

# **Charity Commission**

## **Resource Accounts 2005-06**

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# **Charity Commission Resource Accounts 2005-06**

**(For the year ended 31 March 2006)**

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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 Accounts for 2005-06 as required by the Financial Reporting Manual (FRM) 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 2005-06, entitled 'Engaging, Enabling and Protecting'. 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 Commission undertook a fundamental Strategic Review in 2005. This resulted in an amended vision, mission and values. These are summarised in the publication '*Charity working at the heart of society—the way forward 2005-08*'. To reflect this change in strategy a revised set of Strategic Objectives has been agreed with HM Treasury. This is, therefore, the last year in which the objectives agreed with HM Treasury for the three years to 2006 will be reported on.

The statutory Annual Report for 2005-06 can be found on the Commission's website at: [www.charitycommission.gov.uk](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 2006 there were 189,547 registered charities of which 167,202 were main charities listed on the Commission's Central Register of Charities with the remainder being subsidiaries or branches of main charities. In 2005-06, the gross annual income of all registered main charities exceeded £38 billion. The majority of registered main charities have an income of £10,000 or less. They represent nearly 60% of registered charities but have less than 1% of the income recorded. There are 598 charities with income over £10 million that attract over 47% of the total income.

### Governance

#### *Role and composition of the Board*

The Commission is a non-ministerial government department. The Chief Executive is the Commission's Accounting Officer.

Governance responsibilities for strategy and future direction of the Commission rest with its Board, including the allocation of resources at a strategic level. The Board comprises the Commissioners (the Chief Commissioner and four independent non-executive Commissioners), each of whom was appointed by the Home Secretary.

A major change in the near future will be a significant reform of charity legislation. It is hoped the Charities Bill will be enacted during 2006. Reforms planned within the Bill will provide charities and the Commission with a more effective and flexible legal framework and the public with a clearer vision of the role of charities.

The Bill will fundamentally affect the governance structure of the Commission, making it a body corporate and increasing the maximum number of board members from five to nine, including the Chair.

As at 31 March 2006 the Board comprised:

#### *Board of Commissioners*

Chief Commissioner and Chairman	Geraldine Peacock CBE*
Commissioner	Lindsay Driscoll
Commissioner	David Unwin
Commissioner	John Williams
Commissioner	Tess Woodcraft**

\*On 17 January 2006 Geraldine Peacock announced her intention to leave the Commission in summer 2006. On 15 June it was announced that Dame Suzi Leather DBE, has been appointed as the new Chair of the Commission to succeed Geraldine Peacock. This appointment will take place with effect from 1 August 2006.

\*\*Appointed 1 May 2005 in place of David Taylor who left the Commission on 30 April 2005 at the end of his period of office.

The Chief Commissioner and Chairman and the Commissioners were appointed by the Home Office via open competition for 3-year fixed term appointments, with the option of extension for a further one to two years. This option has been exercised in the case of David Unwin. Two Commissioners, David Unwin and Lindsay Driscoll, appointed in this way are legally qualified as is required by legislation.

### ***Committees of the Board***

The Board is supported by an Audit Committee and a Senior Civil Service Pay Committee (for details on this please refer to the Remuneration Report below).

#### ***Audit Committee***

Committee Chairman	David Taylor
Committee Member	Lindsay Driscoll

The Board has established an Audit Committee to support it, and specifically the Chief Executive as Accounting Officer, in his responsibilities for ensuring the adequacy of risk management, internal controls, efficient and effective use of public funds and financial governance arrangements within the Charity Commission.

The functions of the Audit Committee broadly follow the recommendations of HM Treasury's Audit Committee Handbook and its role includes responsibility for reviewing:

- strategic processes and arrangements for risk management, internal control and governance;
- the annual Resource Accounts of the Commission and the Official Custodian for Charities;
- planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity;
- assurances relating to the corporate governance requirements of the Commission including the Internal Audit Annual Report and the opinion on the adequacy of the Commission's internal control systems;
- matters relating to the appointment of internal and external auditors; and
- the terms of reference for internal audit and the arrangements for co-operation between internal and external audit.

The Audit Committee is an appointed Committee of the Board and normally meets at least four times annually. The Committee met on five occasions in 2005-06 in pursuance of these duties.

### ***Executive Directors***

Corporate decision making that affects the day-to-day operation of the Commission is delegated to the Chief Executive and the Executive Group comprising the Chief Executive, the Executive Directors and other senior managers. The Directors are each supported by committees comprising their own senior staff together with representatives of other key parts of the organisation.

As at 31 March 2006 the Directors comprised:

Chief Executive	Andrew Hind
Executive Director, Information & Corporate Services	Nick Allaway
Executive Director, Policy & Effectiveness	Rosie Chapman
Executive Director, Legal & Charity Services	Kenneth Dibble

The Chief Executive, Andrew Hind, was appointed via open competition for a period of four years commencing 4 October 2004.

Two Directors, Rosie Chapman and Nick Allaway, were appointed via open competition. The other director, Kenneth Dibble, was appointed through an internal competition. All three Directors were appointed under permanent staff terms and their 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.

The remuneration of the Chief Executive and 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 Board and senior managers can be found in the Remuneration Report at the end of this Annual Report.

### ***Governance Framework***

An independent review focussing on effective governance arrangements between the Board and Executive Team was undertaken between July and November 2005. This had regard to the Code of Good Practice for corporate governance in central government departments and the implications of the forthcoming Charities Act. The recommendations arising from this review are reflected in the Governance Framework for the Commission, which was adopted December 2005. The Governance Framework can be found on the Commission's website at: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk).

### ***Equality and Diversity Policy***

The Commission is committed to valuing 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 we will also harness the different perspectives and skills of everyone, and make full use of them in our work. We are creating 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 has appointed a Commissioner, Tess Woodcraft, as its Diversity Champion. We are working to comply with the Civil Service 10-Point Plan on Diversity. 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 trade 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.

### ***Environmental Sustainability***

The Commission has produced a draft Sustainability Action Plan setting out the Commission's approach to sustainable development and the actions it will be taking in the near future. Once adopted this plan will be available on the Commission's website.

### ***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. During the year the percentage of invoices paid within this target period was 98.2%, a slight improvement on the previous (2004-05) year's performance of 98.1%.

