Presented pursuant to the GRA Act 2000 c.20 s.6

Office of Her Majesty's Chief Inspector of Schools in England

Resource Accounts 2005-06

LONDON: The Stationery Office
HC 1417

11 July 2006
£8.00

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(For the year ended 31 March 2006)

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Contents

ANNUAL REPORT

Scope

Entities within the Departmental Accounting Boundary

The only entity within the boundary during 2005-06 was the Office of Her Majesty's Chief Inspector of Schools in England (Ofsted).

Bodies outside the Departmental Accounting Boundary

There are no bodies outside the Departmental Accounting Boundary for which Ofsted has a lead policy responsibility.

Departmental Report

In May 2006 Ofsted published its Departmental Report for 2005-06. The Report is a way of letting Parliament and the public know what Ofsted has achieved and how it is contributing to raising standards in education and childcare. It covered Ofsted's objectives, how it spends public money and what has been achieved. The report is available on-line at www.ofsted.gov.uk and the website also details how to order hard copies.

Management Commentary

Aims and Objectives of the Department

Ofsted aims to serve the interests of children and young people, their parents and the community by providing impartial and authoritative inspection, evaluation and reporting of the quality and standards of education and childcare in England.

To achieve the aim, the Department works to:

- deliver high quality regulation of childminders and day-care providers;
- deliver high quality inspection of schools, funded nursery education, teacher training, local authorities, further education for students up to 19, providing independent assessment to help them raise educational standards;
- provide high quality advice, based on inspection evidence, to the Secretary of State for Education and Skills to assist in the formulation and evaluation of Government policies.

Principal Activities

Her Majesty's Chief Inspector's principal duties are to establish and maintain the systems for the regular inspection of all state-funded schools and other aspects of education in England and for the regulation of childminders and day-care providers. Particular activities include:

- organising and regulating a contracted schools inspection system and a nursery education inspection system;
- regulation and inspection of childminding and day care;
- inspection of local authorities;
- inspection of providers of teacher training;
- inspection of local authority funded further education work and inspection of education provision for 16 to 19 year olds;
- preparation of HMCI's Annual Reports to Parliament on the state of education in England and the quality of childcare;
- providing advice to the Secretary of State for Education and Skills;
- publication of inspection reports on the Internet and publication of guidance and good practice on aspects of education.

Financial performance against objectives

The total net request for resources approved by Parliament was £220 million with net resources outturn of £219.4 million falling within this limit by £0.6 million. This expenditure is an increase of 3.7 per cent from that for 2004-05.

The 2005-06 accounts have been produced by apportioning net expenditure amongst six main objectives. Consequently the 2004-05 accounts have been restated by apportioning net expenditure against these same six operational objectives, so that direct comparisons can be made.

The aims of Ofsted are reflected in these six objectives shown in the Statement of Operating Costs by Departmental Aim and Objectives (SOCDAO) of the accounts. The first concentrates on the regulation of early years childcare providers where the net expenditure rose by 11.1 per cent from £89.9 million to £99.9 million. The second objective focuses on the work in schools and other educational institutions and the net expenditure rose by 6.3 per cent from £100.1 million to £106.4 million. The third objective concentrates on the inspection of colleges where the net expenditure fell by 61.8 per cent from £10.2 million to £3.9 million. The fourth objective focuses on the inspection of local education authorities where the net expenditure fell by 2.7 per cent from £3.7 million to £3.6 million. The fifth objective concentrates on the inspection of the provision of initial training of teachers where the net expenditure fell by 66.7 per cent from £4.2 million to £1.4 million. The sixth objective focuses on ensuring Ofsted's data and inspection findings are disseminated where the net expenditure rose by 23.5 per cent from £3.4 million to £4.2 million.

The Departmental Report gives detailed information about the achievements of 2005-06. Highlights of the year include:

- Introducing a new inspection framework and a grading system for childcare from April 2005 that rates providers as Outstanding, Good, Satisfactory or Inadequate. By 2008, all childminders and day care providers will have been inspected under the new 'little or no notice' inspection framework. This is based on the five outcomes for children that are set out in Every Child Matters. Over one million children are placed with childminders and in nurseries every day so it is important that parents have easy access to good information about the quality of care their children are receiving.
- Launching a new school inspection system in September 2005 that entails a short and focused review of the fundamentals of a school's performance and systems at an expected maximum interval of three years, integrated with school self-evaluation and improvement planning. Such inspections, for which very short notice is given, will, across a six-year period, require a significantly smaller number of inspection days than previously allocated to six-yearly school inspections. Reports are provided more frequently to parents and others and will ensure that the whole process stimulates more rapid improvements through more frequent contacts with schools, leading to clear recommendations for action.
- Completing the establishment of our new regional office structure and the slimmed-down headquarters operation. Through the regional networks, our inspectors are able to build local links that make our inspection and its contribution to local and regional institutional improvement as strong and relevant as possible. At the same time, it is important that we retain a national perspective to enable us to report on the quality of childcare and teaching, and on the impact of government attempts to improve performance, across the country as a whole. We will, therefore, continue to strike a balance between central and regional work. With this in mind we have set up a National Business Unit (NBU), based in our Manchester office, to centralise common administrative functions and to simplify the way in which the public make contact with Ofsted.

Management arrangements

Ofsted's detailed management arrangements and responsibilities are articulated in the Ofsted Corporate Governance Framework that is available on the Ofsted Internet site (www.ofsted.gov.uk).

During 2005-06 Ofsted was managed by a Management Board which meets weekly and comprises Her Majesty's Chief Inspector (HMCI), and the Directors and Deputy Directors of each of the four Directorates. These members were the Director and Deputy Director of Education, the Director and Deputy Director of Early Years, the Director and Deputy Director of Corporate Services and the Director of Finance. A Deputy Director of Finance was appointed and joined the Board in September 2005.

A Strategic Board also met every six weeks, and comprised HMCI, the Directors and two non-executive Directors. In December 2005 the Department for Education and Skills (DfES) decided to establish a new Ofsted on 1 April 2007 with the formal title of the Office for Standards in Education, Children's Services and Skills. Subject to legislation this decision will entail bringing together the work of the present Ofsted with functions from the Commission for Social Care Inspection (CSCI), the work of the Children and Family Court Advisory and Support Service (CAFCASS) of HM Inspectorate of Court Administration (HMICA) and the Adult Learning Inspectorate (ALI). Consequently the Strategic Board ceased to meet in February 2006 and was replaced by a Strategy Board that was appointed by the Secretary of State for Education and Skills to oversee the transition to the new organisational structure.

Subject to legislation a new non-executive corporate body will be set up from April 2007. This body will be headed by a non-executive chair and will have between 5 and 10 non-executive Directors. Under the new structure there will be clearly defined and distinct roles for the non-executive chair and HMCI.

Important events that have occurred since the financial year end

On 8 June 2006 the Secretary of State for Education and Skills announced that Christine Gilbert, currently Chief Executive of the London Borough of Tower Hamlets, had been appointed the new Chief Inspector of Schools in England with effect from 1 October 2006. Subject to the passage of the Education and Inspections Bill through Parliament she will become the first Chief Inspector of Education, Children's Services and Skills on 1 April 2007.

