

Chapter 4: Financial Overview

Section 4.1

About the financial information in this Report

- 4.1** The financial information in this Report¹⁷² is shown from two different perspectives:
- the budgeting boundary, which is the budgetary spend of the 'Departmental family' (i.e. the Department and its delivery partners as described in annex 3); and
 - the Accounting boundary, which comprises the core Department and those of its delivery partners that are consolidated in the Resource Accounts.
- 4.2** HM Treasury is aiming to align these boundaries and is making good progress with its 'Clear Line of Sight' Project. The stated objective of this Project is "*to create a single, coherent financial regime, that is effective, efficient and transparent, enhances accountability to Parliament and the public, and underpins the Government's fiscal framework, incentivises good value for money and supports delivery of excellent public services by allowing managers to manage*". BERR is represented on the Expert Working Group supporting the Project. Implementation of the new framework is planned to take place in 2010-11 (Budgets) and 2011-12 (Accounts).

Budgets

- 4.3** The Departmental family delivers on its objectives through its budgets. The Department is ultimately responsible for these resources and the bodies who spend them. The financial tables at the end of sections in chapter 2, and in annex 8 of this Report set out the total spend of all bodies within the Departmental family. The budgetary spend shown here is published by HM Treasury in the 2009 Public Expenditure Outturn White Paper (PEOWP).

¹⁷²The financial information in this Report covers the accounting period 2008-09, prior to the creation of the Department for Business, Innovation and Skills. All reference to 'the Department' or 'Departmental' should therefore be understood to refer to BERR.

Accounts

- 4.4** The Department's audited Consolidated Resource Accounts in chapter 5 include only the following: the Department; the Department's elements of the administration expenditure of UKTI, a joint BERR/FCO operation which also includes the administration expenditure of the former Defence Export Services Organisation which transferred to UKTI with effect from 1 April 2008 under a Machinery of Government change from the Ministry of Defence (since renamed the Defence & Security Organisation); the Insolvency Service¹⁷³ – an Executive Agency of the Department; and Acas which is a Crown Executive Non Departmental Public Body (NDPB).
- 4.5** The other delivery partners within the Departmental family are not included in the Consolidated Resource Accounts, although the cash funding of these bodies is represented as Grant-in-Aid.
- 4.6** In common with other central Government bodies, the Department's Consolidated Resource Accounts are audited by the NAO on behalf of the Comptroller and Auditor General. Most of the Department's delivery partners that sit outside the Accounting boundary produce their own Annual Report and Resource Accounts which are available from their websites listed in annex 3.

Other financial information

- Section 4.2 provides the background to the way in which Accounting and Budgeting in Government is managed and controlled, and explains how this applies to BERR.
- Section 4.3 looks specifically at the relationship between the Department's Estimates, Budgets and Resource Accounts.
- Section 4.4 provides a Financial Review of the year, including further analysis of some of the key information in the Consolidated Resource Accounts.

- 4.7** In October 2008, the work and staff associated with energy programmes were transferred to the Department of Energy and Climate Change (DECC) through a Machinery of Government change. The transfer also included the sponsorship responsibility for the following NDPBs and Agencies: the Nuclear Decommissioning Authority, the Coal Authority and the Civil Nuclear Police Authority. The transfer was back dated to 1 April 2008.

¹⁷³ The Insolvency Service also receives monies, under the Insolvency Service Act 1986, which are excluded from these accounts because they are subject to a different financial control framework. Under Section 403 of the Act, sums are received from the realisation of assets from bankruptcies and company liquidations. The monies are held by the Secretary of State and interest earned on balances is surrendered to HM Treasury in accordance with Section 405 of the Act. Further details are available in the published accounts of the Insolvency Service, which can be obtained from www.insolvency.gov.uk

Section 4.2

The resources available to the Department

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

The Comprehensive Spending Review process

4.9 Comprehensive Spending Reviews (CSR) or Spending Reviews (SR) are the processes by which the Government sets spending plans, usually for the coming three years. They determine the overall Control Total (i.e. the Total Managed Expenditure (TME)). TME is made up of two components, the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). The DEL is set annually within the context of the Department's three-year CSR Settlement and AME is set in consultation with HM Treasury through twice yearly reviews. DEL budgets for the three-year period 2008-09, 2009-10 and 2010-11 were set in CSR07.

4.10 BERR's CSR07 Settlement gave the Department an approximately flat cash allocation across the three CSR years, and, as with all Departments, directed that BERR must meet or surpass the following cross-Government benchmarks:

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

Additionally, following an announcement in the Pre Budget Report (in November 2008), BERR has to find value for money savings amounting to £27 million during 2010-11.