### ***Register of Interests***

In common with other public bodies, the Commission has arrangements under which potential conflicts of interest can be recognised and managed. Commissioners on appointment are able to continue to serve as trustees or officers in charities. It is also normal for those whose livelihoods require professional involvement with charities, to continue with it, provided that it is transparent and is not inconsistent with the Commission's regulatory role.

As a matter of practice the Chairman and the Chief Executive are required not to accept new trusteeships during their term of office. Where the circumstances of a Commissioner or Director involves, or might appear to involve, clear potential for a material conflict of interest in his or her official role, he or she will declare this position, and withdraw from related Commission business and discussions.

The register of interests, listing the involvement of Commissioners and Directors with charities, both current and past, is open to the public and is published on our website.

### **Auditors**

This year's Resource Accounts have been audited by the National Audit Office on behalf of the Comptroller and Auditor General. No further audit services were received aside from that of Statutory Audit by the NAO. The cost of audit work was £58,000, (£54,000 for 2004-05), which is solely related to audit services and is a notional cost (see note 8).

As far as the Accounting Officer is aware, there is no relevant audit information of which the National Audit Office are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

### **Management Commentary**

#### ***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. Following the Strategic Review the Commission has adopted a new set of objectives for 2006–2008 which have been agreed with HM Treasury and are set out later in this report.

#### ***Objectives and Principal Activities***

The Charity Commission's first three-year strategic corporate plan was published in April 2003. It contained 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; and
- 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; and
- 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; and
- development of intelligence systems.

### **Review of Operational Performance**

A summary of the Commission's performance against Key Performance Indicators (KPIs) by objective is contained in Table 1 below. As our organisational priorities changed during 2005-06, in line with our new strategy, we inevitably reduced our emphasis on the old set of KPIs listed below. This is reflected in the achievement of only 10 out of the 15 KPI targets (2004-05, 15 of 16 target outturns).

The Commission has also adopted benchmarked impact measures 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 met the target benchmarked performance in the first two measures.

Additionally, the Commission has a Service First target of responding to 90% of correspondence within an average of 15 working days. The Commission narrowly missed this standard during the year with 88% of correspondence receiving a reply within the target period and an overall average response time of 9.9 days (2004-05 94%—9.6 days).

*Table 1: Departmental objectives and SDA targets-position at 31 March 2006  
(31 March 2005 in brackets)*

	Key Performance Indicators	Target	Achieved
<b>Objective 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</b>	KPI 1: Average time taken to process a successful application	<b>86 days</b> (87 days)	<b>45 days</b> (44 days)
	KPI 2: Number of cases where legal authority is exercised	<b>3,500</b> (3,500)	<b>5,170</b> (5,129)
	KPI 3: Number of cases where legal authority is exercised at the Commission's instigation	<b>385</b> (368)	<b>1,111</b> (942)
	KPI 4: Number of regulatory reports delivered that include provision for compliance by target charities	<b>3 reports</b> (3 reports)	<b>3 reports</b> (3 reports)
<b>Objective 2: Promoting sound governance, better working and accountability</b>	KPI 5: Number of cases where substantive guidance on governance and administration is given	<b>25,000</b> (24,750)	<b>23,277</b> (27,054)
	KPI 6: Number of instances of guidance given on governance or administration at the Commission's instigation	<b>2,500</b> (2,475)	<b>3,042</b> (3,775)
	KPI 7: % of charities' accounts and annual reports received:		
	£250k +	<b>97.7%</b> (97.6%)	<b>97.8%</b> (98.1%)
	£100k-£250k	<b>96%</b> (95.5%)	<b>96.3%</b> (96.5%)
	£10k-£100k	<b>89%</b> (88%)	<b>89.9%</b> (89.1%)
	KPI 8: % of database entries complete and accurate (verified by independent audit)	<b>97%</b> (96%)	<b>99.8%</b> (97.6%)
	KPI 9: Number of visits conducted	<b>400</b> (600)	<b>409</b> (603)
	KPI 10: Total income of charities visited	<b>£2,000m</b> (£563m)	<b>£2,230m</b> (£4,028m)
	<b>Objective 3: Securing compliance with charity law and dealing with abuse and poor practice</b>	KPI 11: Number of investigation cases where irregularity corrected as a percentage of all investigations carried out	<b>£90</b> (£90%)
KPI 12: Sums directly protected by investigations		<b>£30m</b> (£29.3m)	<b>£11.11m</b> (£34.2m)
KPI 13: Sums directly protected arising at Commission's instigation		<b>£5m</b> (£3.8m)	<b>£2.27m</b> (28.7m)

Key Performance Indicators	Target	Achieved
KPI 14: % of charities receiving a review visit that results in the exercise of the Commission's legal authority	6% (6%)	5% (6%)
KPI 15: % of such legal authorities exercised within 12 months of the final report of the visit	95% (90%)	85% (78%)

*Table 2: Commission impact measures—position at 31 March 2006  
(31 March 2005 in brackets)*

Objective	Impact Measure	Benchmark 2005-06	Achieved
To ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework	Resources made available for charitable use as a result of the Commission exercising its legal authority	£600m (£588m)	£735m (£608m)
To improve the governance, accountability, effectiveness and efficiency of charities	% of charities deriving benefit as a result of guidance given	9% (8.9%)	13.5% (14.2%)
To identify and deal with abuse and poor practice	Number of reports of abuse or poor practice	630 (645)	400 (515)
	Number of trustee eligibility checks carried out annually	15,000	15,580

### **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) to Parliament, which will be published by July 2006. The ADR also contains an overview of the Commission's structure, performance and its use of resources in 2005-06 together with details of the Commission's plans and targets for the coming year (2006-07).

### **Financial Review**

The following table contains a comparison of outturn against the key Supplementary Estimate financial limits.

Key Financial Limits	Estimate	Outturn	Surplus
	£000	£000	£000
Net Resources	32,403	31,337	1,066
Gross Administration Costs	32,959	31,794	1,165
Capital	1,604	1,584	20
Net Cash Requirement	32,582	31,636	946

The surplus of £1,066k between the Estimate Net Resources limit and the final outturn arose from savings in pay expenditure of £471k, £345k saving in general administration expenditure and a £250k reduction in the amount required for new provisions compared to that estimated.

