
Charity Commission

Resource Accounts 2003-04

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Charity Commission Resource Accounts 2003 - 04

(For the year ended 31 March 2004)

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Resource Accounts: Charity Commission

Annual Report

This Annual Report is prepared and published as part of the Charity Commission's Resource Account for 2003-04 as required by the *Resource Accounting Manual* produced by HM Treasury.

Further details of the Commission's activities, operations and performance against its targets for the year can be found in its principal, statutory Annual Report for 2003-04, entitled "Shaping the Future" published on 6 July 2004. Each year a statutory Annual Report is prepared for the Secretary of State for the Home Department pursuant to Section 1(5) of the Charities Act. It also contains details of any significant developments in the operating environment during the year as identified at the time of publication.

The statutory Annual Report for 2003-04 can be found on the Commission's website at: <http://www.charitycommission.gov.uk>

Scope

The Charity Commission is established by law as the regulator and registrar of charities in England and Wales.

As at 31 March 2004 there were 188,739 charities listed on the Commission's Central Register of Charities (of which 165,131 are "main" charities with the remainder being subsidiaries or branches of other charities). In 2003-04, the gross annual income of all registered main charities exceeded £32 billion and they had assets estimated to be in excess of £75 billion.

Aim

The Commission's aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' efficiency and effectiveness and public confidence and trust.

Objectives and Principal Activities

The Charity Commission's first three-year strategic corporate plan was published in April 2003. It contains the Commission's vision, values and strategic priorities for the three years from April 2003 to March 2006. The plan includes the period covered by this Annual Report and identifies the following three business objectives and related principal activities:

Objective One: Enabling charities to maximise their potential within an effective legal, accounting and governance framework, keeping pace with developments in society, the economy and the law.

- Registration of charities (and recognition of new charitable purposes).
- Conducting several hundred visits to charities each year to review their activities, constitutions and administration and identifying good and bad practice.
- The making of legal schemes or orders in order to modernise the constitutions of existing charities.
- Working with charities, umbrella bodies and the rest of Government to develop the legal and accounting framework within which charities operate, and to develop and promote appropriate standards.

Objective Two: Promoting sound governance, better working and accountability.

- Provision of information in the form of leaflets, presentations and through electronic means to trustees and others.
- Provision of guidance and advice directly to trustees and others on matters affecting the efficiency and proper administration of particular charities, and charities in general.
- Maintenance of, and provision of public access to, an up-to-date and accurate Register of Charities.

- Obtaining annual accounts and returns for charities, and monitoring or pursuing the issues arising.
- Publishing and monitoring compliance with regulatory reports on best practice and accountability within the sector.

Objective Three: Securing compliance with charity law and dealing with abuse and poor practice.

- Evaluation and, where appropriate, investigation of allegations and suspicions of maladministration or serious abuse.
- Enforcement of the submission of late annual returns and accounts.
- Working in partnership with other regulators.
- Protection of charity assets through the use of statutory powers.
- Co-operation with prosecuting authorities.
- Development of intelligence systems.

The Corporate Plan represents a different approach to the Commission's planning process from previous years. It is a higher level corporate document that sets out the Commission's strategic priorities and targets and expresses in practical terms its drive to consolidate and improve its effectiveness as a modern regulator. The plan can be found on the Commission's website at: <http://www.charitycommission.gov.uk>

The Charity Commission and Regulation

Further to its Corporate Plan, in 2003 the Commission also published "*The Charity Commission and Regulation*". This is a published statement on the Commission's regulatory stance and values produced in response to the Cabinet Office Strategy Unit's review paper on charity law and regulation "*Private Action, Public Benefit*" (published 25 September 2002).

"*The Charity Commission and Regulation*" explains why there is a need to regulate charities and how the Commission's work addresses that need. It also explains how the Commission approaches its regulatory work and includes the seven principles that underpin its regulatory approach. These principles are:

- Accountability
- Independence
- Proportionality
- Fairness
- Consistency
- Diversity and Equality
- Transparency.

The full document "*The Charity Commission and Regulation*", can be found on the Commission's website at: <http://www.charitycommission.gov.uk>

Other Sources of Performance Information

In addition to this Annual Report and the statutory Annual Report, further information on the Commission's performance may be found in its Annual Departmental Report (ADR), which was published on 23 July 2003 (Cm6209). The ADR also contains an overview of the Commission's structure, performance and its use of resources in 2003-04 together with details of the Commission's plans and targets for the coming year (2004-05).

Operating and Financial Review

Review of Operational Performance

A summary of the Commission's performance against key Service Delivery Agreement (SDA) targets by objective is contained in Table 1 below.

Table 1 shows that the Commission successfully achieved 11 of its 13 SDA targets (with 15 of the 17 target outturns achieved with one further target outturn being missed only marginally).

The Commission has also adopted one benchmarked impact measure for each of its three objectives. These are designed to monitor the Commission's impact over a number of years, whether up or down. They are set out in Table 2 below. The Commission is achieving performance in excess of the first measure and expects the second measure to fall within the range 8.5 – 9% by 2005-06. The third measure may reduce to around 630 over the same period as a consequence of an increased commitment by the Commission to initiating work itself.

Additionally, the Commission has a Service First target of responding to 90% of correspondence within an average of 15 working days. The Commission achieved this standard during the year with 93% of correspondence receiving a reply within the target period and an overall average response time of 6.3 days (2002-03 94%/9 days).

The Commission also has a target of paying 100% of non-disputed invoices within 30 days. During the year the percentage of invoices paid within this target period was 97.51%, a slight reduction on the previous (2002-03) year's performance of 98.24%.

Table 1: Commission objectives and SDA targets – 31 March 2004 Outturn
(31 March 2003 in parentheses)

Objective	SDA target or other measure	Performance Indicator	Target outturn	Achievement	
1. Enabling charities to maximise their potential within an effective legal, accounting and governance framework, keeping pace with developments in society, the economy and the law.	To determine charitable status within an average of 88 working days of an application for registration being received.	Turnaround time (working days) for determining charitable status	88 days (92 days)	69 days (85 days)	
	To undertake 3,500 cases where the Commission exercises its legal authority.	Number of cases where legal authority is exercised	3,500 (3,500)	5,140 (4,116)	
	To increase the percentage of cases where legal authority is exercised at the Commission's instigation to 10% by 2003-04.	Number of cases where legal authority is exercised at the Commission's instigation	350 (325)	757 (547)	
	To improve the framework within which charities operate for their proper purposes by completing at least three authoritative regulatory reports per year on issues affecting the charitable sector.	Deliver three authoritative regulatory reports on issues affecting the charitable sector, and ensuring compliance with their recommendations among the appropriate charities.	3 reports (3 reports)	3 reports (3 reports)	
2. Promoting sound governance, better working and accountability.	To undertake 24,500 cases where substantive advice on governance or administration is given.	Number of instances of guidance being given.	24,500 (23,600)	27,896 (24,559)	
	To initiate giving substantive guidance on governance and administration in 10% of all guidance cases.	Number of instances of guidance being given at the Commission's instigation	2,450 (2,360)	3,274 (2,698)	
	To monitor the target group of charities (charities with an annual income over £10k).	% of charities monitored by income band:			
		Over £250k		97.5% (100%)	97.5% (96.9%)
		£100k – £250k		95.0% (92%)	94.4% (93.4%)
		£10k – £100k		87.0% (86%)	87.2% (87.0%)
To maintain an accurate Register by obtaining and accurately processing register check forms.	% of database entries complete and accurate (verified by independent audit).		95% (92%)	100% (99%)	
Undertake at least 600 visits to charities having a total combined income of at least £525 million per year*	Number of visits conducted		600 (600)	604 (611)	
	Total income of charities visited*		£525m (–)	£957.7m (–)	

