

Department for Employment and Learning

Resource Accounts

For the year ended 31 March 2003

*Presented to the Houses of Parliament
by the Secretary of State for Northern Ireland
in accordance with article 2(2)(a) of the Northern Ireland
Act 2000 (Prescribed Documents) Order 2002*

13 November 2003

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13 November 2003

**Department for Employment and Learning
Annual report and accounts
Year ended 31 March 2003**

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DEPARTMENT FOR EMPLOYMENT AND LEARNING
STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES
for the year ended 31 March 2003

SCOPE

Departmental accounting boundary

These accounts refer to the activities of the Department for Employment and Learning (the Department or DEL).

Departmental aim

The aim of the Department, as identified in its 2003-06 Strategic Plan, continues to be:
'To promote a culture of lifelong learning, and to equip people for work in a modern economy'

Departmental objectives

The Department's objectives are:

- To work with others to achieve wider access to education and training and to seek the highest standards of learning, research, training and scholarship, thereby contributing to economic development and social inclusion;
- To promote access to, and fairness in, employment, thereby contributing to economic development and social inclusion.

Principal activities

The principal activities of the Department are:

- The funding of higher, further and adult education, student support and other matters related to tertiary education;
- The provision of a comprehensive range of training and employment programmes and of services related to the labour market.

Bodies outside the Departmental boundary

Public Sector bodies not consolidated in these accounts for which the Department had lead policy responsibility are:

- Enterprise Ulster (a public corporation).
- Ulster Supported Employment Limited (a company limited by guarantee).
- Construction Industry Training Board Northern Ireland (a statutory training organisation).
- Labour Relations Agency (a non-departmental public body).

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Departmental Report

The Departmental Report, which reviews the activities of the Department for the year to 31 March 2003, was published in September 2003.

Pension liabilities

Staff pension liabilities are borne by the Principal Civil Service Pension Scheme (Northern Ireland) and are therefore not reflected in these accounts but in the accounts of that scheme.

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OPERATING AND FINANCIAL REVIEW

Operating review

The Department's published report on its operations for the 2002-03 year highlights some of the important developments to have taken place, including a detailed report on performance against the targets identified in the Department's 2002-03 Business Plan, Public Service Agreement (PSA) and Service Delivery Agreement (SDA), and against the Department's targets in the 2002-03 Programme for Government (PfG).

In summary, the Department wholly or substantially achieved 80% of its PfG targets, 45% of its PSA targets and 69% of its Strategic Plan targets.

The Department has issued a strategic plan identifying key issues and objectives for the next three years. Included within this, its business plan sets out the principal actions it intends to take and the targets it will seek to meet during the next financial year and identifies how it will apply its resources in the most efficient manner.

As a result of Budget proposals the Department's budget for 2003-04 was increased by 10% (to £770m) over the 2002-03 budget. Substantial increases will be made available for Essential Skills, University Research, Targeted Initiatives and for enhancements to the Student Bursary scheme. Significant capital provision has also been made to improve the infrastructure in both Higher and Further Education over the next three years.

The accounts should be read in conjunction with the Department's published report on its operations for the 2002-03 year.

Financial review

These accounts report the Department's financial performance for the year on an accruals basis. It is hoped that this format of accounting will assist the Department in its future financial and operational planning.

The overall gross operating expenditure of the Department increased by 6.6% from the previous year. The majority of the increase was in Further and Higher Education, which reflects the capital projects funded by the Department in these areas during the course of the year.

Within FE a new 20,000m² state of the art facility at Millfield was opened for operation in September 2002. In addition funding was secured for two new colleges in Omagh and Dungannon, at a capital cost of £35 million, together with approval to PFI-test two new schemes in Lisburn and Downpatrick at a potential cost of £40 million. These new capital schemes represent a significant injection of resources into the academic infrastructure in order to facilitate the delivery of education and training to the highest standards. The Department was also granted an additional £3 million of funding to widen access to further education by providing almost 2,400 additional FE places.

The Department's commitment to delivering a high quality service is also mirrored in Higher Education with progress being made on the Springvale educational village. This will provide another centre through which the community can avail of world class academic facilities. Queen's University and the University of Ulster have also been provided with funding of £11 million for capital projects over a two-year period, together with an additional £2 million for the provision of 1,000 additional undergraduate places at the two local universities.

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Request for Resources B saw a reduction in net operating expenditure of 4.4%. The majority of this reduction can be attributable to a number of schemes included within Preparation for Work. The schemes included within the Preparation for Work line within the estimates include:

- Jobskills;
- New Deal;
- Targeted Initiatives;
- Disablement Advisory Service;
- Enterprise Ulster and
- Worktrack.

Within Preparation for Work the main factors giving rise to the fall in expenditure were the reclassification of £11.4 million of Jobskills expenditure to 'EU Peace' to avail of EU funding, and the Individual Learning Account scheme being abolished during 2001.

Included within note 9 to the accounts is a new initiative within the Department, Executive Programme Funds (EPFs). The Executive established EPFs in 2000 as a means by which resources could be focused on Programme for Government priorities and as a mechanism to encourage co-operation between departments to deliver these priorities in the most effective ways. The objectives of the Funds are to:

“Assist the development of new policies and programmes, and new, improved services, as well as dealing with major infrastructure projects. EPFs will have particular regard to the Executive's priorities as set out in the Programme for Government and also its commitments to equality and new TSN.”

Student loans continue to be the most material figure (£424,223,000) in the Department's Balance Sheet. During the course of the financial year, the Department advanced £98,746,000 of loans to students from Northern Ireland. In addition to the capital costs of providing these loans, the Department also incurred non-cash costs of £26,059,000 in relation to the subsidy on student loans.

The Balance Sheet also shows a marked increase in debtors (£72,755,000). The main component giving rise to this increase was the completion of a significant number of EU grant claims (£70,585,000). A further breakdown of the movement in debtors can be seen in note 15 to the accounts.

The significant movements in the Department's asset base detailed above have given rise to an increase in the Department's cost of capital charge to £12,084,000 in 2002-03, from £6,242,000 in 2001-02. This represents a substantial year-on-year increase. However, it is anticipated that this charge will be reduced in 2003-04, as the interest rate used in its calculation is to decrease from 6% to 3.5%.

Post balance sheet events

No significant events have occurred since the balance sheet date that would require adjustment to, or disclosure in, the Resource Accounts.

MANAGEMENT

Minister

DEPARTMENT FOR EMPLOYMENT AND LEARNING
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The responsible Minister is Jane Kennedy MP, who replaced Carmel Hanna MLA in October 2002.

Permanent Head of the Department and the Management Board

The Permanent Secretary of the Department is Alan Shannon.

The members of the Management Board who served during the year were:

Adrian Arbuthnot
Catherine Bell
Dr Robson Davison
Roy Gamble
David McAuley
George O'Doherty
Bernie O'Hare
Tom Scott

Appointments to these posts are made and their remuneration determined under normal arrangements for Senior Civil Service posts. Details of remuneration are included in the notes to these accounts.

Non-Executive Advisory Board

The members who served during the period were:

Mr W McGinnis OBE (Chairman)

Professor R Barnett (appointed 1 July 2002)
Mr W Brown
Mr J Corey
Mr D Corr
Professor Dame G Keegan
Dr A McKeown
Mr J McKeown
Mr R Mullan OBE
Mrs A Tate
Mr W B Turtle
Mrs N Whittaker
Mrs C Williamson
Ms M Wilson OBE

**DEPARTMENT FOR EMPLOYMENT AND LEARNING
STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES
for the year ended 31 March 2003**

PUBLIC INTEREST AND OTHER

Disabled persons

The Department follows the code of practice of the Northern Ireland Civil Service in aiming to offer equality of opportunity for people with disabilities to make full use of those skills and abilities that they possess.

Equal opportunities

The Department follows the Northern Ireland Civil Service policy that all eligible persons shall have equal opportunity for employment and advancement on the basis of their ability, qualifications and aptitude for the work.

Payment of suppliers

The Department is committed to the prompt payment of suppliers of goods and services in accordance with the Confederation of British Industry's prompt payers code and British Standard BS 7890.

Unless otherwise stated in the contract, payment is due within 30 days of receipt of the goods or services, on presentation of a valid invoice or similar demand, whichever is later.

In the year ended 31 March 2003, 98.5% of invoices from suppliers were paid within the timescale noted above. No amounts were paid to suppliers in interest under the Late Payment of Commercial Debts (Interest) Act 1988.

Consultation with employees

During the year, in order to maintain and develop the provision of information to, and consultation with, employees, the Department engaged in an ongoing consultation process with its employees through the Departmental Whitley Committee. The Committee meets on a quarterly basis and its Annual General Meeting took place on 10 February 2003.

Auditor

These accounts are subject to audit by the Comptroller and Auditor General for Northern Ireland.



ALAN SHANNON
Accounting Officer
28 October 2003

DEPARTMENT FOR EMPLOYMENT AND LEARNING
STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES
for the year ended 31 March 2003

Under the Government Resources and Accounts Act (NI) 2001 the Department is required to prepare resource accounts for each financial year, in conformity with a direction from the Department of Finance and Personnel (DFP), detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

1. 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.
3. DFP has appointed the Permanent Head of 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.
4. In preparing the accounts, the Accounting Officer is required to comply with the *Northern Ireland Resource Accounting Manual* (NIRAM) prepared by DFP, 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 NIRAM, have been followed, and disclose and explain any material departures in the accounts;
 - d. prepare the accounts on a going-concern basis.
5. 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 Officers' Memorandum issued by DFP and published in *Government Accounting Northern Ireland*.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
STATEMENT ON INTERNAL CONTROL
For the year ended 31 March 2003

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by the Department's Minister, 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 Northern Ireland.

There are a number of bodies beyond the Departmental boundary in receipt of substantial financial support from the Department. They are responsible for their own internal control arrangements and are required to provide annually to the Department assurance that their arrangements are sound and comply with requirements. These bodies are the two local universities; the two local teacher training colleges; the 17 further education colleges, the Education and Library Boards, the Student Loan Company, the Labour Relations Agency, Enterprise Ulster, Ulster Supported Employment Ltd, and the Construction Industry Training Board.

The Department's system of internal control is designed to manage rather than eliminate the 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 the principal risks to the achievement of departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Procedures were put in place in December 2002, and will have been in operation for 12 months by March 2004, to implement DFP guidance. This takes account of the time needed to embed fully the processes that the Department has agreed should be established, and to prove their robustness.

We have developed appropriate procedures to ensure that we have identified the Department's objectives and risks and determined a control strategy for each of the significant risks. As a result, risk ownership has been allocated to the appropriate staff and the Department has set out its attitude to risk to the achievement of the Departmental Objectives.

The Departmental Board has ensured that procedures are in place for verifying that risk management and internal control are regularly reviewed and reported on. There will be a full risk and control assessment before reporting for the year ending 31 March 2004. Risk management has been incorporated more fully into the corporate planning and decision making processes of the Department.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. Internal control processes include the following:

- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Departmental Board.
- Regular reviews by the Departmental Board of periodic and annual financial reports that indicate financial performance.
- An annual review of financial control arrangements against the financial control checklist.
- Regular reviews by the Departmental Board of periodic and annual reports of progress against business plan, PfG and PSA targets.
- Regular review and reporting (monthly) of movement in, and management of, the control of risks at Divisional and Departmental level.
- A comprehensive system of internal control rules (Finance Bulletins), which set down procedures for key processes including procurement (including policy on the use of consultants), authority to incur expenditure, entertainment and staff travel etc.

