council
 - Particle Physics and Astronomy Research Council
- Simpler Trade Procedures Organisation (also a company limited by guarantee)
- United Kingdom Atomic Energy Authority (UKAEA)

The Department also sponsors the London Development Agency, a local authority body and not an NDPB, which is responsible to the Greater London Authority.

The Secretary of State for Trade and Industry also represents the following non-Ministerial organisations that are outside of the resource accounts boundary and who produce their own accounts:

- Export Credits Guarantee Department (ECGD)
- Office of Fair Trading (OFT)
- Office of Gas and Electricity Markets (Ofgem)
- Office of Telecommunication (OfTel)⁶
- Postal Services Commission (Postcomm)

In addition, certain non-executive NDPBs, advisory bodies and tribunals which do not produce their own resource accounts, are included in these accounts by way of accounting for the funds paid to them as grant or expenses. Details of these bodies are listed in note 39.

OPERATING AND FINANCIAL REVIEW

The following Operating and Financial Review has been prepared so as to meet the requirements of the Accounting Standards Board's revised Statement 'Operating and Financial Review', published in January 2003, to the extent that it is meaningful and appropriate in the public sector context.

OPERATING REVIEW

Work of the Department during the year

Strategy

The DTI launched its new Strategy in September 2003⁷ providing an overarching framework for how it will deliver its ambition of Prosperity for all. Built on a sound evidence base, the Strategy identifies a set of priorities that focuses on raising productivity in the economy as a whole and addresses areas where DTI can have the greatest impact. The Department aims to make a difference directly where it can and to work with its partners to influence outcomes where it cannot deliver on its own. More information on the DTI's strategy and how the Department is implementing it, as well as what it did during 2003-04, is contained in the DTI's spring 2004 Departmental Report (*The Department of Trade and Industry: Departmental Report 2004, Cm 6216*) as well as in the "Investment for the future" section of this report on page 8.

⁶ OfTel ceased to exist on 28 December 2003 and its functions transferred to Ofcom, a public corporation, on 29 December 2003.

⁷ More information on the DTI's new Strategy can be found on the internet at <http://www.dti.gov.uk/about/strategy2003.html>

The DTI's numerous strengths include effective programmes, considerable expertise and well-motivated staff. The Department has developed a strong strategic direction and a culture that delivers on its promises, by developing policy based on rigorous analysis of the evidence and ensuring value for money. The business environment in the UK is already one of the best in the world, providing a strong basis for the Department's work to promote best practice and better regulation. The Department's agencies have well-established arrangements for gathering and using customer feedback to shape the way services are developed and the Department has well-established systems for evaluating its activities and feeding the results into policy development and resource allocation.

During 2003-04, the DTI employed just over 10,600 staff, in full time equivalents, organised in five agencies, in two trading funds, in the joint DTI-FCO organisation, UK Trade & Investment, and in its HQ, in the Business, Innovation, Energy, Fair Markets and Services Groups, the Office of Science and Technology, the Strategy Unit, the Legal Services Group and Ministerial and Parliamentary Support Team. It also sponsored and worked closely with a number of executive and non-executive non-departmental public bodies (listed on pages 4 and 5 of this Report), including ACAS (whose financial results are consolidated in these accounts), the seven Research Councils, eight English Regional Development Agencies, the Competition Commission, Equal Opportunities Commission and the UK Atomic Energy Authority.

Performance

Detailed information on the DTI's performance against its Public Service Agreement targets is published in the Departmental Report in the spring and updated in its Autumn Performance Report. Chapter 2 of the 2004 Departmental Report (Cm 6216) reported that the Department was on course to deliver 7 of its 12 PSA targets for 2003-06 (targets 1 - raising UK productivity, 2 - relative performance of UK science and engineering base, 3 - consumers and competition, 4 - energy and sustainable development, 7 - improvements in economic performance of the regions, 10 - increase employment rate of ethnic minorities and 11 - UK Trade and Investment). Outcomes have been mixed for Targets 6 - enterprise society, 8 - e-business and 9 - gender equality. Target 5 - reduction in trade barriers, was off track and Target 12 - value for money, had not yet been assessed.

Updated information on performance will be published in the Department's Autumn Performance Report 2004, due to be published towards the end of the year. Copies of the DTI's Departmental and Autumn Performance Reports can be bought from TSO (The Stationery Office) or found on the DTI website under www.dti.gov.uk/expenditureplan and www.dti.gov.uk/about/apr respectively.

Schedule 5 of the Accounts, *Consolidated Resources by Departmental Aim and Objectives*, on page 34, indicates the net expenditure incurred against each of the DTI objectives. There were significant increases in total resources applied to all 3 main objectives. Some of the significant highlights during the year, by reference to objective, are listed below.

Supporting Successful Business:

- Helped 330,000 businesses through Business Link, 275,000 through UK Online, 30,000 through UK Trade & Investment and 1,140 through Smart, and distributed 150,000 copies of our "No-Nonsense Guide to Government rules and regulations for setting up your business";
- Launched the Skills Strategy, matching education supply to business needs and setting out ways to improve employer demand;
- Transformed the DTI's approach to business support, and reduced the number of business support products from 100 to 10;
- Launched businesslink.gov, the Government portal for business;
- Improved our relations with business, building relations with around 340 key companies and over 100 key intermediaries and argued across Whitehall for the needs of business in policy making.

Promoting World-class Science and Innovation:

- Published the innovation report, setting out how to help business pull through ideas and turn them into products;
- Invested almost £2.4 billion in science, including £250 million in our research infrastructure;
- Seen Foresight projects on Cognitive Systems and Flood & Coastal Defence lead to breakthroughs in thinking across Government and research bodies;
- Seen UK scientists and engineers play a leading role in the first European mission to Mars;
- Invested £50 million in knowledge transfer from the science base to business.

Ensuring Fair Markets:

- Helped over one million low paid workers by lifting the National Minimum Wage to £4.50 per hour, with another increase planned for October 2004;
- Reviewed consumer credit laws and published proposals for the biggest shake-up of consumer credit in 30 years;
- Provided legal protection against discrimination at work on grounds of sexual orientation and religion or belief;
- Led the biggest expansion of renewable energy in the world. Wind farms will provide energy for one in six households in a decade;
- Paid out over half a billion pounds to 30,000 ex-miners in the world's largest ever personal injury scheme.

Investment for the future

The Department has, in recent years, been changing the way it works in order to develop a clear focus which will allow it to meet the expectations of its key stakeholders. We have already made significant improvements. Strong systems for performance and risk management have been established, with challenge from external independent Board members, clear accountability at Board level, and quarterly reporting on performance against our measures and targets. The DTI Strategy identified how we can further develop our staff and produce a high-performance workplace with a strong focus on delivery. We are committed to serving our customers better and providing the taxpayer with greater value-for-money.

Departmental Strategy and Delivery

In line with the Strategy, the Department is changing the way it works to meet customer needs better. We are focusing on delivery and strengthened project management, and working more closely with other Government departments and partners throughout the UK. We are also working with partners in Europe to create more open fairer markets, leading to greater prosperity, innovation and growth in the UK, the EU and globally. We have shifted resources to priority areas. We are stopping or scaling down less essential work and increasing efficiency in all areas.

In 2004-05 our Departmental Board will monitor most closely the following four programmes:

- i) Encouraging innovation in UK businesses through our Innovation Action Plan (which was published as part of the DTI's Innovation Report in December 2003);
- ii) Raising national and regional economic performance by working more effectively with the Regional Development Agencies (RDAs) and other regional bodies;
- iii) Offering better-targeted business support by introducing the six remaining new products and closing previous schemes; and
- iv) Driving forward new arrangements for the decommissioning and clean up programme at public sector civil nuclear sites through the establishment of the UK's civil Nuclear Decommissioning Authority by April 2005.

The Way We Work

The Department is committed to transforming and continually improving its internal processes and services so that they effectively and efficiently meet the needs of internal customers as well as supporting the delivery of the Department's Strategic objectives and priorities.

These strategic priorities are translated, through business planning, into detailed actions for 2004-07, which set out how the DTI will deliver them and provide a basis for managing performance in delivery. During the forthcoming year the Department will:

- Apply the priorities and principles in the Strategy in delivering the objectives in its Business Plan and in its approach to the 2004 Spending Review, which will determine PSA targets and resources for 2005-08 (for more information on the Spending Review outcome, see the section on 'Events since the end of the financial year' on page 18);
- Continue to strengthen its analytical capabilities and evidence base and ensure they are effectively used to inform and support strategic and operational decision-making;
- Co-ordinate marketing strategies more effectively, maximising the coherence and cost effectiveness of communications and expenditure, including by programme budget holders;
- Develop and implement a programme to strengthen the DTI's relationships across Whitehall and in the EU on key policy issues which have an impact on the Department's stakeholders;
- Build on and extend the Leadership Development Programme introduced in 2003-04, in order to improve leadership skills and behaviours at all levels;
- Implement the pay and workforce strategy recently agreed with HM Treasury to make the Department leaner and more highly skilled;
- Begin to remodel accommodation in the main London HQ buildings to support flexible working and enable other buildings to be released, saving rent.

e-Government

The Department remains on course to meet the Prime Minister's 2005 electronic service delivery target. 70% of key services are electronically enabled now and 85% will be by the end of 2004. Further details can be found in the 2004 Departmental Report, Department of Trade and Industry: *Departmental Report 2004 (CM 6216)*, also available on the website, www.dti.gov.uk.

Investment and Asset Management

Full details of the Department's investment strategy, including planned new investment, asset disposal plans and Private Finance Initiative (PFI) and Public-Private Partnership (PPP) contracts, can be found in the Departmental Investment Strategy (the DIS). This document was compiled and published as part of the Spending Review 2002 settlement and has been updated as part of the Spending Review 2004. A copy of the DIS can be located on the Departmental website (www.dti.gov.uk/about/dis/index.htm) and a summary of the Department's capital expenditure by activity can be found in the 2004 Departmental Report. Up-to-date asset and investment information is also contained in notes 13, 14, 15 and 19 to these Accounts.

Capital Modernisation Fund

The Capital Modernisation Fund (CMF) is aimed at providing innovative capital projects with some or all of the resources they require to proceed, funding only capital expenditure, with all current costs having to be met by bidders. In the first four rounds of the CMF the Department secured £279 million in relation to 12 projects. Details of these projects can be found in previous years' Expenditure Plans Reports on the DTI website at www.dti.gov.uk/expenditure plan. No new DTI projects were allocated funding during 2003-04.

Invest to Save Budget

The Invest to Save Budget (ISB) is a joint venture between HMT and the Cabinet Office. It finances projects conducted in partnership between two or more public bodies that demonstrate innovation or improvements in public service delivery. Projects should have an approximately 80/20 split between current and capital expenditure and bidders are expected to fund at least 25% of the costs from their own resources.

In the first five rounds of ISB the Department was allocated £17 million, across 10 projects. In round six of the ISB, the results of which were announced in February 2004, the Department was allocated £1.25 million in support of "the Supplier Route to Government" project. This is intended to improve competition in the Government marketplace by making access for suppliers, particularly SMEs, simpler and easier. Additional information on the projects involved can be found in the DTI's Departmental Report for 2004 and previous years and, on ISB generally, at the ISB website, www.isb.gov.uk.

Future Management of Civil Nuclear Liabilities

A new public body, the Nuclear Decommissioning Authority (NDA), will be established in terms of the Energy Act 2004 which received Royal Assent on 22 July 2004. The NDA will ensure that the Government's civil nuclear legacy, which is presently the responsibility of BNFL and UKAEA, will be cleaned up safely, securely, cost effectively and in ways that protect the environment. The NDA will provide strategic direction for this work across the UK. The cost of discharging the legacy is around £50 billion (undiscounted) over the next century. The NDA, which will be established in October 2004 and be fully operational by April 2005, is expected to have an initial budget of around £2 billion.

British Energy plc

On 1 October 2003, British Energy, a privately-owned electricity generator, announced that it had formally agreed with creditors the terms of its proposed restructuring announced on 28 November 2002. The Government announced that it would stand behind the restructuring arrangements to guarantee nuclear safety and security of supply, and pending implementation of full restructuring, the Government continues to make the credit facility available to British Energy at a level of up to £200 million.

Under the restructuring the Government will underwrite the Nuclear Liabilities Fund (NLF), a renaming and expansion of British Energy's current Nuclear Generation Decommissioning Fund. The NLF will be a company limited by shares owned by the Nuclear Trust, with the majority of the trustees being selected by Government. The Fund will assume financial responsibility for discharging the costs of certain of British Energy's uncontracted nuclear liabilities, and the costs of decommissioning British Energy's nuclear power stations. To the extent that payments by British Energy as set out below fall short of the Fund's requirements, the Government will make up the difference.

Under the plan the British Energy group will, once the re-structuring is complete, make payments to the new Nuclear Liabilities Fund, being:

- fixed decommissioning contributions of £20 million per annum tapering as stations are scheduled to close (indexed to RPI);
- £150,000 (indexed to RPI) for every tonne of fuel loaded onto the Sizewell B reactor after completion of the proposed restructuring;
- £275 million of bonds in the company; and
- 65 per cent of its free cash flow each year.

The trustees of the NLF will also have the right to convert all or part of the 65 per cent of available cash payments into a number of shares in BE. The terms governing the option to convert the payment into shares will limit the general voting rights attaching to such shares to a maximum of 29.9 per cent.

In addition the Government undertook to contribute significantly to the company's historic nuclear spent fuel liabilities managed by BNFL. It is estimated that the costs to Government will average £150 - £200 million a year for the next 10 years and will fall thereafter. If BE does very well, surpluses from BE's contribution to the decommissioning funds will help meet those costs.

The Government has confirmed that the restructuring will only be implemented once all the conditions of the formal agreements to the proposed restructuring are met. These include the receipt of State Aid approval from the European Commission. The Commission announced on 23 July 2003 that it was opening a formal investigation procedure into the Government's aid to British Energy.

In addition, the Government must not have determined that British Energy will not be viable in all reasonably foreseeable conditions. Should there be a material adverse change in British Energy's position, the Government has reserved the right to withdraw its support for the restructuring. This would include withdrawal of the credit facility.

The Government maintains contingency plans in case the company puts itself into administration. This means that, whether or not the solvent restructuring plan is implemented, Government's overriding objectives of ensuring the safety of the nuclear power stations and the security of electricity supplies to the grid and consumers will be met.

The consequences of the Government's support for British Energy are reflected in these resource accounts, specifically:

- Provisions for expenditure of £2.37 billion for historical contracted liabilities (note 23);
- Contingent liabilities for uncontracted and decommissioning liabilities, pension obligations and the credit facility agreement and indemnities given to Secretary of State appointed Trustees of The Nuclear Trust (note 30);
- Third party assets (note 37).

The European Commission announced on 22 September 2004 its approval of the Government's restructuring aid to British Energy. For further detail see "Events since the end of the financial year" on pages 18 to 20.

Royal Mail Holdings plc

Royal Mail Holdings plc, the entity to which the properties, rights and liabilities of the Post Office were transferred, is a company wholly owned by the Government.

At the end of 2002 the Government agreed a new financing package for the Royal Mail mails business. This package, which comprises £1,044 million of debt finance from the Government on commercial terms, provides Royal Mail with the funds it needs to deliver its restructuring programme for its mail business and aims to return the company to sustainable profitability. During 2003-04 Royal Mail did not draw down on any of these facilities.

In addition, in May 2003 the DTI secured state aid clearance for a £2 billion package of support for the post office network, including rural post offices. The Department has also developed, and is now implementing, a £1.15 billion working capital loan facility for Post Office Limited. The first of several drawdowns was made on 1 December 2003.

The DTI continues to provide funds to support Post Office Ltd's restructuring of the urban post office network.

Machinery of Government Changes During 2003-04

There were no Machinery of Government changes during 2003-04. However, during the year work on the Mutual Recognition of Qualifications (an EU Directive) transferred from the DTI to the Department for Education and Skills (DfES) (on 1 October 2003); the administration of the Redundancy Payments Service transferred to The Insolvency Service (on 1 April 2003); and the functions of the Radiocommunications Agency transferred to The Office of Communications (OFCOM) (on 29 December 2003).

FINANCIAL REVIEW

Funding and content of the main financial statements

As a Government Department, the DTI is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons, specifying the estimated expenditure and asking for the necessary funds to be voted. The Department then draws down voted funds in year from the Consolidated Fund as required.

The Estimates are structured by "Requests for Resources" (RfR) and include a formal description ("ambit") of the services to be financed under each RfR. Voted money cannot be used to finance services that do not fall within the ambit of the RfR.

DTI has three Requests for Resources: RfR 1, for Trade and Industry expenditure; RfR 2, for Science expenditure; and RfR3 in respect of the UKAEA Superannuation Schemes. *Schedule 1*, which is the main Parliamentary control schedule, reports the Outturn against the Estimates for RfR 1 and RfR 2. A separate Resource Account for RfR 3 is produced and published each year and is available from The Stationery Office and on the DTI website.

Schedule 2, the Operating Cost Statement, shows the resources consumed by the Department during the year, comprising administration and programme expenditure, net of Departmental income. This Schedule also includes the statement of recognised gains and losses. *Schedule 3*, the Balance Sheet, shows the assets, liabilities and taxpayers' equity of the Department at year-end.

Schedule 4, the Cash Flow Statement, analyses the net cash flow from operating activities, identifies how much was spent by the Department on capital expenditure and investment, records what Consolidated Fund Extra Receipts were collected and paid over to HM Treasury and shows the funding that the Department drew down from the Consolidated Fund to finance its activities during the year. The balance of these cash movements is the Department's net requirement for cash during 2003-04, which is also reported on Schedule 1.

Schedule 5, Resources by Departmental Aim and Objectives, breaks down the total resources consumed against each of the main objectives under the Department's one Aim.

2003-04 Outturns against Estimate

Schedule 1 shows underspends against the Estimates of £1,848 million for RfR1 (Trade and Industry programmes) and £100 million for RfR2 (Science programmes). The respective underspends in 2002-03 were £789 million and £68 million.

As described on Schedule 1, a major reason for the large underspend on RfR1 was because the Department was required to budget for the full potential amount of support for Royal Mail Holdings plc (£4 billion investment and £3.3 billion redemption of that investment in year) but only a proportion of that support (less than £1 billion) was drawn down by the company and was virtually all repaid by year-end (see previous section headed *Royal Mail Holdings plc* in the Operating Review). There was a lower than expected increase in both Nuclear and Coal Health related provisions.

The Royal Mail support issue also largely explains the variance (£1,109 million) on outturn Net Cash Requirement against Estimate. Additionally, the Department received more cash in relation to its Launch Investments than were budgeted (see note 15 for detailed financial information about Launch Investments).

The total underspend of £100 million on RfR2 – Science programmes – was caused by a number of factors, mostly relating to the Research Councils. There were slippages in the work programmes of a number of the Councils and, in addition, some of the councils have planned budgetary reserves which, this year, has given rise to apparent 'underspends'.

Note 12 to these Accounts – Analysis of net resource outturn and net operating cost by function – is the other source of comparison of outturns against budgets and shows the variances in more detail than Schedule 1.

Provisions

The Department manages for Government the residual liabilities arising from the coal and civil nuclear industries' past activities. These are long-term commitments and represent, in financial terms, the most significant part of the Department's budget.

Coal provisions

These relate to former British Coal liabilities, which transferred to the Department under the Coal Industry Act 1994.

Health claims make up by far the largest proportion of this expenditure and are expected to cost a total of around £4.5 billion (undiscounted) over time before they are fully discharged. They are sensitive to the number of claims received for compensation from former mineworkers and the size and timing of individual awards made. There is, therefore, some uncertainty surrounding the forecasting of future costs. The amounts included in these accounts reflect the best available estimate of the size of these liabilities at the time.

The Department also has a responsibility to provide either solid fuel or a cash alternative to 125,337 beneficiaries. Approximately two thirds of these have opted for the cash alternative at an average of £272 per annum, compared with the average annual solid fuel cost to the Department of £682 per beneficiary. The number of beneficiaries is decreasing at around 13% per year and therefore the liability will continue for several decades. The provision is based on standard female mortality rates and includes an assumption of beneficiaries continuing to switch their entitlement from solid fuel to cash.

The other non-health provision mostly represents the Department's estimated liability in restoration of contaminated former coalfield sites.