Important events which have occurred during the financial year

During 2004 the Ofsted Board developed a long-term strategy that will deliver efficiency cost savings in line with the government's wish to redirect resources to front-line service delivery. These efficiency savings contribute to those outlined by the DfES in their Efficiency Technical Note published in December 2005. The Ofsted strategy is outlined in the *Ofsted Strategic Plan for 2005 to 2008*, and has been informed by recommendations in both the Gershon and the Lyons Reviews. All of the required changes were implemented under the umbrella of the *Improving Ofsted Programme*, which was completed at the end of March 2006. This programme was delivered to specification, below costs and ahead of schedule. Consequently, Ofsted remains on target to meet its head-count reduction obligation of removing some 500 posts overall, and to deliver the 20 per cent cost savings required by the end of March 2008.

In the second half of 2005 the DfES consulted on proposals to establish Ofsted as the single inspectorate in England for children and learners. These proposals entailed bringing together the work of Ofsted with functions from the CSCI, CAFCASS of HMICA and the ALI. In December 2005 the Department announced that ministers had decided to proceed with these proposals, and to ask Parliament to establish the new Ofsted on 1 April 2007 with the formal title of the Office for Standards in Education, Children's Services and Skills. These changes, which will be carried through during the next twelve months, will have a profound impact on our long-term strategy.

Along with these changes to our remit the government has proposed to revise Ofsted's governance arrangements. Ofsted will remain a non-ministerial government department, but with a body corporate – in effect, a board – with a non-executive chair. Most members will be non-executive, but HMCI will also be a member, and the independence of HMCI's role will be enshrined in statute. Subject to the passage of the necessary legislation, these new governance arrangements will come into effect from 1 April 2007. The Secretary of State has established a strategy board, with largely non-executive membership from each of the inspectorates concerned, to begin the process of preparing a strategy for the new Ofsted and to build on the strengths of the existing inspectorates. Once the legislation has been passed, it is expected that this function will be taken over by the new body corporate, initially in shadow form. A completely revised long-term strategy will then be published as the *Ofsted Strategic Plan for 2007 to 2010* in early 2007.

In March 2006 Ofsted published a revised strategic plan for 2006-07 in order to cover the new requirement to establish Ofsted as the single inspectorate in England for children and learners. The revised strategy sets out Ofsted's longer-term aims and highlights the key priorities and activities that will steer the work of the organisation over the twelve months. The strategy details how Ofsted will continue to meet the challenge of further improving the quality and standards of education through independent inspection and advice; of helping to ensure and improve the quality and, standards of childcare through regulation. It also outlines the plans that the Department has put in place for 2006-07 to make our inspection and regulation more proportionate and cost-effective. These plans will ensure that a higher proportion of Ofsted's resources will be going into inspection and regulatory activities. This is in line with delivering, by 2007-08, annual cost savings of 20 per cent, representing about £40 million.

Going concern

With the continued support of the Department for Education and Skills, Ofsted is regarded as a going concern. The balance sheet at 31 March 2006 shows Net Liabilities of £25.3 million. This reflects the policy, under the Government Resources and Accounts Act 2000, that no money may be drawn from the Consolidated Fund other than required for the service of the specified year to meet the Net cash requirement. All unspent monies, including those derived from the department's income, are surrenderable to the Consolidated Fund and are disclosed as a year-end liability.

Public interest and other

Employment of Disabled Persons and Equal Opportunities Policy

Ofsted is committed to equal opportunities for all staff. It is Ofsted's policy to recruit, retain and promote the best available people without reference to race, religion, marital status, gender, sexual orientation, disability or any other irrelevant factors. This means ensuring that all have an equal opportunity to be recruited for posts in which they have the necessary skills and expertise, to contribute to the full extent of their abilities, and to enjoy the benefits of their contribution by way of training, development and advancement.

Environmental, social and community issues

Ofsted follows the Office of Government Commerce (OGC) guidelines relating to sustainable development and the use of resources, and these were used during the *Improving Ofsted Programme* in developing the plans for the fitting out of the new regional offices in Bristol, Nottingham and Manchester. Ofsted is also looking to develop a new procurement policy that will have sustainability and environmental impact as core components in the selection process.

Ofsted actively encourages its staff to participate in local activities and community events, particularly those staff based in the regional offices in Bristol, Nottingham and Manchester. A crucial component of the decision to reorganise around these three regions (North, Midlands and South) was to be able to allow our staff to build local links that make our inspection and its contribution to local and regional institutional improvement as strong and relevant as possible.

Payment of Suppliers

Ofsted is committed to paying all undisputed invoices within 30 days of the later of receipt of goods/services or receipt of the invoice. In 2005-06 97.7 per cent of payments achieved this target. This is a small increase on the figure achieved for 2004-05, which was 97.4 per cent. There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1988.

Auditor

The Department's auditor is the Comptroller and Auditor General. The resource accounts have been prepared under direction issued by HM Treasury in accordance with Government Resources and Accounts Act 2000 and are subject to audit by the Comptroller and Auditor General.

As far as the Accounting Officer is aware there is no relevant audit information of which Ofsted's auditors are unaware. The Accounting Officer has taken all the necessary steps to make himself aware of any relevant audit information, and to ensure that the auditors have also been provided with this information.

A notional fee of £50,000 was charged for the audit of the accounts for the period ending 31 March 2006.

Pension Liabilities

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). See note b under the heading entitled 'Remuneration Report' for more details on the scheme.

The Provision of Information

Ofsted's Internet site presents information of interest to parents, teachers and other groups and is heavily used. Over the past 12 months the average number of visits per month has increased, yet again, to more than 33 million. In addition there are also over 30,000 subscribers to 'Ofsted Direct' our web-based online newsletter (www.ofsted.gov.uk), from 79 per cent of schools in England. The Ofsted Intranet has also continued to be developed, with many divisions having developed sub-sites to provide more detailed information to staff about the work they do.

The Freedom of Information Act came into force on 1 January 2005 and Ofsted introduced procedures to ensure that all staff were aware of their responsibilities under the Act and that requests for information are handled correctly. All requests are logged and the time taken to satisfy them is monitored in the quarterly management information report that is provided to the Ofsted Management Board.

Maurice J. Smith
Accounting Officer for the
Office of Her Majesty's Chief Inspector of Schools in England
29 June 2006

REMUNERATION REPORT

Part A: Unaudited

Ministers

Ofsted is a non-ministerial department.

Permanent Head of the Department and Senior Management

David Bell held the position of Her Majesty's Chief Inspector (HMCI) and Permanent Head and Accounting Officer of Ofsted until 31 December 2005. On 1 January 2006 Maurice Smith was appointed to the position.

The following people were Directors for whole or part of the financial year:

Maurice Smith	Director of Early Years
Dorian Bradley	Director of Early Years
Miriam Rosen	Director of Education
Robert Green	Director of Corporate Services and Director of Inspectorate Reform
Andrew White	Director of Corporate Services
Jonathan Thompson	Director of Finance

The following people were Deputy Directors for whole or part of the financial year:

Dorian Bradley	Deputy Director of Early Years
David Singleton	Deputy Director of Education
David Hinchliffe	Deputy Director of Education
Vanessa Howlison	Deputy Director of Finance
Andrew White	Deputy Director of Corporate Services
Peter Duffy	Deputy Director of Corporate Services

Appointment of the Permanent Head of the Department, Directors and the Deputy Directors

On 1 May 2002 David Bell was appointed as Her Majesty's Chief Inspector of Schools in England (HMCI). He left Ofsted on 31 December 2005 to take up the position as Permanent Secretary at the Department for Education and Skills. Maurice Smith was appointed Director of Early Years on 8 April 2003 and was made HMCI from 1 January 2006.