The surplus of £946k arising in the Commission's Net Cash Requirement arises from the expenditure patterns explained above adjusted to remove the effect of non cash items such as provisions and depreciation on assets.

Details of the Commission's use of financial instruments and risks arising from them can be found in Note 20 to the Resource Accounts 2005-06. 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 transactions or interest rate fluctuations.

## Future Operations and Financing

### *Legislation*

A major change in the near future will be a significant reform of charity legislation. It is hoped that the Charities Bill will be enacted in 2006. Reforms planned within the Bill will provide charities and the Commission with a more effective and flexible legal framework and the public with a clearer vision of the role of charities.

The Bill will fundamentally change the governance structure of the Commission, making it a body corporate and increasing the maximum number of board members from five to nine, including the Chair. The Bill gives the Commission five newly defined statutory objectives:

- to increase public trust and confidence in charities;
- to promote awareness and understanding of the operation of the public benefit requirement;
- to promote compliance by charity trustees with their legal obligations in exercising control and management of the administration of the charity;
- to promote the effective use of charitable resources; and
- to enhance the accountability of charities to donors, beneficiaries and the general public.

### *The 2004 Spending Review*

How we will operate over the next two years will also be heavily influenced by our 2004 Spending Review (SR04) settlement from HM Treasury, under which the Commission was given a cash-flat annual budget of £31.6 million until March 2008. This was to include meeting the costs of the new Charities Bill that were known at the time of SR04. The implication of this is a decline in the real-term value of our funding by approximately 2.5% each year.

To protect our current levels of service delivery, and to enhance the scope of our work over the next two years, the Commission has drawn up a challenging efficiency savings plan which is outlined below.

One particularly significant provision expected within the final Charities Act, but not known at the time of SR04, is that the Commission will be given responsibility for the regulation of public charitable collections. The Regulatory Impact Assessment estimated the cost of this to be between £2.7m and £8.5m per annum, depending on the range of activities carried out. Because of the magnitude of the financial implications involved, and the uncertainty about how the issue will be resolved, this activity has not been factored into the new corporate plan.

### *Efficiency Delivery Plan*

Following SR04, the Commission has put plans in place to realise total efficiency gains of at least £4.2m by 2007-08, and has set itself a stretching target of £5.1m, to include around 20% contingency. The baseline against which these efficiencies will be measured is the Commission's Departmental Expenditure Limit (DEL) for 2004-05. At least half the total savings will be recycled into front-line services. Our efficiency savings will be divided into five workstreams, as shown in the table below.

Workstream	Cumulative 2006-08 £m
Capital	0.11
Staffing	2.28
Corporate services	0.88
Productive time	1.24
Procurement	0.61
<b>Total</b>	<b>5.12</b>

The first two items represent efficiency gains to cover the real-term savings of 2.5% per annum required in the context of the cash-flat SR04 settlement outlined above. The remaining three items represent additional efficiency gains that will be recycled internally to enhance performance and service delivery.

### **A Changing Operating Environment**

The environment in which charities operate is changing. There are more demands on their services and an increasing expectation that they demonstrate the impact of their work. In parallel, it is essential that the Charity Commission also evolves as the sector's regulator.

This changing environment includes:

- the more enabling framework within the Charities Bill;
- more emphasis on recognition of public benefit as an essential element of charity;
- a continuing debate about the independence of charities, their rich diversity and unique role in society;
- Government recognition of the crucial role that charities play in delivering public services, and an expectation that this role will grow;
- the blurring of boundaries between charitable endeavour and broader beyond-profit activity, including the increase in social enterprise and the introduction of Community Interest Companies;
- continuing technological developments which potentially provide charities, their users and the public with greater access to information and choice of services; and
- a continuing debate about the proper role of regulation in modern society.

The Commission has produced a new Corporate Plan for 2006-08 which takes full account of the changing environment in which both the Charity Commission and charities themselves will be operating. The Corporate Plan can be found on the Commission's website at: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk).

### **Revised Objectives for 2006-08**

The Corporate Plan describes the actions to be taken to implement the strategic objectives to 2008. Performance to 2008 will be measured against the new strategic objectives. These are:

1. continually improving services, assisting charities to deliver;
2. proportionate regulation;
3. guiding charities in complying with their legal obligations;
4. sharing knowledge and working together across the sector;
5. enhancing trustees' knowledge and understanding; and
6. increasing public understanding and support for charities.

Further information on these and the new set of performance measures can be found in the Corporate Plan for 2006-08.

### **Achieving Strategic Objectives**

#### ***Progress to Date***

Changes to the structure and operation of the Commission in response to the outcome of the Strategic Review began in 2005-06. This has involved reviewing our internal organisation and changing the allocation of work between the Commission's four locations of London, Liverpool, Taunton and Newport so as to reduce overlap of functions on different sites and ensure a more consistent level of service to the customer. For example we have brought Large Charities work together into a single unit in London so that it can maintain close and active links with those charities whose revenues exceed £5m per annum.

We are also looking at other ways to provide a better service to our customers. For example we expanded the existing contact centre to create a reception centre, branded as Charity Commission Direct. This creates a single point of contact for all enquiries and requests for services coming to the Commission, whether by e-mail, fax, telephone or letter. It is also a centre for work distribution. Using this approach will enable the Commission to forward service requests quickly and accurately to the correct team who can then deal with them in line with our response targets.

This wider change in functions and approach has coincided with the results of significant investment in new technology. Online services were launched in September 2005. The service has been used by charities to update standing information and submit their Annual Return and accounts. Over 70,000 charities have now been issued with passwords.

Online services will be promoted more actively in 2006-07 and it is anticipated that the Commission will meet its target of achieving a 5% year-on-year increase in take up and use as the service beds in and users recognise the value this service offers.

#### ***Plans for 2006-07***

The Corporate Plan agreed to 2008 summarises the planned changes which will enable the Commission to meet the new Strategic Objectives. Some priorities are:

### **1. *Continually improving services, assisting charities to deliver***

We are restructuring our one-to-one services to charities to deliver a customer service which is consistent and of high quality. We have brought together all the one-to-one operational services the Commission provides into a single Charity Services division. We have reduced the number of sites where similar work is carried out and are setting up management structures to enable us to achieve consistency in our work. Customers will have easy access to our services through their chosen means of communication.