Expenditure in 2003-04 on all coal liabilities came to £958 million (£949 million in 2002-03). Note 22 provides more detail.

Nuclear provisions

The Department funds the costs of UKAEA's programme of decommissioning and clean up to environmentally restore its nuclear sites. The costs of the restoration programme are covered by a provision of £4,821 million. During the year payments totalling £306 million (2002-03 £277 million) were made to reduce the liability. See note 23 for more detail.

The Department has undertaken to pay by instalments an agreed sum to Magnox Electric Ltd towards the cost of decommissioning and clean up of nuclear facilities and sites. Magnox Electric is owned by BNFL. The undertaking is covered by a provision of £6,876 million. No payments were made to reduce the liability during the year because the first installment is not due until 2008. See note 23.2 for more details.

It is intended that all the Department's commitments to fund nuclear clean up will, in future, be managed by the Nuclear Decommissioning Authority (NDA). The NDA will assume financial responsibility for both of the commitments mentioned above, and for BNFL's nuclear decommissioning obligations, which total approximately £41 billion (undiscounted – as per BNFL's latest annual accounts). All these commitments will then be consolidated into a single provision covering the Department's commitment to fund the NDA. The new arrangements are expected to apply from 1 April 2005. See the section on 'Future Management of Civil Nuclear Liabilities' on page 10 for more information on the NDA.

British Energy related provisions

If implemented, under the terms of British Energy's solvent restructuring, Government has agreed to take financial responsibility for British Energy's historic spent fuel liabilities, which are managed by BNFL. More detail is given on pages 10 & 11 of this report.

The provision is shown in the accounts, at note 23, at a discounted total value of £2,369 million. It is estimated that the costs to Government will be £181 million a year (undiscounted at March 2004 prices) for the next 10 years. Costs are then expected to fall each year thereafter until the liability is extinguished in 2032.

Investments

The Department holds a number of investments, both fixed and current asset, the total valuation of which as at 31 March 2004 was £5,586 million (£5,104 million in 2002-03). The most significant investment is that in the reserves of two closed pension schemes for the former employees of the British Coal Corporation and the Department's entitlement to half of declared surpluses on the two schemes. Further details of investments are shown at notes 15 and 19 to the accounts.

Change of Discount Rate

From 1 April 2003, HM Treasury has changed the rate at which Departments are required to discount future cashflows when determining the value for long-term liabilities and investments and to use when calculating the notional cost of capital charge, or credit, on the balance of assets and liabilities held. Previously the rate to be applied was 6% and this was changed to 3.5% with effect from the start of the 2003-04 financial year. The effects of this change, which was treated as a change in accounting estimation technique and therefore charged to the Operating Cost Statement in-year as required by FRS18 (*Accounting Policies*), are shown in note 36.

Going Concern

The balance sheet at 31 March 2004 shows negative Taxpayers' Equity of £13,931 million (2002-03 £10,045 million). This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet DTI's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent moneys, including those derived from the Department's income, are surrendered at year-end to the Fund.

In common with other Government departments, the future financing of DTI's liabilities is to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. Accordingly, it has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Further Information

More detailed information on the performance of the Department in 2003-04, along with its future plans, can be found in *Department of Trade and Industry: Departmental Report 2004 (CM 6216)*, which is also available on the internet at www.dti.gov.uk/

CORPORATE GOVERNANCE**Ministers**

The Ministers with responsibility for Trade and Industry in 2003–04, and their respective responsibilities (with effect from 16 June 2003) were as follows:

Secretary of State for Trade and Industry, Minister for Women and Equality and e-Minister in the Cabinet	The Rt Hon Patricia Hewitt, MP
Minister of State for Employment Relations, Industry and the Regions	Alan Johnson, MP (to 12 June 2003)
Minister of State for Industry and the Regions and Deputy Minister for Women and Equality	The Rt Hon Jacqui Smith, MP (from 13 June 2003)
Minister of State for International Trade and Investment (also holds Ministerial Office in the FCO)	The Rt Hon Baroness Symons of Vernham Dean (to 12 June 2003)
Minister of State for Trade, Investment and Foreign Affairs	Mike O'Brien, MP (from 13 June 2003)*
Minister of State for Energy and Construction	Brian Wilson, MP (to 12 June 2003)
Minister of State for Energy, E-Commerce and Postal Services	Stephen Timms, MP
Parliamentary Under-Secretary of State for Science and Innovation	Lord Sainsbury of Turville
Parliamentary Under-Secretary of State for Competition, Consumers and Markets	Melanie Johnson, MP (to 12 June 2003)
Parliamentary Under-Secretary of State for Employment Relations, Competition and Consumers	Gerry Sutcliffe, MP (from 13 June 2003)
Parliamentary Under-Secretary of State for Small Business and Enterprise	Nigel Griffiths, MP

*Since 12 June 2003, Ministerial responsibilities for Energy and Construction transferred to Stephen Timms and Nigel Griffiths.

The remuneration of ministers, which is determined in accordance with the provisions of the Ministerial and Other Salaries Act 1975, is detailed further in note 3 to these accounts.

Permanent Head of the Department

The permanent head of the DTI is the Permanent Secretary, Sir Robin Young KCB. The Permanent Secretary's appointment, including length of time of the appointment, is governed by the Civil Service Management Code.

Note 3 to these accounts provides details of salaries and pension entitlements in respect of the Permanent Secretary and the other most senior members of the Department.

Departmental Boards

The DTI's current Board structure comprises a Strategy Board, Executive Board and six Group Boards. Members of all these Boards, with the following exceptions, are civil servants appointed in accordance with the Civil Service Code and their remuneration is determined in accordance with Cabinet Office guidelines, which take into account the recommendations of the Senior Salaries Review Body. The exceptions are: the Boards' Independent Members; and the Secretary of State and the Minister responsible for E-Commerce and Competitiveness, Stephen Timms, who sit on the Strategy Board.

The Independent Members have been appointed for two years in the first instance (from 13 June 2002). Remuneration is based on a flat-rate annual honorarium plus reasonable expenses.

Strategy Board

The Strategy Board's role is to help strengthen the leadership of the Department. Its key responsibilities are to consider the Department's strategic forward look; its strategic priorities, high-level objectives and targets; and its new ways of working. In the light of the priorities, objectives and targets, and performance against them, the Strategy Board is also responsible for reviewing the Departmental business plan proposed by the Executive Board; the allocation of resources; the handling of cross-cutting issues; and the delivery of DTI services.

The members of the Strategy Board in 2003–04 were:

Secretary of State for Trade and Industry and Minister for Women (Chair)	Rt Hon Patricia Hewitt, MP
Minister of State for Employment Relations, Industry and the Regions	Alan Johnson, MP (to June 2003)
Minister of State for Energy, E-Commerce and Postal Services	Stephen Timms, MP (from July 2003)
Permanent Secretary	Sir Robin Young KCB
Independent members	Mair Barnes <i>(Non Executive Director, Scottish Power, Patientline Ltd, Woolworths Holdings Ltd (South Africa) and GWR Group plc)</i>
	Tony Cooper <i>(Chairman of the British Nuclear Industry Forum, Member of the DTI Energy Advisory Panel, Postal Services Commission and the Forestry Commission);</i>
	Sir Richard Sykes FRS <i>(Rector, Imperial College of Science, Technology & Medicine)</i>
Director General, Services Group	Dr Catherine Bell

Also attending:

Director, Strategy Unit	Geoff Dart
Chief Economic Adviser & Director General, Economics	Vicky Pryce

Executive Board

The Executive Board's role is to help strengthen planning, performance and change management across the Department, and to support the Strategy Board. Within the strategic and resource framework determined by the Secretary of State, the Board's key responsibilities are to deliver the Departmental objectives through effective management of the Department, the introduction of new ways of working and the effective management of its resources (people, money, infrastructure).

The members of the Executive Board in 2003–04 were:

Permanent Secretary (Chair)	Sir Robin Young KCB
Independent members	Crawford Gillies <i>(Managing Director Europe, Bain & Company Inc);</i>

	Mary McAnally (Former Managing Director, Meridian Broadcasting Ltd; Board Member, South East England Development Agency; Chairman, Sport England South East; Member, Balancing and Settlement Code Panel; Board Member, Screen South; Member of Committee of Management, All England Lawn Tennis and Croquet Club; Media Consultant);
	Fields Wicker-Miurin (Executive Director, Leaders Quest)
Director General, Services Group	Dr Catherine Bell
Director General, Business Group	Mark Gibson
Director General, Fair Markets Group	Stephen Haddrill
Director General, Innovation Group	David Hughes
Director General, Legal Services	Anthony Inglese
Director General, Energy Group	Joan MacNaughton
Chief Economic Adviser & Director General, Economics	Vicky Pryce
Group Chief Executive, UK Trade & Investment	Sir Stephen Brown KCVO

Also attending:

Chief Scientific Officer and Head of the Office of Science and Technology Director General, Research Councils	Prof Sir David King KB, SCD, FRS Sir John Taylor (to December 2003) Sir Keith O’Nions (from January 2004)
Director, Strategy Unit	Geoff Dart
Director, Finance & Resource Management	David Evans

Those members of the Strategy and Executive Board who are also Civil Servants are, by the terms of that employment, precluded from holding any company directorships or other significant interests that may conflict with their management responsibilities. The Independent Board Members are required to declare any personal or business interests which may, or may be perceived to, influence their judgement and are asked on a regular basis to keep this updated.

Group Boards

The six Group Boards reflect the main strategic areas of the Department — *Successful Business, Energy, Fair Markets, Innovation, Legal, and Corporate Services* — and further strengthen the delivery of the Department’s objectives through the effective management of its resources. The Boards’ role is to advise the respective Director Generals on the operation and development of the Group at the strategic level; the delivery of the objectives and targets for which the Group is responsible in the Department; how to help the Department maximise its effectiveness in a “joined-up” way; setting priorities in the light of resources available; becoming more outward-looking and customer-focused; and becoming “smarter”, more modern, flexible and responsive in its ways of working.

Group Boards are chaired by the relevant Director General, and Board Members include senior officials as well as between one and four Independent Members per Board.

Audit Committee

The Audit Committee’s purpose is to assist and advise the Department’s Accounting Officer on internal control, audit and financial accounts issues. In order to discharge these responsibilities the Committee met four times in 2003-04.

Several important changes to the membership and formation of the Audit Committee occurred in October 2003. Chairmanship of the Committee changed, with Philip Sellers CBE retiring from the post after 6 years, being succeeded by Crawford Gillies, an independent member of the Department's Executive Board. The number of independent members was also increased by one with the appointment of Julia Unwin. The only change to executive members was the appointment of Claire Durkin to replace Stephen Speed who left the Committee in 2002.

Membership of the Audit Committee as at 31 March 2004 was:

Independent Members	Crawford Gillies (Chair) <i>(MD Europe, Bain & Company Inc)</i>
	Steve Wills <i>(Ernst and Young)</i>
	Julia Unwin <i>(Independent member of DTI's Fair Markets Group Board)</i>
Director General, Business Group	Mark Gibson
Director General, Legal Services	Anthony Inglese
Head of Energy Innovation and Business Unit	Claire Durkin

Meetings of the Committee are also normally attended by the Director of Finance and Resource Management Directorate, the Director of Internal Audit and a Director of the National Audit Office.

For most of 2003 there was a Risk Review Group (a sub-group of the Audit Committee also Chaired by Philip Sellers) that met three times during the year, to review the Department's key risk management framework and advise the Departmental Board on outcomes. The last meeting of the Risk Review Group was in September 2003, following which the work of the Group has been subsumed into the responsibilities of the full Audit Committee.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

Corporate Governance

During 2003-04 the DTI undertook a review of its corporate governance structure and on 4 May 2004 the Permanent Secretary announced plans to develop the governance structure, aimed at improving the transparency and effectiveness of decision making across the Department. A Departmental Secretariat has been established to support the Strategy and Executive Boards as well as the Executive board sub-committees: Permanent Secretary's, Resources, Audit, Investment and Performance Monitoring Committees.

Redemption of Special Shares

On 5 May 2004, the Secretary of State announced that the Government planned to redeem its special share in National Grid Transco plc, and to retain its special shares in the British Energy Group but with modified powers. Only two provisions of the existing special shares in the British Energy Group are proposed to remain with the Government. They are:

- a) Requirement of Ministerial consent for anyone to purchase more than 15% of British Energy issued shares;
- b) Requirement of Ministerial consent for the disposal of a nuclear power station by British Energy.

It is proposed that both of these provisions will be amended to ensure that Government consent can only be refused on grounds of national security.

Spending Review 2004 Settlement

The Chancellor of the Exchequer published the Spending Review 2004 White Paper on 12 July 2004, setting out three year plans (2005/06 to 2007/08) for Government spending. As a result of this Spending Review, total spending by the Department of Trade and Industry (DTI) will be over £850 million higher in 2007-08 than in 2004-05, representing an average real growth rate of 3 per cent a year.

There will be large increases to science and innovation budgets, worth £515 million over the SR2004 period. The science budget will increase to £3.3 billion by 2007/08, which recognises the importance that the Department has placed on boosting the science base of the country.

Another significant change is that RDAs will take on new responsibilities for regional delivery of the Business Link service, the grant for R&D, enterprise in disadvantaged areas and supporting business-university collaboration. As a result, DTI funding for RDAs will be increased from £234m to £483m by 2007/08.

The Department's central aim will remain to raise UK productivity and promote prosperity for all.

In addition, the Department will play its part in meeting the cross-government targets of efficiency savings highlighted by the Gershon Review, generating at least £380 million across the full range of the Department's activities by 2007/08, some of which will help to fund business priorities on innovation and enterprise. As a result of the Department's response to Gershon and the SR2004 settlement, there will be a reduction in staff numbers in the core Department of just over 1,000 by 2007/08.

Machinery of Government Changes

On 14 June 2004 the Shareholder Executive transferred from the Cabinet Office to the DTI.

Ministerial Changes

On 9 September 2004, the following changes were made to the DTI Ministerial team:

- Stephen Timms left the Department and took up the role of Financial Secretary in HM Treasury.
- Douglas Alexander has been appointed Minister of State for Trade in both DTI and Foreign Office.

New Ministerial responsibilities since 9 September are as follows:

Secretary of State for Trade and Industry, Minister for Women and Equality and e-Minister in the Cabinet	The Rt Hon Patricia Hewitt, MP
Minister of State for Industry, Corporate Governance and the Regions and Deputy Minister for Women and Equality	The Rt Hon Jacqui Smith, MP
Minister of State for Trade Policy and Promotion, Inward Investment and the Export Credit Guarantee Department (also holds Ministerial Office in the FCO)	Douglas Alexander, MP
Minister of State for Energy, the Communications and Information Industries and sustainable Development	Mike O'Brien, MP
Parliamentary Under-Secretary of State for Science and Innovation	Lord Sainsbury of Turville
Parliamentary Under-Secretary of State for the Small Business Service, Construction and Export Control	Nigel Griffiths, MP
Parliamentary Under-Secretary of State for Postal Services, Employment Relations, Competition Policy and Consumer Policy	Gerry Sutcliffe, MP

British Energy

On 22 September 2004, the European Commission announced its approval of the Government's restructuring aid to British Energy. British Energy is progressing with the implementation of the restructuring plan.

The restructuring will only be implemented once all the conditions of the formal agreements to the proposed restructuring are met. A number of these conditions remain to be satisfied, including that the Government must not have determined that British Energy will not be viable in all reasonably foreseeable conditions. If the Government makes such a determination at any time up to the effective date of restructuring, or if there is a material adverse change in British Energy's position, the Government continues to reserve its right to withdraw its support for the restructuring.

Under the European Commission's rules, rescue aid ceases once the Commission has reached a decision on the restructuring aid. Therefore, no further drawings can be made on the credit facility which the Government has made available to British Energy since September 2002. All drawings on the facility have been repaid with interest by British Energy.

If the restructuring fails for any reason, the Government has contingency plans ready to secure its overriding objectives of ensuring the safety of the nuclear power stations and the security of electricity supplies to the grid and consumers.

PUBLIC INTEREST and OTHER**Payment of Suppliers**

The Department's policy is to comply with the Better Payment Practice Code, which includes the Late Payments of Commercial Debts (Interest) Act 1998. 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 valid invoice, whichever is the later. In 2003-04, the core Department paid 89.6% of undisputed invoices within the credit term (99% in 2002-03), and is currently working with relevant staff to improve this rate. The consolidated Department paid 92.8% of undisputed invoices within the credit term (98.7% in 2002-03).

During 2003-04 the Department paid a total of £4,523 to suppliers for the late payment of invoices.

Employees*Investors in People*

The Department attaches great importance to managing, developing and training its staff in accordance with the principles of "Investors in People" (IiP). DTI headquarters achieved IiP recognition in November 1999. Successful reviews against the subsequently revised Standard were undertaken in September 2002 and again in 2003.

Diversity and Equality

The Department's Equal Opportunities Policy aims to ensure that no eligible job applicant or employee receives less favourable treatment on grounds of age, disability, gender, race, colour, nationality, marital status, sexual orientation, religion, belief, religious affiliation, lifestyle or because they work a different working pattern.

An annual report on Diversity in the DTI is published to provide people with information on progress on diversity issues, including meeting benchmarks for representation at all levels set out in its action programmes on racial equality, Widening Opportunities for Women, disability and sexual orientation. The report is available on the DTI website.

Advisory groups for racial equality, women's issues, disability and sexual orientation continued to advise and support the Permanent Secretary on equality issues within the Department during the year. The Department continues to provide advice and specialist adaptations and equipment to its staff with disabilities and to promote part time and flexible working patterns.

In the year to 31 March 2004:

- The proportion of women in managerial grades was 40% and female representation in the Senior Civil Service increased from 28% to 33.6%;
- 14% of staff were known to be of ethnic minority origin;
- 6% of staff were known to have a disability and were employed at all levels, including the senior civil service;
- 8% of all staff, and 8% of those in the senior civil service, worked part time.

In addition, during the year:

- The Department mounted a Lifting the Barriers Conference, focusing on ethnic minority issues;
- A toolkit to assist flexible working was introduced;
- A 'disability@work' strategy, including a mentoring programme, was launched.

Provision of information to, and consultation with, employees

The DTI has a communications strategy in place and uses a range of channels to communicate with its staff across the whole Department, including: 'DTI News', the staff magazine; a DTI Intranet which provides a personalised view of information across the whole of the DTI; an electronic filing system that allows staff to share knowledge and information on all work-related issues; and a web site that informs on speeches, PQs, press lines to take and ministerial briefings; as well as an ongoing series of training events, stakeholder workshops, and face to face meetings.

During 2003-04, the DTI has worked to improve its corporate communications, for example by developing a weekly information portal to reduce the number of all-staff e-mails and an electronic news site, which has increased the immediacy of news (and the DTI's part of it) to the Department. It has also introduced an internal process offering the Department's people the opportunity to discuss corporate issues at local level, feedback their questions and views and have those questions answered.

The Whitley Council and its sub-Committees met 9 times during 2003-04. In addition, as part of its commitment to good employment relations and to working in partnership, DTI's management met frequently with Departmental Trade Union Side representatives.

Auditors

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 27 to 28. The notional cost to the Department of audit services provided by the National Audit Office for the C&AG was £185,000 (2002-03: £180,000).

The NAO also undertook other work relating to core Department activities, the costs of which are not reflected in these financial statements. The main areas of work where NAO reports were published during the year were as follows:

- A report on Risk Management – Nuclear Liabilities of British Energy plc was published in February 2004. The report concluded that, whilst the Department had clearly identified the risks to the taxpayer arising from British Energy's nuclear liabilities, it had not monitored and managed those risks sufficiently closely to ensure that the taxpayer was well protected.
- The report on the UK's Civil Space Activities, published in March 2004, pointed to the many strengths of the programme but also identified scope for the Department to identify and analyse further opportunities for productive investment in space and to continue to develop risk management of space programmes.

- The Cambridge-MIT Institute Report, also published in March 2004, noted that the project was innovative with considerable potential for long term success. The report was also able to draw out findings and issues for other departments to consider when assessing and managing innovative projects.

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

- The public private partnership for the redevelopment of the National Physical Laboratory
- DTI financial support for Post Offices
- Support for small businesses;
- Renewable energy; and
- A cross Departmental review of risk management using the DTI as a case study.