Robert Green became a Director on 4 March 2002 following a service wide trawl. During 2005-06 he occupied the position of Director of Corporate Services before taking on the role of Director of Inspectorate Reform from 1 January 2006. Miriam Rosen became Director of Education on 6 April 2004 and Jonathan Thompson took up the new post of Director of Finance on 27 September 2004, both following open competition. On 1 January 2006 Dorian Bradley and Andrew White were appointed to the respective positions of acting Directors of Early Years and of Corporate Services, having previously been the Deputy Directors for these Directorates.

David Singleton was Deputy Director of Education until he retired from Ofsted on 31 August 2005. David Hinchliffe was appointed in his place from 1 September 2005. Vanessa Howlison was appointed to the newly created post of Deputy Director of Finance from 1 September 2005, following open competition. Peter Duffy was appointed acting Deputy Director of Corporate Services from 1 January 2006.

HMCI and the senior management team are covered by the Civil Service Management Code. The Directors and Deputy Directors are all permanent civil servants.

Part B: Audited

Directors' Remuneration

HMCI's remuneration is an annual salary with a bonus of 12 per cent available for a 12-month period subject to performance. The directors and deputy directors are paid as senior civil servants and are subject to the recommendations of the Senior Salaries Review Body.

Ofsted has established a single Senior Civil Service (SCS) Pay Committee comprising HMCI, the Directors and a further independent person. This Committee decides on all annual pay and bonus awards for members of the SCS as well as agreeing any changes to Ofsted's SCS pay strategy. Ken Bradley, a retired Civil Servant and external member of Ofsted's Audit Committee, serves as the independent member on the SCS Pay Committee. The role of the independent member is to quality assure the process, ensuring that pay decisions are consistent with the evidence of individuals' performance and that consistent criteria are applied to arrive at individual pay decisions.

The salary and pension entitlements of the most senior members of Ofsted for the year ending 31 March 2006 and as at 31 March 2006 were as follows:

Salaries (Note a):

Name	Salary (s) year ending 31 March 2006 £000	Salary (s) year ending 31 March 2005 £000
David Bell (1)	120-125 *(155-160 full year equivalent)*	150-155
Maurice Smith (2)	135-140	105-110
Robert Green (3)	115-120	110-115
Miriam Rosen (4)	110-115	105-110
Jonathan Thompson (5)	115-120	50-55 *(105-110 full year equivalent)*
Dorian Bradley (6)	95-100	75-80
Andrew White (6)	95-100	85-90
Vanessa Howlison (7)	45-50 *(80-85 full year equivalent)*	Not in post
David Singleton (8)	50-55 *(105-110 full year equivalent)*	95-100
David Hinchliffe (9)	50-55 *(85-90 full year equivalent)*	Not in post
Peter Duffy (10)	20-25 *(80-85 full year equivalent)*	Not in post

In 2005-06 Vanessa Howlison received a relocation allowance of £40K as a Benefit in Kind.

None of the other senior members of staff received any Benefit in Kind (2004-05 – £nil).

Pension Benefits (Note b):

Name	Real increase in pension at 60 (b) Year ending 31 March 2006 £000	Real increase in Lump Sum Year ending 31 March 2006 £000	Total accrued Pension at 60 At 31 March 2006 £000	Total Lump Sum at 60 At 31 March 2006 £000	CETV at start of year (Note c) £000	CETV at end of year (Note d) £000	Employee contributions and transfers in £000	Real increase in CETV (Note e) £000
David Bell (1)	0–2.5	2.5–5	25–30	85–90	371	490	1.19	18
Maurice Smith (2)	0–2.5	2.5–5	35–40	110–115	525	697	1.61	29
Robert Green (3)	0–2.5	5–7.5	40–45	130–135	641	856	4.37	44
Miriam Rosen (4)	0–2.5	0	55–60	0	870	1,112	8.77	35
Jonathan Thompson (5)	0–2.5	0	10–15	0	104	163	3.58	16
Dorian Bradley (6)	2.5–5	10–12.5	30–35	100–105	567	782	1.34	94
Andrew White (6)	2.5–5	10–12.5	25–30	75–80	210	334	1.34	44
Vanessa Howlison (7)	22.5–25	0	22.5–25	0	0	266	151.87	265
David Singleton (8)	0–2.5	2.5–5	35–40	115–120	783	914	0.60	24
David Hinchliffe (9)	5–7.5	12.5–15	30–35	80–85	448	662	1.68	122
Peter Duffy (10)	2.5–5	0	30–35	0	342	462	0.73	32

(1) *David Bell* was appointed HMCI on 1 May 2002 and left Ofsted on 31 December 2005.
(2) *Maurice Smith* was a Director until 31 December 2005 and was appointed HMCI on 1 January 2006.
(3) *Robert Green* was appointed a Director on 4 March 2002.
(4) *Miriam Rosen* was made a Director on 6 April 2004.
(5) *Jonathan Thompson* was appointed a Director on 27 September 2004.
(6) *Dorian Bradley* and *Andrew White* were Deputy Directors until 31 December 2005 and were appointed acting Directors on 1 January 2006.
(7) *Vanessa Howlison* was appointed a Deputy Director on 1 September 2005.
(8) *David Singleton* was a Deputy Director until 31 August 2005.
(9) *David Hinchliffe* was appointed Deputy Director on 1 September 2005.
(10) *Peter Duffy* was appointed as acting Deputy Director on 1 January 2006.

The Audit Committee is chaired by David MacLeod, one of the non-executive members. During 2005-06 it also had two further independent members, Ken Bradley and Bill Richardson, both of whom were unpaid. Bill Richardson retired from the Audit Committee effective from 31 December 2005. These non-executives work with the Accounting Officer in line with the best practice for an Audit Committee as defined by HM Treasury.

The non-executive members of the Strategic Board, David MacLeod and Laura Sharpe, were not paid any remuneration during the year. Laura Sharpe resigned as a non-executive with effect from 1 March 2006.

Maurice J. Smith
Accounting Officer for the
Office of Her Majesty's Chief Inspector of Schools in England
29 June 2006

Notes:

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

Note (b). Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (*Classic, Premium* and *Classic Plus*). 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*). Details of these schemes are as follows:

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.

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 earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/80ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

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

Pensions payable under *Classic, Premium*, and *Classic Plus* are increased in line with the Retail Prices Index.

Partnership Pension Account: This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (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 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum.

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Notes (c) & (d). This cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension schemes 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 pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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.

Note (e). 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 arrangement) and uses common market valuation factors for the start and end of the period.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, Ofsted 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 Ofsted 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 Ofsted, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of Ofsted as Accounting Officer of the Department with responsibility for preparing Ofsted'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 *Government Financial Reporting Manual (FReM)* prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- 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;
- prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the *Accounting 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 Ofsted'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*. My post is a Crown appointment but, in terms of reporting, I meet regularly with DfES Ministers and senior officials, and I appear before the House of Commons Education and Skills Select Committee twice a year.