We have created a Charity Information division to improve the collection, dissemination and quality of information about the sector. Our online service was launched in September 2005 with a staged rollout, initially to larger charities. By June 2006, all charities will have access to amend their register details and file their Annual Return and accounts online. Documents received through online submission are usually available for display on the website within 48 hours of receipt. We will promote this facility and in the longer term seek to move towards a self-service model of document submission and verification.

### **2. *Proportionate regulation***

We will engage with charities in a way which will make most difference to them and those who benefit from them. Any actions we take will be proportionate, fair and reasonable taking account of the issue, the risk involved to the charity and its beneficiaries and the capacity of the charity to comply.

To enable us to fulfil this commitment we will establish, in the light of the latest best practice thinking on modern regulation, an enhanced framework of risk-based regulation to help us better decide when our involvement is appropriate in any given case.

### **3. *Guiding charities in complying with their legal obligations***

We will continue to place considerable emphasis on our enforcement role ensuring that charities comply with their legal obligations. We are refocusing our resources in the Compliance and Support unit. Where there is evidence of deliberate wrong-doing, we will be faster and sharper in our response.

All high risk “intensive” cases will be handled by senior staff with support from a small team of caseworkers. This will result in improved strategic handling of cases, faster exploration and investigation of issues and quicker resolution and restoration of sound governance and management. We will be equipped to deal with cases more promptly, with enhanced capacity to make a positive difference where we engage.

### **4. *Sharing knowledge and working together across the sector***

We have created a Charity Effectiveness division to encourage charities to improve their performance. The division will help define best practice and capture such knowledge from our casework. It will be in dialogue with all parts of the sector. The programme of visits to charities will be a key component of this work.

To better understand the challenges and opportunities faced by charities we will develop a Charity Engagement team which will have regular contact with the most influential organisations across all parts of the sector. This will enable us to test out new approaches and ideas (for example impact reporting) individually and with tailored groups, as well as gather evidence for inclusion in our research reports.

We will produce authoritative “must have” publications for those interested in charities and their regulatory environment. Our range of publications will include in-depth research reports which combine the Commission’s knowledge and experience with evidence gathered from the sector. Charities and umbrella bodies will be involved in the selection, scoping, and research of topics and in promoting the findings via close liaison and partnership arrangements.

### **5. *Enhancing trustees’ knowledge and understanding***

Trustees stand behind every charity, with ultimate responsibility for running them. We have an important role to play in equipping them to carry out this task more effectively. A central theme flowing through our work will be trying to improve standards of governance in the sector.

### **6. *Increasing public understanding and support for charities***

The Charities Bill includes an important new objective requiring the Commission to increase public trust and confidence in charities. We will aim to achieve this by building the credibility of our own role as an effective regulator of the charity sector. Our revised approach to operational work will be seen to deal effectively with wrong-doing and poor practice whilst at the same time highlighting the many areas of good practice across the charity sector. In addition we will highlight the distinctiveness of charities and promote the work of trustees and volunteers and the contribution charitable activity makes to society.

## Departmental Remuneration Report

### Senior Civil Service (SCS) Pay Committee

The Commission's SCS Pay Committee comprises:

Committee Chairman	David Unwin
Committee Member	Geraldine Peacock CBE
Committee Member	John Williams
Committee Member	Andrew Hind

The responsibilities of the committee include:

- annually reviewing and approving the SCS Pay Strategy;
- considering the pay recommendations made by line managers for each member of the main SCS based on their performance review report and the guidance produced by the Cabinet Office;
- deciding which pay tranche they should be placed in and the amount of bonus they should receive, taking into account the relative performance of the main SCS members and affordability considerations; and
- reporting the outcome of their decisions to Human Resources (HR) for implementation, and the Cabinet Office for central monitoring purposes.

### Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

### Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior officials of the department.

#### Remuneration

Officials	2005-06 Salary £000	2004-05 Salary £000
G Peacock CBE* Chief Commissioner and Chairman	65-70	55-60
L Driscoll* Commissioner	25-30	25-30
D Unwin* Commissioner	25-30	25-30
J Williams* Commissioner	15-20	0-5 (10-15 full year equivalent)
D Taylor* Commissioner (to 30 April 2005)	0-5 (30-35 full year equivalent)	30-35

Officials	2005-06 Salary £000	2004-05 Salary £000
T Woodcraft* Commissioner (from 1 May 2005)	5-10 (10-15 full year equivalent)	0
A Hind** Chief Executive	115-120	55-60 (110-115 full year equivalent)
R Chapman Director	80-85	70-75
K Dibble Director	100-105	95-100
N Allaway Director	80-85	70-75

\* indicates part time non-executive appointed on a 3 year fixed term contract, with the option of a 1 to 2 year extension.

\*\* appointed on a 4 year fixed term contract from 4 October 2004.

"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 above remuneration packages contained non cash elements.

There were no Benefits in Kind paid to senior officials in 2005-06 or 2004-05.

### Pension Benefits

Officials	Accrued pension at age 60 at 31 March 2006 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV
	£000	£000	£000	£000	£000
G Peacock CBE* <i>Chief Commissioner and Chairman</i>	0-5	0-5	53	21	21
L Driscoll* <i>Commissioner</i>	0-5	0-5	25	11	9
D Unwin* <i>Commissioner</i>	0-5 plus 0-5 lump sum	0-5 plus 0-5 lump sum	39	23	8
J Williams* <i>Commissioner</i>	0-5	0-5	5	1	3
D Taylor * <i>Commissioner (to 30 April 2005)</i>	0-5 plus 5-10 lump sum	0-5 plus 5-10 lump sum	42	38	1
T Woodcraft* <i>Commissioner (from 1 May 2005)</i>	10-15	0-5	209	90	4
A Hind <i>Chief Executive</i>	0-5	0-5	41	10	24
R Chapman <i>Director</i>	5-10 plus 0-5 lump sum	0-5 plus 0-5 lump sum	81	47	16

Officials	Accrued pension at age 60 at 31 March 2006 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV
	£000	£000	£000	£000	£000
K Dibble <i>Director</i>	40-45 plus 120-125 lump sum	0-5 plus 5-10 lump sum	996	671	62
N Allaway <i>Director</i>	20-25 plus 65-70 lump sum	0-5 plus 0-5 lump sum	393	291	24

### Civil Service Pensions

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). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

### Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

**Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

***Andrew Hind***

Chief Executive and Accounting Officer

6 July 2006

## 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 Commission, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the Financial Reporting Manual (FReM) 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 FReM, have been followed, and disclose and explain any material departures in the accounts; and
- (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

As Accounting Officer, I have 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 I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

The Charity Commission is the independent regulator for charitable activity. Its primary aim is to increase charities' effectiveness and promote public trust and confidence in their activities by providing the best possible regulation of charities in England and Wales.