Sir Robin Young, KCB

Principal Accounting Officer and Permanent Secretary

11 October 2004

Statement of Accounting Officer's Responsibilities

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

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

HM Treasury has appointed the Permanent Secretary of the Department as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

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

- a. Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- b. Make judgements and estimates on a reasonable basis;
- c. State whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
- d. Prepare the accounts on a going concern basis.

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

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Department of Trade & Industry's policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting .

The Department's ambition is Prosperity for All, by raising productivity and competitiveness by supporting successful business, ensuring fair markets and promoting world-class science and innovation. I am advised by:

- The Department's Strategy Board. This is now chaired by the Secretary of State and includes all DTI Ministers, all Executive Board Members and three Independent Board Members. The Strategy Board advises on the strategic direction of the Department and meets three times a year.
- The Department's Executive Board which I chair and comprises the Department's Directors General; Chief Executive UKTI; Director of Strategy, Director of Finance & Resource Management and three Independent Board Members. The Board meets monthly and sets the Department's strategic aims, agrees the Business Plan, ensures resources are in place to deliver the Departments objectives and monitors performance and the management of risk against those objectives.
- The following 5 Committees whose governance work support the role of the Boards:
 - Audit Committee;
 - Investment Committee;
 - Performance Monitoring Committee;
 - Resources Committee (established July 2004); and
 - Permanent Secretary's Committee.

I work with Ministers and DTI top management through the Strategy Board, Executive Board, other meetings and correspondence. I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent DTI objectives being achieved.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department of Trade and Industry for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Throughout 2003-04, the Executive Board has continued to take a lead in embedding risk management in the organisation. The Audit Committee Chairman and I issued a risk management policy to all staff on 1st April 2003. This set out the Department's risk management framework and defined roles and responsibilities for managing risk throughout the organisation.

Risk Management has also been integrated into the Department's planning and reporting systems. For example, the Department's balanced scorecard includes reports on the risks associated with the delivery of the Department's operational objectives and PSA targets. The scorecard also provides for monitoring of progress toward PSA targets and, in cases where achievement is prejudiced, identification of whether shortfall is due to internal control issues or external factors. The Executive Board reviews the scorecard on a quarterly basis as well as the overall risk register for the Department. Outside of this regular reporting

framework, mechanisms are in place which allow for escalation to the Executive Board of any new risks identified or of any risks that have changed materially in status since the last regular report.

Within the period of report, a risk workshop was held involving members of the Executive Board which identified key risks facing the DTI at a corporate level. The output from the workshop was discussed with the Secretary of State and all risks identified were incorporated within the Department's established risk management processes.

Throughout the year guidance has been available to all staff on risk management. In addition to a risk management policy, specific guidance has been available on undertaking risk self-assessment which includes guidance on applying risk management as an integral part of the Department's Business Planning process. Risk management workshops are available to all staff and Risk Management has been incorporated into a wide range of DTI training courses. These courses cover all ranges of staff in the Department and are tailored to be appropriate to their authority and duties.

The risk and control framework

The risk management framework for the Department operates through the initial identification of risks that threaten achievement of the Department's objectives. These risks are then evaluated in terms of impact and probability. Consideration is then given to the actions required to effectively manage each risk. This process establishes the level of residual risk against which the Department is exposed which is monitored over time.

Ownership for each risk is assigned to a named individual. Assurance that risk mitigation activities are appropriate is obtained through regular management reviews and Internal Audits of the key activities undertaken in the Department. In order to further embed best practice in risk handling and to ensure a consistent interpretation of the acceptable extent of residual risk, the Department is exploring actively ways in which it might quantify and communicate its risk appetite across the organisation.

Throughout 2003-04 the Department's Risk Support Team has worked with colleagues to embed risk management into key business processes such as Business Planning and Performance Management, policy-making and project management. Various approaches have been applied such as the development of guidance on the Department's "Better Policy-Making" website and a seminar on risk management in policy-making which I personally chaired.

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 Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of internal control by the Executive Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control is reviewed by my Directors General who each provides me with a Statement on Risk Management & Internal Control & Corporate Governance Representation for their Group based on the returns they received from their Heads of Management Units. The Chairman of the Audit Committee and the Director of Internal Audit reviews each Statement & Representation with the relevant Director General.

The Department's Agencies and consolidated NDPBs also conduct a review of the effectiveness of internal control in preparing a Statement on Internal Control for their Resource Accounts. A similar process is applied to that in the Department and the signed statements from each Chief Executive form part of the Department's overall assurance on internal control.

The Department also has arrangements, tailored to each particular situation, for monitoring those sponsored bodies which are not consolidated into the Departmental Resource Accounts but where these bodies participate in the delivery of DTI objectives. Monitoring arrangements are in place as needed for other bodies where the DTI has lead policy within Government, such as Royal Mail Holdings. In addition, as

part of its support for the solvent re-structuring of British Energy, the Department has put in place revised monitoring arrangements and draft agreements which will be activated on restructuring to protect Government's financial exposure to BE, in particular in relation to the nuclear liabilities which the Government is underwriting.

The Audit Committee provides independent advice on internal control issues. It also serves as a risk committee and advises the Board on embedding risk management within the organisation. The Audit Committee advises on the Internal Audit work programme and considers key recommendations from Internal Audit Reports. I receive progress reports from the Chairman after each Audit Committee. The Chairman also sits as an Independent Board Member on the Executive Board.

Internal Audit operates to standards defined in the Government Internal Audit Manual. Their audit programme is focused around the Department's key risks and they submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

There were no significant internal control issues during the course of 2003-04. Where weaknesses in the control environment were identified, action to strengthen control has been taken or is planned.

Improved awareness and application of risk management continues across the Department. Departmental and Operational Objective risk registers were in place from the start of the year and were reviewed on a quarterly basis. Our review of the effectiveness of internal control did highlight a number of areas where further improvement is required during 2004-05. These are as follows:

- The need to ensure that the Department has the capability to manage the aggregate level of risk it faces particularly in light of the reform agenda;
- The need for the Department to actively explore ways in which risk appetite is quantified and communicated throughout the organisation;
- The need to identify and implement good practice in managing risks with our partners;
- The need to integrate and embed risk management with individual performance management and personal development processes;
- The need to ensure effective matrix working is applied when delivery objectives are dependent upon the actions of more than one group in the DTI;
- The need to address difficulties and potential inefficiencies that have arisen from managing and reporting on administrative budgets by group and programme budgets by objective; and
- The need to continue to improve the quality of management; and information provided by corporate information systems.

The Executive Agencies also continue to make improvements in the application of risk management in their respective bodies. The National Weights and Measures Laboratory have, however, yet to finalise their risk management framework during 2003-04. They are working towards a full statement on internal control for 2004-05. This has no material impact for the Department's Resource Accounts.

Sir Robin Young, KCB

Principal Accounting Officer and Permanent Secretary

11 October 2004

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

I certify that I have audited the financial statements on pages 29 to 86 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, stocks and current asset investments and the accounting policies set out on pages 35 to 39.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 23, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I read the other information contained in the Accounts at pages 3 to 22 and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 24 to 26 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Fundamental uncertainty relating to Coal Health and UKAEA Nuclear Provisions

In forming my opinion I have taken note of the disclosures made in the financial statements concerning the uncertainties in the likely costs in respect of coal health provisions totalling £4.2 billion (note 22) and in respect of UKAEA nuclear liabilities totalling £4.8 billion (note 23). It is not possible to quantify reliably the impact on the Department's future financial results of the settlement of these liabilities. My opinion is not qualified in this respect.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Department of Trade and Industry at 31 March 2004 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

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

14 October 2004

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

SCHEDULE 1**CONSOLIDATED SUMMARY OF RESOURCE OUTTURN**

for the year ended 31 March 2004

	2003-04						2002-03	
	Estimate			Outturn			Net total Outturn compared with Estimate -Saving/ (excess)	Prior- Year Outturn
	Gross Expenditure £000	A-in-A £000	NET TOTAL £000	Gross Expenditure £000	A-in-A £000	NET TOTAL £000		
Request for Resources 1 (Trade and Industry)	10,801,380	(1,937,753)	8,863,627	8,916,774	(1,901,208)	7,015,566	1,848,061	4,447,815
Request for Resources 2 (Science)	2,400,510	(59)	2,400,451	2,300,857	(32)	2,300,825	99,626	1,957,540
Total Resources	13,201,890	(1,937,812)	11,264,078	11,217,631	(1,901,240)	9,316,391	1,947,687	6,405,355
Non-Operating-Cost A-in-A			3,650,399			966,005	2,684,394	654,049
Net Cash Requirements			6,652,320			5,542,917	1,109,403	4,994,533

SUMMARY OF INCOME PAYABLE TO THE CONSOLIDATED FUND

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

	Note	Forecast 2003-04		Outturn 2003-04	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000	£000	£000	£000
Total	6	1,191,737	1,191,737	662,730	655,767

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

1. A £700 million variance arose because the Department was required to budget for the full potential amount of support for Royal Mail Holdings plc (£4 billion investment and £3.3 billion redemption of that investment in year) but only a proportion of that support (less than £1 billion) was drawn down by the company and was virtually all repaid by year-end;
2. There was a lower than expected increase in both Nuclear and Coal Health related provisions.

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

1. The drawdown of Royal Mail support mentioned above was also the main reason for the variance on net cash requirement;
2. The Department received more cash in relation to its Launch Investments than were budgeted.

The notes on pages 35 to 86 form part of these accounts.

Reconciliation of Resources to Cash Requirement

	Note	2003-04		Net total Outturn compared with Estimate -Saving/ (excess)	2002-03
		Estimate	Outturn		Prior- Year Outturn
		£000	£000	£000	£000
Net Total Resources		11,264,078	9,316,391	1,947,687	6,405,355
Capital					
Acquisition of fixed assets	11	730,059	19,902	710,157	22,807
On balance sheet PFI	11	-	23,577	(23,577)	5,750
Investments and loans	15, 19	4,000,000	1,006,337	2,993,663	646,528
Non Operating Cost A-in-A:					
Investments and loans	15, 19	(3,300,000)	(965,893)	(2,334,107)	(652,090)
Proceeds from fixed asset disposals		(350,399)	(112)	(350,287)	(1,959)
Accruals adjustments:					
Non-cash items	4, 5	(7,133,163)	(5,556,823)	(1,576,340)	(2,866,350)
Changes in working capital other than cash	16	(6,000)	360,359	(366,359)	(172,119)
Changes in creditors falling due in more than one year	21	-	700	(700)	291,196
Use of Provisions	22, 23 & 24	1,447,745	1,338,479	109,266	1,315,415
Net Cash Requirement (Schedule 4)		6,652,320	5,542,917	1,109,403	4,994,533

The notes on pages 35 to 86 form part of these accounts.

SCHEDULE 2**CONSOLIDATED OPERATING COST STATEMENT**

for the year ended 31 March 2004

	Note	2003-04		2002-03	
		£000	£000	£000	£000
Administration Costs					
Staff costs	3	286,251		273,239	
Other administration costs	4	292,478		273,861	
Gross Administration Costs			578,729		547,100
Operating income	7		133,157		214,648
Net Administration Costs			445,572		332,452
Programme Costs					
Request for Resources 1					
Staff Costs	3	22,324		16,238	
Expenditure	12	8,572,409		5,723,671	
Less: income					
- EU funding (acting as agent)	7	2,542		11,012	
- Other (including CFERS)	6, 7	1,863,443		1,645,551	
			6,728,748		4,083,346
Request for Resources 2					
Staff Costs		-		-	
Expenditure	12	2,284,242		1,944,014	
Less: income (including CFERS)	6, 7	375		469	
			2,283,867		1,943,545
Net Programme Costs			9,012,615		6,026,891
NET OPERATING COST			9,458,187		6,359,343
NET RESOURCE OUTTURN			9,316,391		6,405,355

All income and expenditure is derived from continuing operations. The functions, assets and liabilities of the Radiocommunications Agency were transferred to Ofcom on 29 December 2003 (see note 38).

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2004

	2003-04	2002-03
	£000	£000
Net gain/(loss) on revaluation of fixed assets and investments (note 25)	1,135,762	(1,170,630)
Recognised gains and losses for the financial year	1,135,762	(1,170,630)

There are no prior period adjustments that need to be reflected in the Statement of recognised gains and losses.

The notes on pages 35 to 86 form part of these accounts.

SCHEDULE 3**CONSOLIDATED BALANCE SHEET**

as at 31 March 2004

	Note	31 March 2004		31 March 2003	
		£000	£000	£000	£000
Fixed Assets					
Intangible fixed assets	13	747		-	
Tangible assets	14	147,314		146,304	
Investments	15	<u>4,030,209</u>		<u>3,571,666</u>	
			4,178,270		3,717,970
Debtors (amounts falling due after more than one year)	18		6,983		8,508
Current Assets					
Stocks	17	2,641		3,082	
Debtors (amounts falling due within one year)	18	248,569		237,543	
Investments	19	1,556,000		1,532,000	
Cash at bank and in hand	20	<u>476,293</u>		<u>229,879</u>	
		2,283,503		2,002,504	
Less: Creditors (amounts falling due within one year)	21	<u>881,707</u>		<u>952,023</u>	
Net Current Assets			1,401,796		1,050,481
Total Assets less Current Liabilities			5,587,049		4,776,959
Less: Creditors (amounts falling due after more than one year)	21		601,111		601,811
Less: Provisions for liabilities and charges:					
Coal	22	4,608,847		4,394,669	
Nuclear	23	14,065,878		9,600,888	
Other	24	<u>242,515</u>		<u>224,256</u>	
			<u>18,917,240</u>		<u>14,219,813</u>
Total Net Liabilities			(13,931,302)		(10,044,665)
Taxpayers' Equity					
General fund	26		(17,463,282)		(13,218,537)
Revaluation reserves	25		<u>3,531,980</u>		<u>3,173,872</u>
			(13,931,302)		(10,044,665)

These accounts were approved on 11 October 2004.

Sir Robin Young, KCB
Principal Accounting Officer

The notes on pages 35 to 86 form part of these accounts.

SCHEDULE 4**CONSOLIDATED CASH FLOW STATEMENT**

for the year ended 31 March 2004

	Note	<u>2003-04</u>	<u>2002-03</u>
		£000	£000
Net cash outflow from operating activities ^a		(5,371,239)	(4,821,399)
Capital expenditure and financial investment ^b		(60,234)	(20,913)
Receipts due to consolidated fund which are outside the scope of Departmental activities		594,349	946,875
Payments of amounts due to the consolidated fund		(720,473)	(1,035,371)
Financing ^c		5,804,011	4,556,851
(Decrease) / increase in cash in the period		<u>246,414</u>	<u>(373,957)</u>

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

Reconciliation of operating cost to operating cash flows

Net operating costs	Schedule 2	(9,458,187)	(6,359,343)
Adjust for non-cash transactions	4 & 5	(483,522)	(572,962)
Adjust for non-cash expenditure funded by the NIF	39.2	210,902	177,075
Adjust for Movements in Working Capital other than Cash	16	(341,598)	99,171
Adjust for non-cash increases in provisions net of reductions	22,23,24	6,040,345	3,441,271
Movements in creditors due in more than 1 year	21	(700)	(291,196)
Adjust for cash utilisation of provisions	22,23,24	<u>(1,338,479)</u>	<u>(1,315,415)</u>
<i>Net cash outflow from operating activities</i>		<u>(5,371,239)</u>	<u>(4,821,399)</u>

Analysis of capital expenditure and financial investment

Intangible fixed asset additions	13	(470)	-
Payments to acquire tangible fixed assets (excl. PFI) additions	14	(19,432)	(26,475)
Proceeds on disposal of fixed assets		112	-
Investments redeemed from Post Office Ltd		885,000	-
Other investments redeemed		30,893	72,104
Investments made to Post Office Ltd		(935,000)	-
Investments to other bodies		(71,337)	(16,542)
National Loans Fund (NLF) Loans on-lent to Royal Mail Holdings plc		-	(50,000)
Redemption of NLF loan from Royal Mail Holdings plc		<u>50,000</u>	<u>-</u>
<i>Net cash outflow from investing activities</i>		<u>(60,234)</u>	<u>(20,913)</u>

Analysis of financing and reconciliation to the net cash requirement

From the Consolidated Fund (Supply) current year ¹		5,854,011	4,778,321
Refund of creditor to other Government department re		-	(279,934)
Machinery of Government change in 2001-02		-	8,464
Transfer of funding under Machinery of Government changes		-	50,000
Loans received from the NLF for on-lending to Royal Mail Holdings plc		-	-
Repaid to the NLF in respect of Royal Mail Holdings plc		(50,000)	-
From the Contingencies Fund in relation to support for British Energy		211,800	500,000
Repaid to the Contingencies Fund in relation to support for British Energy		<u>(211,800)</u>	<u>(500,000)</u>
Net Financing		5,804,011	4,556,851
(Increase) / decrease in Cash	20	<u>(246,414)</u>	<u>373,957</u>
Net cash flows other than financing		<u>5,557,597</u>	<u>4,930,808</u>

Adjustments for payments and receipts not related to supply:

Transfer of funding under Machinery of Government changes		-	(8,464)
Balance due to other Government departments in respect of functions transferred under Machinery of Government changes		-	(2,410)
Amounts due to the consolidated fund received in prior year and paid over		(227,769)	(106,210)
Amounts due to the consolidated fund received in current year and not paid over		163,089	227,769
NLF Loan on-lent to Royal Mail Holdings plc		50,000	(50,000)
NLF Loans – interest received from Royal Mail Holdings plc		29,170	29,170
NLF Loans – interest paid to NLF		(29,170)	(29,170)
Transitional adjustment		-	3,040
Net cash requirement	Schedule 1	<u>5,542,917</u>	<u>4,994,533</u>

¹ Amount of supply actually issued to support the net cash requirement in 2003-04 was £5,854,011,000.00.

The notes on pages 35 to 86 form part of these accounts.

SCHEDULE 5**Consolidated Resources by Departmental Aim and Objectives**

for the year ended 31 March 2004

The Department's aim is to increase competitiveness and scientific excellence in order to generate higher levels of sustainable growth and productivity in a modern economy. Resources consumed by Departmental Objectives in support of that aim are shown below:

	2003-04			2002-03 (re-stated)		
	Gross	Income	Net	Gross	Income	Net
Objectives:	£000	£000	£000	£000	£000	£000
I Supporting Successful Business	3,867,360	(1,824,856)	2,042,504	2,519,927	(1,486,733)	1,033,194
II Promoting World-Class Science And Innovation	2,300,856	(407)	2,300,449	1,957,541	(701)	1,956,840
III Ensuring Fair Markets	5,289,488	(174,254)	5,115,234	3,753,555	(384,246)	3,369,309
Net Operating Cost	11,457,704	(1,999,517)	9,458,187	8,231,023	(1,871,680)	6,359,343

Notes:

1. The format of the disclosure of Objectives in this Schedule has been re-cast to be consistent with the Department's Business Plan and other published documents and prior year comparators have been re-stated.
2. The amounts included within Objective III for the Department's responsibility to ensure efficient management of residual liabilities and assets arising from coal and nuclear industries' past activities are:

	2003-04			2002-03		
	Gross	Income	Net	Gross	Income	Net
Objectives:	£000	£000	£000	£000	£000	£000
Ensure Efficient Management Of Liabilities And Assets	2,652,955	(12,159)	2,640,796	1,320,182	(9,501)	1,310,681
Objective III (Net Of These Figures)	2,636,533	(162,095)	2,474,438	2,433,373	(374,745)	2,058,628

The notes on pages 35 to 86 form part of these accounts.

NOTES TO THE 2003-04 RESOURCE ACCOUNTS

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2003-04 *Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Department for the purposes of giving a true and fair view has been selected. The particular accounting policies adopted by the Department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of certain fixed and current assets, as described in paragraphs 1.3, 1.4, 1.5 and 1.6.

1.2 Basis of consolidation

These accounts comprise a consolidation of the core Department and those entities that fall within the departmental boundary as defined in the Resource Accounting Manual (Section 1.5) issued by HM Treasury and includes non-voted expenditure in relation to the Redundancy Payments Scheme. Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the departmental boundary is given in the Report at page 4.

1.3 Tangible fixed assets

Title to freehold land and buildings shown in the accounts is held as follows:

- i. Property on the departmental estate, title to which is held by the Department;
- ii. Property held by the Office of the Deputy Prime Minister in the name of the Secretary of State.