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 aims, objectives and policies. 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 aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and, to manage them efficiently. The system of internal control has been in place in Ofsted for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, in accordance with Treasury guidance.

Capacity to handle risk

In general terms Ofsted has a relatively conservative risk appetite and the Management Board provides leadership to the risk management process by reviewing all issues that come before it in order to determine the risk management implications. For this purpose all Board papers contain a section headed "finance, efficiency and risk implications". The regular management information report, which is routinely reviewed by the Management Board, focuses the Board's attention on progress against Ofsted's key strategic objectives. A section of this pack contains a summary of progress in managing and mitigating the key risks and this also enables the Board to view progress over time.

Risk and control framework

The Ofsted risk management and other governance procedures continued to be enhanced during 2005-06. Significant items included:

- The Risk Management Policy and Procedures were updated in July 2005, as well as the risk management section of the Ofsted Financial Code.
- The strategic planning process included a step to identify key risks associated with each of the strategic objectives for 2005-06 and for 2006-07: ownership of each risk was assigned to a Board member.
- A successful review of Ofsted's financial management practices against HM Treasury standards was completed.
- A Deputy Finance Director was appointed in September 2005 to provide additional expertise and make our financial management yet more robust. The Finance Directorate also has responsibility for the co-ordination and management of corporate governance across the whole of Ofsted, and is ensuring that this is fully integrated with the existing financial management and planning processes.
- The establishment of an Investment Review Committee (IRC), as a sub-committee of the Management Board. The IRC is charged with advising the Board on the effective allocation of financial and non-financial resources, and with managing the annual business planning and budgeting process.
- The creation of a unified Corporate Governance Framework. This was implemented in the middle of 2005-06 and sets out how Ofsted operates, how decisions are made and the procedures that ensure that these decisions are efficient, transparent and accountable. It coordinates and integrates all existing policies.
- Implementation of a register of interests for Directors, Deputy Directors and Divisional Managers.
- Continued use of the Risk Management Assessment Framework to provide a method of self-assessing Ofsted's risk management performance. This enables Ofsted to contribute to government-wide surveys on risk management and to assess its performance relative to that of other government bodies.

- Continued emphasis on educating key staff on the importance of effective risk management, with the introduction of a series of workshops entitled "Playing your part in risk management". A series of workshops were held across Ofsted during 2005-06, with special sessions being developed for Divisional Managers.

During the past year the identification of risks has continued to be integrated into the annual planning process. As part of the planning cycle for financial year 2006-07 risks were identified from the top down as part of strategic planning process and from the bottom up as part of business planning. In terms of business planning this means that all the operations and activities in divisional business plans were defined and any risks associated with them were quantified. These risks were then extracted from the business plans to create divisional risk registers that are maintained by the local management. During 2006-07 divisions will evaluate the probability and impact of their risks on a monthly rather than quarterly basis and will submit this information, together with the latest details of the actions being taken to counter the risk, to staff that consolidate the information from across the Directorates. The probability and impact assessments are then scored and those items deemed to be the most significant risks to Ofsted are reported in the monthly management information pack that is reviewed by the Management Board.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Ofsted 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, the Audit Committee and progress against a plan to tackle weaknesses and to ensure continuous improvement of the system is in place. I have concluded that internal control has continued to improve during the year.

During 2005-06 this process of continuous improvement has allowed Ofsted to continue to embed the following processes:

- A Management Board (the Board) that meets weekly. Once a month the Board specifically considers the financial and operational performance of the organisation. Once a quarter the Board considered a more comprehensive pack of management information comparing plans and performance. From 1 April 2006 the information in the existing monthly management information pack was enhanced to include more information on operational performance and risk management. During 2005-06, the Board also considered and approved the strategic and business plans, the budget, the risk register and a report reflecting on the financial performance at mid-year with recommendations for budget adjustments.
- A Strategic Board, which met approximately every six weeks and which included two non-executive directors. This was responsible for corporate governance, the strategic plan and other strategic issues. In February 2006 the Secretary of State for Education and Skills appointed a Strategy Board, which has the remit to provide guidance on the establishment of the new Ofsted from 1 April 2007 and Ofsted's Strategic Board was suspended.
- An Audit Committee that meets four times a year and is chaired by one of the non-executive directors. It also has further independent members.
- Reports by internal audit. These reports are to standards defined in the Government Internal Audit Manual and include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement.
- Monthly and quarterly reports from managers on the steps they are taking to manage their budgets, to meet their key objectives and to manage the risks in their areas of responsibility.
- The delegation of resource budgets down to cost centre level.
- The establishment and monitoring of key performance and risk indicators.
- The monitoring and scoring of Ofsted's risk management performance, and regular review of performance against key indicators.
- The monitoring and scoring of Ofsted's performance against HM Treasury's financial management standards.
- The monitoring and scoring of Ofsted's performance against HM Treasury's corporate governance standards.

- The completion of annual Assurance Statements by all Directors, Deputy Directors and Divisional Managers confirming their compliance with all standard governance arrangements, systems and processes.
- The maintenance of an organisation-wide central risk register and of divisional registers.
- The integration of the processes of strategic planning, business planning and risk management.
- Participation in the HM Treasury Risk Improvement Programme and feedback on risk management performance to the programme.

Conclusion

I recognise that significant progress continues to be made and I note the evidence of such progress supplied.

I want to ensure that Ofsted continues to improve its level of performance in 2006-07.

In 2005-06 Ofsted completed the *Improving Ofsted Programme*, the biggest change programme in its history. From the original idea in June 2004 to completion in February 2006, Ofsted put in place measures that will reduce its base costs by 20 per cent by the end of March 2008 in line with the Chancellor's targets. We did so by fundamentally changing all our inspection and regulatory programmes to make them more proportionate to risk; creating a regional structure to support these programmes which involved the closure of eight offices and the relocation, redeployment and redundancy of 500 posts (over 20 per cent of our workforce); thus stripping out 'back office' costs to maintain our front-line inspection and regulatory services. Management Board members took personal and visible responsibility for delivering the tough messages necessary during the change programme, and this was appreciated. Against the significantly improved financial background already described, this change programme was completed to specification, below cost and ahead of schedule. Simultaneously we have received praise from the Better Regulation Executive as an exemplar of a risk-based regulator for vulnerable clients and from our internal auditors who judged the programme as a 'resounding success'.

During 2005-06 all but two of the audits that were conducted by our internal auditors reported substantial or adequate assurance. However, our internal auditors noted in their annual report that the nature of these weaknesses in these two audits meant that they did not consider it necessary to qualify their annual opinion in this regard, and concluded that overall Ofsted has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

I was particularly pleased that the audits of risk management and of our corporate governance arrangements both gave rise to a substantial level of assurance. Moreover, I took further assurance in this area from the outcome of a similar review of corporate governance that was conducted by HM Treasury during 2005-06 which was consistent with these findings. During 2006-07 our plans will concentrate on further improving our performance against the HM Treasury standards for financial management and corporate governance. The Finance Director carried out an initial assessment in both areas in 2004-05 and identified that Ofsted already complied with 38 per cent of the financial management standards, and 36 per cent of those for corporate governance. His findings and recommendations were used to inform our improvement programme during 2005-06, and we estimate that our scores will have increased to 85 per cent and 90 per cent respectively when new assessments are made at the end of 2006. We aim to be among the first departments to achieve full compliance with these standards by 31 March 2007.