As Accounting Officer I am accountable to Parliament and report to them annually. In managing risk I involve the Board and work with the Commission's Executive Group.

The Board comprises the Commissioners and is chaired by Geraldine Peacock CBE. They meet on a regular basis to consider the plans and strategic direction of the organisation. The Executive Group, which meets on a monthly basis, comprises the Chief Executive, the three Directors, and other senior managers. The duties of the Executive Group include implementing the strategic framework of programmes and policies established by the Board and ensuring effective service delivery.

### 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 the Commission's 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 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Leadership is given to the Commission's risk management process through a risk policy which defines the role and responsibilities of the Board, Audit Committee, Executive Group and Directors. This is cascaded to appropriate managers with clear responsibility for improving controls and minimising the impact of risks that may be realised.

### The risk and control framework

The Board and Executive Group identify and evaluate the top priority risks that are expected to have the greatest impact on the Commission's business if realised. These top priority risks are embedded in and supported by more detailed risk registers covering the main business functions. These subsidiary registers have been recast to reflect the structural changes that have taken place within the Commission following the Strategic Review. They have designated 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.

A monitoring and reporting system has been established that ensures that timely reports are made to the Executive Group, Audit Committee and Board on the extent to which risks are being controlled effectively. An overview is provided by the Commission's Strategic Assurance Plan, which maps the top priority risks to the Commission's objectives, charts progress against agreed mitigating actions and specifies items of assurance work. Management of risk is embedded in policy-making, planning and service delivery. This includes formal assessment of risks for all issues considered by the Board and the Executive Group.

This framework enables us to take a risk-focussed approach to targeting resources on the regulation and enablement of charities. It encourages our staff to actively identify, evaluate and manage risks in the conduct of day to day business.

### Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework,

and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

During 2005-06 the Board has maintained strategic oversight and review of internal control and developing risk management arrangements. The Audit Committee has given detailed consideration to: progress against the Strategic Assurance Plan; individual internal audit reports and management responses; progress on implementation of previous audit recommendations; the Internal Auditor's 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.

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

**Conclusion**

During 2005-06 action has been taken where appropriate to address internal control issues and recommendations made by the Commission's auditors, Audit Committee and Board.

The internal auditors have concluded that, in their opinion, the Charity Commission had adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

**Andrew Hind**  
Chief Executive and Accounting Officer

6 July 2006

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

I certify that I have audited the financial statements of the Charity Commission for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report 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 to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 17 to 18 reflects the Commission's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, Management Commentary and the unaudited part of the Departmental Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

**Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Commission's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; 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

11 July 2006

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

## SCHEDULE 1

Statement of Parliamentary Supply  
Summary of Resource Outturn  
2005-06

	2005-06 Estimate			Outturn			Net Total Outturn compared with Estimate saving/ (excess)	2004-05 Outturn
	Gross Expenditure	A in A	NET TOTAL	Gross expenditure	A in A	NET TOTAL		NET TOTAL
	1	2	3	4	5	6		8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Note 2)	32,959	(556)	32,403	31,794	(457)	31,337	1,066	27,623
<b>Total Resources</b>	<b>32,959</b>	<b>(556)</b>	<b>32,403</b>	<b>31,794</b>	<b>(457)</b>	<b>31,337</b>	<b>1,066</b>	<b>27,623</b>
Non-Operating-Cost A in A	—	—	—	—	—	—	—	—

## Net Cash Requirement 2005-06

	Note	2005-06 £000			2004-05 £000
		Net total outturn compared with Estimate saving/ (excess)			Outturn
		Estimate	Outturn	£000	£000
		£000	£000	£000	£000
Net cash requirement	4	32,582	31,636	946	28,411

## 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 2005-06		Outturn 2005-06	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total	5	—	—	9	9

Explanation of the variances between Estimate and outturn are given in Notes 2 and 4 and in the Management Commentary

The notes on pages 26 to 37 form part of these accounts.

**SCHEDULE 2****Operating Cost Statement**

for the year ended 31 March 2006

	Note	2005-06		2004-05	
		£000	£000	£000	£000
<b>Administration Costs</b>					
Staff costs	7	17,149		16,550	
Other administration costs	8	14,645		11,229	
Operating income	6		(466)		(165)
<b>Net Operating Cost</b>	3		<b>31,328</b>		<b>27,614</b>
<b>Net Resource Outturn</b>			<b>31,337</b>		<b>27,623</b>

**Statement of Recognised Gains and Losses**

for the year ended 31 March 2006

	Note	2005-06	2004-05
		£000	£000
Receipts of donated asset	15	—	4
<b>Total recognised gains and losses for the financial year</b>		<b>—</b>	<b>4</b>

The notes on pages 26 to 37 form part of these accounts.

**SCHEDULE 3****Balance Sheet**

as at 31 March 2006

	Note	31 March 2006		31 March 2005	
		£000	£000	£000	£000
<b>Fixed Assets:</b>					
Tangible assets	9		<b>5,407</b>		<b>4,675</b>
<b>Debtors falling due after more than one year</b>	10		<b>47</b>		<b>64</b>
<b>Current Assets:</b>					
Debtors	10	1,456		1,210	
Cash at bank and in hand	11	955		2,331	
		<u>2,411</u>		<u>3,541</u>	
<b>Creditors (amounts falling due within one year)</b>	12	<u>(2,278)</u>		<u>(3,801)</u>	
		(2,278)		(3,801)	
<b>Net Current Assets</b>			<b>133</b>		<b>(260)</b>
<b>Total Assets less Current Liabilities</b>			<b>5,587</b>		<b>4,479</b>
<b>Provisions for liabilities and charges</b>	13		<b>(816)</b>		<b>(223)</b>
			<u>4,771</u>		<u>4,256</u>
<b>Taxpayers' equity:</b>					
General Fund	14		4,768		4,253
Donated asset reserve	15		3		3
			<u>4,771</u>		<u>4,256</u>

**Andrew Hind**  
Accounting Officer

6 July 2006

The notes on pages 26 to 37 form part of these accounts.