Freehold land and buildings are re-stated at current cost using professional valuations every five years and appropriate indices in intervening years. Other tangible assets have been stated at current cost using appropriate indices.

The core Department's capitalisation threshold is £1,000, except in the cases of furniture, where all expenditure in one year is pooled and capitalised, and IT hardware where all expenditure is capitalised. The thresholds in the consolidated bodies range from £1,000 to £3,000.

1.4 Depreciation

Freehold land is not depreciated.

The Department has a number of non-operational heritage assets held for historical and cultural association alone and these have been recorded in the Register of Assets at nil book value and are therefore not subject to depreciation.

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives, after allowance for residual value. Useful lives are as follows:

Freehold buildings	50 years or estimated useful life if shorter
Historical leasehold land and buildings	Residual Term of the Lease
Leasehold improvements	Shorter of estimated remaining useful life or outstanding term of lease
Office machinery and equipment	5 years
Computer equipment	3 - 10 years
Scientific equipment	10 - 50 years
Telecommunication equipment	5 - 10 years
Furniture, fixtures and fittings	7 years
Plant and machinery	7 - 10 years
Motor Vehicles	2 - 10 years
Antique furniture	Shorter of estimated remaining useful life or 50 years

For Furniture, fixtures and fittings, an asset pool is maintained. Replacements on a one-to-one basis for assets in the pool are charged direct to the Operating Cost Statement in the year of replacement. Major enhancements or additions to the pool are capitalised as assets.

For Plant and Machinery, one of the Department's consolidated entities, the Radiocommunications Agency, adopted a policy of depreciating this class of assets over useful lives in the range from 5 to 25 years.

1.5 Investments

Fixed asset investments include the Department's entitlement to investment reserves in the British Coal Staff Superannuation Scheme (BCSSS) and the Mineworkers' Pension Scheme (MPS). These are held at market value advised by Government Actuary's Department (GAD). Fixed asset investments of shares and Public Dividend Capital (PDC) are stated at historical cost.

Launch Investment is reviewed annually at a management valuation based on the discounted value of future income streams. Where the valuation exceeds historical cost, increases in valuation are taken to the revaluation reserve and are released to the General Fund as investments are realised. Any permanent diminution in value is written off against any previous upward revaluations and then to the Operating Cost Statement. The Government's standard discount rate of 3.5% is applied.

Other investments are shown at market value at the balance sheet date, unless this cannot be readily ascertained, in which case they are stated at historical cost, less any provision for impairment.

Current asset investments are stated at market value at the balance sheet date.

1.6 Stocks and work in progress

Stocks and work in progress are valued as follows:

- Stocks of finished goods and goods for resale are valued at cost or, where materially different, current replacement cost. A net realisable valuation is used only when they either cannot or will not be used;
- Work in progress is valued at the lower of cost and net realisable value.

1.7 Provisions

In accordance with FRS12, the Department makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events exists), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, the Department discounts the provision to its present value using a discount rate of 3.5%, the Government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels. The change in price levels is calculated using the HM Treasury's annual GDP deflator or, where it is available, the relevant actual change in prices rate.

1.8 Research and development

Expenditure on research and development is charged to the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work.

1.9 Operating income

Operating income is income that relates directly to the operating activities of the Department and agencies. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers and public sector repayment work. It also includes other income such as that from investments. It includes both income appropriated-in-aid and income collected by the Department on behalf of HM Treasury on an agency basis and payable to the Consolidated Fund. This income is known as Consolidated Fund Extra Receipts (CFERs).

The Department is required to identify those CFERs that are negative public expenditure (amounts used to reduce the amount of expenditure the Department would otherwise have to spend) and those revenue CFERs that relate to the recovery of costs recorded in the Operating Cost Statement, or to returns on investments. These types of CFERs are credited to the Operating Cost Statement as income to the Department. The remaining CFERs are not included in the Department's Operating Cost Statement and are accounted for through the balance sheet accounts of cash and creditors.

1.10 Administration and programme expenditure and income

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

1.11 Grants payable

Grants payable are recognised in the period in which the grant recipient carries out the activity that creates an entitlement to grant. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Operating Cost Statement on the basis of estimates of claims not received and are included in accruals in the balance sheet.

1.12 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5% in real terms on all assets less liabilities, except for:

- Donated assets, and cash balances with the Office of the Paymaster General (OPG), where the charge is nil;
- The Department's investments in the trading funds (Companies House and the Patent Office), British Shipbuilders and BNFL, where the charge is equal to 3.5% of the net relevant assets of the body and for Royal Mail Holdings plc where the charge is equal to 3.5% of the company's net assets;
- Liabilities for amounts to be surrendered to the Consolidated Fund, where the credit will be at a nil rate.

1.13 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly in which case an average rate for a period is used.

1.14 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) as described at note 3. The defined benefit elements of the schemes are un-funded and are non-contributory except in respect of dependents' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Department recognises the contributions payable for the year.

1.15 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Civil Service Superannuation Vote. The amount provided in these accounts is shown gross of any such payments.

1.16 Taxation

The Department is exempt from income and corporation tax by way of its Crown exemption.

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- Irrecoverable VAT is charged to the Operating Cost Statement, and included under the heading relevant to the type of expenditure;
- Irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The net amount due to, or from, HM Customs and Excise in respect of VAT is included within debtors and creditors within the Consolidated Balance Sheet.

1.17 Schedules 1 and 5

The information contained in Schedules 1 and 5 and associated notes are based on the Request for Resources information that forms part of the Parliamentary approval processes. In Schedule 5 costs have been attributed directly where possible and then apportioned on the basis of programme spend within each request for resource and function.

1.18 Leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable where this fairly reflects the usage. Future payments, disclosed at note 29, 'Commitments under Operating Leases', are not discounted.

1.19 Inter-Departmental transfers of functions: Restatement of prior year comparators

In accordance with the Treasury's Resource Accounting Manual, where functions are transferred between Government Departments, the results and cash flows of the combining entities are brought into account from the start of the financial year in which the transfer occurs. Prior-year comparative figures are re-stated to show the effect as if the transfer had occurred one year earlier.

1.20 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No. 1 (Revised), entitled 'How to Account for PFI Transactions' as required by the Treasury's Resource Accounting Manual (RAM). Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the Department, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI property is borne by the Department, the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.21 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

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

1.22 Third-party assets

The Department holds, as custodian or trustee, certain cash balances at commercial banks belonging to third parties. These are not recognised in the accounts since neither the Department nor Government more generally has a direct beneficial interest in them.

2. Changes to estimation techniques

2.1 Fixed Assets

Balance sheet values for tangible and, where revalued, intangible fixed assets are based on a review of values as at the balance sheet date. In previous years, the review of values was carried out at the mid-year point, 30 September. Depreciation of tangible fixed assets and amortisation of, where revalued, intangible fixed assets are both based on opening balance sheet values. Previously they were based on closing balance sheet values.

This change of estimation technique has not had a material effect on the values in these accounts.

2.2 Coal Health Provisions – Chronic Obstructive Pulmonary Disease (COPD)

In previous years, the method used to forecast the total liabilities of the COPD scheme was based on two key statistics – the expected number of claims and the expected average damage or expense amount. The method based its forecast assumptions on the experiences of the scheme in the previous 6 months which then projected into the future, assuming that future claims were going to behave in a similar way as in the previous 6 months.

Whilst this method was ideal at the start of the scheme, it was felt that more information in respect of past claimant trends could be utilised in later stages of the scheme to produce more accurate results. This was particularly necessary given the large surge in the number of claims received and the steady downward trend in disability levels which could not be captured by the old method.

For the balance sheet valuation of this scheme in these accounts, a new method was therefore used based on regression techniques to estimate the damages to be awarded to each individual claimant.

For 2003-04, both methodologies were employed so as to gauge the impact of the change. The new methodology values the scheme liabilities as £3,157m (undiscounted), whereas the old methodology gives a value of £4,337m, a difference of £1,180m.

3. Staff numbers and costs

3.1 Staff costs

	2003-04				2002-03 (re-stated*)
	<u>Total</u> £000	<u>Officials</u> £000	<u>Ministers</u> £000	<u>Special Advisers</u> £000	<u>Total</u> £000
Wages and Salaries	243,534	243,155	211	168	228,687
Social security costs	17,637	17,596	21	20	16,638
Other Pension Costs	32,076	32,053	0	23	31,755
Sub total	293,247	292,804	232	211	277,080
Amounts payable in respect of:					
Staff on inward secondment or loan	5,875	5,875	-	-	4,160
Agency / temporary staff	11,171	11,171	-	-	8,237
TOTAL	310,293	309,850	232	211	289,477
Less: Recoveries in respect of outward secondments	(1,718)	(1,718)	-	-	-*
TOTAL NET COSTS	308,575	308,132	232	211	289,477

None of these costs were charged to capital expenditure.

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

* 2002-03 amounts in tables 3.1 and 3.2 have been re-stated to show Agency / temporary staff and inward secondments on a consistent basis with 2003-04. Amounts in respect of outward secondments in 2002-03 cannot be identified.

For 2003-04, employers' contributions of £32,195,000 were payable to the PCSPS (2002-03 £30,053,000) at rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £43,210 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 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

There were no contributions due to the partnership pension providers at the balance sheet date, nor were there any contributions prepaid at that date.

3.2 Average number of persons employed

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

	2003-04							2002-03
	Total	Ministers	Special Advisers	Senior Management	Officials	Staff on inward secondment	Agency temporary and contract staff**	(re-stated*) Total
Objective	Numbers							
I	1,595.0	2.0	1.0	3.0	1,489.0	52.0	48.0	1,821.0
II	812.5	1.0	-	2.5	765.0	8.0	36.0	353.0
III	6,218.5	4.0	2.0	3.5	5,966.0	52.0	191.0	6,308.0
TOTAL	8,626.0	7.0	3.0	9.0	8,220.0	112.0	275.0	8,482.0

** Core Department only.

3.3 Salary and pension entitlements for Ministers of the Department:

The salary and pension entitlements of the Ministers of the Department of Trade and Industry for the year ending 31 March 2004 were as follows:

2003-04	1	2	3	4	5	6
	Ministerial salary received	Real increase in pension at age 65	Total accrued pension at 65 at 31/03/04	CETV at 31/03/03	CETV at 31/03/04	Real increase in CETV after adjustment for contributions, inflation and changes in market investments
	£000	£000	£000	£000	£000	£000
Secretary of State						
Rt Hon Patricia Hewitt MP	70-75	0-2.5	5-10	52	74	13
Ministers of State						
Alan Johnson, MP (to 13 June 2003)	5-10	0-2.5	0-5	26	28	1
Brian Wilson, MP (to 13 June 2003)	5-10	0-2.5	0-5	49	53	2
Baroness Symons of Vernham Dean* (to 13 June 2003)	-	-	-	-	-	-
Stephen Timms, MP	35-40	0-2.5	0-5	35	45	5
Jacqui Smith, MP (from 16 June 2003)	25-30	0-2.5	0-5	19	24	3
Mike O'Brien*, MP (from 16 June 2003)	-	-	-	-	-	-
Parliamentary Under-Secretaries of State						
Lord Sainsbury of Turville**	-	-	-	-	-	-
Nigel Griffiths, MP	25-30	0-2.5	0-5	16	23	4
Melanie Johnson, MP (to 13 June 2003)	5-10	0-2.5	0-5	19	21	1
Gerry Sutcliffe, MP (from 16 June 2003)	20-25	0-2.5	0-5	20	27	3
2002-03						
Secretary of State						
Rt Hon Patricia Hewitt MP	65-70	0-2.5	0-5	-	-	-
Ministers of State						
Alan Johnson, MP	35-40	0-2.5	0-5	-	-	-
Brian Wilson, MP	35-40	0-2.5	0-5	-	-	-
Baroness Symons of Vernham Dean*	-	-	-	-	-	-
Douglas Alexander, MP (to 31 May 2002)	5-10	0-2.5	0-5	-	-	-
Stephen Timms, MP (from 1 June 2002)	35-40	0-2.5	0-5	-	-	-
Parliamentary Under-Secretaries of State						
Lord Sainsbury of Turville**	-	-	-	-	-	-
Nigel Griffiths, MP	25-30	0-2.5	0-5	-	-	-
Melanie Johnson, MP	25-30	0-2.5	0-5	-	-	-

* Salary and Pension details can be found in the departmental resource accounts for 2003-04 of the Foreign and Commonwealth Office.

** Lord Sainsbury elects not to draw a Ministerial salary and so is not a member of the Parliamentary Contribution Pension Fund.

Notes:

As the House of Commons and not the Department of Trade and Industry meets the exchequer contribution to the cost of pension for all Ministers, the pension details are included in the Resource Account on a 'for information basis'.

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

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

Benefits for Ministers are payable at the same time as MP's benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

Columns 4 & 5 of the above table show the Cash Equivalent Transfer Value (CETV) of the member's pension benefits accrued at the beginning and end of the reporting period. 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. It is a payment made by a pension scheme arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Column 6 reflects the real increase in the value of the CETV. It takes account of the increase in accrued pension due to inflation, any contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

None of the Ministers received any benefits in kind from the Department during the year.

3.4 Salary and pension entitlements for the senior managers of the Department:

The salary and pension entitlements of the most senior members of the Department of Trade and Industry were as follows:

2003-04	1	2	3	4	5	6
	Salary including performance pay	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/04 and related lump sum	CETV at 31/03/03	CETV at 31/03/04	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000
Sir Robin Young	150-155	2.5 – 5 plus 7.5 – 10 lump sum	55 – 60 plus 165 – 170 lump sum	880	974	75
Catherine Bell	115-120	0 – 2.5 plus 5 – 7.5 lump sum	40 – 45 plus 125 – 130 lump sum	598	674	46
Sir Stephen Brown *	-	-	-	-	-	-
Richard Carden (to 30 June 2003)	30-35	-	-	-	-	-
Mark Gibson	110-115	0 – 2.5 plus 5 – 7.5 lump sum	35 – 40 plus 110 – 115 lump sum	523	586	47
Stephen Haddrill	110-115	0 – 2.5 plus 5 – 7.5 lump sum	30 – 35 plus 90 – 95 lump sum	399	444	35
David Hughes	150-155	20 – 25	20 – 25	17	307	-
Anthony Inglese	110-115	0 – 2.5 plus 5 – 7.5 lump sum	40 – 45 plus 120 – 125 lump sum	606	669	47
Professor Sir David King **	-	-	-	-	-	-
Joan MacNaughton	115-120	0 – 2.5 plus 5 – 7.5 lump sum	40 – 45 plus 130 – 135 lump sum	657	732	50
Sir John Taylor (to 31 December 2003)	95-100	0 – 2.5 plus 7.5 – 10 lump sum	0 – 5 plus 5 – 10 lump sum	-	-	-
Sir Keith O’Nions*** (from 1 January 2004)	-	-	-	-	-	-

2002-03	1	2	3	4	5	6
	Salary including performance pay	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/04 and related lump sum	CETV at 31/03/03	CETV at 31/03/04	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000
Sir Robin Young	145-150	5 - 7.5	50 - 55	-	-	-
Sir David Wright* (to 30 September 2002)	-	-	-	-	-	-
Catherine Bell	110-115	0 - 2.5	35 - 40	-	-	-
Sir Stephen Brown* (from 30 September 2002)	-	-	-	-	-	-
Richard Carden	120-125	2.5 - 5	45 - 50	-	-	-
Mark Gibson	105-110	2.5 - 5	30 - 35	-	-	-
Stephen Hadrill	110-115	5 - 7.5	25 - 30	-	-	-
David Hughes (from 3 October 2002)	70-75	-	-	-	-	-
Anthony Inglese	110-115	0 - 2.5	35 - 40	-	-	-
Professor Sir David King**	150-155	-	-	-	-	-
Joan MacNaughton	105-110	2.5 - 5	40 - 45	-	-	-
Sir John Taylor	125-130	-	-	-	-	-
Jonathan Phillips (to 1 September 2002)	40-45	0 - 2.5	30 - 35	-	-	-
Alistair Keddie (to 31 January 2003)	90-95	0 - 2.5	35 - 40	-	-	-

* Salary and pension disclosure can be found in the departmental resource accounts for 2003-04 of the Foreign and Commonwealth Office.

** On secondment – amounts disclosed are amounts paid to the parent organisation under the contract for services of the secondee.

*** On loan from the Ministry of Defence for one day a week. MoD currently meets all payments in respect of employment.

Notes:

(i) **'Salary'** includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

(ii) **Pension** benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (*classic, premium, and classic plus*). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of *premium* or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (*partnership pension account*).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated 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 CSP arrangements can be found at the website www.civilservicepensions.gov.uk.

Columns 4 & 5 of the above table show the member's Cash Equivalent Transfer value (CETV) accrued at the beginning and the end of the reporting period.

Column 6 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.

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 CSP arrangements and for which the CS 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.

None of the senior managers of the Department received any benefits in kind during the year.

There were no employer contributions to partnership pension accounts during the year.

3.5 Staff Debtors

At 31 March 2004 1,817 employees of the Department and its Agencies were in receipt of advances of travel and housing loans, repayable to the employer. The staff debtor amount is disclosed at note 18.

4 Non-staff administration costs

	2003-04		2002-03	
	£000	£000	£000	£000
Rentals under operating leases:				
Accommodation		82,531		73,461
Hire of office equipment		1,555		1,116
Other operating leases		652		2,073
PFI service charges:				
Off-balance sheet contracts		22,159		21,457
Research and development expenditure		1		-
Non-cash items:				
Auditors' remuneration and expenses:				
Audit fees – core Department audit work	185		191	
Audit fees – consolidated entities	109		87	
Depreciation	14,727		15,529	
Loss/(profit) on the disposal of fixed assets	4,047		1,789	
Downward revaluation of tangible fixed assets	778		969	
Provision for early departure and other costs	25,261		7,008	
Movement in bad debt provision	(2,808)		-	
Cost of capital charge	4,423		7,919	
Disposal of net assets of the Radiocommunications Agency (see note 38)	26,841		-	
Other Agency notional costs	(633)		1,222	
		72,930		34,714
Audit Fees - consolidated entities		24		23
Other expenditure (Notes a and b)		96,124		128,572
Travel and Subsistence		16,502		12,445
Total administration costs		292,478		273,861

Notes:

(a) A breakdown of the 'Other expenditure' total above is as follows:

	2003-04	2002-03
	£000	£000
Agencies	7,420	17,643
IT support	27,336	19,193
Training and other staff costs	14,597	12,114
Professional Services	12,975	18,262
Other	33,796	61,360
	96,124	128,572

(b) Other expenditure includes an annual fee plus expenses for the independent members of the Department's Executive and Strategy Boards – see pages 16 and 17 of the Report for details. The total payments for the year to each person were in the following ranges:

Independent member	Fees and expenses
Mair Barnes	£10 - £15k*
Sir Richard Sykes	£5 - £10k
Tony Cooper	£0 - £5k
Crawford Gillies	£5 - £10k**
Mary McAnally	£5 - £10k
Fields Wicker-Miurin	£5 - £10k

* Includes fees and expenses paid additionally for independent membership of the Board of the Department's Services Group.

** Includes fees and expenses paid additionally for independent membership of the Department's Audit Committee.

5. Net programme costs

	2003-04		2002-03 (re-stated)*	
	£000	£000	£000	£000
Current grants and other current expenditure		3,965,972		4,014,393
Capital grants		578,743		8,014
Interest on National Loans Fund (NLF) Loan on-lent to Royal Mail Holdings plc		29,170		29,170
Other Expenditure		798,873		782,511
Non-cash items Operating:				
Charge due to the movement in provisions	6,015,084		3,434,263	
Downward revaluation of investments	17,523		-	
Amortisation of one year's discount (Launch Investment – see note 15.6)	(58,712)		(104,750)	
Cost of capital credit	(490,002)		(495,917)	
		<u>5,483,893</u>		<u>2,833,596</u>
Programme expenditure		10,856,651		7,667,684
Less: Programme income (see note 7)	(1,768,083)		(1,616,719)	
Interest payable on NLF loan	(29,170)		(29,170)	
		<u>(1,797,253)</u>		<u>(1,645,889)</u>
Less: CFERs credited to the Operating Cost Statement (see note 1.9)		(69,107)		(11,142)
Total programme costs		<u>8,990,291</u>		<u>6,010,653</u>

* Other expenditure is re-stated to reflect the reclassification of staff costs now included in note 3.