Following the statement by the Secretary of State for Education and Skills to establish the new Ofsted from 1 April 2007 one of our major challenges in 2006-07 will be to maintain effective governance, risk management and controls while we implement the required structural modifications, plan how to take on these additional responsibilities and bring new staff into the organisation. We will therefore be monitoring our performance very carefully while we make these changes.

Maurice J. Smith
Accounting Officer for the
Office of Her Majesty's Chief Inspector of Schools in England
29 June 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 Office of Her Majesty's Chief Inspector of Schools in England 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 Department 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 14 to 16 reflects the Department'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 Department'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 and the unaudited part of the 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 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 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 affairs of the Office of Her Majesty's Chief Inspector for Schools 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.

Sir John Bourn
Comptroller and Auditor General

30 June 2006

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

	Estimate			Outturn			2005-06	2004-05 Outturn
	Gross expenditure	Appropriations-in-Aid	Net request for resources	Gross expenditure	Appropriations-in-Aid	Net Total	Net total outturn compared with estimate savings/ (excess)	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1 Improving the quality and standards of education and childcare through independent inspection regulation and advice	**225,251**	**(5,251)**	**220,000**	**223,020**	**(3,574)**	**219,446**	**554**	211,535
Total Resources	**225,251**	**(5,251)**	**220,000**	**223,020**	**(3,574)**	**219,446**	**554**	211,535
Net Cash Requirement			**216,799**			**203,588**	**13,211**	202,009

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 and figures in £000s):

	Forecast 2005-06		Outturn 2005-06	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Total	**1**	***1***	–	–

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

The Net cash outturn was £13 million below estimate. The underspend in cash resources is mainly attributable to a reduction in operating costs after offsetting non-cash transactions and movements in working capital.

Operating Cost Statement

for the year ended 31 March 2006

Note		2005-06 £000	2005-06 £000	2004-05 £000	2004-05 £000
	Administration Costs				
2	Staff Costs		**10,425**		9,216
3	Non-staff administration Costs		**13,348**		15,330
	Gross Administration Costs		**23,773**		24,546
5	**Operating Income**		**(197)**		(390)
	Net Administration Costs		**23,576**		24,156
	Programme Costs				
2	Staff Costs	**78,550**		87,697	
4	Expenditure	**104,126**		103,128	
4	Other Current Expenditure	**16,571**		–	
	Gross Programme Costs	**199,247**		190,825	
5	Less Income	**(3,377)**		(3,446)	
4	**Net Programme Costs**		**195,870**		187,379
7	**Net Operating Cost**		**219,446**		211,535
7	**Net Resource Outturn**		**219,446**		211,535

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

Note		2005-06 £000	2004-05 £000
17	Net gain/(loss) on revaluation of tangible fixed assets	**105**	1,009
	Net gain/(loss) on revaluation of intangible fixed assets	–	51
	Recognised Gains and Losses for the financial year	**105**	1,060

Balance Sheet

as at 31 March 2006

Note		31 March 2006 £000	31 March 2006 £000	31 March 2005 £000	31 March 2005 £000
9	Tangible fixed assets	**2,302**		9,513	
10	Intangible fixed assets	**194**		947	
			2,496		10,460
12	**Debtors falling due after more than one year**		**94**		92
	Current assets				
12	Debtors	**3,777**		5,135	
13	Cash at bank and in hand	**2,331**		3,011	
		6,108		8,146	
14	Creditors: amounts falling due within one year	**(19,956)**		(16,730)	
	Net current liabilities		**(13,848)**		(8,584)
	Total assets less current liabilities		**(11,258)**		1,968
15	Provisions for liabilities and charges		**(14,085)**		(10,686)
			(25,343)		(8,718)
	Financed by:				
	Taxpayers' Equity				
16	General fund		**(25,563)**		(11,330)
17	Revaluation reserve		**220**		2,384
17	Donated asset reserve		–		228
			(25,343)		(8,718)

Maurice J. Smith
Accounting Officer for the
Office of Her Majesty's Chief Inspector of Schools in England
29 June 2006

Cash Flow Statement

for the year ended 31 March 2006

Note			2005-06		2004-05
			£000		£000
A	Net cash outflow from operating activities		**(202,606)**		(199,154)
B	Capital expenditure and financial investment		**(982)**		(2,857)
	Payments of amounts due to the Consolidated Fund		–		(189)
C	Financing from Consolidated fund		**202,908**		203,096
D	(Decrease)/Increase in cash in period		**(680)**		896

Reconciliation of operating cost to operating cash flows

Note			2005-06		2004-05
	Net operating cost		**219,446**		211,535
	Adjustments for non cash transactions		**(15,349)**		(14,722)
	Auditor's Remuneration	**(50)**		(50)	
	Provisions	**(7,170)**		(10,455)	
	Loss on disposal of fixed assets	**(5)**		(95)	
	Fixed Assets write off	**(8,313)**		–	
	Capital Charges	**189**		(4,955)	
	PFI final year depreciation	–		833	
11	Adjustments for movement in working capital other than cash		**(5,262)**		2,022
15	Use of provision		**3,771**		319
A	**Net cash outflow from operating activities**		**202,606**		199,154

Analysis of Capital expenditure and financial investment

Note		2005-06	2004-05
10	Intangible fixed asset additions	**88**	732
9	Tangible fixed asset additions	**894**	2,125
	Proceeds of disposal of fixed assets	–	–
B	**Net cash outflow from investing activities**	**982**	2,857

Analysis of financing

Note		2005-06	2004-05
	From Consolidated Fund (Supply) – current year[a]	**202,908**	203,096
C	**Net Financing**	**202,908**	203,096

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

Note		2005-06	2004-05
	Net cash requirement (SOPS)[b]	**(203,588)**	(202,009)
	From Consolidated Fund (Supply) – current year[a]	**202,908**	203,096
	Amounts due to the Consolidated Fund – received in prior year and paid over	–	(189)
	Working Capital Adjustment	–	(2)
D	**(Decrease)/Increase in cash**	**(680)**	896

[a] Amount of supply actually issued to support the net cash requirement 202,907,500.00
[b] Statement of Parliamentary Supply.

Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2006

Aim: Better education and care through effective inspection and regulation.

		2005–06			2004–05 (Restated)	
	Gross	**Income**	**Net**	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Objective One Ensure that children in the registered care of others are safe, well cared for and engaged in activity that promotes their development and learning	**103,034**	**3,146**	**99,888**	92,889	2,969	89,920
Objective Two Ensure that every school is inspected on a regular basis, that all schools causing concern are monitored and that national strategies and other initiatives for the improvement of schools are evaluated rigorously	**106,808**	**428**	**106,380**	100,992	867	100,125
Objective Three Ensure that every college is inspected on a regular basis, that provision for the 14-19 age group is evaluated within joint area reviews, and that national strategies for improving the education of this age group are rigorously evaluated	**3,936**	–	**3,936**	10,244	–	10,244
Objective Four Produce, with other inspectorates and commissions, a framework for the inspection of children's services and introduce a programme of joint area reviews from September 2005	**3,594**	–	**3,594**	3,717	–	3,717
Objective Five Inspect the provision for the initial training of teachers to work in schools and further education, and the training provided in support of new policy initiatives	**1,432**	–	**1,432**	4,162	–	4,162
Objective Six Ensure that Ofsted's data and inspection findings are disseminated and used to make the fullest possible contribution to the inspection process, the improvement of provision, and educational debate	**4,216**	–	**4,216**	3,367	–	3,367
Net operating costs	**223,020**	**3,574**	**219,446**	215,371	3,836	211,535

Expenditure shown for 2005-06 reflects an improved allocation methodology between the objectives. Expenditure shown for 2004-05 has been restated for consistency. Net Operating Cost figures remain unchanged.