Objective	SDA target or other measure	Performance Indicator	Target outturn	Achievement
3. Securing compliance with charity law and dealing with abuse and poor practice.	Increase the cost-effectiveness of the use of the Commission's investigative resources so that at least 90% of all investigations undertaken lead to concerns being substantiated and rectified.	Number of investigation cases where irregularity corrected as % of all investigations carried out	90% (80%)	91% (93%)
	Increase the number of investigations undertaken to 315 annually.	Number of investigations carried out	315 (315)	423 (321)
	Charitable resources protected by investigations completed.	Sums protected by investigations	£28.6m (£26m)	£23.3m (£49.7m)
	Exercise the Commission's legal authority in 6% of charities receiving a review visit as a consequence of that visit, and ensure that 90% of such legal authorities are exercised within 12 months of the final report of the visit.	% of charities receiving review visits that require the exercise of legal authority as a consequence of the review visit % of such legal authorities exercised within 12 months of the final report of the visit*	6% (6%) 90% (-)	6.7% (3%) 91% (-)

*New target for 2003-04

Table 2: Commission impact measures – position as at 31 March 2004

Objective	Impact Measure	Bench-mark 2003-04	Achievement
1. Enabling charities to maximise their potential within an effective legal, accounting and governance framework, keeping pace with developments in society, the economy and the law.	Resources made available for charitable use as a result of the Commission exercising its legal authority	£560m	£606.1m
2. Promoting sound governance, better working and accountability.	% of charities deriving benefit as a result of guidance given	8.6%	13.6%
3. Securing compliance with charity law and dealing with abuse and poor practice.	Number of reports of abuse or poor practice	660	615

Financial Review

The following table contains a summary of outturn against key Estimate financial limits.

Key Financial Limits	Estimate £000	Outturn £000	Surplus £000
Net Resources	27,492	26,145	1,347
Gross Administration Costs	27,703	26,331	1,372
Capital	1,399	1,344	55
Net Cash Requirement	28,163	26,329	1,834

The surplus of £1,347k between the Estimate Net Resources limit and the final outturn arose from the following main sources:

- Savings on the pay budget of £440k (2.8%) arising from senior management and other vacancies during the year; and
- Savings on general administration expenditure of £960k (8.9%) arising, in particular, as a result of changes to planned accommodation upgrades and maintenance work across the Commission's offices and changes in the requirement for consultancy and communication-related spending.

The scale of these underspends is, in part, explained by timing differences between additional Supply funding of £1,000k allocated in Spending Review 2002 for 2003-04 and the commencement of much of the work being funded (implementation of recommendations of the Cabinet Office Strategy Unit – see "*Future Operations and Financing*" below). Another significant factor was the Lyons Review (on public sector relocation) and Sir Peter Gershon's Efficiency Review which resulted in the Commission scaling back planned accommodation work whilst it considered its responses to the two Reviews.

The surplus of £1,834k arising in the Commission's Net Cash Requirement arises from:

- The expenditure patterns explained above;
- Additional non-cash expenses (provisions) arising from an increase in the cost of early retirements, increased cost of asset impairments arising from a review of revaluation indices conducted by the Office for National Statistics; and
- Cash savings arising as a result of slippage in planned accommodation works in the Commission's offices in London and Newport.

Employees' pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded, statutory scheme, which provides benefits on a "final salary" basis at normal retirement age of 60. From 1 October 2002, civil servants may be in one of three "final salary" defined benefit schemes ("*classic*", "*premium*", and "*classic plus*") within the overall PCSPS. New entrants after 1 October 2002 may choose between membership of the premium scheme or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (a "*partnership pension account*"). Descriptions of the various schemes, details of the Commission's contributions to the PCSPS and further information on benefits for officials derived from the schemes can be found in Note 2 to the Resource Accounts 2003-04.

Details of the Commission's use of financial instruments and risks arising from them can be found in Note 23 to the Resource Accounts 2003-04. It should be noted that the nature of the Commission's funding and financial operations are such that no significant risks arise from liquidity, foreign currency translations or interest rate fluctuations.

Future Operations and Financing

The Commission is continuing to take forward work arising from implementing the recommendations of the Cabinet Office Strategy Unit review of charity law and regulation entitled "*Private Action, Public Benefit*" (published 25 September 2002). In particular the Commission has worked closely with the Home Office in the drafting of a new Charities Bill presented to Parliament in May 2004. The draft Bill contains clauses on;

- the status of the Commission as a corporate body;
- the inclusion of excepted and exempt charities within the remit of the Commission;
- modernising the regulatory framework for charities;
- new definitions of "charity" and "charitable purpose"; and
- the creation of an independent tribunal as a means of appealing against decisions of the Charity Commissioners.

The Strategy Unit review also made some administrative recommendations, which the Commission is taking forward. Two of these recommendations were that the Commission should establish an office in Wales and that changes should be made to the senior management structure of the Commission. Both were accepted by the Commission and an office opened in Newport, South Wales on 1 April 2004. For details on the implementation of the recommendation on senior management see "Governance" below.

The Commission is also continuing to implement the report of the Committee of Public Accounts (PAC) arising from their consideration of the National Audit Office's value for money study of the Commission's activities ("*Giving Confidently: the Role of the Charity Commission in Regulating Charities*"). The PAC report was published on 3 July 2002 and the Commission considered its fifteen recommendations and responded in detail via a Treasury Minute (Cmd 5600) presented to Parliament on 3 October 2002.

At the end of 2003-04 the Commission had made good progress in implementing the recommendations arising from the NAO study and the PAC report and had implemented all recommendations with a fixed point deadline in full.

The Commission's review of its capital investment strategy has seen a move away from its traditional approach where the Commission purchased and retained ownership of the bulk of its infrastructure equipment, towards the use of managed service contracts and operating leases. This change reflects the impact of the pace of technology change, resulting in increasing costs of equipment replacement and upgrade.

During 2003-04, the Commission appointed Computacenter as a partner for the provision of its IT infrastructure services. Following this appointment, the Commission's planned asset refreshment programme in 2004-05 (some of which was completed in 2003-04) will be used to complete the overhaul of the IT infrastructure and secure all equipment on a leased or managed service basis.