6. Analysis of income payable to the Consolidated Fund

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

	Forecast 2003-04		Outturn 2003-04	
	Income £000	<i>Receipts</i> £000	Income £000	<i>Receipts</i> £000
Operating income and receipts – excess A-in-A	-	-	-	-
Non-operating income and receipts – excess A-in-A	-	-	-	-
Other operating income and receipts not classified as A-in-A	79,155	<i>79,155</i>	69,107	<i>61,418</i>
Other non-operating income and receipts not classified as A-in-A	4	<i>4</i>	-	-
Other amounts collectable on behalf of the Consolidated Fund	1,112,578	<i>1,112,578</i>	593,623	<i>594,349</i>
Excess cash surrenderable to the Consolidated Fund				
Total	<u>1,191,737</u>	<u><i>1,191,737</i></u>	<u>662,730</u>	<u><i>655,767</i></u>

A breakdown of the significant amounts of CFER received in 2003-04 is as follows:

	2003-04
	<u>£ m</u>
Coal pension surplus releases	391
Launch Investment levies received	80
Petroleum licences	41
Universal banking contributions	38
Companies House late filing penalties	30
Other	14
Total	<u>594</u>

7. Income and appropriations-in-aid

7.1 Operating income

2003-04

	<u>A-in-A</u>	<u>Income</u>	<u>Payable</u>	<u>Total</u>
	<u>£000</u>	<u>outside of</u>	<u>to the</u>	<u>£000</u>
		<u>the supply</u>	<u>Consolidated</u>	
		<u>process</u>	<u>fund</u>	
		<u>£000</u>	<u>£000</u>	<u>£000</u>
Operating income, analysed by classification and activity, is as follows:				
Administration income:				
- allowable within admin cost limit	4,519	-	-	4,519
- other fees and charges external customers	128,637	-	-	128,637
- other fees and charges other Departments	1	-	-	1
Total Administration Income	133,157	-	-	133,157
Programme income:				
- Dividend and interest from Trading Funds and Nationalised Industries	30,000	-	13,989	43,989
- interest on National Loans Fund Loan on-lent to Royal Mail Holdings plc	-	29,170	-	29,170
- From OGDs for RDAs	1,624,842	-	-	1,624,842
- other	110,699	-	55,118	165,817
- EU funding	2,542	-	-	2,542
	1,768,083	29,170	69,107	1,866,360
Consolidated Fund Extra Receipts	-	-	-	-
Total Programme Income	1,768,083	29,170	69,107	1,866,360
Total Operating Income	1,901,240	29,170	69,107	1,999,517

2002-03

	<u>A-in-A</u>	<u>Income outside of the supply process</u>	<u>Payable to the Consolidated fund</u>	<u>Total</u>
	£000	£000	£000	£000
Operating income, analysed by classification and activity, is as follows:				
Administration income:				
- allowable within admin cost limit	12,528	-	-	12,528
- other fees and charges external customers	202,120	-	-	202,120
- other fees and charges other Departments	-	-	-	-
Total Administration Income	214,648	-	-	214,648
Programme income:				
- Dividend and interest from Trading Funds and Nationalised Industries	-	-	10,553	10,553
- interest on National Loans Fund Loan on-lent to Royal Mail Holdings plc	-	29,170	-	29,170
- From OGDs for RDAs	1,437,698	-	-	1,437,698
- other	168,010	-	-	168,010
- EU funding	11,012	-	-	11,012
	1,616,720	29,170	10,553	1,656,443
Consolidated Fund Extra Receipts	-	-	589	589
Total Programme Income	1,616,720	29,170	11,142	1,657,032
Total Operating Income	1,831,368	29,170	11,142	1,871,680

Appropriations-in-aid represent income due to the Department that can be retained for offset against other public expenditure. This contrasts with Consolidated Fund Extra Receipts (CFERs), which are collected by the Department on an agency basis on behalf of HM Treasury.

Operating income not appropriated-in-aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that included in public expenditure and that which is not (see note 12).

An analysis of income from services with full costs in excess of £1 million provided to external and public sector customers can be found in the published accounts of the Department's On-vote Agencies and ACAS.

7.2 Non-operating appropriations-in-aid

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Principal repayments of voted loans	941,863	551
Launch Investment receipts	29,747	18,529
Proceeds from sales of fixed assets	111	-
	971,721	19,080

8. Administration cost limits (see also note 1.10)

The outturn shown against administration cost limits is as follows:

	2003-04		2002-03	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for Resources 1 & 2	404,354	434,693	432,830	441,361

9. Reconciliation of net operating cost to control total and net resource outturn

	2003-04	2002-03
	£000	£000
Net Operating Cost	9,458,187	6,359,343
Non-supply expenditure and income, including income scored as Consolidated Fund Extra Receipts (CFERs)	69,107	11,142
Non-supply expenditure funded by the National Insurance Fund (Sch 4)	(210,903)	(177,075)
Adjustment for transfer of estimate cover on functions transferred from other Government Departments	-	(10,874)
BCSSS Net Funding*	-	-
Surplus A-in-A to be surrendered as CFER (RfRs 1 & 2)	-	222,819
Net Resource Outturn	9,316,391	6,405,355

*BCSSS Net funding:

	2003-04	2002-03
	£000	£000
BCSSS Income	(10,000)	(13,600)
BCSSS Expenditure	10,000	13,600
Total	-	-

Net Operating Cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net Resource Outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

10. Analysis of net operating cost by spending body

Spending body:	2003-04		2002-03
	Budget	Outturn	Outturn
	£000	£000	£000
Core Department	8,098,598	9,347,245	6,317,599
Advisory, Conciliation and Arbitration Service	45,852	46,139	(2,399)
Employment Tribunals Service	69,882	69,485	63,218
Insolvency Service	25,600	22,629	31,192
National Weights and Measures Laboratory	35	2,015	2,026
Radiocommunications Agency	-	(48,690)	(70,163)
Small Business Service	19,378	19,364	17,870
	8,259,345	9,458,187	6,359,343

The Radiocommunications Agency surrendered to the Department the surplus it generated through fees and charges from external customers. For 2003-04, financial results for the Radiocommunications Agency are consolidated into these accounts only until 28 December. From 29 December the functions of the Radiocommunications Agency were transferred to Ofcom and the Agency ceased to exist.

11. Analysis of capital expenditure, financial investment and associated A-in-A.

	2003-04				2002-03			
	Fixed Assets	Loans etc	A-in-A	Net total	Fixed Assets	Loans etc	A-in-A	Net total
	£000	£000	£000	£000	£000	£000	£000	£000
RfR1								
Additions	19,902	71,337	-	91,239	22,807	68,542	-	91,349
Royal Mail Group	-	935,000	-	935,000	-	-	-	-
PFI	23,577	-	-	23,577	5,750	-	-	5,750
RfR 2	-	-	-	-	-	-	-	-
Total	43,479	1,006,337	-	1,049,816	28,557	68,542	-	97,099

12. Analysis of net resource outturn and net operating cost by function and reconciliation to Operating Cost Statement

RfR1 – Trade and Industry programmes

	2003-04							2002-03	
	Admin	Other current	Grants	Gross Resource Expenditure	A-in-A	Net Total	Estimate	Net total compared with Estimate	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
A Promotion of enterprise innovation and increased productivity and associated running costs	128,342	504,919	1,865,803	2,499,064	(1,446,879)	1,052,185	978,189	(73,996)	1,414,748
B Measures relating to individual industries and related programmes	-	6,606	(49,929)	(43,323)	(1,571)	(44,894)	48,804	93,698	(132,620)
C Legal and regulatory framework and markets and associated running costs	319,073	(476,064)	104,204	(52,787)	(93,963)	(146,750)	611,206	757,956	542,020
D Net Expenses related to Coal provisions	-	280,960	855,496	1,136,456	(2,100)	1,134,356	2,052,076	917,720	765,276
E British Coal Corporation external finance	-	-	2,869	2,869	-	2,869	403	(2,466)	-
F Other expenditure related to the coal industry	-	27	25,800	25,827	(10,074)	15,753	16,966	1,213	-
G Modernisation of the Post Office network	-	-	69,258	69,258	-	69,258	102,000	32,742	10,428
H Net controlled agencies and suppliers of Departmental Central Services	79,335	-	-	79,335	(51,483)	27,852	(1,819)	(29,671)	(68,182)
I ERDF and other community programmes (including Leader Network)	-	-	-	-	(291)	(291)	(6,350)	(6,059)	(11,336)
J Other European Community expenditure	-	-	-	-	-	-	1	1	-
K Loans to and repayments from Trading Funds	-	-	-	-	(30,000)	(30,000)	-	30,000	140
L UKTI Administration Costs	35,365	-	-	35,365	(167)	35,198	37,767	2,569	32,353
M Support for Local Authorities	-	-	317,372	317,372	(250,081)	67,291	2	(67,289)	53,486
N Expenses relating to nuclear provisions	-	3,956,141	838,969	4,795,110	-	4,795,110	4,986,414	191,304	1,832,518
O Privatisation expenses and refunds of pension adjustments	-	-	36,356	36,356	(2,284)	34,072	37,967	3,895	430
P Petroleum licensing and royalties	-	-	15,872	15,872	(12,315)	3,557	1	(3,556)	-
Q Transfer of pension liabilities to PCSPS	-	-	-	-	-	-	-	-	8,229
R EC Programmes receipts	-	-	-	-	-	-	-	-	325
Total Request for Resources 1	562,115	4,272,589	4,082,070	8,916,774	(1,901,208)	7,015,566	8,863,627	1,848,061	4,447,815

Functions, denoted by letters above, represent the disaggregating of requests for resources for control purposes and Parliamentary approval. They do not correspond to departmental objectives for the management of activities.

- For an analysis of A-in-A, see note 6.

- For an explanation of variation between Estimates and Outturn, see Schedule 1.

12. (cont'd) Analysis of net resource outturn and net operating cost by function and reconciliation to Operating Cost Statement

RfR2 – Science programmes

	2003-04						2002-03		
	Admin	Other current	Grants	Gross Resource Expenditure	A-in-A	Net Total	Estimate	Net total compared with Estimate	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
A Research Councils Pension Scheme	-	29,740	-	29,740	-	29,740	31,040	1,300	28,450
B The Royal Society	-	-	29,355	29,355	-	29,355	29,245	(110)	28,783
C The Royal Academy of Engineering	-	-	5,270	5,270	-	5,270	5,270	-	4,770
D OST Initiatives	-	-	2,518	2,518	-	2,518	6,192	3,674	2,243
E Knowledge Transfer	-	-	33,753	33,753	-	33,753	74,012	40,259	39,931
F CMIT	-	-	15,020	15,020	-	15,020	14,000	(1,020)	10,705
G Foresight LINK Awards	-	-	2,966	2,966	-	2,966	5,000	2,034	2,534
H Science Research Investment Fund	-	-	262,229	262,229	-	262,229	250,000	(12,229)	105,018
I Admin Costs SEB	6,558	(10,231)	-	(3,673)	(35)	(3,708)	4,860	8,568	(9,004)
J Administration Costs TSTG	10,056	-	-	10,056	3	10,059	7,880	(2,179)	8,703
K BBSRC	-	-	268,075	268,075	-	268,075	268,075	-	241,510
L ESRC	-	-	91,264	91,264	-	91,264	94,584	3,320	82,963
M EPSRC	-	-	425,000	425,000	-	425,000	425,000	-	473,534
N MRC	-	-	409,932	409,932	-	409,932	430,058	20,126	365,136
O NERC	-	-	284,057	284,057	-	284,057	288,661	4,604	205,677
P PPARC	-	-	281,506	281,506	-	281,506	281,506	-	235,540
Q CCLRC	-	-	76,659	76,659	-	76,659	101,593	24,934	15,607
R CCLRC - Diamond Synchrotron	-	-	33,309	33,309	-	33,309	39,300	5,991	15,292
S Animals - Scientific Procedures Act	-	-	190	190	-	190	175	(15)	134
T Joint Infrastructure Fund	-	-	43,631	43,631	-	43,631	44,000	369	85,384
- Nuclear Fusion	-	-	-	-	-	-	-	-	14,630
Total Request for Resources 2	16,614	19,509	2,264,734	2,300,857	(32)	2,300,825	2,400,451	99,626	1,957,540
Total Resource Outturn (RfR 1 & 2)	578,729	4,292,098	6,346,804	11,217,631	(1,901,240)	9,316,391	11,264,078	1,947,687	6,405,355
Non-Supply Expenditure	-	-	240,073	240,073	(29,170)	210,903			
Non-A-in-A Operating Income	-	-	-	-	(69,107)	(69,107)			
Net Operating Cost	578,729	4,292,098	6,586,877	11,457,704	(1,999,517)	9,458,187			

13. Intangible Fixed Assets

	<u>Software Licences</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>
Cost or valuation at 1.04.03	-	-
Additions	470	470
Disposals	-	-
Transfers	882	882
Revaluation	<u>(178)</u>	<u>(178)</u>
at 31.03.04	<u>1,174</u>	<u>1,174</u>
Depreciation at 1.04.03	-	-
Charge	281	281
Disposals	-	-
Transfers	255	255
Revaluation	<u>(109)</u>	<u>(109)</u>
at 31.03.04	<u>427</u>	<u>427</u>
Net book value		
at 31.03.04	747	747
at 31.03.03	-	-

14. Tangible Fixed Assets

	Land	Buildings	Leasehold Improvements	Office Machinery & Equipment	Computer & Telecomm Equipment	Scientific Equipment	Furniture, Fixtures & Fittings	Motor Vehicles	Plant & Machinery	Assets under Construct- ion	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation											
at 1.04.03	9,413	84,631	21,068	1,635	39,662	2,802	22,292	2,635	26,907	2,268	213,313
Additions	-	23,577	813	94	3,091	(120)	2,929	637	2,830	9,158	43,009
Disposals	(294)	(7,885)	-	(265)	(31,007)	(2,669)	(3,287)	(3,255)	(26,605)	-	(75,267)
Transfers	935	(935)	-	-	(882)	-	-	-	-	-	(882)
Revaluation	751	4,512	472	44	(863)	(13)	(109)	25	(13)	-	4,806
at 31.03.04	10,805	103,900	22,353	1,508	10,001	-	21,825	42	3,119	11,426	184,979
Depreciation											
at 1.04.03	57	9,496	4,067	1,122	23,465	2,552	12,242	1,019	12,989	-	67,009
Charge	13	2,992	1,610	199	5,301	10	2,075	284	1,962	-	14,446
Disposals	-	(2,565)	-	(263)	(21,391)	(2,549)	(2,103)	(1,283)	(13,126)	-	(43,280)
Transfers	-	-	-	-	(255)	-	-	-	-	-	(255)
Revaluation	2	273	402	14	(731)	(13)	(191)	7	(18)	-	(255)
at 31.03.04	72	10,196	6,079	1,072	6,389	-	12,023	27	1,807	-	37,665
Net book value											
at 31.03.04	10,733	93,704	16,274	436	3,612	-	9,802	15	1,312	11,426	147,314
at 31.03.03	9,356	75,135	17,001	513	16,197	250	10,050	1,616	13,918	2,268	146,304
Asset financing:											
Owned	10,733	17,038	16,274	436	3,612	-	9,802	15	1,312	11,426	70,648
On-balance sheet PFI	-	76,666	-	-	-	-	-	-	-	-	76,666
Net book value at 31.03.04	10,733	93,704	16,274	436	3,612	-	9,802	15	1,312	11,426	147,314

Note

The total for additions of £43,009 shown above is broken down as follows:

	£000	
Non-PFI fixed asset additions	19,432	(Schedule 4)
PFI fixed asset additions (financed by increase in creditors)	23,577	(Schedule 1)
	<u>43,009</u>	

14.1 Net book value of land and building comprises:

		31 March 2004		31 March 2003	
		£000	£000	£000	£000
Freehold:	Land	9,972	-	8,595	-
	Buildings	-	92,887	-	74,318
Long Leasehold:	Land	761	-	761	-
	Buildings	-	817	-	817
Short Leasehold:	Land	-	-	-	-
	Buildings	-	-	-	-
		10,733	93,704	9,356	75,135

DTI has the following freehold properties:

- The Core Store, which was revalued on 31 March 2003 by Donaldsons, independent Chartered Surveyors, on the basis of open market value without the benefit of planning consent;
- Wrest Park, which has been let on a 999 year lease and has an agreed nominal book value;
- The National Physical Laboratory (NPL) at Teddington – see separate section on the NPL PFI project at note 14.3.

The Employment Tribunals Service's freehold land and buildings were revalued on 31 March 2003 by Donaldsons, independent Chartered Surveyors, on the basis of existing use value.

All professional valuations have been made in accordance with Royal Institute of Chartered Surveyors guidance.

Other tangible assets have been revalued at 31 March 2004 by reference to appropriate current cost indices.

14.2 Heritage Assets**14.2.1 Operational Heritage Assets:**

The following listed buildings are used for operational purposes and have been valued on a commercial basis. They are included in the values for buildings, above.

- At the National Physical Laboratory in Teddington:
Bushy House, including The Clock House, the Conservatory and Garden Temple
- Occupied by the Silsoe Research Institute (part of the Biotechnology and Biological Sciences Research Council):
Wrest Park, Silsoe, Bedfordshire.
Wrest Park is recorded at a nominal value in the DTI's accounts. The full value is included in the balance sheet of the Biotechnology and Biological Sciences Research Council.
- Used by the Employment Tribunals Service:
Employment Appeals Tribunal Court buildings at 52-56 Melville St, Edinburgh

14.2.2 Non-Operational Heritage Assets:

The Department has a number of non-operational heritage assets held for historical and cultural association alone. These are recorded in the Register of Assets at nil book value, in accordance with guidance in HM Treasury's Resource Accounting Manual, which excludes museum collections, and other national archives existing at 31 March 2000 from the requirement of valuation.

The following non-operational heritage assets are located at the National Physical Laboratory (NPL) at Teddington:

- 'Newton's Apple Tree';
- National Physical Laboratory museum and archives, including some UK primary standard weights and measures.

14.3 National Physical Laboratory - Private Finance Initiative (PFI) project

The Department has a PFI project agreement for the provision of scientific accommodation services and related support services for the National Physical Laboratory (NPL) at Teddington. The contract was awarded to Laser in July 1998 for a period of 25 years, after which the facilities revert to the Department. The accommodation will include 400 laboratory spaces with demanding operating requirements in respect of temperature, vibration, humidity, gases and power supplies. In addition there will be 400 support spaces including offices, canteen, storage, workshops, library, meeting rooms and reception area.

The accommodation is being constructed on a modular basis, with modules being occupied upon completion and acceptance. Final completion of the building is now likely to be during 2004-05. As at 31 March 2004, approximately 88% (2002-03 63%) of the building was handed over for occupation and the fair value, together with its associated liability, has been capitalised proportionately in accordance with FRS5. The Gross Book Value amounted to £82.5m (2002-03: £57.5m) and the accumulated depreciation and depreciation charge amounted to £5.7m (2002-03: £3.6m) and £2.1m (2002-03: £1.5m) respectively. The remainder of the building will be brought on to the balance sheet as it is brought into use.

Payments to Laser during 2003-04 totalled £9.9m (2002-03: £8.7m), being £0.4m capital repayment, £7.4m finance charge and £2.1m associated service charges (2002-03: £2.1m, £4.2m and £2.4m respectively). A prepayment of £8.8m offsets payments in a straight line over the life of the liability.

At 31 March, future commitments under the agreement are as follows:

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Rentals due within one year	9,498	9,876
Rentals due within 2 to 5 years	38,859	38,590
Rentals due after 5 years	<u>114,988</u>	<u>124,764</u>
	163,345	173,230
Less: Interest element	<u>(90,383)</u>	<u>(98,446)</u>
	<u>72,962</u>	<u>74,784</u>

15 Fixed Asset Investments

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
BCSSS Investment Reserve	845,400	907,000
MPS Investment Reserve	432,000	359,000
	1,277,400	1,266,000
Ordinary shares	50	50
Public Dividend Capital	43,214	43,214
Other investments and loans	581,739	584,927
Launch Investments	2,127,806	1,677,475
	4,030,209	3,571,666

15.1 BCSSS and MPS Investment Reserves

	<u>Value at 1</u>				<u>Value at 31</u>
	<u>April 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Revaluation</u>	<u>March 2004</u>
	£000	£000	£000	£000	£000
BCSSS Investment Reserve	907,000	-	(238,300)	176,700	845,400
MPS Investment Reserve	359,000	-	(14,000)	87,000	432,000
	1,266,000	-	(252,300)	263,700	1,277,400

The Department's investments in the Investment Reserves of the two pension schemes for the former employees of the British Coal Corporation, the Mineworkers Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS) are derived from the unallocated share of surplus attributed to British Coal at the privatisation of the industry in 1994. The Investment Reserves exist as sub-funds and are available to maintain the benefits of scheme members. To the extent the Investment Reserves are not required to meet deficits, they will be paid to the Department over a period of at least 25 years on the advice of each scheme's actuary. Discussion on a possible extension of this timing is currently taking place between the Department and the Coal Pension Trustees.