NOTES TO THE OFSTED RESOURCE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the 2005-06 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. 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 Ofsted for the purpose of giving a true and fair view has been selected. Ofsted's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The accounts have been prepared on a going concern basis. Ofsted's activities will continue in operational existence for 2006-07 and in future years, subject to Parliamentary approval, as part of the functions of a new Ofsted with the formal title of the Office for Standards in Education, Children's Services and Skills.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets where material, 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. 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.

Land and buildings are restated to current value using professional valuations in accordance with FRS 15 every five years and in the intervening years by the use of published indices appropriate to the type of land or building. Title to the freehold land and buildings shown in the accounts is held by the first Secretary of State.

During the year there was a change in estimation technique. A fundamental review of fixed assets was undertaken which involved increasing the capitalisation threshold from £1,000 to £10,000 and removing assets where it could not be demonstrated that they continued to add value. Other tangible assets have been stated at current cost using appropriate indices. Published indices appropriate to the category of asset are normally used to estimate value.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value, where applicable, on a straight-line basis over their estimated useful lives.

Asset lives are normally in the following ranges:

Buildings	50 years
Information Technology	3 to 5 years
Motor Vehicles	3 years
Furniture and Fittings	15 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 equivalent to the depreciation charge on the asset is released from the Donated Asset Reserve to the Operating Cost Statement. As a result of the fundamental review of fixed assets carried out during the year, all donated assets were written off to revenue.

1.5 Intangible Fixed Assets

Purchased computer software licenses in excess of the capitalisation threshold are capitalised as intangible fixed assets and amortised over their useful economic life of 5 years.

1.6 Development Expenditure

Development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred.

1.7 Operating and Other Income

Operating and other income relates directly to the operating activities of Ofsted. It principally comprises registration fees and charges for services provided, but not on a full cost basis. It includes both income appropriated in aid of the Estimate and also income to the Consolidated Fund, which in accordance with the FReM should be treated as operating income.

1.8 Administration and Programme Expenditure

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

Administration costs reflect the costs incurred in running Ofsted. These include administrative costs net of associated operating income. Income is analysed in the notes, between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit and that operating income which is not.

Programme costs reflect the cost of activities to achieve Ofsted's operational aims. It includes certain staff costs and the costs for the provision of IS equipment and services for Ofsted together with the majority of depreciation, exclusively or largely engaged in inspections or in direct support of inspections.

1.9 Capital Charge

A charge, reflecting the cost of capital utilised by Ofsted, is included in the Operating Cost Statement. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, with the exception of Bank and Cash balances and Donated Fixed Assets. As in the previous year the average capital employed represented a net liability and therefore effectively interest (income) on capital is included in the accounts. This credit has been split between programme and administration costs.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 2. The defined benefit schemes are unfunded and are non-contributory except in respect of dependents' benefits. Ofsted 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 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, Ofsted recognises the contributions payable for the year.

1.11 Operating Leases

Ofsted has two main types of operating leases, those for the payment of rent on property (Head Office and the majority of the regional centres) and those for the rental of office equipment at all locations. Rentals payable are charged to the Operating Cost Statement on a straight-line basis over the term of each lease.

1.12 Private Finance Initiative (PFI) transactions

There are no PFI transactions included in the accounts.

1.13 Provisions

In accordance with FRS12, Provisions, Contingent Liabilities and Contingent Assets, Ofsted 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 HM Treasury (currently 2.2 per cent).

1.14 Value Added Tax

Most of the activities of Ofsted 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 tax is charged or input VAT is recoverable, the related recoverable amount is netted off total administration or programme cost.
(See note 3 – Non-staff Administration Costs and note 4 – Net Programme Costs).

2. STAFF NUMBERS AND RELATED COSTS

Staff costs

	2005-06	2004-05
	£000	£000
Wages and Salaries	**68,055**	79,225
Other Pension Costs	**12,959**	9,594
Social Security Costs	**5,756**	5,713
Early Departure Costs	**209**	52
Agency Costs	**1,996**	2,329
	88,975	96,913
Analysis for the year ended 31 March:		
Administration costs	**10,425**	9,216
Programme costs	**78,550**	87,697
Total	**88,975**	96,913

In 2004-05 a provision of £9 million was established relating to the *"Improving Ofsted Programme"* (IOP) and was included in "Wages and Salaries". This recognised the obligation made by Ofsted to a range of staff that were entitled to voluntary redundancy, redeployment or relocation as part of this change programme (see Note 15).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Ofsted is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31st March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Service Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £12,959,836 were payable to the PCSPS (2004-05 £9,594,393) at any one of four rates in the range 16.2 to 24.6 per cent of pensionable pay. It has been agreed however that further rises will take place in contributions over the next two years. Employer contribution rates are reviewed every three 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.

There were no ill health retirements during 2005-06.

Average number of persons employed

The average number of whole-time equivalent persons (including senior management and excluding staff on secondment to other organisations) employed during the year was as follows:

	2005-06				2004-05
	Senior Management	**Officials**	**Agency and contract staff**	**Total**	Total
	No	**No**	**No**	**No**	No
Objective 1	**5**	**1,797**	**27**	**1,829**	1,888
Objective 2	**4**	**389**	**28**	**421**	419
Objective 3	**0**	**21**	**2**	**23**	65
Objective 4	**0**	**24**	**9**	**33**	45
Objective 5	**0**	**13**	**–**	**13**	48
Objective 6	**0**	**44**	**12**	**56**	57
Total	**9**	**2,288**	**78**	**2,375**	2,522

See Statement of Operating Costs by Departmental Aim and Objectives for details

3. NON-STAFF ADMINISTRATION COSTS

	2005-06	2004-05
	£000	£000
Accommodation-Rates	**549**	612
Accommodation-Service Charge	**5**	6
Building Maintenance and Utilities	**478**	343
Cleaning	**118**	115
Hospitality	**9**	14
Information Systems Maintenance and Licenses	**863**	387
Other Expenses	**2,989**	1,882
Outside Professional Assistance	**4,586**	5,644
Postage and Telecommunications	**508**	578
Printing, Distribution and Publicity	**300**	453
Rentals under operating leases	**2,624**	2,651
Staff Training	**684**	1,500
Stationery and Office Supplies	**81**	45
Travel and Subsistence	**427**	335
VAT Refunds	**(1,157)**	(1,206)
Subtotal	**13,064**	13,359
Non cash items:		
Auditor's Remuneration	**50**	50
(Interest on capital)/cost of capital	**(70)**	(28)
Depreciation	**40**	575
Donated asset depreciation	–	48
Early Retirement Provision in year	–	1,187
Early Retirement Unwinding of discount	–	46
Other provision	**66**	–
Loss on disposal of fixed assets	–	93
Provision for Doubtful Debts arising in year (Note 22)	**350**	30
Write back provision for Doubtful Debts previously provided for	**(156)**	(30)
Write-off-Bad Debts (Note 23)	**4**	–
Total	**13,348**	15,330

The auditors received no remuneration for non-audit services during the year.