Funding of the Commission's major bespoke "e Business" system development will, however, remain on a capital investment basis, as the expected life of these systems can be safely anticipated to outlive the initial investment in the equipment platform on which they will be delivered. There are a number of workstreams within the Commission's overall "e Business" development programme, including:

- The Electronic Records and Document Management System (ERDMS) – a system for storing and retrieving the Commission's files and records electronically; and
- The Online Services Project – which contains a number of sub-programmes designed to enable more of the Commission's internal operations and administration to be performed electronically as well as enabling the provision of e-services to external customers including:
 - an improved, online Charity Register (with full supporting functionality such as online registration and information maintenance);
 - notification, distribution and receipt of charities' Annual Returns; and
 - welsh language access to the Commission's website;

2003-04 saw significant issues arising for public sector finances, in particular:

- The launch of the central government Spending Review 2004 (SR04) which will set spending limits for departments for the years 2005-06 to 2007-08;
- The Efficiency Review (an independent review conducted by Sir Peter Gershon); and
- The Lyons Review (an independent review of public sector relocation conducted by Sir Michael Lyons)

The Commission's submission in respect of SR04 reflected its work responding to both the Efficiency Review and the Lyons Review. The Commission's current plans do not include any further major relocation of its work as the majority of transactional and operational support work is already located outside of London and the South East. However the Commission's underlying pattern of expenditure will see a shift away from the financing of administrative support functions (primarily in its Resources Directorate) towards its frontline operations as a consequence of its response to the Gershon Review. Taken with savings that are expected to arise from the implementation of e Business solutions, and leaving aside any new monies required to fund specific, one-off items, the Commission's overall planned expenditure on administration will fall in line with the Chancellor of the Exchequer's required 2.5% per annum savings in real terms over the SR04 period.

The Commission's SR04 agreed allocations were announced on 12 July 2004 and were as follows:

	2005-06 £m	2006-07 £m	2006-07 £m
Net Resources	30.243	30.243	30.243
Capital	1.399	1.399	1.399

The Commission's net administration costs limit for the period will be equal to the Net Resources limit shown.

The Commission has now reached agreement on increased rental payments for its Liverpool office with Treasury, the major occupier (Customs & Excise) and the landlord (Mapeley STEPS Ltd). Increased rental charges will be payable from 2005-06. Further details, including background to the issue, can be found in Note 25 to the Resource Accounts 2003-04.

Governance

The Charity Commission is a non-ministerial department. In 2003-04 it was headed by the Chief Commissioner, appointed by the Home Secretary via open competition on a five-year warrant. Under the terms of the warrant this appointment could have been terminated (subject to an agreed period of notice, relevant to the circumstances, given in writing) by the Chief Commissioner, by the Home Secretary or by mutual consent.

As the permanent head of the department and its Accounting Officer, the Chief Commissioner is responsible for the Commission's exercise of its statutory functions and duties.

As at the end of the financial year, four other non-executive Commissioners were in post. They were appointed by the Home Secretary via open competition for 3-year fixed term appointments with the option of extension for a further 2 years (this option has been exercised in one case). Two non-executive Commissioners appointed in this way are legally qualified.

The Board supports the Commissioners in discharging their responsibility for the strategy and future direction of the Commission. It comprises all five Commissioners and four Directors responsible respectively for operations, policy & strategy, legal services and resources.

As at 31 March 2004 the Board comprised:

Chief Commissioner	John Stoker (<i>Left 7 July 2004</i>)
Non-Executive Commissioner	David Taylor FCA
Non-Executive Commissioner	Lindsay Driscoll (<i>From 18 August 2003</i>)*
Non-Executive Commissioner	Geraldine Peacock CBE (<i>From 1 July 2003</i>)**
Non-Executive Commissioner	David Unwin QC
Director of Operations	Simon Gillespie
Director of Policy and Strategy	Rosie Chapman
Director of Legal Services	Kenneth Dibble*
Director of Resources	Nick Allaway (<i>From 5 January 2004</i>)***

*Kenneth Dibble was formally appointed as a Commissioner pending the appointment of Lindsay Driscoll as the second non-executive legal commissioner, replacing Michael Carpenter who left on 7 October 2002.

**Was appointed to replace Julia Unwin OBE who left the Commission 30 April 2003.

***Was appointed to replace Bill Richardson who left the Commission on 20 July 2003

The four directors were appointed via open competition as follows:

Simon Gillespie	A fixed term contract, initially for 3 years, now extended to 5
Rosie Chapman	Appointed under permanent staff terms
Kenneth Dibble	Appointed under permanent staff terms
Nick Allaway	Appointed under permanent staff terms

Directors' contracts can be terminated (subject to an agreed period of notice, relevant to the circumstances, given in writing) by the individual Director, by the Commission or by mutual consent.

On 14 July 2004, Simon Gillespie announced that he would be leaving the post of Director of Operations.

The remuneration of the Chief Commissioner and the other members of senior management is informed by the Senior Salaries Review Body. Details on the costs, remuneration and pension arrangements for the Commission's management and staff can be found at Note 2 to the Resource Accounts.

Future Governance Arrangements

On 26 January 2004, the Home Office and the Charity Commission announced changes to the senior management structure of the Commission. Two new senior posts have now been created: a part time non-executive Chair of the Charity Commission, appointed by the Home Secretary, and a full time Chief Executive, appointed by the Charity Commission. The Chief Executive will also be the Commission's Accounting Officer.

These changes were recommended by the Cabinet Office's Strategy Unit review of the regulation of charities and took effect when Chief Charity Commissioner John Stoker's appointment reached its term on 7 July 2004.

In May it was announced that Geraldine Peacock CBE had been appointed as the new non-executive Chair of the Charity Commission. She formally took up her post on 8 July 2004. Her post as a non-executive Commissioner has thus become vacant and is the subject of a recruitment exercise.

The Commission has since appointed its first Chief Executive, Andrew Hind, who will formally take up his post on 4 October 2004. Until that date Nick Allaway, the Commission's Director of Resources, will undertake the role of Accounting Officer.

Public Interest

Charity Commission: Values

As well as the seven principles that underpin the Commission's regulatory approach (see "The Charity Commission and Regulation" above), the Commission's current Corporate Plan refers to its seven core values, which are as follows:

Integrity

The Commission will show impartiality, fairness, independence and honesty in everything it does.

Professionalism

The Commission will show high professional standards and provide a cost-effective service. The Commission aims to get it right first time and to be prompt, courteous and constructive in all its dealings. The Commission is committed to continuous improvement and will seek to learn both from the things it does well and the things it does less well.

Openness

The Commission is accountable to the public, Parliament and the Courts. The Commission aspires always to be open and approachable and always to present a human face.

Customer Service

The Commission is dedicated to giving an excellent service to its customers, including charities, their beneficiaries and the public. The Commission prides itself on being accessible to the community in all its diversity.

Modernising

The Commission is committed to being forward-looking, enabling and encouraging charities to modernise in step with society's needs and expectations. The Commission will exploit new technology so that its service keeps pace with changing needs.

Valuing its Employees

The Commission sees its entire staff as important and values their skills, knowledge and diversity. The Commission is committed to providing leadership, keeping people informed, promoting a balance between work and home life, and developing skills.

Partnership

The Commission is committed to working together with charities, with all their and the Commission's stakeholders, with other government departments and agencies, and within the Commission.