## SCHEDULE 4

## Cash Flow Statement

for year ended 31 March 2006

	<u>2005-06</u>	<u>2004-05</u>
<u>Note</u>	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities	16a (30,043)	(26,248)
Capital expenditure and financial investment	16b (1,584)	(2,154)
Payments of amounts due to the Consolidated Fund	16d (9)	(11)
Financing	16c 30,260	28,899
Increase/(decrease) in cash in the period	<u>(1,376)</u>	<u>486</u>

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The notes on pages 26 to 37 form part of these accounts.

## SCHEDULE 5

## Resources by Departmental Aim and Objectives

for the year ended 31 March 2006

	<u>Gross</u>	<u>2005-06</u>	<u>Net</u>	<u>Gross</u>	<u>2004-05</u>	<u>Net</u>
	£000	Income	£000	£000	Income	£000
		£000			£000	
<b>Aim: to give the public confidence in the integrity of charity</b>						
Objective 1:	7,949	(117)	7,832	6,945	(41)	6,904
Objective 2:	16,214	(237)	15,977	14,167	(84)	14,083
Objective 3:	7,631	(112)	7,519	6,667	(40)	6,627
<b>Net Operating Costs</b>	<b><u>31,794</u></b>	<b><u>(466)</u></b>	<b><u>31,328</u></b>	<b><u>27,779</u></b>	<b><u>(165)</u></b>	<b><u>27,614</u></b>

The department's objectives were as follows:

Objective 1 - to ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework.

Objective 2 - to improve the governance, accountability, efficiency and effectiveness of charities.

Objective 3 - to identify and deal with abuse and poor practices.

See Note 17.

The notes on pages 26 to 37 form part of these accounts.

## Notes to the Departmental Resource Accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the *2005-06 Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Commission to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Commission's income and expenditure by the objectives agreed *by the Board*. Where the *FReM* 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 Relifed assets

Assets which have reached the end of their useful economic life, but are still in service, have been "relifed" ie credited with a nominal value, to acknowledge their continued existence. The relifed 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 *FReM* is treated as operating income. Operating income is stated net of VAT.

### 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 7. The defined benefit schemes are unfunded and non-contributory except in respect of dependents' 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 Charity 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 2.8%).

### 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 *FReM* 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.

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## Note 2: Analysis of net outturn by section

	Admin. £000	Other Current £000	Gross Resource Expenditure £000	A in A £000	Outturn		2005-06	2004-05
					Net total £000	Net Total £000	Estimate Net total outturn compared with Estimate £000	Prior year outturn £000
<b>Request for resources 1:</b> <i>Giving the public confidence in the integrity of charity</i>								
<b>Section A</b>								
Administration	31,794	–	31,794	(457)	31,337	32,403	(1,066)	27,623
<b>Resource Outturn</b>	<b>31,794</b>	<b>–</b>	<b>31,794</b>	<b>(457)</b>	<b>31,337</b>	<b>32,403</b>	<b>(1,066)</b>	<b>27,623</b>

Explanation of the difference between Estimate and Outturn (a more detailed explanation is given in the Management Commentary):

The surplus of £1,066k is a result of:

- £471k savings in pay expenditure as result of progress towards the Commission's target staffing level;
- £345k arising from reductions in general administration expenditure on depreciation and other changes in the timing of expenditure; and
- £250k reduction in amount provided for early departure costs in year.

## 3. Reconciliation of outturn to net operating cost against Administration Budget

## 3(a) Reconciliation of net outturn to net operating cost

	Note	Outturn	Supply Estimate	2005-06	2004-05
				£000	£000
Net Resource Outturn	2	31,337	32,403	1,066	27,623
Non-Supply Income (CFERS)	5	(9)	–	(9)	(9)
Net Operating Costs		31,328	32,403	1,057	27,614

## 3(b) Outturn against final Administration Budget

	Budget	2005-06	2004-05
		£000	£000
Gross Administration Budget	32,959	31,794	27,779
Income allowable against the Administration Budget	(556)	(457)	(156)
Net Outturn against final Administration Budget	32,403	31,337	27,623

## 4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate saving/ (excess) £000
Net total resources	2	32,403	31,337	937
Capital:				
—Acquisition of fixed assets	9	1,604	1,584	20
—Investments		—	—	—
Non-operating cost A in A				
—Proceeds of fixed asset disposals	8	—	—	—
Accruals adjustments:				
—Non-cash items	8	(1,511)	(1,731)	474
—Changes in working capital other than cash	16a	(4)	376	(505)
—Changes in creditors falling due after one year			—	—
—Use of provision	13	90	70	20
Net Cash Requirement		<b>32,582</b>	<b>31,636</b>	<b>946</b>

Explanation of variation between Estimated net cash requirement and Outturn:

The surplus of £946k is a result of:

- The resource expenditure patterns set out in Note 2; and
- £9k of income repayable to the consolidated fund.