4.11 As part of the CSR process each Department has to publish an Asset Management Strategy¹⁷⁴.

Fiscal Stimulus Programmes¹⁷⁵

4.12 During 2008-09, BERR has announced, in outline through the Pre Budget Report (in November 2008) a number of new programmes which are to be funded within the CSR07 Settlement and through the use of End Year Flexibility¹⁷⁶ (EYF). These were as follows:

- the Enterprise Finance Guarantee;
- the Capital for Enterprise Fund; and
- the Working Capital Scheme.

¹⁷⁴The Asset Management Strategy document includes reference to energy-related assets as this was published prior to the October 2008 Machinery of Government change. It is available at: www.berr.gov.uk/files/file27454.pdf.

¹⁷⁵For further information see Notes 25.2 and 39 to the Accounts.

¹⁷⁶See paragraph 4.29 for an explanation of End Year Flexibility.

- 4.13** On 14 January 2009, the Secretary of State for Business announced a support package designed to leverage £22 billion of lending – made up of *the Enterprise Finance Guarantee* (£1.3 billion), *the Capital for Enterprise Fund* (£75 million), and *the Working Capital Scheme* (£20 billion) – to help companies struggling to access finance for working capital and investment in the current economic climate. The Schemes are intended to support viable businesses that have been impacted through a combination of the credit crunch and economic downturn, during which lending conditions have tightened and payment periods extended.
- 4.14** On 27 January 2009, the Secretary of State announced a further £2.3 billion package of loan guarantees to Britain’s automotive manufacturers and large suppliers; primarily to support investment in low carbon plant and research and development. The guarantees to be made through this *Automotive Assistance Programme* will unlock loans of up to £1.3 billion from the European Investment Bank and BERR will offer guarantees to support up to a further £1 billion of lending, or loans where appropriate, to cover worthwhile investments not eligible for European Investment Bank support or which will bring special value to Britain.
- 4.15** As agreed with HM Treasury when designing the Schemes, during 2008-09, BERR made Non Cash Calls on the Reserve of £21 million to fund a provision for the new *Enterprise Finance Guarantee* and £25 million to fund potential defaults under the new *Automotive Assistance Programme*.
- 4.16** A *Trade Credit Insurance Scheme*, one of the package of measures announced in Budget 2009 was introduced on 1 May 2009 to help companies affected by reductions in their credit insurance. The Scheme provides up to £5 billion of top-up trade credit insurance to businesses who have suffered reductions in their level of cover. This will be delivered as part of the *Working Capital Scheme* and will help mitigate the cash flow constraints caused by the withdrawal of trade credit insurance cover and constraints on the provision of working capital that this withdrawal has created. From 1 May 2009 until 31 December 2009, UK businesses will be able to purchase six months’ ‘top-up’ insurance from the Government if credit limits on their UK customers are reduced.
- 4.17** Budget 2009 included further programmes designed to assist industry for which additional funding was provided.
- 4.18** A *Vehicle Scrappage Scheme* for which additional funding amounting to £300 million has been provided for 2009-10. This Scheme provides a £2,000 discount on new vehicles bought by consumers scrapping a ten year old (or more) vehicle and which they have owned for more than 12 months. The £2,000 discount is co-funded; £1,000 will be from Government with the remainder coming from the manufacturer. The Scheme, which was launched on 18 May 2009, will cease when the funding has been fully utilised or at the beginning of March 2010, whichever is earlier.
- 4.19** Budget 2009 also established a £750 million Strategic Investment Fund (SIF), of which:
- £250 million is ring-fenced to support a range of projects on renewable energy and low-carbon business opportunities;

- £50 million is for the Technology Strategy Board to support business innovation in areas of UK capability with opportunities for future growth: and
- £10 million is for UK Trade & Investment (UKTI), to support a package of major trade and investment events.

From Budgets to Estimates to Resource Accounts

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

The Department's Budget

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

- DEL, which the Department can largely control, though some elements may be demand-led. It is set annually within the context of the Department's three-year financial Settlement determined in the CSR.
- AME, which is demand-led and volatile and, therefore, difficult to predict. AME budgets are set in consultation with HM Treasury through twice-yearly reviews. The majority of the Department's AME expenditure relates to the Post Office Working Capital loan and the Redundancy Payments Service.

4.22 Within DEL and AME there are resource budgets (which are further broken down into administration and programme budgets) and capital budgets.

4.23 Following the creation of DECC in October 2008 through a Machinery of Government change, the Department's DEL budget for 2008-09 was reduced to £1,462 million (2007-08¹⁷⁷: £1,606 million) and the AME budget to £824 million (2007-08: £20 million).

4.24 Some of the Department's DEL budgets are ring-fenced by HM Treasury. This means that the budgets are allocated for specific purposes and any underspends generated cannot be used in aid of other activities. 33% of the 2008-09 DEL was ring-fenced, leaving £977 million available for discretionary allocation by the Department.