Equality and Diversity

The Commission's diversity policy is as follows:

"The Commission is committed to a policy, which values equality and diversity. We will provide not only a working environment that is free from discrimination, harassment and victimisation, where everyone will receive fair and equal treatment related to effective performance in their job, but also where we harness the different perspectives and skills of everyone, and make full use of them in our work. We must create an ethos throughout the Commission in which we respond to the needs of our colleagues and customers, where diversity is truly valued and where everyone is treated with dignity and respect."

The Commission's employment policies incorporate relevant employment law and best practice to ensure the organisation does not discriminate against anyone who works for it or comes into contact with the Commission. The Commission monitors its workforce against diversity targets covering ethnicity, gender and disability, and provides diversity training to all staff.

The Commission adheres to the Civil Service Code of Practice on the Employment of Disabled People. The Code ensures that the Commission does not discriminate on grounds of disability. Access to employment and career advancement is based solely on competence required for the job and individual ability. The Commission also participates in the "two ticks" Disability Symbol programme, and has established a Disability Forum for the benefit and support of staff.

Employee Relations

The Commission is committed to creating and maintaining effective employee relations, both directly between line managers and their staff, and indirectly between management and the trades unions (PCS and FDA). The Commission's senior management promotes a spirit of co-operation and partnership between all concerned, in the interests of productivity, efficiency and the well being of all Commission staff. This means recognising the responsibilities of managers to manage, the need for good communications with staff and their representatives, and timely consultation (and where appropriate, negotiation) on issues affecting staff and their conditions of service.

Payment of Suppliers

The Commission has signed up to the CBI's Better Payment Practice Code and it is committed to paying all undisputed invoices within 30 days of the later of receipt of goods and services or receipt of the invoice.

Auditors

The Comptroller and Auditor General is the external auditor of the Commission, and is appointed under statute, reporting to Parliament. The notional cost of the statutory audit for 2003/04 was £62,000 (£70,000 for 2002/03).

Nick Allaway

Director of Resources

24 August 2004

Statement of Accounting Officer's Responsibilities

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

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

HM Treasury has appointed the Director of Resources as the Interim Accounting Officer of the Charity Commission, with responsibility for preparing the Commission's accounts and for transmitting them to the Comptroller and Auditor General.

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

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

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

Statement on Internal Control

Scope of responsibility

The Accounting Officer (John Stoker in 2003-04) has responsibility for maintaining a sound system of internal control that supports the achievement of the Charity Commission's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned to the Accounting Officer in Government Accounting. These responsibilities have since passed to me.

The primary aim of the Charity Commission is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. The Charity Commission's accountability to Parliament rests with Home Office Ministers for whom the Accounting Officer provides briefings on internal control and other matters. This includes policy and operational matters where the Accounting Officer judges that the risks are sufficiently important to warrant referring them for attention.

Corporate governance arrangements in the Commission are set out in a statement agreed by the Board and detailed in the Commission's Corporate Plan for 2003-06. A key element of this is a Board, chaired by the Accounting Officer, which currently meets approximately 8 times a year to consider the plans and strategic direction of the department. During 2003-04 the Board comprised the Chief Commissioner, four non-executive Commissioners (two of whom are Legally qualified) and four executive Directors. The work of the Board is also informed by other senior committees including the Audit Committee, the Executive Group, the Operational Management Group, the Resources Group and the Policy Group.

The Commission's leadership arrangements changed in 2004-05 with the appointment of a new non-executive Chair and a Chief Executive.

The purpose of the system of internal control

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

Capacity to handle risk

The Charity Commission's policy on risk management clearly defines the role and responsibilities of key managers and Committees within the governance structure enabling leadership to be given to the Commission's approach to risk management. This includes the role of the Board, Audit Committee and other groups including the Executive Group. Additionally the policy sets out the specific responsibilities of the Commission's Directors for the effective management of risk. This is cascaded through the owners of risk registers, within which key managers have designated responsibility for actions designed to improve controls and to minimise the impact of risks that do mature. This approach ensures that staff at all levels are aware of the importance of risk management and that appropriate actions are being taken to manage risks.

When the Charity Commission's risk management arrangements were formally launched in October 2002, key managers with designated responsibilities within the new arrangements attended awareness sessions and were given a guidance pack which set out the Commission's risk management policy and how the system would operate. This is supplemented by guidance available on the Commission's intranet, which is regularly updated. Other staff have been given general awareness sessions on risk management, and similar sessions form part of the Commission's induction training for new staff.

There have been regular reviews to identify good practice and areas for improvement and the key system documents have been refined and updated to reflect this.

The risk & control framework

In the Charity Commission, the main processes that are in place for identifying, evaluating, and managing risk are as described below.

The Charity Commission's risk policy and strategy supports our risk-focussed approach to targeting resources on the regulation and enablement of charities. It encourages Commission staff to actively identify and manage risks in the conduct of day to day business. The risk management system also provides a framework within which new risks can be identified or existing risks refined as appropriate. Our strategy encourages an innovative approach to solutions where the risks are understood and actively managed. The Commission's appetite for risk is determined in relation to the matter under consideration, although we will look to refine this approach for the future once our new Governance arrangements are in place later in 2004.

At the heart of the Commission's risk management system is a series of detailed risk registers covering all main business functions. These registers have designated register owners who are responsible for maintaining the registers and for overseeing the effective management of identified risks including monitoring progress on the development of additional controls where the need for this has been identified. The registers, which are published on our Intranet, are reviewed and updated regularly.

These registers are supplemented by a set of top priority risks, which are those risks that are expected to have the greatest impact on Commission business if they mature.

The top level in the system is the published risk framework document, which sets out the ten enduring risks to successful delivery of Commission business. This framework is published on the Charity Commission's website. It is reviewed and updated in response to major business changes and developments. The risks are grouped into two main categories: those where maturity of risks could have an external impact such as registration of an inappropriate organisation; and internally facing risks, such as ineffective governance arrangements.

The monitoring and reporting system which has been established within the Commission is designed to ensure that timely reports can be made to the Audit Committee and Board on the extent to which risks are being managed effectively. These mechanisms allow timely identification of the potential maturity of high priority risks which could have a major impact on the successful delivery of Commission business. This approach allowed the Accounting Officer to consider with the Board as appropriate what corrective actions may be needed to redress the situation and who will take responsibility for this.

Management of risk is embedded in policymaking, planning and delivery in a number of ways and includes formal assessment of risks for all issues considered by the Board and also by the Executive Group. Risk management is a standing agenda item for Audit Committee business. Other groups in the governance structure also regularly consider risk issues, and we are working to refine these arrangements. Change projects also require formal assessment of risk issues.

Review of effectiveness

The Accounting Officer has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. Advice on the implications of the result of the 2003-04 review of the effectiveness of the system of internal control has been provided to the Accounting Officer by the Board and the Audit Committee.

During the year there have been regular meetings of the Audit Committee, which has considered individual internal audit reports and management responses; progress on implementation of previous audit recommendations; the internal auditors annual report and opinion on the adequacy of our internal control system; NAO audit reports and recommendations; and development of the Commission's approach to risk management.