## 5. 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	2005–06 Income £000	Forecast Receipts £000	2005–06 Income £000	Outturn Receipts £000
Operating income and receipts—excess A in A	—	—	—	—
Other operating income and receipts not classified as A in A	—	—	9	9
Sub total	—	—	9	9
Other non-operating income and receipts not classified as A in A	—	—	—	—
Other amounts collectable on behalf of the Consolidated Fund	—	—	—	—
Excess surrenderable to the Consolidated Fund	—	—	—	—
<b>Total income payable to the Consolidated Fund</b>	<b>—</b>	<b>—</b>	<b>9</b>	<b>9</b>

## 6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

Note	2005–06 £000	2004–05 £000
Operating Income	466	165
Income authorised to be appropriated-in-aid	(457)	(156)
Operating income payable to the Consolidated Fund	9	9

## 7. Staff numbers and related costs

### Staff Costs

Staff costs comprise

	<u>2005-06</u>	<u>2004-05</u>
	<u>Total</u>	<u>Total</u>
	£000	£000
Wages and salaries	13,140	13,430
Social security costs	1,005	1,013
Other pension costs	2,394	1,797
Agency staff	657	486
<b>Total</b>	<b>17,196</b>	<b>16,726</b>
Charged to capital	(47)	(176)
<b>Total Net Costs</b>	<b>17,149</b>	<b>16,550</b>

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 2005-06, normal employer's contributions of £2,367,995 were payable to the PCSPS (2004-05 £1,797,588) at rates in the range 16.2 per cent to 24.6 per cent (2004-05 12 per cent to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. 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 £25,884 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent (2004-05 3 per cent 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 £1,987, 0.8 per cent (2004-05 £737, 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 £2,754.

Contributions prepaid at that date were nil.

2 persons (2004-05: 1 person) retired early on ill health grounds; the total additional accrued pension liabilities amounted to £29,024 (2004-05: £14,000).

### Average number of persons employed

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

	<u>2005-06</u>	<u>2004-05</u>
	<u>Number</u>	<u>Number</u>
Objective 1	129	140
Objective 2	263	286
Objective 3	124	113
Staff engaged on capital projects	2	6
<b>Total</b>	<b>517</b>	<b>545</b>
Agency staff	23	22
<b>Total</b>	<b>540</b>	<b>567</b>

## 8. Other Administration Costs

	Note	2005-06		2004-05	
		£000	£000	£000	£000
<b>Rentals under operating leases:</b>					
Hire of plant and machinery		881		631	
Other operating leases		3,182	4,063	2,342	2,973
<b>Non cash items<sup>a</sup>:</b>					
Depreciation of fixed assets		823		272	
Impairment of assets		21		98	
Loss on disposal of fixed assets	9	8		70	
Cost of capital charge		158		132	
Auditor's remuneration and expenses		58		54	
Provisions provided in year	13	663	1,731	17	643
<b>Other expenditure<sup>b</sup></b>			8,851		7,613
			<b>14,645</b>		<b>11,229</b>

## Notes:

a: the total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Note 4 and in the Reconciliation of Operating Costs to Operating Cashflows in Note 16a comprises:

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

	2005-06	2004-05
	£000	£000
Personnel related	1,294	1,335
Accommodation	2,160	1,600
Office Services	2,878	2,611
Consultancy/Agency	687	1,271
Specialist Services	1,304	630
Losses and Special Payments	78	28
International Outreach Project*	450	138
<b>Total other expenditure</b>	<b>8,851</b>	<b>7,613</b>

\*Funding for this programme is provided by the Foreign Office and is shown as Appropriations in Aid in Schedule 1.

## 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
<b>Cost or Valuation</b>					
At 1 April 2005	674	1,213	166	3,533	5,586
Additions	34	-	-	1,550	1,584
Donations	-	-	-	-	0
Reliefed assets	8	-	1	-	9
Disposals/transfers	(138)	4,985	-	(4,985)	(138)
Revaluation	(43)	-	(6)	-	(49)
<b>At 31 March 2006</b>	<b>535</b>	<b>6,198</b>	<b>161</b>	<b>98</b>	<b>6,992</b>
<b>Depreciation</b>					
At 1 April 2005	490	277	144	-	911
Charged in year	50	765	8	-	823
Disposals	(130)	-	0	-	(130)
Revaluations	(15)	-	(4)	-	(19)
<b>At 31 March 2006</b>	<b>395</b>	<b>1,042</b>	<b>148</b>	<b>-</b>	<b>1,585</b>
<b>Net book value at 31 March 2006</b>	<b>140</b>	<b>5,156</b>	<b>13</b>	<b>98</b>	<b>5,407</b>
<b>Net book value at 31 March 2005</b>	<b>184</b>	<b>936</b>	<b>22</b>	<b>3,533</b>	<b>4,675</b>

## Valuation of Assets

Fixed assets are valued using indices supplied by the Office of National Statistics with the exception of IT Databases

**10. Debtors****10(a) Analysis by type**

	<b>2005-06</b>	<b>2004-05</b>
	£000	£000
Amounts falling due within one year:		
VAT	275	198
deposits and advances	23	14
other debtors	145	188
prepayments and accrued income	1,013	810
	<b>1,456</b>	<b>1,210</b>
Amounts falling due after one year:		
prepayments	47	64
	<b>1,503</b>	<b>1,274</b>

**10(b) Intra Government Balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	£000		£000	
Balances with other central Government Departments	275	198	–	–
Balances with bodies external to government	1,228	1,076	–	–
Total Debtors at 31 March	1,503	1,274	–	–

**11. Cash at Bank and in Hand**

	<b>2005-06</b>	<b>2004-05</b>
	£000	£000
Balance at 1 April	2,331	1,845
Net Cash Inflow/(Outflow)	(1,376)	486
<b>Balance at 31 March</b>	<b>955</b>	<b>2,331</b>
<b>The following balances at 31 March are held at</b>		
Office of HM Paymaster General	954	2,330
Cash in hand	1	1
	<b>955</b>	<b>2,331</b>
<b>The balance at 31 March comprises:</b>		
Amounts issued from the Consolidated Fund for supply but not spent at year end	946	2,322
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	9	9
	<b>955</b>	<b>2,331</b>

**12. Creditors: amounts falling due within one year****12(a) Analysis by type**

	2005–06	2004–05
	£000	£000
Taxation and social security	490	–
Trade creditors	164	596
Other creditors	1	173
Accruals and deferred income	668	701
Amounts issued from the Consolidated Fund for supply but not spent at year end	946	2,322
Consolidated Fund extra receipts received and receivable due to be paid to the Consolidated Fund	9	9
	<b>2,278</b>	<b>3,801</b>

**12(b) Intra Government Balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	£000		£000	
Balances with other central Government Departments	1,530	2,792	–	–
Balances with bodies external to government	748	1,009	–	–
Total Creditors at 31 March	<b>2,278</b>	<b>3,801</b>	–	–

**13. Provision for liabilities and charges  
(see also note 1.12)**

	Early departure costs	Roof Refurbishment	2005-06  Total
	£000	£000	£000
Balance at 1 April 2005	223	–	223
Increase/(decrease) in provision	268	395	663
Amounts utilised in year	(70)	–	(70)
<b>Balance at 31 March 2006</b>	<b>421</b>	<b>395</b>	<b>816</b>

**13.1 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 2.8 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.

**13.2 Roof Refurbishment costs**

The sum of £395k has been provided to allow for the anticipated costs of the roof refurbishment for the London Office at Harmsworth House.