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STATEMENT ON INTERNAL CONTROL
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- Internal Audit arrangements which operate to standards defined in the Government Internal Audit Manual. Regular reports are submitted which include HIA's independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement.
- The Financial Audit and Support Team (FAST) is responsible for auditing external organisations in receipt of grants from the Department. FAST provides advice on how grants were applied and on the adequacy and effectiveness of the internal control systems within those organisations, and makes recommendations for adjustment of grant and improvements to these organisations' systems.
- Internal Audit and FAST report annually to the Department's Audit Committee.
- Heads of Divisions are required to provide an annual assurance statement to the Accounting Officer giving their assessment of the operation of internal control arrangements within their Divisions during the relevant financial year. This includes a facility to identify issues giving cause for concern and the remedial action proposed or taken.
- NDPBs and other Sponsored Bodies that have Additional Accounting Officers appointed are also required to provide annual assurance statements to the Department along the same lines as those required of Heads of Divisions.

In addition to the actions mentioned above, in the coming year the Department plans to:

- Improve the quality of risk assessment
- Provide fraud awareness training for key staff
- Strengthen its accounting resources
- Review the arrangements for the operation of the Audit Committee in light of the recent draft 'Audit Committee Handbook' issued by HM Treasury

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, FAST and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

A number of issues emerged during 2002-03. The North-East Institute of Higher and Further Education failed to develop a suitable college recovery plan within the timescale laid down by the Department. This led to the initiation of a formal Efficiency Review of the college as provided for under Article 18 of the Further Education (Northern Ireland) Order. The acting Director is making arrangements to develop a recovery plan and is reviewing internal control arrangements with a view to providing me with an assurance statement as soon as possible.

The Education and Library Boards have not yet provided the Department with audit assurance statements for eligibility and entitlement to student loans and student awards (mandatory, discretionary and disabled students' awards). The Boards are experiencing difficulties with data extraction from computer systems. The Department has asked the Boards to resolve these difficulties as soon as possible so that the required audit work can be completed and assurance provided.

The Department is seeking retrospective approval from DFP for expenditure on the Learndirect scheme. Failure to seek approval was an oversight that we intend to correct. The Department is reviewing all training and employment schemes to ensure that appropriate approval for these has been sought. FAST has raised a number of issues in respect of the controls within the Learndirect scheme. The branch will respond to these as a matter of urgency.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
STATEMENT ON INTERNAL CONTROL
For the year ended 31 March 2003

The Department has taken a number of steps to address the issues previously reported on Individual Learning Accounts, in particular obtaining further information to seek recovery from providers. This work is continuing.

During the year the Department continued to work with FE Colleges in recovery, to ensure that they are on course to achieve financial stability as quickly as possible. We have also worked with DfES and the Student Loan Company to improve the accuracy and timely delivery of student loans data required for accounting purposes.

Issues also emerged in relation to Jobskills expenditure during 2002-03. FAST was able to provide only limited audit assurance on Jobskills systems and therefore on the related expenditure for 2002-03. This was due to a number of weaknesses in systems, resulting in errors in claims received from providers. The Department has taken action to improve standards, including comprehensive guidance aimed at reducing errors.

Skills and Industry Division is developing an action plan to address specifically the Jobskills weaknesses issued by FAST. This will include:

- Review and revision of Jobskills monitoring arrangements
- Training and re-training of staff in Training Organisations in the claims and record keeping processes, including training in the use of the Trainee Management System (TMS)
- Consideration of potential weaknesses in the TMS

Internal Audit and FAST will report progress on the reduction of errors to the Audit Committee.



ALAN SHANNON
Accounting Officer
28 October 2003

**DEPARTMENT FOR EMPLOYMENT AND LEARNING
CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO
THE HOUSE OF COMMONS
For the year ended 31 March 2003**

I certify that I have audited the financial statements on pages 14 to 62 under the Government Resources and Accounts Act (Northern Ireland) 2001. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 29.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 7 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel 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 Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and 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 Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 8 to 10 reflects the Department's compliance with the Department of Finance and Personnel's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by the Department of Finance and Personnel, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

**DEPARTMENT FOR EMPLOYMENT AND LEARNING
CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO
THE HOUSE OF COMMONS
For the year ended 31 March 2003**

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 the Northern Ireland Assembly and 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. However, I did not have reasonable assurance and the evidence available to me was limited and not sufficiently reliable in respect of the accuracy of the cost of student loans of £26 million (2002: £21 million) and associated provisions on student loans of £167 million (2002: £135 million). There were no other satisfactory audit procedures that I could adopt to confirm that the cost of student loans and provisions were properly recorded.

However, in addition, the Department has not complied with the Northern Ireland Resource Accounting Manual (NIRAM) which requires that European income should be recognised on the basis of eligible expenditure that can be reclaimed and so income should be recognised at the same time that eligible expenditure is incurred. The Department however recognises European income as claims are submitted to the European Commission. The Department considers that its approach is the one required by NIRAM. The effect of this failure to properly apply NIRAM is that the accounts do not:

- include a prior period adjustment for the significant element of the income of £111 million recognised in 2002-03;
- recognise additional income and accrued income receivable of some £28 million;
- recognise accrued income receivable of some £5 million on, as yet, unclaimed eligible expenditure of prior years;
- include creditors of £33 million.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

**DEPARTMENT FOR EMPLOYMENT AND LEARNING
CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO
THE HOUSE OF COMMONS
For the year ended 31 March 2003**

Qualified opinion:

due to the limitation in the scope of my audit on the cost of student loans and associated provisions

arising from the failure to recognise European income in accordance with the requirements of the Northern Ireland Resource Accounting Manual

- Except for the potential effect of the limitation in evidence available to me in respect of the cost of student loans and the associated provisions and adjustments that are required to comply with the NIRAM policy on the recognition of European income the financial statements give a true and fair view of the state of affairs of the Department for Employment and Learning at 31 March 2003 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 (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel; and
- in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the limitation on my work relating to the failure of the Department to use a financial model to estimate the cost of student loans and the associated provisions, I have not obtained all the information and explanations that I considered necessary for the purpose of my audit.

Details of my observations on the issues arising on Student Loans and European Income can be found in my report on these financial statements on pages 63 to 72.

I note that the Accounting Officer of the Department has referred in the Statement on Internal Control to approval and control weaknesses within the Learndirect scheme. I intend to keep this scheme under close scrutiny during my audit of the 2003-04 financial statements.

J M Dowdall
Comptroller and Auditor General

31 October 2003

**Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU**

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 1 – SUMMARY OF RESOURCE OUTTURN 2002-03

	2002-03						2001-02	
	Estimate			Outturn			Net total outturn compared with Estimate saving/ (excess)	Prior-year outturn
	Gross expenditure 1 £000	Accruing resources 2 £000	NET TOTAL 3 £000	Gross expenditure 4 £000	Accruing resources 5 £000	NET TOTAL 6 £000		
Request for Resources A (note 9)	416,119	-	416,119	392,213	-	392,213	23,906	373,506
Request for Resources B (note 9)	188,301	1,247	187,054	173,999	932	173,067	13,987	181,112
Total resources	604,420	1,247	603,173	566,212	932	565,280	37,893	554,618
Non-operating cost AR (note 5)	-	9,235	9,235	-	9,008	9,008	227	4,228
Net cash requirement	-	-	688,735			650,653	38,082	590,109

Requests for Resources are detailed on Schedule 5.

Reconciliation of resources to net cash requirement

	Note	£000	£000	£000
Net total resources		603,173	565,280	37,893
Capital				
Student loan funding	13	95,884	100,715	(4,831)
Acquisition of fixed assets	11	485	61	424
Other loans	12	-	44	(44)
Non-operating cost AR				
Student loan repayments applied	5	(9,000)	(9,000)	-
Admin and programme income		(235)	-	(235)
Book value of fixed asset disposals	5	-	(8)	8
Accruals adjustments				
Non-cash items	3	(15,753)	(20,592)	4,839
Changes in working capital other than cash	14	-	9,481	(9,481)
Changes in creditors falling due after more than one year	14	-	13	(13)
Use of provisions	18	-	3,964	(3,964)
Net cash requirement per Spring Supplementary Estimate		674,554	649,958	24,596
Supplementary Estimate amendment to net cash requirement not enacted		14,181	-	14,181
Adjustments in respect of 2001-02 Supply		-	695	(695)
Net cash requirement (Schedule 4)		688,735	650,653	38,082

In the 2002-03 Spring Supplementary Estimates, the Net Cash Requirement (NCR) for DEL was reduced by £14,181,000. By convention, only increases in NCR appear in the Budget Act and hence the reduction in DEL's NCR was not reflected. The NCR Estimate in Schedule 1 shows the statutory limit set by the Budget Act, and a reconciling item has been added to reflect the difference between this figure and that shown in the Spring Supplementary Estimates.

DEPARTMENT FOR EMPLOYMENT AND LEARNING

SCHEDULE 1 – SUMMARY OF RESOURCE OUTTURN 2002-03

Actual outturn – resources

Request for Resources A: Actual amount of net resource outturn £392,213,380.33. Actual amount of savings in resources over Estimate £23,905,619.67.

Request for Resources B: Actual amount of net resource outturn £173,067,191.67. Actual amount of savings in resources over Estimate £13,986,808.33.

Actual outturn – cash

Net cash requirement: Outturn net requirement £650,652,677.62 which is £38,082,322.38 less than Estimate.

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

Request for Resources A

Expenditure in Request for Resources A was 5.7% less than Estimates provision for the year. The main reasons for this are as follows.

Education and Library Boards – this represents provision for discretionary student awards, including the Further Education Bursaries Scheme. During the year, there was a low uptake of the FE Bursary scheme. The main contributor to the low uptake was a relatively low income threshold, which meant that a significant proportion of students did not meet the criteria for the bursary. This has been addressed in 2003-04, with the income threshold being raised by £5,000.

Further Education, Universities and Springvale – these represent provision for capital grants to FE colleges and universities and for the Springvale Educational Village campus. The under-spend is mainly due to slippage on capital schemes and the delay in the development of the Springvale project. (Unspent capital budget can be rolled forward under the End-year Flexibility scheme.)

NIHEC, HEFCE and other – this represents provision for a range of services relating to higher education provided by NIHEC and HEFCE on behalf of the Department. The under spend in this area was due to a number of factors, however the single biggest contributor to the under spend was the winding up of the Learning and training programme. The Department had made contributions to the Joint Information System Committee's (JISC) who administered the programme.

Tuition Fees and Supplementary Grants to Students – expenditure on means tested tuition fees was less than expected due to rising incomes and greater parental contributions towards costs.

Executive Programme Funds – this represents provision for expenditure on a range of projects, notably the HE bursary scheme, Essential Skills and the Springvale Outreach Project. Under spend was mainly due to slippage on the Springvale Outreach Project and Essential Skills.

Teachers' Premature Retirement – The over spend of £44,000 is largely due to difficulties experienced in forecasting the potential uptake of the scheme during any financial year.

Request for Resources B

Expenditure in Request for Resources B was 7.5% less than Estimates provision for the year. There was significant over-spending on some budget lines offset by significant under-spending on others. The main reasons are as follows.

Promoting skills and abilities of those in work- The under spend of 7.4% was largely due to greater receipts from IIP-accredited organisations

Labour Market Services – The under spend of 12.2% was largely due to greater receipts received during the course of the financial year.