On risk there have been:

- periodic reviews of the policy, framework and system being established to ensure effective identification and management of risk;
- reviews of risk registers on the extent to which risk management is being embedded in management processes within the Commission;
- use of risk registers in internal audit reviews;
- a formal internal audit of our risk management arrangements;
- inclusion of a section on risk in all Board and Executive Group papers; and
- consideration of business risks in our business and corporate planning.

At the end of the financial year letters of assurance were provided by owners of risk registers in which they confirmed the adequacy of internal control and risk management arrangements for which they had responsibility.

During the year the Board have maintained strategic oversight and review of internal control and developing risk management arrangements, for example through specific papers for discussion at Board meetings.

Significant internal control problems

During the financial year action has been taken where appropriate to address internal control issues and recommendations made by the Commission's auditors, Audit Committee and Board.

I am aware that some work is needed to strengthen controls in the area of business continuity planning, and we will be taking appropriate action on this. Apart from this, I am unaware of any significant internal control problems for 2003-04 based on the advice my predecessor and I have received from those managers with designated responsibilities for managing risks and the risk management system (according to the definition of significant internal control problems set out in paragraph 21.3.4 of the Treasury's *Government Accounting* guidance).

Nick Allaway
Director of Resources

24 August 2004

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

I certify that I have audited the financial statements on pages 20 to 40 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 26 to 27.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 15, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession. I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, 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 15 to 17 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion:

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

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

10 September 2004

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

SCHEDULE 1**Summary of Resource Outturn**

For the year ended 31 March 2004

	2003-04 Estimate			Outturn			2002-03	
	<i>Gross expenditure</i>	<i>A-in-A</i>	<i>Net total</i>	<i>Gross expenditure</i>	<i>A-in-A</i>	<i>Net total</i>	<i>Net total outturn compared with Estimate saving/ (excess)</i>	<i>Prior-year outturn</i>
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Note 5)	27,703	(211)	27,492	26,331	(186)	26,145	1,347	24,637
Total Resources	27,703	(211)	27,492	26,331	(186)	26,145	1,347	24,637
Non-Operating-Cost A in A	-	-	-	-	-	-	-	-
Net Cash Requirement	-	-	28,163	-	-	26,329	1,834	25,851

Summary of income payable to the Consolidated Fund

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

	Note	Forecast 2003-04		Outturn 2003-04	
		Income £000	Receipts £000	Income £000	Receipts £000
	4	-	-	11	<i>11</i>
Total		-	-	11	<i>11</i>

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

The surplus of £1,347k between the Estimate Net Resources limit and the final outturn arose from the following main sources:

- Savings on the pay budget of £440k (2.8%) arising from senior management and other vacancies during the year; and
- Savings on general administration expenditure of £960k (8.9%) arising in particular as a result of changes to planned accommodation upgrades and maintenance work across the Commission's offices and changes in the requirement for consultancy and communication-related spending.

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

The surplus of £1,834k arising in the Commission's Net Cash Requirement arises from:

- The resource expenditure patterns explained above;
- Additional non-cash expenses arising from an increase in the cost of early retirements and increased cost of asset impairments arising from a review of revaluation indices conducted by the Office for National Statistics; and
- Increases in working capital movements arising from additional trade creditors as a result of slippage in planned accommodation works in the Commission's offices in London and Newport.

Prior-period adjustments

There were no material prior-period adjustments during the year.

Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate Saving/(excess) £000
Net total resources		27,492	26,145	1,347
Capital:				
– Acquisition of fixed assets	9	1,399	1,344	55
– Investments		–	–	–
Non-operating cost A in A:				
– Proceeds of fixed asset disposals		–	–	–
Accruals adjustments:				
– Non-cash items	3	(919)	(1,011)	92
– Changes in working capital other than cash	10	101	(235)	336
– Changes in creditors falling due after one year		–	–	–
– Use of provision	14	90	86	4
Net cash requirement (Schedule 4)		28,163	26,329	1,834

The notes on pages 26 to 40 form part of these accounts.

SCHEDULE 2**Operating Cost Statement***for the year ended 31 March 2004*

	Note	2003-04		2002-03	
		£000	£000	£000	£000
Administration costs					
Staff costs	2	15,772		15,457	
Non-staff administration costs	3	10,559		9,275	
Gross administration costs			26,331		24,732
Operating income	5		(197)		(101)
Net administration costs			26,134		24,631
Net operating cost	7		26,134		24,631
Net resource outturn	7		26,145		24,637

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses*for the year ended 31 March 2004*

	Note	2003-04	2002-03
		£000	£000
Receipts of donated assets	16	4	2
The reduction in the value of fixed assets arising from revaluation has been recognised in the Operating Cost Statement			
Total recognised gains and losses for the financial year		4	2

The notes on pages 26 to 40 form part of these accounts.

SCHEDULE 3**Balance Sheet***As at 31 March 2004*

	Note	2003-04		2002-03	
		£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	9		<u>3,129</u>		<u>2,465</u>
Debtors (falling due after more than one year)	11		87		126
Current Assets					
Debtors	11	1,165		1,183	
Cash at bank and in hand	12	<u>1,845</u>		<u>950</u>	
		3,010		2,133	
Creditors (amounts falling due within one year)	13	<u>(2,587)</u>		<u>(1,514)</u>	
		(2,587)		(1,514)	
Net Current Assets			<u>423</u>		<u>619</u>
Total assets less current liabilities			3,639		3,210
Provision for liabilities and charges	14		<u>(357)</u>		<u>(281)</u>
			<u>3,282</u>		<u>2,929</u>
Taxpayers' equity:					
General fund	15		3,279		2,925
Donated asset reserve	16		<u>3</u>		<u>4</u>
			<u>3,282</u>		<u>2,929</u>

Nick Allaway

Director of Resources

24 August 2004

The notes on pages 26 to 40 form part of these accounts.

SCHEDULE 4**Cash Flow Statement***for the year ended 31 March 2004*

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Net cash outflow from operating activities^a	(24,974)	(24,073)
Capital expenditure and financial investment^b	(1,344)	(1,772)
Payments of amounts due to the Consolidated Fund	(6)	(106)
Financing^c	27,219	26,133
Increase/(decrease) in cash in the period	895	182

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

Net Operating Cost (Schedule 2)	26,134	24,631
Adjustments for non-cash transactions (see Note 3)	(1,011)	(595)
Adjustments for movements in working capital other than cash (see Note 10)	(235)	(105)
Use of provision (see Note 14)	86	142
Net cash outflow from operating activities	24,974	24,073

Analysis of capital expenditure and financial investment

Tangible fixed asset additions (see Note 9)	1,344	1,772
Net cash outflow from investing activities	1,344	1,772

Analysis of financing and reconciliation to the net cash requirement

From Consolidated Fund (Supply) – current year ¹	27,219	26,795
From Consolidated Fund (Supply) – prior year ²	–	(662)
Net financing	27,219	26,133
(Increase)/decrease in cash	(895)	(182)
Net cash flows other than financing	26,324	25,951
Adjustments for payments and receipts not related to supply:		
Amounts due to the Consolidated Fund – received in a prior year and paid over	(6)	(106)
Amounts due to the Consolidated Fund – received and not paid over	11	6
Net cash requirement (Schedule 1)	26,329	25,851

¹ Amount of grant actually issued to support the net cash requirement £27,218,931.41.