4.25 There are further classifications of expenditure within resource budgets termed 'near cash' and 'non cash':

- *Near cash* items are transactions that result in real cash flows in the near future, e.g. pay costs, the procurement of goods and services, and grants. Importantly 'near cash' also includes cash expenditure against provisions.
- *Non cash* items are components of Departments' budgets that are included to reflect the full economic cost of activities and the usage of long-term assets. Non cash items include depreciation, impairments, cost of capital charges, the profit or loss on disposal of assets and changes in provisions.

¹⁷⁷The 2007-08 figures have been restated to account for Machinery of Government changes.

- 4.26** Capital within resource budgets includes expenditure of a capital nature which does not result in capital assets owned by the Department or its delivery partners. In Estimate and Resource Accounting terms the funding for this type of expenditure is termed 'Grants' and treated as resource expenditure.
- 4.27** BERR is responsible for all of the resources allocated to the Departmental family. The Department has put in place a strong budgetary control process to effectively discharge this responsibility.
- 4.28** The Department allocates annual budgets in March each year and monitors them on a monthly basis. Forecasts of expenditure are reviewed monthly and updated where appropriate. More in-depth reviews of forecasts are carried out quarterly with particular emphasis on December reviews (as these are used by HM Treasury as a basis for total spend across Government for the year) and February reviews (to identify changes to be made through the Spring Supplementary Estimate). The Director General, Finance delivers a corporate financial report to the monthly Management Board, highlighting emerging issues and advising where action may be required, and provides regular financial updates to the Secretary of State. During 2008-09, financial reports have also focused on how best to fund the new Fiscal Stimulus Programmes and how to make savings to enable BERR to live within its reduced budgets in 2009-10 and 2010-11.
- 4.29** Budgets are usually amended via the Winter and Spring Supplementary Estimates (see the following paragraph for an explanation of the Estimates process). Under normal circumstances, the Supplementary Estimates provide access to savings in DEL budgets achieved in previous years (a process known as End Year Flexibility) in addition to other changes. However, due to the tight fiscal position, very limited access to such savings has been possible.

The Estimates process

- 4.30** The Department's budgets are agreed in the CSR/SR process, but additionally Parliamentary approval must be sought annually for the issue of public funds. Main Estimates are the means by which Departments seek Parliamentary authority for their spending each year. Since the Main Estimates are not voted by Parliament until July each year, funding for the period from April to the end of July is voted alongside the Winter Supplementary Estimate (known as the 'Vote on Account').
- 4.31** The detailed Estimates include DEL and AME expenditure of the consolidated Department (as described in paragraph 4.21 above), and the Grant-in-Aid paid to the other delivery partners that are not consolidated into the Accounts. This Grant-in-Aid is essentially the provision of cash financing and is designated 'non-budget' expenditure.
- 4.32** Notes to the Estimates demonstrate the relationship between the Estimates total, and the total budget for the Department, including its delivery partners. All changes to the Department's budget are approved as part of the Estimates process.
- 4.33** The Department seeks approval from Parliament for its Main Estimates for the year in April. Supplementary Estimates can then be submitted in the summer, winter and spring. The Estimates follow a standard format, comprising a Request for Resources

(RfR), which sets a limit on the resources required for the main Departmental activity, a request for capital funding and a Net Cash Requirement (NCR), which represents the actual cash made available by the Exchequer to fund the Department's activities.

- 4.34** Each Estimate is accompanied by a formal description (or ambit) of the services to be financed under it. Funds voted by Parliament can only be used to finance services that fall within the ambit of the Estimate.

The Resource Accounts

- 4.35** The Department's Estimate has a single RfR, entitled 'To help ensure success in an increasingly competitive world'. The Department also has a separate Estimate and RfR for the effective management of the UKAEA pension schemes. These are separate from the Consolidated Resource Accounts contained in this publication¹⁷⁸. At the end of the year, the Department is required to report actual expenditure against Estimates in its Consolidated Resource Accounts.

¹⁷⁸ Copies of the UKAEA Pension Accounts are available at from: www.ukaea.org.uk

Section 4.3

Reconciling Estimates, Budgets and Resource Accounts

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

- Estimates to Resource Accounts: this shows how the Net Resource Outturn (voted by Parliament), shown in the Statement of Parliamentary Supply on page 150 is reconciled to the Net Operating Cost which is shown in the Operating Cost Statement in the Resource Accounts on page 151; and
- Resource Accounts to Budgets: this shows how the Net Operating Cost is reconciled to the resource Budget Outturn shown on page 248.