Preparation for Work – this represents provision for the Department's major demand-led training and employment programmes such as New Deal, Jobskills, Learndirect and schemes for people with disabilities. The under-spend reflects a continuing fall in demand for provision, notably on Jobskills and Learndirect courses. The fall in demand for these services is a product of high employment rates and increased numbers of candidates proceeding to third level education. In addition to the reduced demand for these programmes, £11.4m of expenditure on Jobskills was reclassified as Peace II to avail of EU funding.

Community Projects – the under spend is due to lower than expected demand for Enterprise Ulster's Training for Work Pilot Scheme. The pilot scheme encountered initial recruitment difficulties and a review of the scheme has been initiated.

ESF – under spend is due to the closure of the old programmes, and slower build up of expenditure on projects funded under the new schemes.

EU Community Initiatives - under spend is due to difficulties experienced when initiating this new scheme.

EU Peace and Reconciliation – the over spend of 33% is due to the reclassification of jobskills expenditure to avail of EU funding.

Executive Programme Funds – slippage on all EPF funded projects – Jobcentre Online, RAP Electronics, Employers for Childcare and match-funding for the EU Equal Community Initiative – account for this underspend.

New Deal 50+ - expenditure declined during the course of the year as this scheme was replaced by the Working Tax Credit.

Non-cash Items – There was a significant overspend in this area, largely due to an increase in the cost of capital. The charge increased as a result of two significant factors, being the recognition of income due in respect of EU projects (£70m) and a greater than expected increase in the level of student loans (£102m).

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

- i. Driven by variations between resource Estimate and outturn as outlined above

The notes on pages 24 to 62 form part of these financial statements

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 1 – SUMMARY OF RESOURCE OUTTURN 2002-03

Analysis 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 2002-03		Outturn 2002-03	
		Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess AR	5	-	-	-	-
Non-operating income and receipts – excess AR	5	-	-	2,564	2,114
Subtotal		-	-	2,564	2,114
Other operating income and receipts not classified as AR	5	19,831	<i>19,831</i>	110,787	-
Other non-operating income and receipts not classified as AR		-	-	1,032	-
Other amounts collectable on behalf of the Consolidated Fund	5	-	-	180	<i>180</i>
Total		19,831	<i>19,831</i>	114,563	<i>2,294</i>

The actual receipts surrenderable to the Consolidated Fund were £2,294,498.32, of which £162,238.68 was paid during the year, leaving a balance of £2,132,259.64 at the year end.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 2 – OPERATING COST STATEMENT
for the year ended 31 March 2003

	Note	2002-03		2001-02	
		£000	£000	£000	£000
Administration costs:					
Staff costs	2	31,911		28,127	
Other administration costs	3	<u>30,436</u>		<u>24,609</u>	
Gross administration costs			62,347		52,736
Operating income	5		<u>(1,032)</u>		<u>(43)</u>
Net administration costs			<u>61,315</u>		<u>52,693</u>
Programme costs:					
Request for Resources A					
Expenditure	4	380,581		362,636	
Less: Income	5	<u>-</u>		<u>(2)</u>	
			380,581		362,634
Request for Resources B					
Expenditure	4	123,284		139,913	
Less: EU income					
Received as payment agent	5	(52,609)		-	
DEL programmes	5	(58,178)		-	
Less: Income – non-EU	5	<u>(1,112)</u>		<u>(712)</u>	
			11,385		139,201
Non-voted expenditure					
Student loans subsidy	4		26,059		-
Redundancy fund payments	4		<u>2,759</u>		<u>1,449</u>
Net programme costs			<u>420,784</u>		<u>503,284</u>
Net operating cost	7, 8, 9		<u>482,099</u>		<u>555,977</u>
Net resource outturn	7, 9		<u>565,280</u>		<u>554,618</u>

All income and expenditure are derived from continuing operations.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 2 – OPERATING COST STATEMENT
for the year ended 31 March 2003

STATEMENT OF RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2003

	2002-03	2001-02
	£000	£000
Net (loss)/gain on revaluation of tangible fixed assets	-	3
Recognised gains and losses for the financial year	-	3

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 3 – BALANCE SHEET
as at 31 March 2003

	<i>Note</i>	31 March 2003		31 March 2002	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11	1,462		1,371	
Investments	12	2,090		2,046	
Student loans	13	<u>424,223</u>		<u>321,647</u>	
			427,775		325,064
Current assets					
Debtors	15	108,496		35,741	
Cash at bank and in hand	16	<u>9</u>		<u>7</u>	
		108,505		35,748	
Creditors (amounts falling due within one year)	17	<u>(128,193)</u>		<u>(107,632)</u>	
Net current liabilities			(19,688)		(71,884)
Total assets less current liabilities			408,087		253,180
Creditors (amounts falling due after more than one year)	17	(479)		(492)	
Provisions for liabilities and charges	18	<u>(167,771)</u>		<u>(135,725)</u>	
			(168,250)		(136,217)
			<u>239,837</u>		<u>116,963</u>
Taxpayers' equity					
General fund	19		239,629		116,755
Revaluation reserve	20		<u>208</u>		<u>208</u>
			<u>239,837</u>		<u>116,963</u>

Signed



ALAN SHANNON
Accounting Officer
28 October 2003

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 4 – CASH FLOW STATEMENT
for the year ended 31 March 2003

	2002-03 £000	2001-02 £000
Net cash outflow from operating activities (note a)	(540,359)	(480,270)
Capital expenditure and financial investment (note b)	(89,706)	(89,218)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	-	21
Payments of amounts due to the Consolidated Fund	(182)	(33,623)
Financing (note c)	<u>630,249</u>	<u>603,091</u>
Increase in cash in the period	<u>2</u>	<u>1</u>

Note a – Reconciliation of net operating cost to net operating cash flows

	2002-03 £000	2001-02 £000
Net operating cost	(482,099)	(555,977)
Adjustments for non-cash transactions (note a(i))	46,659	36,739
Adjustments for movements in working capital other than cash (note 14)	(52,207)	43,287
Adjustment for movements in working capital not related to operating cost	(48,748)	-
Use of provisions	<u>(3,964)</u>	<u>(4,319)</u>
Net cash outflow from operating activities	<u>(540,359)</u>	<u>(480,270)</u>

Note a(i) – Non-cash transactions

	2002-03 £000	2001-02 £000
Non-cash items and notional costs (note 3)	20,600	15,452
Movement on provisions	36,050	54,469
Student loans inflation adjustment	5,443	4,164
Interest added to student loans	(6,034)	-
Student loans – adjustment to opening estimate	(9,285)	(37,346)
Student loans administration income	<u>(115)</u>	<u>-</u>
Non-cash transactions	<u>46,659</u>	<u>36,739</u>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 4 – CASH FLOW STATEMENT
for the year ended 31 March 2003

Note b – Analysis of capital expenditure and financial investment

	2002-03	2001-02
	£000	£000
Student loan funding (Request for Resources A)	(100,715)	(98,301)
Student loan repayments (Request for Resources A)	11,114	9,264
Tangible fixed asset additions (Request for Resources B)	(61)	(119)
Loans to other bodies (Request for Resources B)	<u>(44)</u>	<u>(62)</u>
Net cash outflow from investing activities	<u>(89,706)</u>	<u>(89,218)</u>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 4 – CASH FLOW STATEMENT
for the year ended 31 March 2003

Note c – Analysis of financing and reconciliation to net cash requirement

	2002-03 £000	2001-02 £000
From the Consolidated Fund (Supply) – current year	628,434	594,816
From the Consolidated Fund (Supply) – prior year	-	6,438
From the National Insurance Fund	<u>1,815</u>	<u>1,837</u>
Net financing	630,249	603,091
(Increase)/Decrease in cash	<u>(2)</u>	<u>(1)</u>
Net cash flows other than financing	<u>630,247</u>	<u>603,090</u>
Adjustment for payments and receipts not related to Supply:		
Amounts due to the Consolidated Fund – received in a prior year and paid over	(2)	(2,267)
Amounts due to the Consolidated Fund – received and not paid over	2,114	5,057
National Insurance Fund financed activities	(1,815)	(1,449)
Transitional adjustment	-	(4,178)
Adjustment to reflect treatment of inter-Departmental balance	19,414	(9,641)
Adjustments in respect of 2001-02 Supply	695	-
Other adjustments	-	(503)
Net cash requirement (Schedule 1)	<u><u>650,653</u></u>	<u><u>590,109</u></u>

Amount of grant actually issued to support the net cash requirement = £628,434,000.00

Amount of grant actually issued to support the prior year net cash requirement = £nil

DEPARTMENT FOR EMPLOYMENT AND LEARNING
SCHEDULE 5 – RESOURCES BY DEPARTMENTAL AIM AND OBJECTIVES
for the year ended 31 March 2003

	2002-03			2001-02		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objective 1	392,213	-	392,213	373,506	2	373,504
Objective 2	173,999	932	173,067	181,779	755	181,024
Non-voted items	28,818	111,999	(83,181)	1,449	-	1,449
Net operating cost	595,030	112,931	482,099	556,734	757	555,977

Objective 1 is equivalent to Request for Resources A (RfR A), which is: working with others to achieve the highest quality of education and training and seek the highest standards of learning, research, training and scholarship thereby contributing to economic development.

Objective 2 is equivalent to Request for Resources B (RfR B), which is: promoting economic growth, improved living standards and an increased number of accessible employment opportunities.

Further details of resources by Departmental aim and objectives are given in note 21.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2002-03 version of NIRAM, issued by DFP.

The accounting policies contained in NIRAM follow UK generally accepted accounting practices (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where NIRAM permits a choice of accounting policy, the policy judged most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected.

The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business, by reference to their current costs.

1.2 Basis of consolidation

These accounts comprise the accounts of the core Department.

The accounts of Enterprise Ulster (a public corporation), Ulster Supported Employment Limited (a company limited by guarantee), the Labour Relations Agency (a non-departmental public body) and the Construction Industry Training Board NI (a Statutory Training Organisation), all of which are sponsored by the Department, are not included by way of consolidation.

The accounts of the Student Loan Company Limited (a company limited by guarantee and controlled jointly by the Department for Education and Skills, the Scottish Executive and DEL) are also not included by way of consolidation.

Financial information about each of the above entities may be obtained from their separate published annual reports and accounts.

1.3 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount.

All tangible fixed assets are restated to current value each year. Published indices appropriate to the category of asset are normally used to estimate value.

Land and buildings are restated to current value using professional valuations in accordance with FRS 15 every five years, and, in the intervening years, by the use of published indices appropriate to the type of land or building. The last professional valuation of land and buildings was provided by the Valuation and Lands Agency at 31 March 2003.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

The minimum level of capitalisation for inclusion in the Financial Statements as a tangible fixed asset is £1,000. On initial recognition they are measured at cost, including any costs directly attributable to bringing them into working condition.

1.4 Depreciation

Tangible fixed assets are depreciated from the month of acquisition at rates calculated to write-off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, or lease period if shorter. The base useful lives of assets are as follows:

Specialised buildings	50 years
Furniture and fittings	10 years
Motor vehicles	5 years
Computer equipment and software	4 years

No depreciation is provided on freehold land.

Legal title to the Government-owned land and specialised buildings occupied by the Department rests in DFP. Properties managed and controlled by the Department for its specific purposes (specialised buildings) are incorporated in the accounts as if owned by the Department.