The notes on pages 26 to 40 form part of these accounts.

SCHEDULE 5**Resources by Departmental Aim and Objectives***for the year ended 31 March 2004*

	<u>Gross</u>	<u>2003-04</u>	<u>Net</u>	<u>Gross</u>	<u>2002-03</u>	<u>Net</u>
	<u>£000</u>	<u>Income</u>	<u>£000</u>	<u>£000</u>	<u>Income</u>	<u>£000</u>
Aim: to give the public confidence in the integrity of charity						
Objective 1: to ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework.	6,319	(47)	6,272	6,925	(28)	6,897
Objective 2: to improve the governance, accountability, efficiency and effectiveness of charities.	14,746	(111)	14,635	13,355	(55)	13,300
Objective 3: to identify and deal with abuse and poor practices.	5,266	(39)	5,227	4,452	(18)	4,434
Net Operating Costs	<u>26,331</u>	<u>(197)</u>	<u>26,134</u>	<u>24,732</u>	<u>(101)</u>	<u>24,631</u>

See Note 17.

The notes on pages 26 to 40 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2003-04 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The Commission'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 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £1,000 is capitalised. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All tangible fixed assets are restated to current value each year, using indices published by the Office for National Statistics (ONS) appropriate to the category of asset to estimate value.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction are depreciated from the point at which the asset is brought into use.

Asset Lives are normally in the following ranges:

IT Equipment	3 – 7 years
Office Equipment	5 – 7 years
IT Databases	7 years

1.4 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the Operating Cost Statement.

1.5 Relieved assets

Assets that have reached the end of their useful economic life, but are still in service have been "relieved" ie credited with a nominal value, to acknowledge their continued existence. The relieved assets are not subject to depreciation or revaluation.

1.6 Stocks

The Commission has no stocks of significant value.

1.7 Operating Income

Operating income is income which relates directly to the operating activities of the Commission. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with RAM is treated as operating income. Operating income is stated net of VAT.

Notes to the Accounts *(continued)*

1.8 Administration expenditure

Administration costs reflect the costs of running the Commission. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the 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. The classification of expenditure and income as administration, follows the definition of administration costs set by HM Treasury.

1.9 Capital charge

A charge, reflecting the cost of capital utilised by the Commission, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, where the charge is nil.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes, which are described in note 2. The defined benefit schemes are unfunded and non-contributory except in respect of dependants' benefits. The Commission recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Commission recognises the contributions payable for the year.

1.11 Leases

At present, all leases held by the Commission are operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.12 Provisions

The Commission 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 real rate set by the Treasury (currently 3.5 per cent).

1.13 Value Added Tax

Most of the activities of the Commission are outside the scope of VAT and, 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 VAT is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.14 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Commission discloses for parliamentary reporting and accountability purposes, certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise all items, which are required by the Resource Accounting Manual to be noted in the resource accounts. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

Notes to the Accounts *(continued)*

2. Staff numbers and related costs

Staff Costs

Staff costs comprise:	<u>2003-04</u>	<u>2002-03</u>
	<u>£000</u>	<u>£000</u>
Wages and salaries	12,943	12,629
Social security costs	959	831
Other pension costs	1,721	1,678
Agency staff	344	432
Sub Total	<u>15,967</u>	<u>15,570</u>
Inward secondments	0	0
Total	<u>15,967</u>	<u>15,570</u>
Less recoveries in respect of outward secondments	(5)	(39)
Total Net Costs*	<u>15,962</u>	<u>15,531</u>

* Of the total, £190k has been charged to capital (£74k in 2002-03).

The Commission is a non-Ministerial Department and employs no Special Advisers, therefore all pay costs relate to Officials.

The Principal Civil Service Pensions Schemes (PCSPS) of which most of the Commission's employees are members are unfunded multi-employer defined benefit schemes but the Charity Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice – pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2003-04, normal employer's contributions of £1,721,112 were payable to the PCSPS (2002-03 £1,677,805) at rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership account, which is a stakeholder pension with an employer contribution. Employer's contributions of £3,758.60 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £243.21, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were Nil.

Contributions prepaid at that date were Nil.

Average number of persons employed

The average number of whole-time equivalent persons, including senior management, employed during the year, was as follows:

	<u>2003-04</u>	<u>2002-03</u>
	<u>Number</u>	<u>Number</u>
Objective 1	145	154
Objective 2	315	316
Objective 3	129	105
Staff engaged on capital projects*	5	–
Total Net Costs*	<u>594</u>	<u>575</u>

*FTE for 2002-03 not available.

Notes to the Accounts *(continued)***Salary and pension entitlements**

The salaries and pension entitlements of the most senior executive management and non-executive directors of the Commission were as follows:

2003-04	Salary ^a	Real increase in pension and related lump sum at age 60 ^b	Total accrued pension at age 60 at 31 March and related lump sum	CETV ^c at 31 March (nearest £k)	Real increase in CETV ^c (nearest £k)
	£000	£000	£000	£000	£000
J Stoker <i>Chief Commissioner</i>	100-105	0.0-2.5 plus 5.0-7.5 lump sum	40-45 plus 125-130 lump sum	696	39
S Gillespie <i>Director</i>	75-80	0.0-2.5	0-5	48	12
W A Richardson <i>Director (to 18 July 2003)</i>	20-25 (80-85 full year equivalent)	0.0-2.5 plus 0.0-2.5 lump sum	30-35 plus 95-100 lump sum	507	5
R Chapman <i>Director</i>	65-70	0.0-2.5 plus 0.0-2.5 lump sum	0-5 plus 0-5 lump sum	32	10
K Dibble <i>Director</i>	90-95	2.5-5.0 plus 7.5-10.0 lump sum	30-35 plus 100-105 lump sum	620	55
N Allaway <i>Director (from 5 January 2004)</i>	15-20 (70-75 full year equivalent)	0.0-2.5	0-5	3	0
J Unwin OBE* <i>Commissioner (to 30 April 2003)</i>	0-5 (30-35 full year equivalent)	0.0-2.5	0-5	0	0
D Taylor FCA* <i>Commissioner</i>	30-35	0.0-2.5 plus 0.0-2.5 lump sum	0-5 plus 0-5 lump sum	24	5
D Unwin QC* <i>Commissioner</i>	25-30	0.0-2.5 plus 0.0-2.5 lump sum	0-5 plus 0-5 lump sum	14	6
G Peacock CBE* <i>Commissioner (from 1 July 2003)</i>	15-20 (25-30 full year equivalent)	0.0-2.5	0-5	5	0
L Driscoll* <i>Commissioner (from 18 August 2003)</i>	10-15 (25-30 full year equivalent)	0.0-2.5	0-5	4	0

* Indicates part time non-executive.