Estimates to Resource Accounts

4.37 The Department's Estimate is reconciled to the Net Operating Cost through three adjustments:

- The first adjustment adds expenditure that is included in the Operating Cost Statement, but does not require formal approval by Parliament in the Supply Estimates. For the Department, this comprises expenditure on Statutory Redundancy Payments funded by the National Insurance Fund, the cost of capital credit on the net liabilities of Royal Mail Holdings plc and the cost of capital charge on the net assets of BNFL plc. Further details are provided in Note 4 to the Resource Accounts.
- The second adjustment adds any Consolidated Fund Extra Receipts (CFERs) which are classified as operating income and therefore included in Net Operating Cost. These CFERs arise from the operating activities of the Department, but are not classified as income for Estimates purposes. The receipts are paid directly to HM Treasury.
- The third adjustment shows the difference between the amount of operating income received and that authorised to be Appropriated-in-Aid of expenditure.

Resource Accounts to Budgets

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

- The first adjustment removes capital grants, which are classed as resource items in the Resource Accounts, but as capital items in the budgeting framework.
- The second adjustment removes the cash Grant-in-Aid to the Department's delivery partners, which, as explained at 4.31, is not counted as budgetary expenditure.
- The third adjustment adds the income and expenditure of these delivery partners on an accruals basis.
- The fourth adjustment removes those CFERs that are classed as being outside of the budgeting boundary. There are usually other adjustments depending on particular circumstances.

Reconciliation of Estimates to Resource Accounts to Budgets

	Notes	2008-09	(restated) 2007-08
		£'000	£'000
Net Resource Outturn (Estimates)	1	1,503,843	1,915,239
<i>Adjustment in respect of</i>			
Non Supply expenditure in the Operating Costs Statement (OCS)	2	246,318	155,852
Consolidated Fund Extra Receipts (CFERs) in the OCS		-643,156	-274,407
Excess Appropriations in Aid	3	-260	-213,663
Net Operating Cost (Accounts)		1,106,745	1,583,021
<i>Adjustment in respect of</i>			
Capital Grants treated as Resource in Accounts, but Capital in Budgets	4	-163,136	-210,619
Expenditure in OCS not included in Budgets (GiA)	5	-1,917,113	-1,864,671
Resource consumption of delivery partners		2,145,594	2,042,391
Other CFERs not in Budgets		7,459	18,570
Budgeting classification differences	6	638,900	267,400
Other	7	147,086	13,508
Resource Budget Outturn (Budget)		1,965,535	1,849,600
<i>of which:</i>			
DEL		1,371,334	1,599,996
AME		594,201	249,604

Notes:

1. Disclosed in the Statement of Parliamentary Supply on page 150 of the Accounts
2. See note 3.1 to the Resource Accounts
3. The amount of operating income received in excess of that authorised to be Appropriated-in-Aid
4. Capital grant receipts in excess of expenditure
5. Mainly grant in aid payments to delivery partners
6. This covers two items: the Special dividend from BNFL is treated as Resource in Accounts, but Capital in Budgets, and payments to British Shipbuilders are treated as Capital in Accounts, but Resource in Budgets
7. Mainly relates to adjustments to Accounts after PEOWP deadline for budgeting outturns

Section 4.4

Financial Review

4.39 This section reviews the Department's results for 2008-09. It analyses the performance of the consolidated Department in the context of the Resource Accounts, and compares the Department's Outturn to its final Estimate.

The Primary Statements in the Consolidated Resource Accounts

4.40 The primary statements in the Consolidated Resource Accounts comprise:

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

Statement of Parliamentary Supply

4.41 This is the accountability statement for parliamentary reporting purposes. It records the Net Resource Outturn compared to Estimate and only includes expenditure and income (Appropriations-in-Aid) allowable against the Estimate. Explanation of why the Outturn in 2008-09 was different from the Estimate is given in paragraph 4.44. This statement also includes a comparison of non-operating cost Appropriations-in-Aid with the amount voted by Parliament in the Estimate and discloses amounts payable to the Consolidated Fund as Extra Receipts (CFERs).

4.42 Non-operating Cost Appropriations-in-Aid reduced by £657 million, from £6,483 million in 2007-08¹⁷⁹ to £5,826 million in 2008-09 mainly due to a reduction in payment levels under the Post Office Working Capital loan offset by a £232 million redemption in the NLF loans, lent on to Royal Mail Holdings Plc.

4.43 CFERs increased by 8% from £842 million in 2007-08 to £906 million in 2008-09.

4.44 The Net Resource Outturn for 2008-09 (as shown in the Statement of Parliamentary Supply) was £1,504 million. This is a decrease of £411 million compared to the Outturn for 2007-08 of £1,915 million. This compares to a final Estimate of £1,519 million, giving an underspend of £15 million. The most significant reasons (where the variance is greater than £0.5 million and 10% of the Estimate) for the underspend are given below. (The disclosure here is based on Note 2 to the Resource Accounts, on page 163.) Analysis of net Outturns from the budgeting perspective is included in section 5.5 and in annex 8.