The remaining buildings used by the Department (some of which have shared occupancy) are part of the Government Estate. As rents are not paid for these properties an assessment of the rent that would be payable on an open market basis has been charged in order to reflect the full economic cost.

1.5 Investments

Financial interests in bodies that are outside the Departmental boundary are treated as fixed asset investments since they are held for the long term.

Loans issued by the Department to Ulster Supported Employment Limited are shown at historical cost.

1.6 Operating income

Operating income is income that relates directly to the operating activities of the Department. It comprises income from the European Union in support of departmental activities, fees and charges for services provided, on a full cost basis, to external customers and public repayment work and other income.

It includes not only the Department's accruing resources (AR) but also income payable to the Consolidated Fund, which, in accordance with NIRAM, is treated as operating income.

Operating income is stated net of VAT.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

1.7 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs.

Administration costs reflect the costs of running the Department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost control regime, is allowed to be offset against gross administrative costs in determining the outturn 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.

1.8 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 6% in real terms on the average carrying amount of all assets less liabilities.

1.9 Inflation adjustment

A charge is made to reflect the impact of inflation on student loans and is included as part of student loans expenditure.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme NI (PCSPSNI), which is a defined benefit scheme and is non-contributory and unfunded.

The Department recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPSNI of amounts calculated on an accruing basis.

Liability for payment of future benefits is a charge to the PCSPSNI.

The rates paid are in the range of 12-19.5% of pensionable pay. There is a separate scheme statement for the PCSPSNI as a whole.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

1.11 *Early departure costs*

The Department is required to account for the cost of paying the pensions of employees who retire early from the date of their retirement until they reach normal pensionable age.

The Department provides in full for the cost of meeting pensions up to normal retirement age in respect of early retirement programmes in the year the announcement is made.

1.12 *Student loans*

The Department accounts for a share of the UK totals of student loan assets administered by the Student Loan Company Limited and related provisions using information on the domicile of student debtors supplied by the Student Loan Company Limited on the Northern Ireland share of the relevant balances and transactions. This represents a change in accounting policy from 2001-02. In previous years, the Northern Ireland year-end share of total UK student loan balances was estimated based on the percentage split of loans taken out by students during the year in question.

Interest is charged on student loans at rates necessary to maintain the value of the loans in real terms and is added to amounts repayable by students.

The Department meets the costs resulting from the difference between interest paid by students and the real cost of loan capital.

An inflation adjustment is made in these accounts to reflect the impact of inflation on student loans (see note 1.9).

1.13 *European Union income*

The Department includes all European Union income (including Consolidated Fund Extra Receipts) as either programme income or negative public expenditure on the basis of amounts receivable.

Claims made to the EU, even if not yet approved for payment by the EU are deemed to be receivable, following advice from DFP.

1.14 *Notional costs*

Some of the costs directly related to the running of the Department are borne by other Departments and are outside the Department's vote. These costs have been included in these accounts on the basis of the estimated cost incurred by the providing Department.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

1.15 Value Added Tax

Most of the activities of the Department are outside the scope of VAT. In general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.16 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 NIRAM.

Where the balance of the 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 part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI property are borne by the Department, it 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.

1.17 Grants payable

Grants payable are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs.

1.18 Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date, on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 6% in real terms.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

1.19 *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 the resource accounts) which are required by NIRAM 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.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

2. Staff numbers and costs

A. Staff costs consist of:

	2002-03				2001-02
	Total	Officials	Ministers (note 2C)	Special advisers	Total
	£000	£000	£000	£000	£000
Wages and salaries	27,135	27,082	19	34	23,538
Social security costs	1,610	1,606	2	2	1,484
Other pension costs	3,501	3,493	4	4	3,105
Subtotal	32,246	32,181	25	40	28,127
Inward secondments	-	-	-	-	-
Total	32,246	32,181	25	40	28,127
<i>Less Recoveries in respect of outward secondments</i>	(335)	(335)	-	-	-
Total net costs	31,911	31,846	25	40	28,127

The Principal Civil Service Pension Scheme (Northern Ireland) – PCSPS(NI)

The PCSPS(NI) is an unfunded defined benefit scheme which produces its own resource accounts, but the Department is unable to identify its share of the underlying assets and liabilities. The most up-to-date actuarial valuation was carried out as at 31 March 1999 and an interim estimate of the scheme liability is available at 31 March 2002. A full actuarial valuation of the scheme liability is currently underway.

For 2002-03, employer's contributions of £3,497,000 were payable to the PCSPS(NI) (2001-02: £3,142,000), at one of four rates in the range 12 to 19.5% of pensionable pay, based on salary bands. The 2003-04 rates are in the range 12 to 18% of pensionable pay, based on the revalorised 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. Employer's contributions of less than £1,000 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of less than £1,000 were payable to the PCSPS(NI) to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

There were no contributions due to the partnership pension providers at the balance sheet date and no contributions prepaid at that date.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

- B. The average number of whole-time equivalent persons employed, including senior management, ministers, special advisers, staff on secondment or loan into the Department and agency/temporary staff, but excluding staff on secondment to other organisations) during the year was as follows:

	2002 -03	2001-02
Objective 1	93	75
Objective 2	1,342	1,183
Total	1,435	1,258

- C. The salary and pension entitlements of the ministers and senior management of the Department were as follows:

Ministers

Between 1 April 2002 and 14 October 2002 the Department for Employment and Learning was under the control of Carmel Hanna MLA. Her Ministerial salary and allowances were paid by the Northern Ireland Assembly and have therefore been treated as a notional cost in these Resource Accounts. Details of her salary, allowances and other benefits are given below.

Note 29 explains the effect of suspension of devolution, resulting in the transfer of functions from Devolved Ministers to a Northern Ireland Office (NIO) Ministerial team. Each member of the Ministerial team oversees a number of Northern Ireland Departments.

From 15 October 2002 the Department for Employment and Learning was under the direction and control of Jane Kennedy MP, Minister of State at the NIO. Her salary and allowances were paid by the NIO or the Cabinet Office rather than the NI Assembly. These costs have not been included as notional costs in the Operating Cost Schedule in the same way as the Devolved Ministers' salaries. Details of Jane Kennedy MP's salary and allowances will be provided in the 2002/03 NIO Resource Accounts.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

2002-03

Name and dates of service	Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at year end	Benefits in kind
	Yrs	£000	£000	£000	To nearest £100
Carmel Hanna MLA (April – October 2002)	56	19	0-2.5	5-10	-
Jane Kennedy MP (October 2002 – March 2003)			See NIO accounts for details		

2001-02

Name and dates of service	Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at year end	Benefits in kind
	Yrs	£000	£000	£000	To nearest £100
Dr Seán Farren MLA (April – December 2001)	62	35	0-2.5	0-5	-
Carmel Hanna MLA (December 2001 – March 2002)	55	11	0-2.5	0-5	-

Pension arrangements for senior management

Pension benefits are provided through the Northern Ireland Civil Service 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). New entrants after 1 October 2002 may choose between membership of Premium or joining a good-quality ‘money purchase’ stakeholder-based arrangement with a significant employer contribution (Partnership Pension Account).

Classic scheme

Benefits accrue at the rate of 1/80 of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member’s pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse’s pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

Premium scheme

Benefits accrue at the rate of 1/60 of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80 of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8 of the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic Plus scheme

This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

All staff in service at 1 October 2002 will be given the option to join the Premium or Classic Plus arrangements.

Payments under Classic, Premium and Classic Plus are increased in line with the Retail Price Index.

Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Pension benefits for Ministers in the Northern Ireland Executive are provided through the Assembly Members' Pension Scheme, a statutory scheme that provides benefits on a final-salary basis. Further details of the scheme are included in the accounts of the Northern Ireland Assembly.

Pension benefits for NIO Ministers are provided through the Principal Civil Service Pension Scheme.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

Senior management

2002-03

Name and title	Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at year end	Benefits in kind
	Yrs	£000	£000	£000	To nearest £100
Alan Shannon <i>Permanent Secretary</i>					Consent for disclosure withheld
Adrian Arbuthnot <i>Director of Regional Operations</i>					Consent for disclosure withheld
Catherine Bell <i>Director of Further Education and Learning Division</i>					Consent for disclosure withheld
Dr Robson Davison <i>Head of Further and Higher Education Section</i>					Consent for disclosure withheld
Roy Gamble <i>Director of Employment Rights and New Deal Division</i>					Consent for disclosure withheld
David McAuley <i>Assistant Secretary Higher Education and Student Support Division</i>					Consent for disclosure withheld
George O'Doherty <i>Assistant Secretary European and Finance Division</i>					Consent for disclosure withheld
Bernie O'Hare <i>Assistant Secretary Corporate Services Division</i>					Consent for disclosure withheld
Tom Scott <i>Director of Skills and Industry Division</i>					Consent for disclosure withheld

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

Salaries include 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.

Senior managers' pension benefits are provided through the PCSPSNI.

The estimated monetary value of benefits in kind covers any benefits provided and treated by the Inland Revenue as taxable income.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
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2001-02

Name and title	Age	Salary	Real increase in pension at age 60	Total accrued pension at age 60 at year end	Benefits in kind
	Yrs	£000	£000	£000	To nearest £100
Alan Shannon <i>Permanent Secretary</i>					Consent for disclosure withheld
Ian Walters <i>Chief Executive, T&EA</i>		70-75	0-2.5	25-30	-
Adrian Arbuthnot <i>Director of Regional Operations</i>					Consent for disclosure withheld
Catherine Bell <i>Director of Further Education and Learning Division</i>					Consent for disclosure withheld
Dr Robson Davison <i>Head of Further and Higher Education Section</i>					Consent for disclosure withheld
Roy Gamble <i>Director of Employment Rights and New Deal Division</i>					Consent for disclosure withheld
David McAuley <i>Assistant Secretary Higher Education and Student Support Division</i>					Consent for disclosure withheld
George O'Doherty <i>Assistant Secretary European and Finance Division</i>					Consent for disclosure withheld
Bernie O'Hare <i>Assistant Secretary Corporate Services Division</i>					Consent for disclosure withheld
Tom Scott <i>Director of Skills and Industry Division</i>					Consent for disclosure withheld
Anne Flanagan <i>Acting Head of Corporate Services Division</i>					Consent for disclosure not obtained

DEPARTMENT FOR EMPLOYMENT AND LEARNING
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Advisory Board

The Chairman of the Advisory Board is paid within the range of £20,000-25,000 (2001-02: £20,000-25,000).

The remaining members are paid within the range £0-5,000 (2001-02: £0-5,000).