The figures for the MPS are the market values as at March 2004 (unaudited) and take account of the transfer of £355 million made as required under Scheme rules to make good the deficit in the MPS Guaranteed Fund disclosed by the actuarial valuation of the Scheme as at September 2002. The liabilities of the Guaranteed Fund are the benefits payable to MPS beneficiaries which are fully guaranteed by the Government i.e. all benefits other than the Bonus Augmentations payable from the Bonus Augmentation Fund.

The figures for the BCSSS are the market values as at 31 March 2004 and take account of the transfer of £220 million made as required under Scheme rules to make good the deficit in the BCSSS Guaranteed Fund disclosed by the actuarial valuation of the Scheme as at 31 March 2003. The liabilities of the Guaranteed Fund are the benefits payable to BCSSS beneficiaries which are fully guaranteed by the Government i.e. all benefits other than the Bonus Augmentations payable from the Bonus Augmentation Fund.

The accounts of the two pension schemes can be obtained from Coal Pension Trustee Services, 1 Hussar Court, Hillsborough Barracks, Penistone Road, Sheffield, South Yorkshire, S6 2GZ.

15.2 Ordinary Shares

	Value at 1				Value at 31
	April 2003	Additions	Disposals	Revaluation	March 2004
	£000	£000	£000	£000	£000
Royal Mail Holdings plc shares	50	-	-	-	50
	50	-	-	-	50

The ordinary shares are shown at historical cost less any provision for impairment.

15.3 Public Dividend Capital (PDC)

	Value at 1				Value at 31
	April 2003	Additions	Disposals	Revaluation	March 2004
	£000	£000	£000	£000	£000
British Shipbuilders	21,000	-	-	-	21,000
Companies House	15,889	-	-	-	15,889
Patent Office	6,325	-	-	-	6,325
	43,214	-	-	-	43,214

The British Shipbuilders PDC is shown at the historical cost of £1,598,339,000 less a provision for impairment of £1,577,339,000 (of which £1,548,339,000 was accounted for in 1998-99 and a further £29,000,000 in 1999-2000). This impairment has been subject to parliamentary approval.

15.4 Special Shares

In addition, the Secretary of State holds one Special Share in each of the entities listed below. The list is a summary and does not purport to be a comprehensive record of the terms of each respective shareholding. Further details can be obtained from the annual report and financial statements of each body.

Body in which Share is held and type and value of share	Terms of Shareholding
Royal Mail Holdings plc £1 Special Rights Preference Share	<ul style="list-style-type: none"> ● Created in March 2001 ● It may be redeemed at any time by the shareholder ● The consent of the shareholder is required for a number of things, including: <ul style="list-style-type: none"> – Appointing the Chairman of the company, and the remainder of the Board (after consulting the Chairman); – Setting (and approving any changes in) the remuneration packages of the Directors; – Borrowing in excess of certain pre-set limits (as agreed with the Treasury); – Disposing of substantial assets of the business or any “relevant subsidiaries” or substantial parts of the business of such subsidiaries, (thus underpinning the commitment not to sell shares in the Post Office company (subject to certain exceptions with Parliamentary safeguards)); – Voluntary winding-up of any subsidiary; – Varying certain of the company’s articles of association, including the rights of the special shareholder.
British Aerospace plc £1 Special Rights Preference Share	<ul style="list-style-type: none"> ● Created in 1985 (but subsequently amended); ● No time limit; ● Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company; ● Requires a simple majority of the Board and the Chief Executive to be British; ● Requires any Executive Chairman to be British and, if both the Chairman and Deputy Chairman are non-executives, requires at least one of them to be British.
British Energy plc £1 Special Share and British Energy Generation Ltd £1 Special Share	<ul style="list-style-type: none"> ● Created on 21 June 1996; ● British Energy plc Special Share is held jointly by the Secretary of State for the DTI and the Secretary of State for Scotland. The Secretary of State for Scotland has agreed to act in concert with the Secretary of State for the DTI in using his special share; ● The holders may require the company to redeem the shares any time after 30 September 2006; ● The consent of the Special Shareholder in British Energy plc is required for the following: <ul style="list-style-type: none"> - Varying certain of the company’s Articles of Association, including the rights of the Special Shareholder; - Issuing new voting shares and variations in voting rights attached to shares; - Ownership by a shareholder of 15% or more of the company; - The voluntary liquidation of the company; - Appointment of the Chairman of the Board; - Changes in the Articles of Association of British Energy Generation Ltd and British Energy (UK) Generation Ltd. ● British Energy Generation Ltd Special Share is held solely by the Secretary of State for the DTI. Her consent is required for the disposal of any of the nuclear power stations owned by it.

Body in which Share is held and type and value of share	Terms of Shareholding
Nuclear Generators Decommissioning Fund Ltd. £1 'A' Special Share	<ul style="list-style-type: none"> ● Created in 1996. ● Secretary of State for Trade and Industry has a special 'A' share (there is also a 'B' share held by British Energy). ● Only with the special shareholder's consent can: <ul style="list-style-type: none"> - any of the provisions in the Memo of Association or Articles of Association be changed; - the share capital or the rights attached thereto be altered; - the company create or issue share options; - the 'B' Special Shareholder or any of the Ordinary Shareholders dispose or transfer any of their rights in their shares; - the company pass a members voluntary winding-up resolution; - the company recommend, declare or pay a dividend; - the company create, issue, give or commit to give any loan capital; - the company issue a debenture; - the company change its accounting reference date.
National Grid Group plc £1 Special Rights Redeemable Preference Share	<ul style="list-style-type: none"> ● Created on 17 November 1995; ● It may be redeemed at any time; ● The consent of the Special Shareholder is required for the variation of certain of the Articles of Association, including those covering the: <ul style="list-style-type: none"> - Rights of the Special Shareholder; - Restrictions on other electricity companies' ownership in NGG and the appointment of such companies' employees or directors to the Board of NGT. - Consent from the Special Shareholder is also required to effect the disposal of shares in NGT to a third party and to liquidate the company.
UK Nirex Ltd £1 Special Share	<ul style="list-style-type: none"> ● Created in November 1985; ● Special Shareholder's approval required for the disposal of or the granting of, any interest in any land in respect of which a nuclear licence has been granted under the Nuclear Installations Act 1965 whether or not the licence remains in force. Any such approval can be granted subject to conditions; ● Rights attached to the Special Share can only be changed by the written consent of the holder.
Rolls Royce Group plc £1 Special Share	<ul style="list-style-type: none"> ● Created in 1987 (but subsequently amended); ● No time limit; ● Provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company; ● Requires a simple majority of the Board, including the Chief Executive and any Executive Chairman, to be British; ● Allows the appointment of a non-British Non-Executive Chairman; ● Provides for a veto over the material disposal of assets of either the nuclear business or the group overall; ● Provides for a veto of any voluntary winding up.

On 13 May 2003, the European Court of Justice (ECJ) found that the UK Government's special share held by the Secretary of State for Transport in British Airport Authorities restricted the free movement of capital within the single European market. Following this ruling the Department decided to evaluate its special shares to ensure that they complied with EC law and continued to be in the public interest. As a result of this review, the Department has decided that, at present, no changes are required in relation to the special shares in Rolls Royce, British Aerospace, Royal Mail Holdings and also the Nuclear Generators Decommissioning Fund but that the special share in National Grid Transco should be redeemed. This share was redeemed after the end of the financial year. The special shares in British Energy and UK Nirex Ltd remain under review.

For further information on special shares, see 'Events since the end of the financial year' on page 18.

15.5 Other investments and loans

	<u>At 1 April 2003</u>	<u>Additions</u>	<u>Redemption</u>	<u>Revaluation</u>	<u>At 31 March 2004</u>
	£000	£000	£000	£000	£000
Loans:					
Patent Office	2,495	-	(166)	-	2,329
Companies House	1,538	-	(385)	-	1,153
NLF Loans on-lent to Royal Mail	550,000	-	(50,000)	-	500,000
Other	6,304	48,000	(6,312)	-	47,992
Investments:					
UK High Technology Fund	18,059	-	-	(1,465)	16,594
Regional Venture Capital Fund	6,529	19,600	-	(16,057)	10,072
Early Growth Fund	-	3,599	-	-	3,599
	<u>584,925</u>	<u>71,199</u>	<u>(56,863)</u>	<u>(17,522)</u>	<u>581,739</u>

The Radiocommunications Agency entered into a joint venture agreement with CMG UK Ltd on 8 June 1998. The agreement had an initial term of seven years, with the objectives of supplying IT services to the Radiocommunications Agency, and developing an international spectrum management consultancy, through a joint venture company. Radio Spectrum International Consulting Ltd (RSI) was incorporated with an issued share capital of 1,000 ordinary shares of £1 each, of which 30% was issued to Radiocommunications Agency, who appointed two directors, and 70% to CMG, who appointed four directors. With effect from 29 December 2003, the Radiocommunications Agency ceased to exist and its shareholding, along with other assets and liabilities, transferred to Ofcom. RSI's accounts for the year ended 31 December 2002 showed net assets of £1,000 after provision for dividend. The Radiocommunications Agency's share of the dividend for 2002 was £417,900.

15.6 Launch Investments

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Balance b/f at 1 April	1,677,475	1,745,849
Change arising on revaluation	501,292	(66,847)
Amortisation of one years discount	58,712	104,750
Repayments	138	3,200
Income	(109,811)	(109,477)
Balance c/f at 31 March	<u>2,127,806</u>	<u>1,677,475</u>

The Department provides specific support to the aerospace industry through Launch Investment. The investment is shown at a management valuation, based on discounted future income streams using the Treasury discount rate of 3.5%. The historic cost valuation of the investment portfolio at 31 March 2004 was £1,154 million (31 March 2003 - £825 million).

16. Movements in Working Capital Other Than Cash

	2003-04			2002-03		
	Non- operating movements	Operating movements	Total	Non- operating movements	Operating movements	Total
	£000	£000	£000	£000	£000	£000
Increase/(Decrease) in stocks and work-in-progress (see note 17)	-	(441)	(441)	-	538	538
Increase/(Decrease) in debtors (see note 18)	(19,515)	29,016	9,501	(105,867)	42,957	(62,910)
(Increase)/Decrease in creditors (see note 21)	(179,309)	249,625	70,316	412,813	(147,020)	265,793
Net (decrease)/increase in working capital other than cash	(198,824)	278,200	79,376	306,946	(103,525)	203,421
Adjustments:						
CFER movements	(64,706)	-	(64,706)	(87,347)	-	(87,347)
Machinery of Government	-	-	-	(279,198)	(3,147)	(282,345)
Launch Investment	-	46,744	46,744	5,775	-	5,775
Movement in PFI creditors	23,577	-	23,577	13,394	(11,312)	2,082
RPS debtors	-	(816)	(816)	(49,505)	-	(49,505)
Add back CFER OCS debtors	7,689	-	7,689	-	-	-
Movement in supply underspend	311,094	-	311,094	(196,059)	-	(196,059)
RadioComms debtor transfer	16,451	-	16,451	-	-	-
RadioComms deferred income	(67,439)	42,435	(25,004)	44,726	(2,410)	42,316
Other	6,204	(6,204)	-	91,397	(51,725)	39,672
Movement in bad debt provision	(2,807)	-	(2,807)	-	-	-
NLF loan	(50,000)	-	(50,000)	-	-	-
Excess A-in-A	-	-	-	222,819	-	222,819
Total working capital movements (Schedules 1 & 4)	(18,761)	360,359	341,598	72,948	(172,119)	(99,171)

Movements in the Department's working capital are split between 'Non-operating movements' and 'Operating movements'. The former includes balances arising from the collection and subsequent surrender to HM Treasury of Consolidated Fund Extra Receipts. They are therefore excluded from calculation of the Department's own working capital balances.

17. Stocks and Work-in-Progress

	2003-04	2002-03
	£000	£000
Goods for resale	2,641	3,082

18. Debtors

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Amounts falling due within one year:		
HM Customs and Excise (VAT)	28,156	30,218
Trade debtors	44,658	37,193
Other debtors*	88,269	100,854
Prepayments and accrued income	84,288	63,620
Amounts receivable from Other Government Departments arising from Machinery of Government changes	-	2,410
Staff debtors	3,198	3,248
	<u>248,569</u>	<u>237,543</u>
Amounts falling due over one year:		
Prepayments and accrued income	6,983	8,508
	<u>6,983</u>	<u>8,508</u>

*Included in the amount for 'Other debtors' above is £26,024k (2002-03: £43,129k) that will be due to the Consolidated Fund once the debts are collected.

19. Current Asset Investments**19.1 Coal Pension Investments**

	<u>1 April</u>	<u>Revaluation</u>	<u>Release</u>	<u>31 March</u>
	<u>2003</u>	<u>Increase</u>	<u>of Previous</u>	<u>2004</u>
	£000	£000	Revaluation	£000
			<u>Gain</u>	
			£000	
BCSSS debtors	773,000	163,300	(216,000)	720,300
MPS debtors	759,000	201,700	(175,000)	785,700
	<u>1,532,000</u>	<u>365,000</u>	<u>(391,000)</u>	<u>1,506,000</u>

In addition to the Fixed Asset Investment in the two pension schemes of the former employees of British Coal, as referred to at note 14, the Department is entitled to half of any surpluses declared by the two closed pension schemes on the basis of three yearly valuations by the Schemes' actuary (the Government Actuary), which are accounted for as a Current Asset Investment. The Department has estimated the change in the valuation of the investments during 2003-04, based on circularisations provided by the Schemes.

19.2 Royal Mail Holdings plc

	<u>1 April</u>	<u>Additions</u>	<u>Redemptions</u>	<u>31 March</u>
	<u>2003</u>	<u>£000</u>	<u>£000</u>	<u>2004</u>
	£000	£000	£000	£000
Royal Mail Holdings plc	-	935,000	885,000	50,000
	<u>-</u>	<u>935,000</u>	<u>885,000</u>	<u>50,000</u>

19.3 Ordinary Shares

	<u>Value at 1</u> <u>April 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Revaluation</u>	<u>Value at 31</u> <u>March 2004</u>
	£000	£000	£000	£000	£000
British Energy £1 Ordinary Shares	17	-	-	14	31
British Energy 'A' Shares	1	-	-	1	2
Less: Matching year-end creditor	(18)	-	-	(15)	(33)
Total	-	-	-	-	-

As part of the privatisation of British Energy it was decided to reward those who kept their shares from the date of the original privatisation until July 1999 with bonus shares. The Government retained a pool of 5 million shares from the original issue to meet the predicted liability for such bonus shares. Most of the 5 million shares were issued as bonus shares in July/August 1999 by the registrars, using their shareholder records. Most of the remaining shares held by the Government were disposed of in late 1999, keeping a residual holding to meet liabilities for bonus shares which for some reason were not identified in the July/August 1999 process. The Department does not hold the shares for any purpose other than to meet these liabilities and does not vote in British Energy AGMs.

20. Cash at Bank and in Hand

	<u>2003-04</u> <u>£000</u>	<u>2002-03</u> <u>£000</u>
Balance at 1 April	229,879	603,836
Net cash inflow/(outflow):	246,414	(373,957)
Balance at 31 March	476,293	229,879
The following balances at 31 March are held at:		
OPG	459,356	218,730
Cash at commercial banks and imprest accounts	16,874	11,147
Cash floats	63	2
	476,293	229,879
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	313,204	2,110
Consolidated Fund Extra Receipts received in year and due to be paid to the Consolidated Fund	163,089	227,769
	476,293	229,879

21. Creditors

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Amounts falling due within one year:		
Trade creditors	28,930	466,076
Other taxation & social security	518	663
Other creditors	133,391	87,402
Accruals and deferred income	216,551	74,874
Short term NLF loan on-lent to Royal Mail Holdings plc	-	50,000
Amounts issued from the Consolidated Fund but not spent at year-end	313,204	2,110
CFER payable to the Consolidated Fund	189,113	270,898
	<u>881,707</u>	<u>952,023</u>
Amounts falling due after one year:		
National Loan Fund Loan on-lent to Consignia plc	500,000	500,000
Trade creditors	93,623	55,928
Accruals and deferred income	7,488	45,883
	<u>601,111</u>	<u>601,811</u>

22. Provisions for Liabilities and Charges - Coal

	Health-Related Provisions			Other Provisions		Total
	COPD	VWF	Other	Con. Fuel	Other	
	£000	£000	£000	£000	£000	£000
At 1 April 2003	2,466,494	1,101,973	419,140	357,381	49,681	4,394,669
Financing charges:						
Change in discount rate	123,846	50,808	45,232	58,287	2,787	280,960
Changes in price levels	50,125	22,204	9,716	9,119	1,029	92,193
Amortisation of one year's discount	71,929	31,863	13,943	13,086	1,476	132,297
Increase/(decrease) in Provision	693,016	(219,912)	191,484	(27,496)	29,519	666,611
Expenditure in year	(563,944)	(257,314)	(73,091)	(51,362)	(12,172)	(957,883)
At 31 March 2004	2,841,466	729,622	606,424	359,015	72,320	4,608,847

The time scale over which it is estimated the discounted costs will need to be incurred, is as follows at 31 March 2004:

	<u>2003-04</u>	<u>2002-03</u>
	£billion	£billion
Within 1 year	1.0	1.1
Between 2 to 5 years	2.8	3.0
Beyond 5 years	0.8	0.3
Total	<u>4.6</u>	<u>4.4</u>

Provisions have been made for liabilities relating to British Coal employees.

22.1 Health-Related Provisions

Health claims make up by far the largest proportion of coal provision expenditure. Responsibility for these compensation claims relating to personal injuries suffered by former British Coal mineworkers transferred to the Department on 1 January 1998 by a restructuring scheme under the Coal Industry Act 1994.

While the provision amounts are based on the best available estimate, they are sensitive to the number of claims received and the size of individual awards made. An accelerated take up of offers would bring expenditure forward, whereas delays in offers being accepted would cause expenditure to slip into future years.

Chronic Obstructive Pulmonary Disease (COPD)

Liabilities arise from claims relating to respiratory diseases such as emphysema and chronic bronchitis, caused by exposure to mine dust and fumes. The expected discounted liability over the next 7 years is £2.84 billion (2002-03: £2.47 billion), the undiscounted amount being £3.16 billion (2002-03: £2.78 billion).

The change is attributable to a revised forecasting methodology (see note 2.2) and a large increase in the numbers of claims received in the run-up to the closing date of the scheme, 31 March 2004, which was the subject of an advertising campaign. No further claims are being accepted under the scheme after this date.

Vibration White Finger (VWF)

Liabilities arise from claims relating to damage caused by the prolonged use of vibratory tools. Claims total to a discounted amount of around £0.73 billion over the next 5 years (2002-03: £1.1 billion). The corresponding undiscounted amount is £0.77 billion (2002-03: £1.23 billion). This scheme is also now closed to new claims.

Other Health Provisions

This provision incorporates other injury-related compensation claims such as deafness, accidents and miscellaneous diseases. It also covers payments under British Coal's Pneumoconiosis Compensation Scheme and associated administration costs of managing the health claims.

The undiscounted amount of these provisions is £0.68 billion (2002-03: £0.55 billion).

22.2 Other Provisions

Concessionary Fuel

The Department has responsibility to provide either solid fuel or a cash alternative to 125,337 beneficiaries. Approximately two thirds of these have opted for an average cash alternative of £272 per annum, compared with an average solid fuel cost to the Department of £682 per annum. The number of beneficiaries is decreasing by around 5% per year and therefore the liability will continue for several decades. The provision is based on standard female mortality rates and includes an assumption of the beneficiaries continuing to switch their entitlement from solid fuel to cash in lieu.