¹⁷⁹ All 2007-08 figures have been restated to account for Machinery of Government changes.

- Providing the professional support, capability and infrastructure to enable BERR's objectives and programmes to be successfully delivered (Estimate Function AG) – Net Outturn was £61 million (26.6%) less than the Estimate mainly as a result of a reduction in an onerous lease provision.
- Delivering free and fair markets, with greater competition for businesses, consumers and employees (Estimate Function AI) – Net Outturn was £4 million (11.2%) more than the Estimate. This was due to Paternity Pay and Adoption Pay take-up being more than the forecast modelling had predicted.
- Ensuring that the Government acts as an effective and intelligent shareholder, and providing a source of excellent corporate finance expertise within Government (Estimate Function AK) – Net Outturn was £13 million (223%) less than the Estimate due to an overall reduction in the level of the provisions for UKAEA's decommissioning and restructuring.
- Delivering free and fair markets, with greater competition for businesses, consumers and employees (Estimate Function Y) – Net Outturn was £15 million (30.2%) less than the Estimate due to Consumer Focus setup costs not being realised until later than expected. The organisation did not come into existence until 1 October 2008.
- Ensuring that the Government acts as an effective and intelligent shareholder, and providing a source of excellent corporate finance expertise within Government (Estimate Function AM) – Net Outturn was £2 million less than the Estimate due to UKAEA's Grant-in-Aid requirement being less than originally estimated.

Operating Cost Statement

- 4.45** The Operating Cost Statement is similar to an Income and Expenditure Account in not-for-profit bodies and includes all operating income and expenditure relating to the consolidated bodies on an accruals accounting basis, including that which sits outside the Estimate. The Net Operating Cost for 2008-09 was £1,107 million, a decrease of £476 million compared to the restated figures (reflecting the MoG change), for 2007-08 of £1,583 million.
- 4.46** The differences between Net Operating Cost and Net Resource Outturn are disclosed in Note 3 to the Resource Accounts. The main differences relate to expenditure on Redundancy Payments funded from the National Insurance Fund, the cost of capital charge on the net assets and liabilities of BNFL plc and Royal Mail Holdings plc, which are not included in Estimates; and any income payable to the Consolidated Fund (including excess Appropriations in Aid) which is included in the Operating Cost Statement.
- 4.47** Operating income includes dividends declared by Companies House and BNFL plc. The Companies House dividend, at £2.2 million, represents the return on investment of Public Dividend Capital (PDC). It is calculated as a return of 3.5% on the Companies House average capital employed. The special dividend from BNFL plc, amounting to £632 million, represents a further interim amount agreed by the BNFL Board to be paid to the Department as the company continues with its sale of various areas of its business.

- 4.48** Grant-in-Aid and other grants represented 81% of gross expenditure for programmes in 2008-09 – this ratio was 89% in 2007-08.
- 4.49** Total expenditure on consultancy (including BERR's consolidated bodies), according to definitions issued by the Office of Government Commerce (OGC), amounted to £21.7 million in 2008-09. The majority of Departmental expenditure on consultancy (89%) is recorded under administration costs.
- 4.50** The consolidated spend on staff substitution/interim management amounted to £5 million.
- 4.51** Research and Development costs are shown in Notes 10 and 11 to the Resource Accounts.

Statement of Recognised Gains and Losses

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

Balance Sheet

- 4.53** The Balance Sheet discloses the assets and liabilities of the Department at the Balance Sheet date. The main changes in the Department's assets and liabilities during the year are described below. The Consolidated Department had total Net Assets of £2,018 million in 2008-09 compared to £2,046 million in 2007-08. The main reasons for this change relate to movements in the value of the Launch Investment portfolio and the increase in the Small Firms Loan Guarantee Scheme liabilities.
- 4.54** Tangible fixed assets increased by £14.5 million resulting from an increase in assets under construction including work on improvements to leasehold buildings on the BERR estate and expenditure on major IT projects.

Royal Mail Holdings Plc

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

Debt Financing

- 4.56** On 26 March 2007, the Department announced finalisation of a new financing framework for Royal Mail. Part of this framework included borrowing facilities of £1.2 billion (£900 million of National Loan Fund – NLF facilities and a £300 million Shareholder Loan). These were put in place to assist Royal Mail with implementation of its existing business transformation plan. The new facilities replaced the £1.044 billion of borrowing facilities made available to Royal Mail from 2003 to 2007. Royal Mail utilised the Shareholder Loan in full on the 17 March 2009.
- 4.57** On 6 February 2001, Royal Mail utilised in full a £500 million NLF loan facility that was made available to it, to assist with the company's international acquisitions, primarily German Parcel, which now forms Royal Mail's European parcels business –

GLS. This facility comprises twenty separate tranches of £25 million each, the first tranches of which do not begin to mature until 20 March 2021. Royal Mail makes bi-annual interest payments on the loan amounting to £29 million per annum.