Total fees for the year amounted to £59,000 (2001-02: £67,000) and are included under 'Other administration expenditure'.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

3. Other administration costs

	2002-03		2001-02	
	£000	£000	£000	£000
PFI service charges				
Off-balance sheet contracts		<u>5,927</u>		<u>5,833</u>
Non-cash items:				
<i>Depreciation</i>				
Tangible fixed assets	85		74	
Permanent diminution in value of fixed assets	11		36	
Loss on disposal of fixed assets	<u>8</u>		<u>13</u>	
		104		123
<i>Cost of capital charge</i>				
Government Estate		-		-
Other items		12,084		6,242
<i>Provisions</i>				
Provided in year	-		-	
Unwinding of discount on provisions	-		-	
<i>Notional costs</i>				
Auditor's remuneration and expenses	114		115	
Accommodation costs (DFP)	5,645		5,313	
Services provided and costs incurred by the Social Security Agency	614		975	
Services provided and costs incurred by the Department of Enterprise, Trade and Investment (DETI)	1,252		1,616	
Other notional costs	<u>762</u>		<u>1,068</u>	
		<u>8,387</u>		<u>9,087</u>
Total non-cash items		<u>20,575</u>		<u>15,452</u>
Other expenditure		<u>3,934</u>		<u>3,324</u>
Total		<u><u>30,436</u></u>		<u><u>24,609</u></u>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

The total of non-cash items included in the Reconciliation of Resources to Net Cash Requirement on Schedule 1 comprises:

	2002 -03
Total non-cash transactions as per note 3	20,575
Minister's salary (note 2)	25
Adjustments for profits and losses on disposal of fixed assets:	
Book value of fixed asset disposals	(8)
	<hr/>
Non-cash items per Reconciliation of Resources to Net Cash Requirement	20,592
	<hr/> <hr/>

The total of non-cash transactions included in the Reconciliation of Operating Costs to Operating Cash Flows on Schedule 4 comprises:

	2002 -03
Total non-cash transactions as per note 3	20,575
Minister's salary (note 2)	25
	<hr/>
Subtotal	20,600
<i>Add:</i> Other non-cash amounts charged to operating expenditure	26,059
<i>Less:</i> Non-cash income	-
	<hr/>
Total non-cash transactions	46,659
	<hr/> <hr/>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

4. Net programme costs

	2002-03		2001-02	
	£000	£000	£000	£000
Current grants and other current expenditure	503,865		481,267	
Non-voted expenditure: Student loan subsidy	26,059		21,282	
Non-voted expenditure: Redundancy Fund payments	2,759		1,449	
		<u>532,683</u>		<u>503,998</u>
<i>Less: Programme income (note 5)</i>		<u>(111,899)</u>		<u>(714)</u>
		<u>420,784</u>		<u>503,284</u>

EU grants and subsidies in programme expenditure

	2002-03	2001-02
	£000	£000
ESF	9,056	13,519
ERDF	-	619
Community Initiatives	601	-
Peace and Reconciliation	<u>14,364</u>	<u>6,505</u>
	<u>24,021</u>	<u>20,643</u>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

5. Income and appropriations in aid

Operating income

Operating income not classed as accruing resources (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 7).

Non-EU income

	2002-03		
	Resource Outturn AR £000	Payable to Consolidated Fund £000	Operating Cost Statement £000
Administration income	-	1,032	1,032
Programme income			
Promoting skills and abilities of those in work	159	-	159
Labour market services	530	-	530
Preparation for work	243	-	243
Receipts of other classes	-	180	180
Total (all RfR B)	932	1,212	2,144

	2001-02		
	Resource Outturn AR £000	Payable to Consolidated Fund £000	Operating Cost Statement £000
Administration income	-	43	43
Programme income	667	47	714
Total	667	90	757

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

EU income

	2002-03 £000	2001-02 £000
Receipts where Department acts as agent for EU in making payments to third parties	52,609	-
Receipts for Department's own programmes	58,178	-
	<u>110,787</u>	<u>-</u>

Non-operating cost AR

	2002-03 £000	2001-02 £000
Student loan repayments	11,564	9,264
Less Amount classified as excess AR	<u>(2,564)</u>	<u>(5,036)</u>
Student loan repayments classified as AR	9,000	4,228
Book value of fixed asset disposals	<u>8</u>	<u>-</u>
	<u>9,008</u>	<u>4,228</u>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

6. Administration cost limits

The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

	2002-03		2001-02	
	Outturn £000	Limits £000	Outturn £000	Limits £000
Request for Resources A	3,116	2,975	2,142	2,613
Request for Resources B	38,631	40,313	35,142	36,554
Total within Administration cost control	41,747	43,288	37,284	39,167
Administration expenditure excluded from Administration cost limit	20,600		15,452	
Administration income allowable within Administration cost limit	-		-	
Total administration outturn	62,347		52,736	

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

	2002-03 £000	2001-02 £000
Net operating cost (Schedule 2)	482,099	555,977
Remove non-supply expenditure and income, including income scored as Consolidated Fund extra receipts (CFERs):		
Non-supply expenditure	(2,759)	(1,449)
Non-supply income	180	90
EU CFER income	110,787	-
Admin CFER income – PFI credits	1,032	
Student loans subsidy	(26,059)	-
Net resource outturn (Schedule 1)	565,280	554,618

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

8. Analysis of net operating cost by spending body

The net operating cost of the Department includes £11,381,000 (2001-02: £12,600,000) of payments to non-Departmental public bodies for which it has lead policy responsibility but which are not within the Departmental accounting boundary. The Department's programmes are generally delivered in association with a wide range of public and private sector bodies and the expenditure on these programmes is regarded as part of the Department's spending in this analysis.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

9. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement

	2002-03							2001-02	
	Admin £000	Other current £000	Grants £000	Gross resource expenditure £000	AR £000	Net total £000	Estimate £000	Net total outturn compared with Estimate £000	Prior year outturn £000
Request for Resources A									
Administration	3,116	182	-	3,298	-	3,298	3,207	(91)	2,366
Education and Library Boards	-	-	9,037	9,037	-	9,037	10,923	1,886	9,320
Further education	-	-	152,534	152,534	-	152,534	156,022	3,488	141,397
Universities	-	-	158,835	158,835	-	158,835	169,686	10,851	144,848
Springvale	-	-	352	352	-	352	1,018	666	285
NIHEC, HEFCE and other	-	-	1,723	1,723	-	1,723	2,016	293	1,989
Colleges of education	-	-	8,682	8,682	-	8,682	8,993	311	8,559
ELB grants for student awards	-	-	3,100	3,100	-	3,100	2,406	(694)	7,257
Tuition fees and grants	-	-	25,766	25,766	-	25,766	30,821	5,055	20,638
Student Loans Company admin	-	-	1,036	1,036	-	1,036	1,455	419	1,271
Student loans subsidy	-	-	-	-	-	-	-	-	21,282
Postgraduate awards	-	-	5,745	5,745	-	5,745	5,769	24	4,292
Executive Programme Funds	-	-	12,192	12,192	-	12,192	13,450	1,258	-
Other costs									
Teachers pre-retirement – ongoing	-	-	883	883	-	883	883	-	713
Teachers pre-retirement – new	-	-	514	514	-	514	470	(44)	561
Annually managed expenditure									
Non-cash items	8,516	-	-	8,516	-	8,516	9,000	484	8,728
Total for RfR A	11,632	182	380,399	392,213	-	392,213	416,119	23,906	373,506
Request for Resources B									
Administration	38,631	721	-	39,352	-	39,352	41,004	1,652	35,865
Promoting skills and abilities of those in work	-	-	3,248	3,248	(159)	3,089	3,337	248	3,511
Labour market services	-	-	3,682	3,682	(530)	3,152	3,590	438	3,341
Preparation for work	-	-	76,472	76,472	(243)	76,229	91,978	15,749	95,276
Community projects	-	-	13,368	13,368	-	13,368	14,250	882	13,813
ESF	-	-	9,056	9,056	-	9,056	11,031	1,975	13,519
ERDF	-	-	-	-	-	-	-	-	619
EU Community Initiatives	-	-	601	601	-	601	700	99	-
EU Peace and Reconciliation	-	-	14,364	14,364	-	14,364	10,800	(3,564)	6,505
Executive Programme Funds	-	-	560	560	-	560	2,261	1,701	297
Annually managed expenditure									
New Deal 50+	-	-	1,212	1,212	-	1,212	1,350	138	1,642
Non-cash items	12,084	-	-	12,084	-	12,084	6,753	(5,331)	6,724
Total for RfR B	50,715	721	122,563	173,999	(932)	173,067	187,054	13,987	181,112
Resource outturn	62,347	903	502,962	566,212	(932)	565,280	603,173	37,893	554,618
Reconciliation to Operating Cost Statement									
Non-supply expenditure				2,759		2,759			1,449
Non-voted expenditure (note 13)				26,059		26,059	43,609		-
Non-supply income					(1,212)	(1,212)			(90)
Gross operating expenditure				595,030	(2,144)	592,886			555,977
Non-voted income					(110,787)	(110,787)			
Operating income									
Net operating cost				595,030	(112,931)	482,099			555,977

In line with guidance from HM Treasury, expenditure in respect of the Student Loan Subsidy has been treated as non-voted expenditure in 2002-03. This is different from the treatment adopted in preceding years.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

10. Analysis of capital expenditure, financial investment and associated AR

	2002-03			
	Capital expenditure	Financial investment	AR	Net total
	£000	£000	£000	£000
Request for Resources A	136	98,746	(9,008)	89,874
Request for Resources B	59	44	-	103
Total	195	98,790	(9,008)	89,977

	2001-02			
	Capital expenditure	Financial investment	AR	Net total
	£000	£000	£000	£000
Request for Resources A	80	98,301	(4,228)	94,153
Request for Resources B	39	62	-	101
Total	119	98,363	(4,228)	94,254

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

11. Tangible fixed assets

	Land and buildings	Furniture and fittings	Vehicles	Computer equipment and software	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2002	1,100	128	19	405	1,652
Additions	-	145	26	24	195
Disposals	-	-	(19)	-	(19)
Revaluations	-	(1)	-	(32)	(33)
At 31 March 2003	<u>1,100</u>	<u>272</u>	<u>26</u>	<u>397</u>	<u>1,795</u>
Depreciation					
At 1 April 2002	-	39	7	235	281
Charged in year	5	15	4	61	85
Disposals	-	-	(11)	-	(11)
Revaluations	(5)	(1)	-	(16)	(22)
At 31 March 2003	<u>-</u>	<u>53</u>	<u>-</u>	<u>280</u>	<u>333</u>
Net book value at 31 March 2003	<u>1,100</u>	<u>219</u>	<u>26</u>	<u>117</u>	<u>1,462</u>
Net book value at 31 March 2002	<u>1,100</u>	<u>89</u>	<u>12</u>	<u>170</u>	<u>1,371</u>
Asset financing					
Owned	1,100	219	26	117	1,462
On-balance sheet PFI contracts	-	-	-	-	-
Net book value at 31 March 2003	<u>1,100</u>	<u>219</u>	<u>26</u>	<u>117</u>	<u>1,462</u>

As outlined in Schedule 4, cash payments in respect of fixed asset additions for the year were £61,000.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
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for the year ended 31 March 2003

The net book value of land and buildings comprises:

	31 March 2003	31 March 2002
	£000	£000
Land	850	600
Freehold	<u>250</u>	<u>500</u>
	<u>1,100</u>	<u>1,100</u>

12. Investments

Ulster Supported Employment Limited loan

	2002-03	2001-02
	£000	£000
Balance at 1 April 2002	2,046	1,984
Additions	<u>44</u>	<u>62</u>
Balance at 31 March 2003	<u><u>2,090</u></u>	<u><u>2,046</u></u>

The loan to Ulster Supported Employment Limited is interest free and is secured by a charge on the company's undertakings and properties under a debenture dated 22 March 1963.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

13. Student loans

	2002-03 £000	2001-02 £000
Balance at 1 April 2002	321,647	189,033
Adjustment to opening accounting estimate	9,285	37,346
Additional loan funding	98,746	98,301
Repayments	(11,564)	(9,264)
Administration	115	-
Written off	(40)	
Interest added	6,034	6,231
Increase in student loans outstanding	102,576	132,614
Balance at 31 March 2003	424,223	321,647

The Student Loans Company Limited issues loans on behalf of the Department for Education and Skills (in England and Wales), the Scottish Executive and DEL.