Site Restoration and Other

This includes provision to meet some of the costs of restoring the heavily contaminated site at The Avenue coke-works, near Chesterfield. It is a derelict 240-acre site, which passed to English Partnerships in 1996, as part of a group of 56 properties no longer required for coal purposes. The Memorandum of Understanding between British Coal and English Partnerships states that British Coal would reimburse the minimum costs necessary to meet statutory environmental standards. The Department has inherited this liability from British Coal. The Avenue is one of four sites on which this liability has been called and the discounted level of this provision at 31 March 2004 is £53.6 million (2003: £23 million). The deadline for this liability has now passed and therefore no new liabilities can arise in the future.

Also included under this heading are provisions relating to costs for the administration of non-health related liabilities and indemnities issued at privatisation.

23. Provisions for Liabilities and Charges - Nuclear

	UKEA	BNFL	British	Total
	Decommissioning		Energy	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 April 2003	3,696,163	4,144,746	1,759,979	9,600,888
Financing charges:				
Change in discount rate	1,200,192	2,336,486	412,471	3,949,149
Changes in price levels	114,769	162,663	54,311	331,743
Amortisation of one year's discount	164,693	232,536	77,937	475,166
Increase/(decrease) in provision	(49,318)	-	63,849	14,531
Expenditure in year	(305,599)	-	-	(305,599)
At 31 March 2004	4,820,900	6,876,431	2,368,547	14,065,878

23.1 United Kingdom Atomic Energy Authority (UKAEA) Decommissioning Provision

By virtue of a letter of understanding with the UKAEA, the Department has agreed to cover the cost of the liabilities arising from programmes associated with the decommissioning of radioactive plant and facilities, storing, processing and eventually disposal of radioactive waste, and of reprocessing, or in other ways, managing nuclear fuels and nuclear materials. It is expected that the cost of £4.8 billion (discounted at 3.5% and expressed in 2003-04 money values) will be incurred mostly within the next 60 years.

Calculation of the liabilities is based on the technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are derived using the latest technical knowledge and commercial information available and take account of current legislation, regulations and Government policy. Summary figures are built up by aggregating detailed estimates for individual liabilities. Allowance is also made for infrastructure costs, which are an appropriate share of running costs and other overhead costs attributable to plant and buildings. The calculation is re-assessed annually. Since much of the work will not be done until well into the future, there is considerable uncertainty as to the likely costs.

The time scale over which it is estimated the discounted costs will need to be incurred is as follows:

	<u>2003-04</u>	<u>2002-03</u>
	<u>£billion</u>	<u>£billion</u>
Within 1 year	0.3	0.3
Between 2 to 5 years	1.2	1.0
Beyond 5 years	3.3	2.4
Total	4.8	3.7

After allowing for financing charges and other expenditure during the year the increase in the provision, which is £1.1 billion, is almost entirely due to the change in the discount rate from 6% to 3.5% effective from 1 April 2003.

The latest estimate of the undiscounted cost of dealing with the UKAEA's Nuclear liabilities and thus the Department's liability is as follows:

	<u>2003-04</u>	<u>2002-03</u>
	<u>£billion</u>	<u>£billion</u>
Costs of liabilities on UKAEA sites	7.1	7.2
UKAEA liabilities on BNFL sites	1.9	2.0
Total	9.0	9.2

After allowing for financing charges and expenditure during the year, the decrease in the undiscounted liabilities estimate is due to changes in decommissioning and waste management strategies and the revision of cost estimates.

23.2 British Nuclear Fuels plc (BNFL)

There is an agreement between the Secretary of State for Trade and Industry and Magnox Electric plc, a wholly owned subsidiary of BNFL, whereby the Secretary of State has undertaken to pay Magnox Electric plc £3.7 billion together with interest at a rate of 4.5% above inflation on the outstanding balance. The payments commence in the year ending 31 March 2008 and cease in the year ending 31 March 2116. The total undiscounted liability is approximately £27.3 billion (2002-03: £26.7 billion) with the corresponding discounted amount at 3.5% being £6.9 billion (2002-03: £4.1 billion).

The time scale over which the discounted costs will need to be incurred is:

	<u>2003-04</u>	<u>2002-03</u>
	£billion	£billion
Within 1 year	-	-
Between 2 to 5 years	1.1	0.4
Beyond 5 years	<u>5.8</u>	<u>3.7</u>
Total	<u>6.9</u>	<u>4.1</u>

The terms of the Undertaking provide for a review of Magnox liabilities every five years starting on 1 April 2003. Potential adjustments to the outstanding amount may also occur:

- (a) Where the actions taken by persons or bodies external to BNFL (referred to as an "event") cumulatively increase the discounted value of Magnox liabilities by more than £250 million (in which circumstances the Secretary of State has discretion to vary the amounts of the undertaking or the payment schedule);
- (b) Where there is an adjustment to the provisions as a result of downward revisions in the estimate of the cost of Magnox liabilities (in which circumstances clawback arrangements exist to reduce the Secretary of State's liability).

Reductions in provisions falling within b) above will be shared between the Secretary of State and BNFL (via adjustment of the outstanding amount of the Undertaking) on a sliding scale with the maximum reduction in the Undertaking being £800 million escalated by 2.5% above inflation from April 1998.

23.3 British Energy

If implemented, under the terms of British Energy's solvent restructuring Government has agreed to take financial responsibility for British Energy's historic spent fuel liabilities, which are managed by BNFL. The liability relates to contracts between BE and BNFL for costs in respect of the reprocessing and storage of spent nuclear fuel and associated waste.

The provision is based on a schedule of cash flows for the period 2004 to 2032, agreed between the Department and BNFL whereby costs each year are estimated to be £181 million (undiscounted at March 2004 prices) for the next 10 years. Amounts are then expected to fall each year thereafter. The total undiscounted liability is approximately £3.26 billion.

The provision is included in the accounts at a discounted total value of £2.37 billion. The time scale over which the discounted costs will need to be incurred is:

	<u>2003-04</u>	<u>2002-03</u>
	£billion	£billion
Within 1 year	0.2	0
Between 2 to 5 years	0.7	0.6
Beyond 5 years	1.5	1.2
	<u>2.4</u>	<u>1.8</u>

As at 31 March 2004, the discounted amount in the British Energy Group Accounts for this liability totalled £2.45 billion. This is because British Energy apply an internal discount rate of 3% whereas DTI have applied the 3.5% discount rate for 2003-04 set by the Treasury.

24. Provisions for Liabilities and Charges - Other

	<u>SFLG</u>	<u>UKAEA</u>	<u>Early</u>	<u>Other</u>	<u>Total</u>
	£000	£000	£000	£000	£000
At 1 April 2003	106,814	54,089	10,643	52,710	224,256
Financing charges:					
Change in discount rate	3,720	6,992	383	-	11,095
Change in price levels	1,434	1,282	120	-	2,836
Amortisation of one year's discount	2,058	1,840	172	-	4,070
Increase/(Decrease) in provisions	68,045	2,090	17,112	(7,553)	79,694
Expenditure during year	(53,166)	(9,805)	(4,386)	(7,640)	(74,997)
Disposal of Radiocommunications Agency provisions	-	-	(4,439)	-	(4,439)
At 31 March 2004	128,905	56,488	19,605	37,517	242,515

24.1 Small Firms Loan Guarantee (SFLG)

The SFLG is the Department's main instrument for supporting business finance. The Scheme exists to provide guarantees for banks to lend to businesses for viable propositions where the necessary security of track record to justify normal terms is lacking. The provision is based on the expected value of defaults of all outstanding loans and has been discounted at the Treasury rate of 3.5%. The undiscounted liability is £136 million (2002-03: £116 million), which is expected to be utilised over the next eight years.

24.2 UKAEA Other Provisions

The figures reflect provisions relating to Restructuring and Environmental Remediation. Restructuring costs cover the continuing annual payments for staff who took early retirement primarily before the privatisation of AEAT in 1996 and will continue until they reach retirement age. Environmental Remediation costs cover the treatment of chemical contamination of the groundwater at the UKAEA's Harwell site.

24.3 Other

This relates to a range of liabilities arising from the Department's normal business. It includes agency provisions arising through consolidation and provisions for various other Departmental programmes and administration costs.

25. Revaluation Reserves

	Tangible Fixed Asset	Launch Investment	Coal Pensions	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April 2003	9,857	426,700	2,737,315	3,173,872
Arising on revaluation during year	5,770	501,292	628,700	1,135,762
CFERs realised	-	(80,172)	-	(80,172)
Disposals	-	-	(252,300)	(252,300)
Transfer to General Fund	(1,829)	-	-	(1,829)
Coal Pensions – surplus released	-	-	(391,000)	(391,000)
Launch Investment income released	-	(52,353)	-	(52,353)
Balance at 31 March 2004	13,798	795,467	2,722,715	3,531,980

The Fixed Asset Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and the revaluation adjustments of tangible fixed assets (excluding donated assets) (see note 14).

The Launch Investment Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to Launch Investment (see note 15).

The Coal Pensions Reserve reflects the cumulative balance of revaluation adjustments of the fixed and current asset investments in pension schemes of former employees of British Coal (see notes 15 and 19 for more detail).

26. Reconciliation of Net Operating Cost to changes in the General Fund

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Net Operating Cost for the year (Schedule 2)	(9,458,187)	(6,359,343)
Income not appropriated-in-aid payable to the Consolidated Fund	(69,107)	(11,142)
Non-supply expenditure funded by the National Insurance Fund	210,903	177,075
Adjustment for transfer of estimate cover for Machinery of Government changes	-	10,874
Surplus A-in-A to be surrendered to the Consolidated Fund	-	(222,819)
	<u>(9,316,391)</u>	<u>(6,405,355)</u>
Net Parliamentary funding:		
RfR 1 and 2	5,854,011	4,778,321
Prior year surplus	2,110	218,322
Functions transferred under Machinery of Government changes	-	8,464
Adjustment for transfer of estimate cover for Machinery of Government changes	-	(10,874)
Transfer to General Fund in respect of realised element of Revaluation Reserve	1,829	897
Consolidated Fund creditor for unspent cash	(313,204)	(2,110)
Amounts payable to Other Government Departments arising from Machinery of Government changes	-	2,410
Non-cash charges:		
Cost of capital net credit (see notes 4 and 5)	(485,579)	(487,999)
Deferred Income (Radiocommunications Agency)	1,557	-
Radiocommunications Agency prior year adjustment	-	(42,312)
Radiocommunications Agency – assets and liabilities	10,445	-
Auditor's remuneration	294	278
Other Agency Notional Costs	(633)	1,222
Fixed Asset Investment	-	2,000
Increase in RPS debtor	816	49,505
Net decrease in General Fund	(4,244,745)	(1,887,231)
General Fund at 1 April	(13,218,537)	(11,331,306)
General Fund at 31 March	(17,463,282)	(13,218,537)

27. Capital Commitments

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Contracted capital commitments (excluding VAT) for which no provision has been made	<u>720</u>	<u>3,005</u>

28. Other Commitments

In addition to commitments under leases and PFI contracts, as at 31 March 2004 the Department was committed to making the following payments during the next year in respect of subscriptions to international bodies:

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Expiry within 1 year	-	4,046
Expiry within 2 to 5 years	607	7,500
Expiry over 5 years	49,912	83,379
Total	<u>50,519</u>	<u>94,925</u>

28.1 Bodies to whom subscriptions are included in the amounts disclosed above are:

Organisation	Note	Commitment due to expire			Total
		within 1 year	within 2 to 5 years	over 5 years	
		£000	£000	£000	£000
European Space Agency	a	-	-	30,000	30,000
International Atomic Energy Agency	b	-	-	9,716	9,716
World Trade Organisation	c	-	-	4,000	4,000
Organisation for the Prohibition of Chemical Weapons	d	-	-	3,340	3,340
Universal Postal Union	e	-	-	1,000	1,000
International Energy Agency	f	-	-	900	900
Bureau International des Poids et Mesures (BIPM)	g	-	500	-	500
Nuclear Energy Agency	h	-	-	490	490
European Energy Charter	i	-	-	300	300
UNIDROIT	j	-	-	78	78
Organisation Internationale de Metrologie Legale (OIML)	k	-	35	-	35
Organisation for Economic Co-operation and Development, Steel Committee	l	-	-	30	30
UN Convention on Law of the Sea Membership	m	-	67	-	67
International Cotton Advisory Committee	n	-	-	10	10
International Lead & Zinc Study Group (ILZSG)	o	-	-	22	22
International Nickel Study Group (INSG)	p	-	-	26	26
EUROMET	q	-	5	-	5
Total		<u>-</u>	<u>607</u>	<u>49,912</u>	<u>50,519</u>

Notes:

a) *The European Space Agency (ESA)* carries out civil space programmes for its Member States, including the UK. DTI contributions cover part of the Agency's general budget, which is, under the ESA Convention, mandatory for all Member States, who share it in proportion to net national income at factor cost. The UK contribution is shared between DTI and the Research Councils, which also take part in the programmes of the Agency, broadly in proportion to their shares in the total UK funding of the Agency. In 2003-04, the Research Council concerned was PPARC. DTI contributions also cover the UK's share of those individual "optional" programmes of the Agency to which the UK has committed funding, which are directed towards industrial and commercial objectives.

b) *The International Atomic Energy Agency (IAEA)* serves as the world's central intergovernmental forum for scientific and technical co-operation in the nuclear field, and as the international inspectorate for the application of nuclear safeguards and verification measures covering civilian nuclear programmes. The UK's subscription payment to the IAEA Regular Budget is a legal commitment pursuant to our ratification of the IAEA Statute.

c) The DTI is responsible for the payment of the UK's annual contribution to the *World Trade Organization* (WTO), which deals with the global rules of trade between nations. Its main function is to ensure that international trade flows as smoothly, predictably and freely as possible. As a member of the WTO the UK, like other members, has a legal commitment to pay a contribution to the cost of running the WTO Secretariat, which is based in Geneva. The UK's share is calculated on the basis of our international trade in relation to the total international trade of all WTO members.

d) *The Organisation for the Prohibition of Chemical Weapons* (OPCW) undertakes the implementation on the international level of the provisions of the Chemical Weapons Convention (CWC). The UK's subscription payment to the OPCW Regular Budget is a legal commitment pursuant to our ratification of the CWC.

e) *The Universal Postal Union* (UPU) is the United Nations Agency, which is the primary forum for co-operation between postal service providers. The UK's membership of the UPU enables its national postal service operator, Royal Mail, to participate in the worldwide network of postal operators, to enter into agreements for the exchange of international mail, and to exchange and develop experiences of best practice in postal operations. The annual subscription for UPU membership is paid by the DTI, with some 60% of the total subsequently recovered from Royal Mail.

f) *The International Energy Agency* (IEA) is the energy forum for 26 member countries whose Governments are committed to taking joint measures to meet oil supply emergencies and to share energy information, co-ordinate energy policies and co-operate in the development of rational energy programmes. The main objectives of the OECD's IEA, based in Paris, are to prepare for and take action in the event of severe oil disruptions, assist the co-ordination of the energy policies of its member countries, and encourage good practice in energy policy worldwide. The UK's subscription supports these objectives.

g) The Bureau International des Poids et Mesures' mandate is to provide the basis for a single, coherent system of measurements throughout the world, traceable to the international System of Units (SI). The annual subscription has been payable since the Government signed up to the Metre Convention circa 1888.

h) DTI pays the UK's annual contribution to the Nuclear Energy Agency (NEA) on behalf of a number of Departments and Agencies that participate in the NEA's work. The NEA is an internationally recognised non-promotional organisation providing a forum for addressing and disseminating information on technical scientific and economic issues affecting nuclear energy globally.

i) The DTI is responsible for the UK's subscription to The European Energy Charter, which strives towards open, efficient, sustainable and secure energy markets and promotes a constructive climate conducive to energy interdependence on the basis of trust between nations. The main aim of the Energy Charter Treaty is to liberalize energy trade, transit and investment in/between its (mainly Eurasian) signatory countries, an aim which the UK strongly supports.

j) The DTI pays an annual contribution towards the running of the International Institute for the Unification of Private Law (UNIDROIT). UNIDROIT is an independent intergovernmental organisation with its seat in Rome. Its purpose is to study needs and methods for modernising, harmonising and co-ordinating private and in particular commercial law as between States and groups of States.

k) *The International Organisation of Legal Metrology* (OIML) promotes the global harmonisation of legal metrology procedures. It provides its members with metrological guidelines for the elaboration of national and regional requirements concerning the manufacture and use of measuring instruments for legal metrology application. The payment is made on behalf of the National Weights and Measures Laboratory and is a requirement of their international legal metrology role.

l) *The Organisation for Economic Co-operation and Development* (OECD) Steel Committee is the international forum established to discuss steel industry issues such as production trends, trade flows and issues, market developments and environmental issues. DTI provides funding as a contribution to the work of the Committee, which is attended by both OECD and non-OECD members.

m) Following on from the UK's accession to the United Nations Convention on the Law of the Sea, the UK has a legal commitment to provide a proportion of the running costs of the Convention. The total UK contribution is shared between those Departments with a significant interest in the Convention.

n) DTI is the UK Government member of the inter-governmental International Cotton Advisory Committee, based in Washington USA, which is influential in providing a 'level playing field' in terms of access to market knowledge for all producer and consumer countries. The ICAC operates along similar lines to the United Nations based organisations. It has over 40 member countries. The UK's membership is critical because it ensures that the Liverpool Cotton Association remains the pre-eminent global body for cotton trading.

o) The DTI is responsible for annual payments to The International Lead & Zinc Study group, a UN-affiliated group set up to bring transparency to the global lead and zinc markets. The group's HQ is based in London. The UK as a major producer of lead and consumer of both lead and zinc has strong industry support for its continuing membership of this group.

p) *The International Nickel Study Group (INSG)* is an autonomous, inter-governmental organisation established in 1990. Membership comprises nickel producing, consuming and trading countries. The DTI makes payments to cover the UK annual membership fee for this UN-affiliated Group, based in The Hague.

q) *EUROMET* is a co-operative voluntary organisation between the national metrology institutes (NMIs) in the EU including the European Commission, EFTA and EU Accession States. The objective of EUROMET is to promote the coordination of metrological activities and services with the purpose of achieving higher efficiency. EUROMET was formally established by the signing of a Memorandum of Understanding (MOU) by participating States in Madrid, Spain on 23 September 1987 to become operative from 1 January 1988. DTI makes an annual payment on behalf of the National Physical Laboratory which is a requirement of their international metrology role.

Since the end of the 2002-03 financial year, payments previously paid to the following organisations have ceased for the reasons stated below:

- Payments to the European Bank of Reconstruction and Development (EBRD) managed *Chernobyl Shelter Fund*. This project is concerned with the stabilisation, repair and replacement of the sarcophagus surrounding Chernobyl Unit 4, which suffered a major accident in 1986. The UK pledged money in two tranches, both of which have been paid in full. A further pledging round is currently underway but no further commitments have yet been made.
- Contributions to the *Joint European Torus* transferred from the Department to the Engineering and Physical Sciences Research Council in 2003-04.
- The annual subscription to the *International Telecommunications Union* is the responsibility of the Radiocommunications Agency and transferred to Ofcom in December 2003.
- The Department has withdrawn from the membership of the Hallmarking Convention.

29. Commitments under Operating Leases

At 31 March 2004 the Department was committed to making the following payments during the next year in respect of operating leases:

For the consolidated Department:	2003-04			2002-03		
	Land and Buildings	Other	Total	Land and Buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Leases expiring:						
Within one year	2,663	593	3,256	1,083	249	1,332
Between two to five years	2,432	1,792	4,224	5,667	1,705	7,372
After five years	47,581	33,610	81,191	45,701	10,519	56,220
	52,676	35,995	88,671	52,451	12,473	64,924
For the Core Department (excluding consolidated entities):						
	£000	£000	£000	£000	£000	£000
Leases expiring:						
Within one year	-	219	219	837	191	1,028
Between two to five years	836	1,138	1,974	-	943	943
After five years	34,291	29,016	63,307	33,116	6,665	39,781
	35,127	30,373	65,500	33,953	7,799	41,752

Included in the above is a lease for the supply of services under the ELGAR contract, which is treated as an operating lease under the PFI guidance, issued by HM Treasury.