- 4.58** The Department has also made available to POL, through an agreement reached on 17 October 2003, a revolving loan facility based on commercial terms of up to £1.15 billion. This is to help the company fund its working capital cash requirements in branch. POL began utilising this facility on 1 December 2003. The facility matures on 31 March 2011 and the outstanding balance as at 31 March 2009 was £197 million.

Post Office Network Support

- 4.59** The Government has demonstrated its continuing commitment to a sustainable future for the Post Office by the scale of its investment of up to £1.7 billion in the network. This funding includes an annual subsidy of £150 million to support some 7,500 non-commercial branches which might not survive without Government subsidy. These non-commercial branches are in urban as well as rural communities. Payments of £77 million and £75 million were also made to POL under section 8 of the Industrial Development Act 1982. These payments assisted POL in covering its losses as it implemented its transformation plan. All these payments are made under the terms of the current funding package, which runs until March 2011.

Launch Investments

- 4.60** The Department provides support to the aerospace industry in the form of investments in the development of aerospace products covered by the Department's portfolio of Launch Investment contracts. The investments are repayable to the Department at a real rate of return, usually via levies on subsequent sales of the products developed. The expected cash flow from levies is discounted, and forecasts of sales and the resulting levies determine the value of the portfolio.
- 4.61** During 2008-09, the value of the investment fell by £35 million from £1,508 million at the end of 2007-08 to £1,473 million at the end of 2008-09, as a result of levy income i.e. the repayment of the investment offset by amortisation and an increase in the revaluation.

Capital for Enterprise Limited

- 4.62** Capital for Enterprise Limited (CfEL) was established in 2007-08 to manage the Department's equity investment fund and loan guarantee programmes. CfEL commenced full business activity on 1 April 2008. The Department owns 49,901 shares and provides cash funding as Grant-in-Aid. The Small Firms Loan Guarantee Scheme, one of the loan guarantee programmes, was closed to new applications during 2008-09 and has been replaced by the Enterprise Finance Guarantee which is also managed by CfEL. In February 2009 CfEL created two wholly owned subsidiaries: Capital for Enterprise GP Ltd (CfE GP) and the Capital for Enterprise Fund Managers Ltd (CfE FM Ltd) to facilitate co-investment with the private sector in the new Capital for Enterprise Fund.

Nuclear Provisions

4.63 The Department has retained the liability to cover the costs of the decommissioning of the United Kingdom Atomic Energy Authority (UKAEA) Culham site. In 2008-09 this amounted to £154 million.

British Shipbuilders

4.64 The Department has taken on responsibility for providing funds to the British Shipbuilders Corporation for liabilities arising from personal injury to former employees as a result of exposure to asbestos, to the extent that these liabilities cannot be met from residual funds of the Corporation.

4.65 The total liability increased by £2 million from £116 million at the end of 2007-08 to £118 million at the end of 2008-09. There was a £9 million increase in the provision as a result of a transfer of liabilities from DWP offset by a discharge of liabilities in year amounting to £7 million. The £9 million increase reflects the transfer of responsibility for funding initial payments made to mesothelioma sufferers by DWP. In future, BERR will fund reimbursements to DWP from the provision for British Shipbuilders' Liabilities, where a claimant has entitlement to compensation for mesothelioma and DWP has already made some payment of benefit to the claimants.

New provisions

4.66 During 2008-09 it was announced that the Department would be running a new Icelandic Water Trawlermen Compensation Scheme following a report of the ombudsman in 2007, and an announcement in the Commons in December 2008. As a result the Department created a new provision amounting to £7 million to cover the forecast of future compensation payments. In addition, the Department created a new provision for asbestos related claims from former dockers, regulated by the National Dock Labour Board (NDLB). The undiscounted liability is estimated to be £9 million. Further information about both of these provisions is provided in Note 24.

Other provisions

4.67 Other provisions have decreased by £61 million from £268 million to £207 million. This was mainly due to a combination of changes in the provision for the Early Retirement liabilities based on the actuarial assumptions and the cost of index linking and a reduction in the onerous lease provision on properties that are determined surplus to existing and future requirements under the Department's accommodation strategy.

Revaluation reserve

4.68 The Revaluation Reserve, which records gains/losses on the revaluation of assets in the period, stands at £57 million at 31 March 2009, compared to £108 million at 31 March 2008. The reduction is largely due to net changes to the value of the Launch Investment portfolio.