The split of total loans between the three Departments is provided by the Student Loans Company. The Department has made an adjustment to its estimate for student loans as at 1 April 2002 to agree with the Student Loans Company's record of total student loan balances attributable to Northern Ireland at that date.

Interest is applied to student loans receivable at rates necessary to maintain the value of the loans in real terms. The estimated share of interest attributable to Northern Ireland students added to the outstanding loan balance during the year was £6,034,000 (2001-02: £6,231,000).

As outlined in Schedule 4, student loan advances for the year were £100,715,000.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
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Student loans subsidy (note 9)

The Operating Cost Statement includes the following charges and (credits) in relation to student loans:

	2002-03	2001-02
	£000	£000
Change in opening accounting estimate	(9,285)	(37,346)
Adjustment to provisions	36,050	54,464
General inflation adjustment on loans	5,443	4,164
Interest added to student loans	(6,034)	-
SLC administration	(115)	-
	<hr/>	<hr/>
	26,059	21,282
	<hr/> <hr/>	<hr/> <hr/>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

14. Movements in working capital other than cash

	2002-03	2001-02
	£000	£000
(Increase)/Decrease in debtors	(72,755)	(2,407)
Increase/(Decrease) in creditors falling due within one year	20,561	60,017
Increase/(Decrease) in creditors falling due after more than one year	(13)	-
Movement on balance with National Insurance Fund	-	(388)
Movement on balance with Consolidated Fund	-	(13,935)
Movement in working capital other than cash (Schedule 4)	(52,207)	43,287
Movement in working capital not related to operating cost (Schedule 4)	(48,748)	-
Total Schedule 4 movement	(100,955)	43,287
<i>Remove</i> Items not related to Supply:		
Movement in National Insurance Fund balance	(944)	-
Movement in EU balance	110,787	(30,853)
Movement in accrued PFI credits	1,032	-
Transitional adjustments re 2000-01 Appropriation Accounts	-	4,178
Adjustment to reflect treatment of inter-Departmental balance	(19,414)	9,641
	(9,494)	26,253
<i>Less</i> Movement in creditors greater than one year	13	-
Movement in working capital other than cash (Schedule 1)	(9,481)	26,253

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

15. Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year		
VAT	693	623
Amounts due from DETI	-	9,641
Other debtors	7,098	3,180
Accrued income – EU	70,585	-
Prepayments and accrued income	12,118	7,705
Less: Provision for doubtful debts	(454)	(104)
Due from the Consolidated Fund in respect of EU advances	-	14,696
Due from the Consolidated Fund in respect of supply	17,512	-
Due from the National Insurance Fund	944	-
Total debtors falling due within one year	<u>108,496</u>	<u>35,741</u>
Amounts falling due after more than one year	<u>-</u>	<u>-</u>
	<u>108,496</u>	<u>35,741</u>

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

16. Cash at bank and in hand

	2002-03 £000	2001-02 £000
Balance at 1 April 2002	7	6
Net change in cash balances	<u>2</u>	<u>1</u>
Balance at 31 March 2003	<u>9</u>	<u>7</u>

The balances at 31 March are held at:

	2002-03 £000	2001-02 £000
Commercial banks and cash in hand	<u>9</u>	<u>7</u>
Balance at 31 March 2003	<u>9</u>	<u>7</u>

The bank balance at 31 March comprises:

	2002-03 £000	2001-02 restated £000
Cash balances	(9)	(7)
Consolidated Fund balances		
Supply (debtor)/creditor	(17,512)	4,707
CFERs creditor	18	21
Excess AR creditor	7,151	5,036
Interdepartmental balance with DETI	9,773	(9,641)
Amounts due to National Insurance Fund	579	564
Other working capital balances	<u>-</u>	<u>(680)</u>
	<u>-</u>	<u>-</u>

DEL was established on 2 December 1999 in response to devolution. A number of functions of the former Departments of Economic Development and of Education transferred to DEL.

To facilitate the successful establishment of the new Department, some elements of the former structures, including the banking arrangements, were retained.

In 2002-03, all receipts (including Assembly and Parliamentary funding) and payments for both DEL and DETI were processed through a shared bank account.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
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17. Creditors

	2002-03 £000	2001-02 £000
Amounts falling due within one year		
Amounts due to DETI	9,773	-
Amounts due to EU in respect of advances	-	54,898
Other creditors	19,584	22,549
Accruals and deferred income	18,643	20,314
Amounts due to the Consolidated Fund in respect of excess AR	7,600	5,036
Amounts due to the Consolidated Fund in respect of CFERs	71,634	21
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	4,707
Amounts due to National Insurance Fund	959	107
Creditors falling due within one year	128,193	107,632
Amounts falling due after more than one year		
Creditors falling due after more than one year	479	492
Total creditors	128,672	108,124

DEPARTMENT FOR EMPLOYMENT AND LEARNING
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for the year ended 31 March 2003

18. Provisions and charges

	Early retirement and pension commitments £000	Student loan debt sale costs £000	Student loan deferment and default costs £000	Student loan interest subsidy £000	Total £000
Balance at 1 April 2002	650	27,001	41,332	66,742	135,725
Unwinding of discount	-	1,629	-	5,918	7,547
Increase/(Decrease) in provision	-	154	7,152	21,197	28,503
Bad debts previously provided for and written off in year	-	-	(40)	-	(40)
Debt subsidy payments	-	(3,698)	-	-	(3,698)
Early retirement payments	(266)	-	-	-	(266)
Balance at 31 March 2003	384	25,086	48,444	93,857	167,771

Early retirement and pension commitments

The early retirement provision has been created to meet the Department's liabilities in respect of employees who retire early until they reach normal pensionable age.

Student loan debt sale costs

The student loan debt sale provision is the additional cost to the Department of subsidies contractually due to the purchaser of the debts beyond the cost that the Department would have incurred had the debts remained in the public sector.

Student loan deferment and default costs

The student loans deferment provision was created to meet the future cost of loans which could not be recovered due to the death of the student, their income not reaching the income threshold, or not being able to trace the student. Each year, the provision is adjusted in light of estimates of future write-offs made by the Student Loan Company (who administer student loans on a UK-wide basis).

Student loan interest subsidy

Student loans are effectively interest free as students are only charged interest equivalent to the rate of inflation. The Department meets the costs resulting from the difference between the interest paid by students and the cost of capital, which is known as the interest subsidy. The interest subsidy provision meets the cost of the interest over the life of the loan.

DEPARTMENT FOR EMPLOYMENT AND LEARNING
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2003

19. Reconciliation of net operating cost to changes in general fund

	2002-03		2001-02	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(482,099)		(555,977)	
Consolidated Fund creditor for excess AR	(2,564)		(5,036)	
Income not classed as AR payable to Consolidated Fund	(71,796)		(31,356)	
		(556,459)		(592,369)
Net parliamentary funding – current year		628,434		590,109
Net parliamentary funding – prior year		4,707		-
Notional and other non-cash charges		20,496		15,329
Funding from National Insurance Fund		2,760		1,449
Consolidated Fund debtor in respect of Supply		17,512		-
Other adjustments		(19)		-
Student loan inflation adjustment		5,443		4,164
Student loan – interest added to balances		-		6,231
Net increase in general fund		122,874		24,913
General fund at 1 April 2002		116,755		91,842
General fund at 31 March 2003 (Schedule 3)		239,629		116,755

Income not classed as AR payable to the Consolidated Fund above is made up as follows:

Income payable to Consolidated Fund (Schedule 1)	114,563
Income classed as excess AR	(2,564)
Amounts paid to Consolidated Fund in previous years in respect of EU income recognised in current year	(40,203)
	<u>71,796</u>

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20. Revaluation reserve

	2002-03 £000	2001-02 £000
Balance at 1 April 2002	208	205
Arising on revaluation during the year (net)	-	3
Transferred to general fund in respect of realised element of revaluation reserve	-	-
Balance at 31 March 2003	208	208

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

21. Notes to Schedule 5

Programme grants and other current expenditures have been allocated as follows:

	2002-03 £000	2001-02 £000
Objective 1	380,581	373,506
Objective 2	123,284	182,471
	503,865	555,977

The Department's capital employed has been allocated as follows:

	2002-03 £000
Objective 1	262,708
Objective 2	(22,871)
Net assets	239,837

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The Department's capital is employed mainly for programme purposes. Administration costs, programme grants and other current costs have been attributed to objectives in accordance with the Department's normal management accounting practices, wherever possible.

22. Capital commitments

	2002-03	2001-02
	£000	£000
Contracted capital commitments at 31 March 2003 for which no provision has been made	-	10

23. Commitments under PFI contracts

In May 1998 the Training and Employment Agency (now part of the Department) entered into a PFI contract with ICL Limited for information technology support services for a ten-year period.

Charges to the Operating Cost Statement and future commitments

The total amount charged to the Operating Cost Statement in respect of off-balance sheet PFI transactions was £5,927,000 (2001-02: £5,833,000).

Payments to which the Department is committed during 2003-04, analysed by the period during which the commitment expires, are as follows:

	2002-03	2001-02
	£000	£000
Expiry within two to five years	5,600	-
Expiry within six to 10 years	-	5,600
	5,600	5,600

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24. Contingent liabilities

As part of the arrangements for the transfer of training centres to Further Education Colleges, the Department agreed that, for staff transferred who become redundant in the future, it would fund any difference between their redundancy payment and that which they would have received had they remained in the Northern Ireland Civil Service.

Due to the inherent uncertainty as to the amount and timing of the future redundancy payments the Department has underwritten, it is not practical to quantify the potential liability that might arise from this undertaking.

With the early withdrawal of the Individual Learning Account scheme, the Department recognises that there may be potential liabilities to those participants who had registered with the scheme but who were denied training by the scheme's withdrawal.

The Department has no other material contingent liabilities, including those not required to be disclosed under FRS 12 but which would require disclosure for Parliamentary reporting and accountability purposes.

25. Losses and special payments

Losses Statement

	£000
Total (234 cases)	<u>144</u>

Details of cases over £100,000

There were no such cases.

Special Payments

	£000
Total (20 cases)	<u><u>42</u></u>

Details of cases over £100,000

There were no such cases.

26. Related-party transactions

The Department sponsors the Labour Relations Agency, Enterprise Ulster, Ulster Supported Employment Limited, the Construction Industry Training Board NI and the Student Loan Company Limited. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department has had a number of material transactions with other Government Departments and other central government bodies. Most of these transactions have been with DETI, the Social Security Agency and DFP.

No Minister, board member, key manager or other related party has undertaken any material transactions with the Department during the year.

27. Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way 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 FRS 13 mainly applies. The Department does not borrow or invest surplus funds and 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.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been omitted from this note.

Liquidity risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. It is not, therefore, exposed to significant liquidity risks.

Interest rate risk

The Department accounts for a share of the UK total of Student Loans administered by the Student Loan Company Ltd. The Department meets the difference between the interest paid by students and the real cost of loan capital and is therefore exposed to an interest rate risk. The risk is managed within voted funding provision. Apart from this, the Department is not exposed to significant interest rate risk.

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Foreign currency risk

The Department's main exposure to foreign currency risk is in relation to the impact of movements in the euro on claims made to the European Union. The Department does not enter into forward currency contracts and the risk is managed within voted funding provision. Apart from this, the Department's exposure to foreign currency risk is not significant.