4. NET PROGRAMME COSTS

Note		**2005-06**		2004-05	
		£000	£000	£000	£000
2	Staff costs		**78,550**		87,697
	Other current expenditure	**97,342**		91,691	
	IS Service Contract	**8,623**		7,835	
	Depreciation	**465**		4,569	
	VAT Refunds	**(1,680)**		(758)	
	(Interest on capital)/cost of capital	**(624)**		(209)	
			104,126		103,128
			182,676		190,825
	Other current expenditure				
a	Fixed asset write off	**8,313**		–	
b	Accrued liability relating to IS Service Contract	**8,258**		–	
			16,571		–
5	Less programme income		**(3,377)**		(3,446)
			195,870		187,379

a–A review of the fixed asset policy led to an increase in the capitalisation threshold from £1,000 to £10,000. Also during 2005-06 Ofsted carried out a fundamental review of fixed assets which identified certain assets which were no longer attributable to the activities carried out by Ofsted. As a result £8.3 million was written off.

b–In renegotiating a large Information Systems support contract Ofsted has recognised expenditure of £8.3 million in respect of the contractor's original upfront investment, which was intended to be recouped through future contract charges.

5. INCOME AND APPROPRIATIONS IN AID

Operating Income

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that included in public expenditure and that which is not. There was no income not classified as A-in-A in 2005/06

	2005-06 Resource Outturn		2004-05 Resource Outturn	
	A-in-A	Operating Cost Statement	A-in-A	Operating Cost Statement
	£000	£000	£000	£000
Programme Income:				
Income from Registration and Early Years	**2,972**	**2,972**	2,667	2,667
Other Programme Income	**405**	**405**	779	779
	3,377	**3,377**	3,446	3,446
Administrative Income:				
Fees and charges to External customers	**197**	**197**	390	390
	3,574	**3,574**	3,836	3,836

There was no Non-Operating A-in-A (Nil 2004-05)

6. OUTTURN AGAINST FINAL ADMINISTRATION BUDGET

The outturn within the administration costs control regime shown against individual Administration Cost Budget is as follows:

	Budget	**2005-06** Outturn	2004-05 Outturn
	£000	£000	£000
Gross Administration Budget	**24,765**	**23,773**	24,546
Income allowable against the Administration Budget	**(95)**	**(197)**	(390)
Net outturn against the final Administration Budget	**24,670**	**23,576**	24,156

For Ofsted, all Supply expenditure is within the control total (resource budget) and no expenditure is financed other than by requests for resources.

7. RECONCILIATION OF NET RESOURCE OUTTURN TO OPERATING COST

	2005-06 Outturn	Supply Estimate	Outturn compared with estimate	2004-05 Outturn
	£000	£000	£000	£000
Net Resource Outturn	**219,446**	**220,000**	**554**	211,535
Non-supply income (CFERs)	–	–	–	–
Net Operating Cost	**219,446**	**220,000**	**554**	211,535

8. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

	Estimate	Outturn	Savings/ (Excess)
	£000	£000	£000
Net Total Resources	**220,000**	**219,446**	**554**
Capital			
Acquisition of fixed assets:	**600**	**982**	**(382)**
Investments	–	–	–
Non-operating A-In-A			
Proceeds of fixed asset disposals	–	–	–
Accruals Adjustments:			
Non-cash items	**(3,790)**	**(8,220)**	**4,430**
Changes in working capital other than cash	**(11)**	**(5,262)**	**5,251**
Changes in creditors falling due after more than one year	–	–	–
New Provisions	–	**(7,129)**	**7,129**
Use of Provisions	–	**3,771**	**(3,771)**
Excess cash receipts surrenderable to the consolidated fund	–	–	–
Net cash requirement (Cash Flow Statement)	**216,799**	**203,588**	**13,211**

The estimation of the change in the provision figure was based on information not available at the start of the year.

A virement from resources to capital of £382K has been approved by HM Treasury due to additional refurbishment work. This virement has reduced the underspend on resources from £554K to £172K.

9. TANGIBLE FIXED ASSETS

	Land and Buildings	Information Technology	Furniture Fittings	Motor Vehicles	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2005	**553**	**10,782**	**10,508**	**624**	**22,467**
Additions	–	**437**	**368**	**89**	**894**
Disposals	–	–	–	**(8)**	**(8)**
Reclassification	**936**	**(11)**	**(925)**	–	–
Revaluation	**146**	**2**	**3**	**3**	**154**
Write Off[1]	**81**	**(10,167)**	**(9,559)**	**(394)**	**(20,039)**
at 31 March 2006	**1,716**	**1,043**	**395**	**314**	**3,468**
Depreciation					
At 1 April 2005	**189**	**8,099**	**4,397**	**269**	**12,954**
Charged in the year	**71**	**238**	**45**	**82**	**436**
Disposals	–	–	–	**(3)**	**(3)**
Reclassification	**178**	–	**(178)**	–	–
Revaluation	**47**	**1**	–	**1**	**49**
Write Off[1]	**62**	**(7,930)**	**(4,212)**	**(190)**	**(12,270)**
at 31 March 2006	**547**	**408**	**52**	**159**	**1,166**
Net Book Value at 31 March 2006	**1,169**	**635**	**343**	**155**	**2,302**
Net Book Value at 31 March 2005	364	2,683	6,111	355	9,513
Asset Financing at 31 March 2006					
Owned	1,169	635	343	155	2,302

All assets of Ofsted are revalued based on relevant price indices supplied by the Office of National Statistics (ONS) and the Treasury.

[1] A fundamental review of fixed assets has been undertaken in 2005-06 which resulted in a net write off to revenue.

10. INTANGIBLE FIXED ASSETS

	2005-06 Purchased software licences
	£000
Cost or Valuation	
At 1 April 2005	**1,579**
Additions	**88**
Disposals	–
Revaluation	–
Write Off[1]	**(1,319)**
at 31 March 2006	**348**
Depreciation	
At 1 April 2005	**632**
Charged in the year	**69**
Disposals	–
Revaluation	–
Write Off[1]	**(547)**
at 31 March 2006	**154**
Net Book Value at 31 March 2006	**194**
Net Book Value at 31 March 2005	**947**

[1] A fundamental review of fixed assets has been undertaken in 2005-06 which resulted in a write off to revenue.