**14. General Fund**

	<u>2005–06</u>	<u>2004–05</u>
	£000	£000
Net operating cost for the year (Schedule 2)	<b>(31,328)</b>	<b>(27,614)</b>
Income not appropriated in aid payable to the Consolidated Fund	(9)	(9)
	<b>(31,337)</b>	<b>(27,623)</b>
Net parliamentary funding	30,260	28,899
Consolidated Fund creditor for cash unspent	(946)	(2,322)
Settlement of previous year Consolidated Fund creditor for cash unspent	2,322	1,834
Non-cash Charges:		
cost of capital	158	132
auditor remuneration	58	54
<b>Net increase(decrease) in general fund</b>	<b>515</b>	<b>974</b>
<b>General fund at 1 April 2005</b>	<b>4,253</b>	<b>3,279</b>
<b>General fund at 31 March 2006 (Schedule 3)</b>	<b>4,768</b>	<b>4,253</b>

**15. Reserves****15(a) Donated Asset Reserve**

	<u>2005–06</u>	<u>2004–05</u>
	<u>Donated asset reserve</u>	<u>Donated asset reserve</u>
	£000	£000
Balance at 1 April 2005	3	3
Additions during the year	0	4
Released to General Fund	0	(4)
<b>Balance at 31 March 2006</b>	<b>3</b>	<b>3</b>

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

**16. Notes to the Consolidated Cash Flow Statement****16(a) Reconciliation of the operation cost to operating cash flows**

	<u>2005–06</u>	<u>2004–05</u>
	£000	£000
<b>Net operating cost</b>	<b>31,328</b>	<b>27,614</b>
Adjustments for non-cash transactions (see Note 8)	(1,731)	(811)
Increase/(Decrease) in Debtors	229	22
(Increase)/Decrease in Creditors	(1,229)	(242)
Less movements in creditors relating to items not passing through the OCS	1,376	(486)
Use of provision (see Note 13)	70	151
<b>Net cash outflow from operating activities</b>	<b>30,043</b>	<b>26,248</b>

**16(b) Analysis of capital expenditure and financial investment**

	2005–06	2004–05
	£000	£000
Tangible fixed asset additions (see note 9)	1,584	2,154
<b>Net cash outflow from investing activities</b>	<b>1,584</b>	<b>2,154</b>

**16(c) Analysis of financing**

	2005–06	2004–05
	£000	£000
From Consolidated Fund (Supply)—current year <sup>1</sup>	32,582	30,733
From Consolidated Fund (Supply)—prior year <sup>2</sup>	(2,322)	(1,834)
<b>Net financing</b>	<b>30,260</b>	<b>28,899</b>

<sup>1</sup> Amount of grant actually issued to support the net cash requirement £32,582,000

<sup>2</sup> Amount of grant actually issued to support the prior year net cash requirement £2,322,495

**16(d) Reconciliation of Net Cash Requirement to increase/(decrease) in cash**

	2005–06	2004–05
	£000	£000
Net cash requirement	(31,636)	(28,411)
From Consolidated Fund (Supply)—current year	32,582	30,733
From Consolidated Fund (Supply)—prior year	(2,322)	(1,834)
Amounts due to the Consolidated Fund—received in a prior year and paid over	(9)	(11)
Amounts due to the Consolidated Fund received and not paid over	9	9
<b>(Increase)/decrease in cash</b>	<b>1,376</b>	<b>(486)</b>

**17. Notes to the Statement of Operating Costs by Departmental Aim and Objectives****Capital Employed by Departmental Aim and Objective at 31 March 2006**

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**

At 31 March 2006, the Commission had not entered into any contracted commitments of a capital or non-cancellable nature.

**19. Commitments under leases****19.1 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.

	2005-06	2004-05
	£000	£000
Obligations under operating leases comprise:		
<b>Buildings</b>		
Expiry within one year	–	–
Expiry after one year, but not more than five years	1,388	–
Expiry thereafter	1,165	2,642
	<b>2,553</b>	<b>2,642</b>
<b>Other</b>		
Expiry within one year	208	–
Expiry after one year, but not more than five years	277	634
Expiry thereafter	–	–
	<b>485</b>	<b>634</b>

## 19.2 Finance Leases

Obligations under finance leases comprise:

	2005-06	2004-05
	£000	£000
Rentals due within 1 year	–	208
Rentals due after 1 year but within 5 years	–	832
Rentals due thereafter	–	–
	<b>0</b>	<b>1,040</b>
Less interest element	–	<b>(205)</b>
	<b>0</b>	<b>835</b>

In 2005-06 as a result of a review of the Commission's forecast expenditure and cash requirements the finance lease entered into in 2004-05 was paid in full.

## 20. 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 Commission'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 2006

	Book Value £000	Fair Value £000	Basis of fair valuation
	£000	£000	
<b>Primary financial instruments</b>			
<b>Financial assets</b>			
Cash at bank	955	955	Note a
<b>Financial liabilities</b>			
Provisions	(1,064)	(1,064)	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 2.8%).*

## 21. Contingent liabilities disclosed, or not required to be disclosed, under FRS 12 (see also note 1.14)

There were no instances of contingent liabilities which required disclosure or separate notification to Parliament during the year.

## 22. Losses and special payments

### 22(a) Losses Statement

	2005–06		2004–05	
	No.	£000	No.	£000
Total losses for the year	3	5	11	90

### 22(b) Special Payments

	2005–06		2004–05	
	No.	£000	No.	£000
Total special payments for the year	9	72	10	24

## 23. Related Party Transactions

The Commission has undertaken no related party transactions.

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