Cash Flow Statement

4.69 The Cash Flow Statement includes the net cash outflow from operating activities, capital expenditure and financial investment, receipts and payments to the

Consolidated Fund and financing, resulting in the net increase or decrease in the Department's cash in-year. The notes supporting the working of the Cash Flow Statement may be found on page 153. The Department also has to estimate how much cash it is going to need in the year, which is called the Net Cash Requirement (NCR). The amount of cash required to fund the Department's activities during 2008-09 was £1,475 million compared to an Estimate of £2,463 million, an underspend of £988 million.

4.70 The underspend was mainly due to:

- the decrease (rather than the forecast increase) in Debtors; and
- the estimated cash requirement for the Post Office working capital loan (£610 million) which is set to cover the maximum possible cash call allowable in year under the loan arrangements; outturns for 2008-09 meant that only £197 million of this was required at year end.

Statement of Operating Cost by Departmental Strategic Objectives

4.71 The Statement of Operating Costs by Departmental Strategic Objectives (DSOs) shows how resources, as set out in the Operating Cost Statement, have been deployed to each DSO. These are outlined in chapter 1 and assessed in chapter 2.

Financial Reporting Standards 25, 26 and 29

4.72 The Consolidated Resource Accounts include, for the first time, the affects of adopting Financial Reporting Standards (FRS) 25, 26 and 29 – the standards relating to financial instruments. These Standards are intended to enhance financial statement users' understanding of the significance of financial instruments to a Department's financial position, performance and cash flows and the nature and extent of risks arising from financial instruments, to which there is exposure during the period and at the reporting date, and how the Department manages those risks.

4.73 The Consolidated financial statements contain prior period adjustments to reflect: (a) a change in the fair value of the Insolvency Service's debtors, as they are discounted for the first time, leading to an interest charge of £2.6 million being taken to reserves; (b) the first-time recognition of a financial guarantee of the core Department – previously a contingent liability – in relation to the High Technology Fund, which resulted in an adjustment of £672,000; and (c) the classification of the SFLGS and EFG as financial guarantees, with each guarantee valued initially at fair value and subsequently measured at the higher of fair value and the amount determined in accordance with FRS 12 (Provisions, Contingent Liabilities and Contingent Assets), resulting in an increase in liabilities of £30 million and a corresponding increase in debtors to reflect premium income unearned at 1 April 2008.

Other information

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

4.74 The Management Board reviews each month (except August) the Department's principal risks that might impact on the organisation's position either in the immediate or long term future. These risks are based upon the following strategic themes:

- changing environment;
- influencing; and
- organisational capacity.

Pension liabilities

4.75 The Department's staff can become members of one of the Principal Civil Service Pension Schemes (PCSPS). The Department's employer's contributions into the Schemes are reflected in the Resource Accounts within Staff Costs.

4.76 The PCSPS are unfunded multi-employer defined benefit schemes and the Department is consequently unable to identify its share of the underlying assets and liabilities. There is therefore no reflection of the Schemes on the Department's Balance Sheet. Further details can be found in Note 9 to the Resource Accounts.

Payment of suppliers

4.77 The Department's policy is to comply with the Institute of Credit Management's Prompt Payment Code, and in February 2009 the Department became an approved signatory to the Code. Whilst the Department's standard terms and conditions for the supply of goods or services specify payment within 30 days of receipt of a valid invoice the Department has, since October 2008, aimed to pay all valid invoices within ten days of receipt. This is in line with the commitment made by the Prime Minister on 8 October 2008.

4.78 In 2008-09, the core Department paid 99.6% of undisputed invoices within the 30 day target (100% in 2007-08), and the consolidated Department paid 99.2% of undisputed invoices (99.1% in 2007-08). Since November 2008, the first full month of recording achievement against the ten day target, the core Department paid 96.1% of undisputed invoices within ten working days.

Charging Policy

4.79 BERR provides only a limited number of services within the core Department for which it charges fees. Any such fees are set to comply with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. The Insolvency Service sets its fees to recover costs. It has a range of fees covering three areas: case administration where fees reflect the average costs of administering bankruptcy cases and compulsory company liquidation cases; insolvency practitioner regulation where fees include the cost of authorising and monitoring insolvency practitioners and registering individual

voluntary arrangements; and estate accounting where fees reflect the cost of financial transactions on insolvency cases using the Insolvency Services Account.

Post balance sheet events

4.80 For a list of Post Balance Sheet Events see Note 39 to the Resource Accounts.

Auditors

4.81 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 147 to 149. The notional cost to the Department of the external audit of the core Account by the National Audit Office for the C&AG was £220,000 (2007-08 – £240,000). The total cost of work on the Consolidated Account was £299,500 (2007-08 – £309,000).

4.82 In addition the notional cost of the review of the restatement of balances under International Financial Reporting Standards (IFRS), was £13,500 for the core Department. The total cost of the review of the restatement of balances for the Consolidated Account was £32,500.