Fair values

The Department accounts for a share (£424,223,000) of the UK total of student loans administered by the Student Loan Company Ltd. Because this share cannot be attributed to individual students' loans, it is not practical to estimate the fair value of the Northern Ireland share of total loans with sufficient reliability.

The Department's loan to Ulster Supported Employment Ltd (£2,090,000) neither pays interest nor has a maturity date and is secured by a charge on the company's undertaking and property. It is not regarded as tradable on an organised market in a standard form as it is an integral part of the Department's involvement in training and employment for the disabled. Accordingly, it is not practical to estimate a fair value with sufficient reliability.

28. Third party assets

The Department acts as agent for the Northern Ireland National Insurance Fund in relation to various aspects of the Employment Rights (Northern Ireland) Order 1996. The transactions and balances arising are reflected in the accounts of the Northern Ireland National Insurance Fund and are not included in these financial statements.

At 31 March 2003, amounts recoverable by the Northern Ireland National Insurance Fund in respect of the activities not included in these accounts were £14,143,000 (2001-02: £15,771,000).

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29. Suspension of the Northern Ireland Assembly

The Secretary of State for Northern Ireland signed an Order on 14 October 2002 effectively suspending devolved government in Northern Ireland from midnight that night. Under suspension:

- the Assembly and its committees ceased to meet or conduct business;
- the First Minister, Deputy First Minister, Departmental Ministers, Junior Ministers, Chairmen and Deputy Chairmen of Statutory Committees all ceased to hold office;
- direct rule was reinstated; the Northern Ireland Departments discharged their functions subject to the direction and control of the Secretary of State; the functions of the First Minister were discharged by the Secretary of State;
- legislation on devolved matters were made by Order of Council at Westminster

The provisions allowing members of the Executive Committee to participate in the North / South Ministerial Council and the British Council were also suspended.

The Secretary of State could at any time make an Order, subject to Parliamentary approval, to restore devolved government.

During devolution the Department for Employment and Learning was subject to the control and direction of Carmel Hanna MLA. Following suspension these functions were discharged by Jane Kennedy MP, who is part of the Northern Ireland Office (NIO) ministerial team.

The costs and practicalities of producing separate resource accounts for the period up to and following suspension are prohibitive, and one resource account for the complete financial year has therefore been prepared.

30. Extra-statutory expenditure

During the year, the Department incurred £1,607,000 of expenditure in respect of the Learndirect programme. This is shown under Preparation for Work in note 9.

The Department is currently seeking retrospective approval for this expenditure from DFP.

INTRODUCTION

1.1 I qualified my opinion on the Department's accounts on two issues.

- the Department's systems for estimating the cost of student loans and associated provisions was insufficiently robust (paragraphs 2.1 to 2.24 below); and
- disagreement on the accounting policy for the recognition of European income (paragraphs 3.1 to 3.11 below).

ACCOUNTING FOR STUDENT LOANS

Background

- 2.1 I qualified my opinion on the Department for Employment and Learning (DEL) 2001-02 resource account as a result of significant inaccuracies in accounting for student loans. The 2001-02 account was the first resource account which DEL had prepared under the Government Resources and Accounts Act (Northern Ireland) 2001.
- 2.2 In 2001-02 the basis of accounting for student loans of £322 million and associated provisions of £135 million was, in my opinion, not sufficiently robust for such a significant aspect of the Department's accounts.
- 2.3 I am pleased to report that DEL has made significant progress in properly accounting for student loans of £424 million in its 2002-03 Resource Account. I have not qualified my opinion, this year, on the total amount of loans outstanding. However, I continue to qualify my opinion on the cost of the student loan subsidy and associated provisions. The financial statements include the net cost of student loans of £26 million for 2002-03 and total student loan provisions at 31 March 2003 of £167 million.
- 2.4 Students in Higher Education may apply for loans as support towards the costs of fees and maintenance. The amount of loan to which a student is entitled is calculated by the Education and Library Boards. A student applies to the Education and Library Board which covers the area in which he or she resides prior to entering Higher Education.
- 2.5 The administration of loan payments and recoveries is carried out, on a UK wide basis by the Student Loans Company Limited (SLC), a Non Departmental Public Body controlled by the Department for Education and Skills (DfES) and the Scottish Executive. The Department for Employment and Learning funds the SLC for loans that the SLC issues to Northern Ireland (NI) domiciled students.
- 2.6 A Financial Memorandum was issued in March 2000 between the three departments (DfES, Scottish Executive and DEL) and the SLC setting out the respective roles and responsibilities of each party. The three parties agreed that DfES would take the lead role in dealings with the SLC.
- 2.7 Student Loans are long-term and may take up to 30 years to repay fully. Interest on loans is not charged at a commercial rate but is limited to the rate of inflation. In effect, loans are heavily subsidised as they are issued at a zero rate of interest in real terms.
- 2.8 There are two separate loan schemes, mortgage style and income contingent loans. Mortgage style loans were issued up to the 1998-99 academic year with income contingent loans then replacing them. Mortgage style loans are repaid over a fixed number of instalments depending on the nature of the course undertaken with repayments deferred on a yearly basis if the graduate's income falls below 85 per cent of the national average. Income contingent loans are not repaid over a fixed period as repayments are linked to income so that repayments increase in line with income growth. Repayments only commence when a student's income exceeds a minimum level.

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- 2.9 Students make repayments of mortgage style loans to the SLC who, in turn, forward the proceeds to the respective departments. In the case of income contingent loans, the Inland Revenue collects repayments from employers through the PAYE system and forwards the funds to the respective departments. The amount of repayments under this PAYE scheme is currently small.

Accounting for Student Loans and Associated Provisions in 2002-03

Student Loans

- 2.10 Loans administered by SLC on a UK wide basis are accounted for as assets by each Government department and not as assets of SLC who solely administer them. Each department must account for its own loans which are determined by the domicile of the student, that is, the region of the United Kingdom where the student resides prior to entering Higher Education. DEL is dependent on information from SLC in recording the amount of loans owing to it. Loan accounts at SLC are “flagged” to indicate the relevant region and consequent department which has funded the loan, although this data can be technically difficult to extract from the primary accounting system.
- 2.11 At the end of each financial year the SLC forwards to each Department details of a domicile analysis of the loan book. In 2001-02, the Department did not receive this information in time for the preparation of its annual accounts and consequently had to estimate the amount of loans outstanding from Northern Ireland domiciled students. I was of the opinion that the use of estimated figures was unsatisfactory for such a significant area when actual figures would normally be expected. In my 2001-02 report, DfES told me that it accepted that it needed to do more to ensure that accurate data on loans is available in time for all Departmental accounts and that it was working closely with SLC and with colleagues in NI and Scotland to improve the delivery of data disaggregated between the three administrations. I am pleased to note that in 2002-03 the domicile analysis was received in time and therefore actual not estimated amounts were used in accounting for student loans. This was a significant development. The actual amount of outstanding Student Loans at 31 March of 2003 was £424 million (31 March 2002: £322 million). This balance now represents the actual amount of the outstanding loan book relating to N.I students rather than an estimation of the likely level included last year.
- 2.12 As the amount of student loans in 2001-02 were estimated, an adjustment was required to revise the amount included in the 2001-02 resource accounts at 31 March 2002 to the actual amount provided by SLC. An adjustment was therefore included in the 2002-03 accounts increasing Student loans of £322 million at 31 March 2002 by £9 million.
- 2.13 DEL sought and received assurances from the SLC’s Internal Auditors on the accuracy and robustness of the systems underlying the domicile analysis. It has been agreed by all Departments and the SLC that from 2003-04 onwards such an assurance will be provided by the SLC’s External Auditor.
- 2.14 The Department has this year recognised interest earned on Student Loans of £6 million in its Resource Outturn. In 2001-02 interest earned was not recognised in the Resource Outturn but was instead credited to DEL’s General Reserve in the Balance Sheet. I did not agree with this

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treatment as the interest should have been included in the Resource Outturn. In 2001-02 interest could only be estimated. In 2002-03 the amount of actual interest earned has been obtained from the SLC domicile analysis removing the requirement on DEL to use an estimated amount.

Cost of Student Loan Subsidy and Other Associated Provisions

- 2.15 The Department must not only accurately record the debt due on loans it has funded, it must also account for the subsidised cost of these loans. The cost to Government, of funding loans until repayment, is estimated at 6 per cent per annum in real terms. The cost of subsidised student loans is therefore substantial given the nil rate of interest earned in real terms, the long repayments period and a 6 per cent cost of capital on the balance of outstanding loans less the Interest Subsidy and Loans Deferment and Default provisions.
- 2.16 The cost of the life-time subsidy on the loan to the Department must be recognised in the year that the loan is paid to the student. This life-time cost is accounted for by the creation of an 'Interest Subsidy' provision, which is reduced to nil as the loan is repaid. The interest subsidy cost in 2002-03 was estimated at £21 million and is included in the interest subsidy provision which totalled £94 million at 31 March 2003.
- 2.17 A further cost which is provided for each year is the estimated and actual cost of unrecoverable loans. This cost arises as a result of either the death of a student, student income not reaching the income threshold for repayment or the SLC not being able to trace the student. The cost of unrecoverable loans is included in a 'Student Loan Deferment and Default' provision and in 2002-03 it was estimated at £7 million. The total amount provided for the cost of unrecoverable loans at 31 March 2003 was £48 million.

Potential Inaccuracies in Accounting for the Student Loan Subsidy and Associated Provisions

- 2.18 Although the Department has improved the accuracy of its accounting for the amount owing on student loans, the net cost of student loans (£26 million for 2002-03) and the associated provisions (£167 million at 31 March 2003) continue to be determined on the same basis as last year. The Department has once again this year not applied a financial modeling technique, used by both DfES and the Scottish Office, to estimate the cost of their Student Loans and the amount of the associated provisions at 31 March 2003. Instead the Department derives the amount it includes for the cost of its Student Loans and associated provisions from the DfES provisions as at 31 March 2002 on a proportionate basis.
- 2.19 In my view this approach is not a sufficiently robust basis for estimating such significant costs to the Department. Due to the dynamics involved in loans repayable over long time periods reliable estimates of the lifetime costs of student loans can only be made by using actuarial techniques and financial modeling. There are two problems with the Departments existing approach. First DEL is using out of date information as at 31 March 2002 to estimate the 2002-03 cost of student loans and the provisions figure. Second, the estimation basis assumes the Northern Ireland costs and provisions for student loans are proportional to the England and Wales figure. This may not be an appropriate assumption. For instance, the level of deferment and default may be different for Northern Ireland students.

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- 2.20 The Department told me that it did develop and use the financial model, already devised by DfES, to estimate the Northern Ireland cost of student loans and the associated provisions for 2002-03. However the resulting outputs were not used for accounting purposes. If the financial model had been applied and used for accounting purposes the 2002-03 student subsidy charge and the provisions would have been £4.1 million higher than the charges in the resource account. To date the Department has not yet run the model for prior financial years to establish the financial effect of using a model on prior years. The Department has told me that the financial model will be used and applied for accounting purposes from the 2003-04 financial year. The model will also be run for prior years and if appropriate revisions made to the estimate of the provision in 2003-04.
- 2.21 The Department has made the following comments on the £4.1 million difference between the amount reported in the accounts and the amount indicated by the model. In the Department's view both figures are estimates and there is no evidence to confirm which is the better estimate. The Department further notes that FRS 12 recognises that estimates, particularly in the case of provisions, are an essential part of the preparation of accounts and do not undermine their reliability. In my view, however, an estimate derived from a carefully constructed financial model with assumptions honed to reflect Northern Ireland circumstances is potentially more reliable than the use of an approximate apportionment of an out of date England & Wales figure to estimate the cost of student loans and the associated provisions.