Notes to the Accounts *(continued)*

2003-04	Salary ^a	Real increase in pension and related lump sum at age 60 ^b	Total accrued pension at age 60 at 31 March and related lump sum	CETV ^c at 31 March (nearest £k)	Real increase in CETV ^c (nearest £k)
<i>(Pension lump sum data is available from 2003-04 only)</i>	£000	£000	£000	£000	£000
J Stoker <i>Chief Commissioner</i>	95-100	2.5-5.0	35-40	619	N/A
S Gillespie <i>Director</i>	65-70	0.0-2.5	0-5	31	N/A
W A Richardson <i>Director</i>	75-80	0.0-2.5	30-35	484	N/A
R Chapman <i>Director</i>	55-60	0.0-2.5	0-5	18	N/A
K Dibble <i>Director</i>	75-80	2.5-5.0	30-35	541	N/A
J Unwin OBE* <i>Commissioner</i>	30-35	0.0-2.5	0-5	0	N/A
D Taylor FCA* <i>Commissioner</i>	25-30	0.0-2.5	0-5	17	N/A
D Unwin QC* <i>Commissioner</i>	25-30	0.0-2.5	0-5	7	N/A

* Indicates part time non-executive.

Other Notes

a) Salary

"Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. None of the senior management and non-executive directors received benefits in kind.

b) Pension

Pension benefits are provided through the Civil Service pension 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).

i) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. 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.

ii) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths 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 per cent of pensionable

Notes to the Accounts *(continued)*

earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths 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 their undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

iii) 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.

Pensions payable under classic, premium and classic plus are increased in line with the Retail Prices Index.

iv) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution 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 to 25% of the fund as a lump sum.

c) Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV:

This takes account of the increase in accrued pension due to inflation and contributions paid, and is calculated using common market valuation factors for the start and end of the period.

Notes to the Accounts *(continued)***3. Non-Staff administration costs**

	2003-04		2002-03	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machinery	492		455	
Other operating leases	2,247	2,739	2,280	2,735
Non cash items^a:				
Depreciation of fixed assets	198		326	
Impairment of assets	481		98	
Loss on disposal of fixed assets	5		14	
Cost of capital charge	108		133	
Capitalisation of prior year staff costs	–		(22)	
Auditor's remuneration and expenses	62		70	
Provisions				
provided/(reversed) in year	162		(6)	
unwinding of discount on provisions	0	1,016	(18)	595
Other expenditure^b		6,804		5,945
		10,559		9,275

Notes

a) The total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	2003-04
	£000
Other administration costs – non-cash items (as above)	1,016
Other non-cash amounts charged to operating expenditure	(5)
Less non-cash income	
profit on sale of assets	0
Total non-cash transactions	1,011

b) Other expenditure by category of spend was as follows:

	2003-04
	£000
Personnel related	1,123
Accommodation	1,590
Office services	2,084
Consultancy/agency	568
Specialist services	1,241
Losses and special payments	31
International Outreach Project	167
Total other expenditure	6,804

Notes to the Accounts *(continued)*

4. Analysis of income payable to the Consolidated Fund

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

	Note	2003-04 Forecast		2003-04 Outturn	
		Income £000	<i>Receipts</i> £000	Income £000	<i>Receipts</i> £000
Operating income and receipts – excess A in A	5	–	–	–	–
Non-operating income and receipts – excess A in A	5	–	–	–	–
Sub total		–	–	–	–
Other operating income and receipts not classified as A in A	5	–	–	11	11
Other non-operating income and receipts not classified as A in A	5	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund	5	–	–	–	–
Total		–	–	11	11

5. Income and appropriations in aid

Operating income

Operating income not appropriated in aid (i.e.surrendable 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). In 2003-04 all operating income not classified as A in A was within public expenditure.

	2003-04			
	Resource outturn		Operating cost statement	
	A in A £000	Netted off gross expenditure £000	Payable to Consolidated Fund £000	Income £000
Administration income:				
Fees and charges to external customers	19	–	11	30
Profit on disposal of assets	–	–	–	–
Other	167	–	–	167
	186	–	11	197

	2002-03			
	Resource outturn		Operating cost statement	
	A in A £000	Netted off gross expenditure £000	Payable to Consolidated Fund £000	Income £000
	95	–	6	101

Notes to the Accounts *(continued)***6. Administration cost limit**

The outturn within the administration costs control regime shown against the limit is as follows:

	2003-04		2002-03	
	Outturn	Limit	Outturn	Limit
	£000	£000	£000	£000
Request for Resources 1 (Gross Limit)	26,145	27,492	24,340	25,395
Total within administration cost control	26,145			
Administration expenditure excluded from administration cost limit	–			
Total administration outturn	26,145			

7. Reconciliation of net operating cost and net resource outturn

	2003-04	2002-03
	£000	£000
Net operating cost ^a	26,134	24,631
Add: Operating income not classified as A in A	11	6
Net resource outturn^a	26,145	24,637

a) Net operating cost is the total of expenditure and income appearing in the operating cost statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Commission's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

8. Analysis of net resource outturn and reconciliation to Operating Cost Statement

	2003-04					2002-03	
	Admin.	Gross Resource expenditure	A in A	Net total	Estimate	Net total outturn compared with Estimate	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000
Request for resources	26,331	26,331	(186)	26,145	27,492	1,347	24,637
Total resources	26,331	26,331	(186)	26,145	27,492	1,347	24,637
<i>Reconciliation to Operating Cost Statement</i>							
Income payable to the Consolidated Fund			–	(11)			(6)
Gross operating expenditure		26,331					
Operating Income			(186)				
Net operating cost				26,134			24,631

Notes to the Accounts *(continued)***9. Tangible Fixed Assets** *(see also notes 1.2 – 1.5)*

	IT Equipment	IT Databases	Office Equipment	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2003	1,269	616	213	1,443	3,541
Additions	82	–	8	1,254	1,344
Donations	3	–	–	–	3
Reliefed assets	2	–	–	–	2
Disposals/transfers	(69)	90	–	(91)	(70)
Revaluation ^a	(418)	(286)	(53)	–	(757)
At 31 March 2004	869	420	168	2,606	4,063
Depreciation					
At 1 April 2003	836	88	152	–	1,076
Charged in year	123	60	15	–	198
Disposals	(64)	–	–	–	(64)
Revaluation ^a	(214)	(36)	(26)	–	(276)
At 31 March 2004	681	112	141	–	934
Net book value					
At 31 March 2004	188	308	27	2,606	3,129
At 31 March 2003	433	528	61	1,443	2,465

a) Review of Revaluation Indices

During the year the Office for National Statistics (ONS) reviewed its published indices used by the Commission to conduct impairment reviews of its assets. The ONS review indicated that the downward trend in values for IT-related assets had been underestimated in previous years. The Commission implemented the ONS's revised indices in 2003-04 resulting in net revaluation costs for IT equipment and IT database assets being higher than forecast. This adjustment was one-off and future annual revaluation costs are expected to return to previously forecast levels.