The ELGAR PFI contract covers the provision of a wide range of information systems and services to the Department, including infrastructure management, IT development, business process re-engineering, consultancy advice and technology refresh. The contract was awarded in November 1998 for a period of 10 years, extendable for up to a further 5 years. The contract is now set to expire on 31 March 2014. The amount of contract payments charged as operating expenses in 2003-04 amounted to £37 million and the estimated capital value of the scheme is £6 million. Over the 10 remaining years of the contract payments may amount to £294 million. The DTI has a responsibility to pay termination charges should the Department exercise its break option before the agreed service end date. These amount to £91.5 million, comprising £18.3 million for the core service, £28.7 million for Matrix and an additional £44.5 million for other (extended) services.

In addition, UK Trade and Investment (UKTI), the Insolvency Service (INSS) and the Employment Tribunal Service (ETS), all of which are bodies which are consolidated into these accounts, also have contracts with ELGAR for the provision of IT services. Details can be found in the separate resource accounts of these bodies.

30. Contingent Liabilities disclosed under FRS 12 requirements**Basis of Recognition Description**

Coal Industry Act 1994 Any liabilities of British Coal in respect of industrial injury to its former employees between 1947 and 31 December 1994, the timing and amounts of which are uncertain at this time. The liabilities arise through the various health claims that have been made by former and current employees of British Coal. The uncertainty is due to two factors:

- a) the nature of any injury; and
- b) whether the courts decide that compensation is due.

Given recent history, the fact that the burden of proof rests with the plaintiff and that the compensation level is determined on a case-by-case basis, there is a high level of uncertainty relating to either the amount of the payments due or whether they are likely to be paid. This uncertainty is also referred to in the Coal Provisions note (note 22). Over time, it is likely that a more accurate estimate of the expected costs to be borne by the Department will become available.

British Energy There are a number of contingent liabilities that arise from the Department's support for British Energy referred to elsewhere in these accounts, as follows:

(i) Un-contracted and Decommissioning Liabilities

If implemented, under the terms of British Energy's solvent restructuring the Department, through the Secretary of State's announcement on 28 November 2002, will assume responsibility for un-contracted and decommissioning liabilities to the extent that the accrued value of the Nuclear Generators' Decommissioning Fund (NGDF) and the contributions by British Energy to the Nuclear Liabilities Fund (NLF) are insufficient to meet liabilities as they fall due. There is a high level of uncertainty relating to any possible future cashflows with current estimates varying between a £0.3 billion liability and a £0.5 billion asset.

(ii) Pension Obligations

As with all companies it is BE's obligation to ensure that its pension schemes are appropriately funded. The Secretary of State's statement to Parliament of the 28 November 2002 committed to meet a shortfall in BE pensions. Therefore, the Department recognises that, should the solvent restructuring of the company fail and BE goes into administration, a resulting inability of the company to meet pension obligations would give rise to a contingent liability to fund the BE pension scheme.

The Accounts of British Energy for 2003-04 disclose a deficit calculated for Financial Reporting Standard 17 purposes of £352 million. A triennial valuation of the pension scheme's assets and liabilities as at 31 March 2004 is currently in progress.

(iii) Credit Facility Agreement

On 9 September 2002, the Government granted British Energy rescue aid in the form of a £410 million Credit Facility Agreement ("CFA"). The amount available is now £200 million. This remains in place until the earlier of 30 September 2004 and either (i) if there are no drawings outstanding, the date of a Commission ruling on state aid or (ii) to the extent that draw-downs are outstanding, the date when restructuring becomes effective.

The main purpose of the CFA is to provide working capital and collateral to support the trading operations of British Energy in the United Kingdom.

At 31 March 2004, no amounts were drawn down against the facility.

(iv) Trustee Indemnities

Indemnities have been given to the 3 trustees of the Nuclear Generators' Decommissioning Fund appointed by the Secretary of State.

Nuclear

The Department has a range of civil nuclear liabilities arising through its association with UKAEA and BNFL as well as ensuring that HMG complies with its obligations under the various international nuclear agreements and treaties. The amount and timing of this overarching liability is not quantifiable.

In addition, the Government has had to provide temporary indemnity to British Nuclear Insurers to cover terrorism risks.

Postal Services Act 2000

As part of the Royal Mail financing package, the Department agreed on 20 December 2002 to buy two bonds issued by Royal Mail, the values of which are £200 million and £300 million. The availability of the bond agreement runs until 20 March 2005. Terms of the agreement state that Royal Mail must request the transaction at least six months in advance, that each bond must be utilised in full and that the Department must gain Parliamentary approval before purchasing the bonds (as funds would come from DTI supply which is voted by Parliament). If the Department were to purchase the bonds, they would mature on 20 March 2009. Royal Mail did not request the purchase of either bond in 2003-04.

The Department has also made available to Post Office Limited, through an agreement reached on 17 October 2003, a revolving loan facility of up to £1.15 billion. This is to help the company fund its working capital requirements in light of the migration of state benefits payments to a system of direct payment, alongside a Government commitment that benefit recipients will still be able to collect their benefit, in cash and in full, from post office branches. Post Office Limited began utilising this facility on 1 December 2003. The agreement allows for the company to have up to 30 concurrent loans out at any one time with loan periods which can be one day or longer. The availability of the facility ends on 30 March 2010 and any outstanding loans must be repaid by 31 March 2010. This support was subject to EU State Aids clearance, which was received in May 2003.

EC Directives relating to Structural Funds

There is a risk that the EC may seek recovery from the Department of grants paid under various ERDF Community Initiative Programmes arising from our quantification of the financial impact of irregularities found in three of the seven Community Initiative Programmes which the Department is responsible for. The eventual liability that might crystallise is still uncertain and is dependent upon the EC's formal notification of its decision on the matter. However, work done during the financial year to remove qualifications from the internal audit opinions on six of the seven initiatives suggests that the Department's potential exposure has been significantly reduced.

Health and Safety

Claims have been lodged by a number of employees and ex-employees for compensation for industrial injury or disease allegedly arising from a period of employment at one or other of the former research establishments of the DTI. The timing and amount of this liability is not quantifiable.

31. Contingent Liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability.

31.1 Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the definition of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	<u>1 April 2003</u>	<u>Increase in year</u>	<u>Crystallised in year</u>	<u>Expired in year</u>	<u>31 March 2004</u>
	£000	£000	£000	£000	£000
Local Network indemnities	72,137	1,296	-	-	73,433
Callable capital subscription for the Common Fund for Commodities	1,960	-	-	-	1,960
Paid in capital subscription for the Common Fund for Commodities	2,240	-	-	-	2,240
UK share of CERN liabilities	32,000	9,200	-	-	41,200
Back-end costs for decommissioning nuclear facilities for Research Councils	6,658	-	-	(3,158)	3,500
BBSRC liability for redundancy costs	15,000	-	-	(15,000)	-
BBSRC bank guarantee	-	800	-	-	800
Total	129,995	11,296	-	(18,158)	123,133

31.2 Unquantifiable

The Department has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the definition of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

- British Aerospace liabilities immediately prior to privatisation;
- Assurances and guarantees relating to British Shipbuilders;
- Home Shipbuilding Credit Guarantee Scheme;
- Guarantees given to meet any deficits in the funds of British Coal Corporation Pensions;
- Letter of comfort to AEA Technology re joint European project for underground gasification of coal;
- Indemnity in respect of National Grid Company's liabilities re the interconnector linking England and France;
- Indemnities given to UKAEA by the Secretary of State to cover certain indemnities given by UKAEA to carriers and British Nuclear Fuels plc against certain claims for damage caused by Nuclear matter in the course of carriage;
- Statutory Liability for third party claims in excess of the operator's liability in the event of a nuclear accident in the UK;
- Further Incidents/Accidents Insurance claims for exposure to ionising radiation pursued outside the existing UKAEA insurance scheme;
- A guarantee has been given to the Financial Reporting Council that if the amount held in the Legal costs fund falls below £1m in any year, an additional grant will be made to cover legal costs subsequently incurred in that year;
- Liabilities relating to the issue of licences to operators of satellites and other space objects;
- European Patent Office (EPO): The UK as one of the contracting states has a potential liability under Article 40 of the European Patent Convention of 1973;

- The UK, as a contracting state to the Patent Co-operation Treaty of 1970, has a potential liability under Article 57 of the Treaty;
- The Police Information Technology Organisation (Home Office) provides DTI with access to data from the Police National Computer (PNC). The DTI has indemnified the police against any liabilities which they might incur as a result of providing that access;
- Liabilities arising from the operation of satellites by various Research Councils;
- Indemnities equivalent to those given to civil servants under the Civil Service Management Code have been given to persons appointed to the Board of the Office of Fair Trading, including the Chairman;
- Indemnities equivalent to those given to Board members of Non-Departmental Public Bodies (NDPBs) have been given to members of the nine Regional Committees of Postwatch (the Consumer Council for Postal Services);
- Decommissioning costs falling to PPARC as a result of the possible future closure of scientific facilities;
- The British Geological Survey, a constituent part of NERC, has received notice of a claim being made against it by a number of people in Bangladesh;
- An indemnity was given, which expired on 4 April 2004, by the Coal Authority to the administrators of Coal Power Ltd relating to personal liabilities arising out of environmental legislation, subsidence claims and abandonment costs in relation to Hatfield colliery.

32. Related Party Transactions

The Department is the parent of the Advisory, Conciliation and Arbitration Service (ACAS), the Employment Tribunals Service (ETS), the Insolvency Service (INSS), the National Weights and Measures Laboratory (NWML), the Radiocommunications Agency (RA) (up to 28 December 2003) and the Small Business Service (SBS) and sponsors Companies House and the Patent Office (trading funds) and Royal Mail Holdings plc, British Shipbuilders, British Coal Corporation, British Nuclear Fuels Ltd (BNFL) and Ofcom. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

None of the board members, key managerial staff or other related parties has undertaken any material transaction with the Department during the year. David Hughes, Director General for the Department's Innovation Group and therefore a member of the Executive Board, was also a member of the Council of the Engineering and Physical Sciences Research Council (EPSRC) during 2003-04. EPSRC is one of the NDPBs sponsored by the Department (see page 6 of the Foreword to these accounts).

The Department has had a small number of transactions with other Government Departments and other central government bodies.

In addition the Department acts as guarantor for the Mineworkers Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS). These schemes have been disclosed as Fixed Asset Investments in the accounts with a corresponding debtor arising from surpluses in the respective funds being shown as Current Asset Investments. The Government, through the Secretary of State, appoints five of the MPS's Committee of Management. Of these five, two are also members of the BCSSS Committee of Management. There were no transactions between the Department and Coal Pension Trustee Services Ltd, a jointly owned venture of the MPS and the BCSSS.

33. Post Balance Sheet Events

Various events since the end of the financial year are disclosed in the Report on pages 18 - 20.

British Energy

Restructuring of British Energy will only be implemented once all the conditions of the formal agreements to the proposed restructuring are met. A number of these conditions remain to be satisfied, including that the Government must not have determined that British Energy will not be viable in all reasonably foreseeable conditions. If the Government makes such a determination at any time up to the effective date of restructuring, or if there is a material adverse change in British Energy's position, the Government continues to reserve its right to withdraw its support for the restructuring.

One of the outstanding conditions was met when, on the 22 September 2004, the European Commission announced its approval of the Government's restructuring aid to British Energy. British Energy is now progressing the restructuring. Agreements between British Energy, Government and creditors require the restructuring to be completed by 31 January 2005.

Under the European Commission's rules, rescue aid ceases once the Commission has reached a decision on the restructuring aid. Therefore, no further drawings can be made on the loan facility which the Government has made available to British Energy since September 2002. All drawings on the facility have been repaid with interest by British Energy.

34. Accountability notes

Losses shown are recorded on an accruals basis, as required by Government Accounting reporting requirements in resource accounts.

	<u>£000</u>
Losses	
Total (27 cases)	271
There were no individual losses exceeding £100,000	
Special Payments	
Total	472
Included in this total is one special payment in 2003-04 exceeding £100,000:	
Damages at common law, including solicitors' fees, in a health-related claim from a private individual	357

35. Financial Instruments

FRS13, *Derivatives and Other Financial Instruments*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which Government Departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

The Department's financial instruments comprise of cash, loans, investments, public dividend capital, provisions, trade debtors, trade creditors and the NPL PFI. Details of these can be found in the relevant notes.

35.1 Liquidity, Interest Rate and Foreign Currency risk

Resources voted annually by Parliament finance the Department's net revenue resource requirements and its capital expenditure and there is therefore no exposure to significant liquidity risks. The Department does not access funds from commercial sources and so is not exposed to significant interest rate risk.

The Department had no exposure to exchange rate risk during the year.

There is no material difference between the fair values and book values of the Group's financial instruments.

Short-term debtors and creditors have been excluded from the above disclosures, as allowed by FRS13.

36. Change in discount rate for 2003-04

With effect from 1 April 2003, the rate that the Department is required to use by Treasury to discount cashflows relating to long-term liabilities and investments, and also to calculate the notional cost of capital on assets and liabilities, was reduced from 6% to 3.5%. As required by Treasury, this change to the discount rate has been implemented in the 2003-04 accounts. In accordance with FRS18, this has been treated as a change in estimation technique and charged to the Operating Cost Statement as a charge during the year.

Consequently, the values shown in these accounts for 2002-03 in Schedule 3 (Balance Sheet) and as opening values in notes 22, 23 and 24 are discounted at the old, 6%, rate. If the 3.5% rate had been applied to the Department's provisions in 2002-03, the effect of this rate change on the opening balances is shown below, together with the resulting charge to the Operating Cost Statement (Schedule 2):

	Opening 2003-04 balance:		Charge to the Operating Cost Statement as a direct result of the change in discount rate
	Using 3.5% (new) discount rate	Using 6% (old) discount rate	
	£ billion	£ billion	£ billion
Nuclear Provisions	13.6	9.6	4.0
Coal Provisions	4.7	4.4	0.3
Other Provisions	0.2	0.2	0.0
Total	18.5	14.2	4.3

The opening value of the Launch Investment portfolio was £1.7 billion at 1 April 2003 using the 6% discount rate. If the new discount rate of 3.5% had been applied to the investments in 2002-03, the opening balance would have been £2.1 billion.

The net cost of capital credit to the Operating Cost Statement, calculated by applying the discount rate to the net balance of assets and liabilities was £282 million using the 3.5% discount rate. This compares to a credit of £486 million had the old rate of 6% still applied.

37. Third-party assets

The following are balances on accounts held in DTI's name at commercial banks but which are not DTI monies. They are held or controlled for the benefit of third parties and are not included in DTI's Resource Accounts.

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Bank balances	<u>260,561</u>	<u>187,568</u>

The 2003-04 balances include £251,727,747 relating to British Energy (2002-03: £181,451,777).

38. Radiocommunications Agency

The Radiocommunications Agency ceased to be an executive agency of the Department on 28 December 2003. Income and expenditure for the Agency for the period 1 April 2003 to 28 December 2003 are consolidated in these resource accounts.

The financial statements for the Agency for the period 1 April 2003 to 28 December 2003 disclosed operating income of £105.2 million, and expenditure of £61.2 million, giving a surplus of £44 million.

The value of the net assets and liabilities of the Agency as at 28 December 2003 was £26.8 million and these were transferred to Ofcom on 29 December 2003. This transfer is reflected in these resource accounts by taking the net value as a cost through the Operating Cost Statement (Schedule 2).

39. Additional Entities within the Departmental Boundary

In addition to ACAS and the Executive Agencies listed on page 4 of the Report, the following non-executive NDPBs, advisory bodies and tribunals are covered by these accounts by way of including in the reported results the funds paid to them as grant or expenses. These bodies do not produce their own resource accounts:

Advisory Committee on Carbon Abatement Technologies*	Insolvency Practitioners Tribunal
Aerospace Committee	Intellectual Property Advisory Committee
Age Advisory Group	Innovation & Growth Leadership Council*
Agriculture & Environment Biotechnology Commission	Investment Committee
Better Payment Practice Group	Low Pay Commission
Broadband Stakeholder Group	Measurement Advisory Committee
Business Incubation Fund Investment Panel	National Network Forum
Central Arbitration Committee	National Policy Forum for Start-ups
Commission for Equality and Human Rights Task Force*	Offshore Wind SEA Steering Committee*
Copyright Tribunal	Over-indebtedness Advisory Group*
CSR Skills Academy Steering Group*	Persons Hearing Consumer Credit Licensing Appeals
Council for Science and Technology	Persons Hearing Estate Agents Appeals
Database Market Strategy Group	PILOT - the Right course for Oil and Gas success

Distributed Generation Co-ordinating Group	Regional Industrial Development Boards
Employment Appeal Tribunal	Renewables Advisory Board
Employment Tribunal Implementation Group	Small Business Council
Employment Tribunals	Small Business Investment Taskforce
Environmental Innovations Advisory Group*	Strategy for Women in SET Implementation Group*
Ethnic Minority Business Forum	Sustainable Energy Policy Advisory Board*
Fuel Poverty Advisory Group	UK Nanotechnology Applications Strategic Advisory Group*
Fuel Poverty Monitoring & Technical Group	UK National Authority Advisory Group
Industrial Development Advisory Board	Women's National Commission
Information Age Partnership	

* denotes a new body set up during 2003-04

The following bodies were disbanded during 2003-04:

- Advisory Committee on Cleaner Coal Technology
- Advisory Group on Basic Technologies Programme
- Energy Advisory Panel
- Fuel Cells Advisory Panel
- Spectrum Management Advisory Group
- Clusters Policy Steering Group
- Motor Sport Competitiveness Panel
- Sector Analysis Strategy Committee

39.1 The Insolvency Service

The Insolvency Service receives monies, in accordance with Section 403 of the Insolvency Act 1986, from the realisation of assets in bankruptcies and company liquidations. The sums received are held by the Secretary of State. Interest earned on balances is surrendered to HM Treasury in accordance with Section 405 of the Insolvency Act. Amounts so received are excluded from these accounts as they are outside the voted Supply and are subject to a different financial control framework. Further details are available in the Published Accounts of the Insolvency Service.

39.2 The Redundancy Payments Service

The Department is responsible for the approval and processing of claims under the Redundancy Payment Scheme, which is financed from the National Insurance Fund. Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during the 2003-04 year was £2,392 (2002-03: £1,676). An average amount of £809 was paid during 2003-04 for RP2 (2002-03: £658). The expected number of RP1 claims for 2004-05 is 90,000. Forecasts of future RP2 claims are no longer undertaken.

There is an associated income related to this scheme arising from two sources:

- Solvent Recovery - where monies are recovered over a period of up to three years from companies, setting up a standing order, that are continuing to trade but would not be able to do so if they had to meet the full costs of redundancy payments at that time;
- Insolvent Recovery - the Department becomes a creditor receiving a dividend if there are sufficient funds on the winding up of the company.

Expenditure in 2003-04 totalled £238 million (2002-03: £253 million) against income of £27 million (2002-03: £24 million).

40. Actual Outturn – Resources and Cash**40.1 Actual Outturn – Resources:**

Request for Resources 1: Actual amount net resources outturn £7,015,566,034.77. Actual amount of savings in resources over Estimate £1,848,060,965.23.

Request for Resources 2: Actual amount net resources outturn £2,300,824,892.57. Actual amount of savings in resources over Estimate £99,626,107.43.

40.2 Actual Outturn – Cash:

Net cash requirement: Outturn net requirement £5,542,917,113.60 which is £1,109,402,886.40 less than estimate. This amount is surrenderable to the Consolidated Fund.

The actual receipts (surrenderable to the Consolidated Fund) were £655,767,328.27.

Further Information:

Name	Address	ISBN of Annual Accounts
The Stationery Office	PO Box 29, Norwich, NR3 1GN	-
The National Weights and Measures Laboratory	Stanton Avenue, Teddington, Middlesex, TW11 0JZ	0102928371
The Employment Tribunals Services	Level 7, 19-29 Woburn Place, London, WC1H 0LU	0102928703
The Insolvency Service	P.O. Box 203, 21 Bloomsbury Street, London, WC1B 3QW	0102929270
Advisory, Conciliation and Arbitration Service	Brandon House, 180 Borough High Street, London, SE1 1LW	Not available
Small Business Service	Kingsgate House, 66 – 74 Victoria Street, London, SW1E 6SW	0102928533
	St Mary's House, c/o Moorfoot, Sheffield, S1 4PQ	
	Website: www.sbs.gov.uk	

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