Conclusions

- 2.22 The basis of accounting for student loans of £424 million has improved since 2001-02 due to the timely receipt of financial information from the SLC on the domicile split of the loan book. I am pleased that the Department now uses actual rather than estimated figures for the amount owing from Student Loans.
- 2.23 My concern, however, over the accounting for the 2002-03 net cost of Student Loans of £26 million and associated provisions of £167 million at 31 March 2003 remains unchanged from last year. I have therefore again qualified my opinion on the cost of Student Loans and the amount of the associated provisions as the basis used is not sufficiently robust to support such significant amounts. Using out of date information from DfES is not satisfactory when estimating such an important cost to the Department.
- 2.24 I recommend that the Department:
- implements the model in 2003-04;
 - generates information on loan deferment and default patterns with regard to Northern Ireland domiciled students and feed this Northern Ireland specific information into the model that has already been developed; and
 - carry out regular reviews of underlying assumptions surrounding loan deferment and default in the light of changes in economic factors/graduate employment.

ACCOUNTING FOR EUROPEAN INCOME

- 3.1 I qualified my opinion on DEL's 2001-02 Resource account as I disagreed with the Department's accounting treatment of European Union (EU) income. My opinion on the 2002-03 account continues to be qualified as the Department's treatment of EU income remains unchanged. The 2002-03 accounts include £28 million of expenditure on European Schemes which can subsequently be recovered in full from the EU.
- 3.2 The Northern Ireland Resource Accounting Manual (NIRAM) requires European expenditure to be recognised as closely as possible to the time of the underlying event or activity that gives rise to a liability. NIRAM further states that where there is a delay in the receipt of EU funds the amount should be treated as accrued income. In my opinion, this means that European income should be recognised on the basis of eligible expenditure that can be reclaimed and so income should be recognised at the same time that eligible expenditure is incurred.
- 3.3 The Department's policy however is to recognise European income as claims are submitted to the European Commission. The Department considers that this is the approach required by NIRAM. However, in my view, the effect of this is that European income is recognised later than required.
- 3.4 The Department's 2002-03 Resource Account includes £111 million in respect of EU income. This includes £71 million in respect of claims submitted to the European Commission in 2002-03. The remaining £40 million is in respect of advances received in previous years but not recognised as income until 2002-03 when the final claim was submitted. A significant element of the £111 million of income recognised in 2002-03 should, in my view, have been recognised in previous years when the eligible expenditure had been incurred. I am unable to analyse this income between 2002-03 eligible expenditure and previous years' expenditure as the information is not readily available.
- 3.5 The 2002-03 resource account also includes approximately £28 million of EU expenditure incurred during the year which has not yet been claimed and therefore not recognised as accrued EU income. In addition eligible expenditure of around £5 million has also been incurred in previous years which has still not been included in a claim and therefore has not also been recognised as income. In total, debtors for accrued income are underestimated by £33 million. As any European income received must be paid to the Consolidated Fund, an amount payable to the Consolidated Fund of £33 million should have also been recognised. Therefore creditors are also understated by £33 million.
- 3.6 The Department does not accept that it has not followed NIRAM and insists that it has followed advice given to it by DFP. The Department's views and the reasons why I disagree with them were addressed in detail in my report on the 2001-02 Resource Account. Relevant extracts are re-produced in Appendix 1.
- 3.7 The Department has emphasised that it is not entitled to payment from the Commission until all audit and vouching activities on relevant expenditure has been completed and confirmed in the claim made to the Commission. It further notes that the accounting treatment of European income generally is scheduled to be reviewed by the Financial Reporting Advisory Board (FRAB).

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- 3.8 My conclusion on the Department's accounting treatment of European income is the same one given in my 2001-02 report. In my opinion, the Department's policy of recognising EU income as claims are submitted to the European Commission does not meet the requirements of NIRAM.
- 3.9 The Department is completely out of line with the recognition bases applied by all other Northern Ireland Departments and their Executive Agencies on European income in the preparation of their accounts. In my view inconsistency of this nature creates unnecessary difficulties for anyone trying to understand the treatment of EU receipts in Northern Ireland Departments' accounts.
- 3.10 I have therefore qualified the 2002-03 resource accounts as the Department does not agree with my opinion that NIRAM policy on the recognition of EU income has not been properly applied and will not amend its accounts to:
- Include a prior period adjustment for the significant element of the income of £111 million recognised in 2002-03 which should have been recognised in prior years and not in 2002-03;
 - recognise additional income and accrued income receivable of some £28 million;
 - recognise accrued income receivable of some £5 million on, as yet, unclaimed eligible expenditure of prior years;
 - recognise that this additional income is repayable to the Consolidated Fund by increasing creditors by £33 million and reducing General Fund by the same amount.
- 3.11 I recommend that the Department revises its accounting policy on the recognition of European income so that European income is recognised on the basis of eligible expenditure that can be reclaimed and so income is recognised at the same time that eligible expenditure is incurred.

Extracts from my 2001-02 Report on Accounting for European Income detailing the Department's Interpretation of NIRAM

- 1 The Department had told me that its interpretation of NIRAM's "instruction" is as follows:-
 - i. NIRAM 6.5.1 says 'amounts receivable' should be recognised.
 - ii. What is to be included in the operating statement is subject to the interpretation of the word 'receivable' under Financial Reporting Standards (FRS).
 - iii. NIRAM 3.1.1/2 (following FRS 5) defines an asset as a right to future economic benefits controlled by (the) entity. It defines control as the ability to obtain the benefits and restrict the access of others. Since control of funding remains with the EU until it approves a claim there is not a case in strict accounting terms for the Department to include such funding as its assets in advance of EU claim approval. Nevertheless the Department has accepted DFP's ruling that amounts in completed but unapproved claims to the Commission must be recognised as income.
 - iv. FRS 18 makes explicit that more evidence is required for the existence of an asset/gain than for the existence of a loss or liability. Recognising EU income at the point of the Department incurring expenditure ignores the accounting tests for asset income recognition.
 - v. FRS 12 draws on the concept of tests for the nature and recognition of an asset (as does NIRAM 4.3). The standard states that unless an inflow of economic benefits is virtually certain it does not represent an asset. It further states that where an inflow is probable but not virtually certain it is a contingent asset and to be included in notes to the accounts but not included as income. This suggests that until the EU approves a claim the probable amount concerned should be recorded as a contingent asset.
 - vi. NIRAM 6.5.2 indicates that "expenditure.....should be recognised in resource accounts as closely as possible to the time of the underlying event or activity that gives rise to a liability". However this paragraph relates to expenditure, not income, and there is no paragraph applying this wording in relation to income.
 - vii. NIRAM requires that where there is a delay in the receipt of EU funds the amount should be treated as accrued income. By implication this infers that income should be recognised in response to a claim. The Department's approach is consistent with this.
- 2 The Department notes that its interpretation of NIRAM leads to what it considers to be the proper, conservative approach to the timing of the recognition of European income.
- 3 I do not accept this interpretation of NIRAM to the recognition of European income, nor do I accept that the Department's more conservative approach complies with the principle that EU income should be recognised on the basis of eligible expenditure that can be reclaimed. In short, the European Commission will grant aid eligible expenditure. The Department should be able, in the same way as all other Northern Ireland Departments are able, to determine if expenditure incurred is eligible expenditure and recognise the likely amount

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amount of European income receivable on the basis of that eligible expenditure. Indeed the Department would be held to account for amounts paid that are ineligible.

- 4 The Department pointed out to me that it took independent professional advice which supports its original income recognition approach that only approved final claims should be recognised as income. The Department also had sought the views of DFP on the recognition of European income and there were subsequently full discussions between the Department and DFP on this matter. The Department told me that after these discussions it decided to adopt the recognition of income based on final claims submitted (even if not approved) by EU. Prior to this, its policy was to recognise income only on the approval of the submitted claim by the European Commission, an even more conservative approach than using submitted but unapproved claims.
- 5 The Department considers that it has already modified its accounting policy in order to comply with DFP's "ruling" that amounts included in completed but unapproved claims must be recognised as income. However, this was only one aspect of the DFP advice. There were two components of the advice.
 - EU income should in principle be recognised in the accounts of government bodies to which NIRAM applies on the basis of eligible expenditure that can be reclaimed;
 - In practice, completed claims may provide a useful summary of the expenditure that will be repaid, and represent the minimum that should be accrued as income.
- 6 In my view, the first point clarified NIRAM policy by noting that European income should be recognised on the basis of eligible expenditure that can be reclaimed, which means that income should be recognised at the same time that eligible expenditure is incurred. The second point on the use of completed claims as a basis for recognising EU income, in my opinion, represented a practical means of estimating the amount of European income which should be recorded in the accounts in accordance with NIRAM policy.
- 7 In my opinion, the estimation basis suggested by DFP, as a minimum approach, could not appropriately comply with the NIRAM policy as, in this case, further claims were not due to be submitted in time for the finalisation of the accounts. The Department explained to me that the completion of final claims were subject to the additional verification that is necessary in finalising the EU Structural Funds 1994-1999 Programme and that the final claims are the only ones remaining to be made. The Department noted that at the time of drafting this report no member state had submitted such final claims to the European Social Fund. Furthermore, the Department made no other attempt, in the circumstances of claims not being completed in time for the preparation of the accounts, to properly apply the NIRAM policy. I therefore believe that NIRAM has not been properly applied towards recognition of European income.

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**UPDATE ON POTENTIALLY IRREGULAR EXPENDITURE ON THE INDIVIDUAL
LEARNING ACCOUNTS SCHEME**

- 4.1 I qualified my opinion on the Department for Employment and Learning (DEL) 2001-02 Resource Accounts because of potentially irregular expenditure on the Individual Learning Accounts (ILA) Scheme.
- 4.2 I have not qualified my opinion on the 2002-03 Resource Accounts as the scheme was closed in November 2001 due to allegations of potentially serious fraud and abuse. Expenditure in 2002-03 was restricted to outstanding payments to some providers (£413,000) and the cost of the termination of the contract with the ILA contractor responsible for the administration of the Scheme (£87,000). This compares to the total ILA expenditure of £6.4 million in 2001-02.
- 4.3 My 2001-02 report referred to potentially irregular expenditure of between £1.3 million and £2 million over the lifetime of the ILA Scheme. In that report I made several recommendations on further investigations and action required by the Department.
- 4.4 In October 2003 my staff reviewed the progress made on the recommendations and found that only limited progress had been made by the Department towards recovering irregular expenditure from training providers. In my 2001-02 report I emphasised that the Department needed to commit sufficient resources to properly quantify the extent of any fraud within the scheme in Northern Ireland and to recover the overpayments that it was already aware of.
- 4.5 It is disappointing to report that the Department has not yet engaged directly with relevant providers seeking recovery. Indeed the resources committed by DEL to dealing with irregular ILA transactions dropped to negligible levels following the retirement of two key officials who worked on the scheme. A number of steps have been taken by the Department for example to obtain data from Capita and to validate amounts which need to be pursued. Legal advice on the basis for seeking recoveries was also obtained. Nevertheless I would have expected speedier progress to have been made. The Department has since set up a small team to take forward my recommendations. I will continue to monitor progress.

J M Dowdall
Comptroller and Auditor General

31 October 2003

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