10. Movements in working capital other than cash

	2003-04	2002-03
	£000	£000
(Decrease)/increase in debtors	(57)	115
(Increase)/decrease in creditors	(1,073)	(392)
	(1,130)	(277)
Adjustment: movement in working capital not related to net operating costs	895	172
	(235)	(105)

Notes to the Accounts *(continued)***11. Debtors**

	2003-04	2002-03
	£000	£000
Amounts falling due within one year:		
VAT	248	231
Deposits and advances	15	59
Other debtors	81	135
Prepayments and accrued income	821	758
	1,165	1,183
Amounts falling due after one year:		
Prepayments	87	126
	1,252	1,309

12. Cash at Bank and in Hand

	2003-04	2002-03
	£000	£000
Balance at 1 April	950	768
Net cash inflow/(outflow)	895	182
Balance at 31 March	1,845	950
The following balances at 31 March are held at		
Office of Paymaster General	1,844	949
Cash in hand	1	1
	1,845	950
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,834	944
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	11	6
	1,845	950

13. Creditors: amounts falling due within one year

	2003-04	2002-03
	£000	£000
Taxation and social security	-	-
Trade creditors	298	69
Other creditors	100	61
Accruals and deferred income	344	434
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,834	974
Transitional adjustment ^a	-	(30)
Consolidated Fund extra receipts received and receivable due to be paid to the Consolidated Fund	11	6
	2,587	1,514

a) Adjustment to Consolidated Fund creditor balances as a result of implementing resource-based Supply:

The amount due to the Consolidated Fund at 31 March 2002 was based on cash-based conventions, a transitional adjustment to this creditor was required in 2002-03 to reflect the adoption of conventions for resource-based Supply during the year.

Notes to the Accounts *(continued)***14. Provision for liabilities and charges** *(see also note 1.12)*

	2003-04
	Early departure costs
	£000
Balance at 1 April 2003	281
Increase/(decrease) in provision	162
Amounts utilised in year	(86)
Balance at 31 March 2004	357

Early departure costs

The Commission meets the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Commission provides in full for this when the early retirement programme becomes binding on them, by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms. In past years the Commission paid in advance some of its liability for early retirement by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The balance remaining is treated as a prepayment.

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

	2003-04	2002-03
	£000	£000
Net operating cost for the year (Schedule 2)	(26,134)	(24,631)
Income not appropriated in aid payable to the Consolidated Fund	(11)	(6)
	(26,145)	(24,637)
Net parliamentary funding	27,219	26,133
Consolidated Fund creditor for cash unspent	(1,834)	(974)
Settlement of previous year Consolidated Fund creditor for cash unspent	944	662
Non-cash charges:		
Cost of capital	108	133
Auditor remuneration	62	70
Miscellaneous	-	2
Net increase/(decrease) in general fund	354	1,389
General fund at 1 April 2003	2,925	1,536
General fund at 31 March 2004 (Schedule 3)	3,279	2,925

16. Reserves

	2003-04	2002-03
	Donated asset reserve	Donated asset reserve
	£000	£000
Balance at 1 April 2003	4	4
Donations in year	4	2
Released to General Fund	(5)	(2)
Balance at 31 March 2004	3	4

The donated asset reserve reflects the net book value of assets donated to the Charity Commission.

Notes to the Accounts *(continued)*

17. Note to Schedule 5

The Commission's capital is used exclusively for administration purposes. Its distribution amongst objectives is therefore not markedly different from the proportion of the related gross administration cost.

Wherever possible, administration costs have been attributed to objectives in accordance with the Commission's normal management accounting practices. To facilitate this process, the activities undertaken by the Commission are identified as being either "direct" or "support" activities; the costs of the latter are reapportioned to the former using bases such as the proportion of floorspace occupied, the number of staff in post, or the proportion of the total Commission budget held. The full cost of each "direct" activity contributes to a Commission output, which, in turn, contributes to a Commission objective.

Income has been attributed to objectives on the same proportionate basis as expenditure.

18. Capital commitments

The Commission had not entered into any contracted commitments of a capital or non-cancellable nature as at 31 March 2004. Similarly there were no such commitments as at 31 March 2003.

19. Commitments under operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	<u>2003-04</u>	<u>2002-03</u>
	<u>£000</u>	<u>£000</u>
Obligations under operating leases comprise:		
Buildings		
Expiry within one year	–	–
Expiry after one year, but not more than five years	–	–
Expiry thereafter	1,959	1,919
	<u>1,959</u>	<u>1,919</u>
Other		
Expiry within one year	–	–
Expiry after one year, but not more than five years	530	76
Expiry thereafter	–	–
	<u>530</u>	<u>76</u>

20. Contingent liabilities *(see also note 1.14)*

There were no instances of FRS 12 contingent liabilities during the year.

There were no instances of non-FRS 12 contingent liabilities that required separate notification to Parliament during the year.

21. Losses and special payments

	<u>Number</u>	<u>£000</u>
Losses Statement:		
Total losses for the year	16	19
Special Payments:		
Total special payments for the year	11	12

Notes to the Accounts *(continued)*

22. Related Party Transactions

The Commission has no bodies that might be regarded as related parties. The Commission has, therefore, undertaken no related party transactions.

None of the Board members, key management staff or other related parties has undertaken any material transactions with the Commission during the year.

23. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the Charity Commission 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 Commission has very limited powers to 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 it faces in undertaking its activities.

Liquidity risk

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

Interest rate risk

All of the Charity Commission's financial assets and financial liabilities carry a nil rate of interest, and the Commission is not therefore exposed to any interest rate risk.

Foreign currency risk

The Charity Commission's exposure to foreign currency risk is negligible. Foreign currency income is negligible and foreign currency expenditure is not significant. The Commission therefore has no standing policy to eliminate currency exposures on high value transactions.

Fair Value

Set out below is a comparison by category of book values and fair values of the Charity Commission's financial assets and liabilities as at 31 March 2004.

	Book Value	Fair Value	
	£000	£000	Basis of fair valuation
Primary financial instruments			
Financial assets			
Cash at bank (see note a)	1,845	1,845	
Financial liabilities			
Provisions	(357)	(357)	See note b

Notes

a) Cash at bank and in hand is available on demand.

b) Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the real rate set by HM Treasury (currently 3.5 per cent).

Notes to the Accounts *(continued)*

24. Actual outturn – resources and cash

Actual outturn – resources:

Actual amount net resources outturn £26,144,866.19, which is a saving over Estimate of £1,347,133.81.

Actual outturn – cash:

Net cash requirement: Outturn net requirement £26,329,378.84, which is £1,833,621.16 less than Estimate.

Consolidated Fund Income:

The actual value of income surrenderable to the Consolidated Fund was £11,113.93.

25. Post Balance sheet events

Resolution of Liverpool office rent dispute

Towards the end of the year 2001-02, the Commission was presented with an invoice for an additional, unexpected amount of c£260k relating to accommodation charges for its Liverpool offices (shared with Customs & Excise). Due to the passage of time, invoices for additional rental increases of c£300k p.a. for financial years 2002-03 and 2003-04 have been raised. The Commission disputed these invoices as an increase in administration costs of this nature requires the agreement of the Treasury. The matter has now been resolved and the Commission's potential liability for charges in the years 2001-02 to 2003-04 has been expunged and the revised rental charge will now come into effect from financial year 2005-06.

The Commission's office in Wales

On 1st April 2004, the Commission opened a new, permanent office in Newport, South Wales.