4.83 Drawing upon an NAO report, the Committee of Public Accounts published two reports focused on the Department's work in 2008-09:

- Government Preparations for Digital Switchover (28th Report of 2007-08, HC 416, 26th June 2008).
- Reducing the cost of complying with regulations: the delivery of the Administrative Burdens Reduction programme 2007 (32nd Report of 2007-08, HC 363, 2nd June 2008).

4.84 The NAO also published reports on:

The Administrative Burdens Reduction Programme, 2008. The Report examined the progress reported at the end of 2007 by departments in reducing the administrative burdens on businesses of complying with regulations. It found that initiatives to reduce such burdens have helped improve business perceptions of the Government's approach to regulation but businesses have not reported a reduction in the time taken to comply with regulations. The Programme had provided an impetus across departments to reducing burdens. In 2007 departments had implemented over 150 specific measures to reduce administrative burdens and the majority predicted that they will meet their reduction target by 2010. There had also been a small positive shift in businesses' perceptions about regulation. However, the report concluded that the total reported in-year savings of £800 million should be treated with caution, as they were indicative estimates and have been subject to only limited independent validation. And only 1% of businesses believed that complying with regulation had become less time consuming in 2007 and 40% said it has become more time consuming. (HC 944, Session 2007-08, published 7 October 2008).

Delivering High Quality Impact Assessments. This report examined the work of the the Better Regulation Executive to improve the quality of departments' assessments of the likely impact of new regulations. The Report concluded that the introduction of

new processes had strengthened scrutiny and improved the quality of impact assessments in several respects. There was a sharper presentation of results, better planning for post-implementation review and a greater incidence of quantification of costs and benefits. But there remained a wide variation between the best and worst impact assessments and fewer presented an analysis of the costs and benefits for a range of options or summarised an implementation plan. It recommended that further improvements were needed for impact assessments to fully play their part in helping to ensure that new regulations deliver the intended benefits in a cost-effective manner. (HC128, Session 2008-09, published 30 January 2009.)

UK Trade & Investment: Trade Support. The report examined whether UK Trade & Investment is delivering successfully its trade support strategy. The report concluded that it was close to achieving its targets of assisting 20,000 businesses in a 12-month period, delivering high quality and satisfaction ratings and improving business performance. UK Trade & Investment, however, lacked sufficiently robust measures of the costs of delivering specific services. It was therefore not in a position to gauge reliably the efficiency of its different activities, the contribution of different parts of the organisation to these services, nor the relative costs and benefits of the different services it provides. The Report recommended that UK Trade & Investment should improve its limited costing model to estimate the unit cost of each of its services and use this information to review the range of services; and target resources on those which are most cost effective. (HC297, Session 2008-09, published 3 April 2009.)

- 4.85** After the end of the financial year, on 5 June 2009, the NAO published an additional report relating to the Department:

BERR's oversight of the Post Office Network Change Programme. Due to threats to the viability of the Post Office network, BERR agreed to a programme to reduce the total number of post office outlets to approximately 12,000, compared with some 14,000 when the Programme began in 2007. The closures were part of a larger plan aimed at returning Post Office Ltd to profitability by 2010-11 (net of regular subsidy payments). The plan also included action to improve efficiency and Post Office Ltd's financial performance, and to sustain and increase revenues. The plan was supported by funding from the Department of up to £1.7 billion over five years, including a subsidy from the taxpayer of £150 million a year, reflecting the role Post Offices play in the local community. The report found that the Department evaluated the social and economic value of supporting the reduced network, and had asked Postcomm to commission further research, but did not plan ongoing monitoring of the social or economic benefits. The programme had largely met its targets and complied with the undertakings given by the Departmental at its start. The programme was forecast to be under-budget – at March 2009, the projected final costs for the programme were £161 million, down from the original estimate of £176 million. After completion of the programme, Post Office Ltd planned to deliver savings of £45 million a year. The ongoing benefits of the programme would exceed the one-off costs of the programme, notably the cost of compensating sub postmasters, from 2011-12 onwards. However, Post Office Limited's handling of some closures suffered from poor communication, causing resentment among some local customers. The programme of putting in place at least 500 new Outreach services, such as mobile

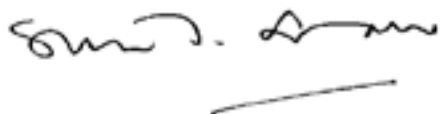
post offices, was planned to be complete by late 2008 but at March 2009, 433 of the minimum 500 planned services were open. Planned refurbishments to nearly 700 existing post offices expected to take more business as a result of closures have been completed in only 447 post offices. (HC 558, Session 2008-09, published 5 June 2009.)

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

- Support for small business: access to equity finance; and
- The sale of British Energy.

Disclosure of audit information

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



Simon Fraser
Principal Accounting Officer and Permanent Secretary
10 July 2009