11. MOVEMENTS IN WORKING CAPITAL OTHER THAN CASH

The movements in working capital used in Note 8 comprise:

	2005-06	2004-05
	£000	£000
Increase/(Decrease) in Debtors	**(1,356)**	(427)
(Increase)/Decrease in Creditors	**(3,906)**	2,449
Net (decrease)/increase in working capital other than cash	**(5,262)**	2,022
Adjustment: movement in working capital not related to net operating costs:		
Amounts due to the Consolidated Fund	**(680)**	1,088
Net (decrease)/increase in working capital other than cash	**(5,942)**	3,110

The movements in working capital other than cash used in the Cash Flow Statement comprise:

	2005-06	2004-05
	£000	£000
Increase/(Decrease) in Debtors	**(1,356)**	(427)
(Increase)/Decrease in Creditors	**(3,906)**	2,449
Net (decrease)/increase in working capital other than cash	**(5,262)**	2,022
Amounts due to the Consolidated Fund	**(680)**	1,088
Net (decrease)/increase in working capital other than cash	**(5,942)**	3,110

12. DEBTORS

	2005-06	2004-05
	£000	£000
Amounts falling due within one year		
VAT	**1,104**	817
Trade debtors	**516**	846
Deposits and advances	**242**	360
Other debtors	**44**	209
Prepayments	**1,871**	2,903
	3,777	5,135
Amounts falling due after more than one year		
Trade Debtors – Independent Schools	–	19
Deposits and advances	**94**	73
Prepayments	–	–
	94	92
Total debtors	**3,871**	5,227

Included in the total above is £2,166k which is due from other Central Government Bodies.

13. CASH AT BANK AND IN HAND

	2005-06	2004-05
	£000	£000
Balance at 1 April	**3,011**	2,115
Net Cash (Outflow)/Inflow	**(680)**	896
Balance at 31 March	**2,331**	3,011
The following balances are held at 31 March:		
Balances at PGO	**2,329**	3,009
Commercial banks and cash in hand	**2**	2
	2,331	3,011
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	**2,329**	3,009
Other: Petty Cash	**2**	2
	2,331	3,011

14. CREDITORS

	2005-06	2004-05
	£000	£000
Amounts falling due within one year		
Trade Creditors	**13,683**	10,141
Taxation and Social Security	**1,923**	1,971
Other Creditors	**2,021**	1,609
	17,627	13,721
Amounts payable to Consolidated Fund:		
Consolidated Fund for supply but not spent at year end	**2,329**	3,009
	19,956	16,730
Amounts falling due after more than one year	–	–
	19,956	16,730

Included in the total above is £3,525k which is due to other Central Government Bodies.

15. PROVISION FOR LIABILITIES AND CHARGES

	Estates	Reorgani-sation	Early Retirement	Other	Total	2004-05
	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2005	**218**	**9,004**	**1,464**	–	**10,686**	550
Provided/(written back) in the year	**6,915**	**(950)**	**1,024**	**140**	**7,129**	10,409
Amount utilised in year	–	**(3,468)**	**(303)**	–	**(3,771)**	(319)
Unwinding of discount	–	–	**41**	–	**41**	46
Balance as at 31 March 2006	**7,133**	**4,586**	**2,226**	**140**	**14,085**	10,686

Estates

Ofsted has rationalised its property estate as part of the 'Improving Ofsted' strategy. The provision reflects the future contractual costs of vacant leased property net of rental income.

Reorganisation

In 2004-05 a provision of £9 million was established relating to the *"Improving Ofsted Programme"* (IOP). This recognised the obligation made by Ofsted to a range of staff that were entitled to voluntary redundancy, redeployment and relocation. This obligation arose as a reduction and restructuring of the workforce and was integral to the IOP change programme which aimed to deliver a more efficient and effective Ofsted for the future. The provisions made for lump sums relating to early retirement and voluntary redundancy made followed DWP Guidance to government departments on the calculation of appropriate sums which may be capitalised and/or provided for.

Early Retirement

Ofsted meets the additional costs 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. When Ofsted has committed itself to a specific course of action it then provides, in full, for all early retirement costs by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms. In past years Ofsted 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 Service Superannuation Vote.

Other

The amount includes an Injury Provision and a provision for Compromise Agreements.

16. RECONCILIATION OF NET OPERATING COST TO CHANGES IN GENERAL FUND

	2005-06	2004-05
	£000	£000
Net Operating Cost for the year (Operating Cost Statement)	**(219,446)**	(211,535)
Income not appropriated in aid payable to Consolidated Fund	–	–
	(219,446)	(211,535)
Net Parliamentary Funding:		
Drawn Down	**202,908**	203,096
Deemed Supply	**3,009**	1,921
	(13,529)	(6,518)
Transferred to General Fund of realised element of Revaluation Reserve (see Note 17)	**2,269**	(2)
Consolidated fund creditor for cash unspent	**(2,329)**	(3,009)
Non-cash Charges/(Credit)		
PFI final year depreciation	–	(833)
(Interest on capital)/Cost of capital	**(694)**	(237)
Audit Fees	**50**	50
Other non cash charges		
Net Increase/(decrease) in General Fund	**(14,233)**	(10,549)
Other Reserves adjustment	–	29
General Fund at 1 April 2005	**(11,330)**	(810)
General Fund as at 31 March 2006 (Balance Sheet)	**(25,563)**	(11,330)

17. RESERVES

	2005-06	2004-05
	£000	£000
Revaluation		
Balance at 1 April	**2,384**	1,322
Arising on Revaluation during the year (net)	**105**	1,060
Transferred to General Fund	**(2,269)**	2
Balance at 31 March	**220**	2,384
Donated Asset		
Balance at 1 April	**228**	256
Arising on Revaluation during the year (net)	–	20
Release to the Operating Cost Statement for Depreciation	–	(48)
Write off to revenue	**(228)**	–
Balance at 31 March	–	228

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

The donated assets reserve reflects the net book value of assets donated to the department. As a result of the fundamental review of fixed assets carried out during the year, all donated assets were written off to revenue.

18. NOTES TO STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIM AND OBJECTIVES

Ofsted's capital is employed for both programme and administration purposes. It has been allocated as follows:

	2005-06		2004-05 (Restated)	
	Programme	**Admin**	Programme	Admin
	£000	£000	£000	£000
Objective One	**(8,119)**	**(902)**	(2,595)	(288)
Objective Two	**(8,646)**	**(961)**	(2,888)	(321)
Objective Three	**(319)**	**(35)**	(295)	(33)
Objective Four	**(292)**	**(32)**	(107)	(12)
Objective Five	**(116)**	**(13)**	(120)	(13)
Objective Six	**(342)**	**(38)**	(97)	(11)
	(17,834)	**(1,981)**	(6,102)	(678)

The average capital employed during the year has been allocated between programme and administration on the same basis as other apportioned costs. Capital employed is normally a positive figure but as Ofsted has net liabilities, this will show up as negative as was also the case last year.

As per the Statement of Operating Costs by Departmental Aim and Objectives, the 2004-05 figures have been restated.

19. (a) Capital Commitments

There are no contracted capital commitments at 31 March 2006 (2005: £nil).

(b) Other Commitments

As at 31 March 2006 Ofsted had entered into non-cancellable inspection and other contracts for various services totalling £169,879,947 for periods up to July 2009 (2005: £220,721,137).

Ofsted's original contract for IS services which was due to end in 2008 has been renegotiated for a further 3 years to February 2011. The total contract value as at 31 March 2006 is £29,518,597.

20. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2006 Ofsted was committed to making the following payments during the next year:

	2005-06	2004-05
	£000	£000
Operating leases expiring:		
Land and Buildings		
Expiry within 1 year	**261**	–
Expiry between 2 and 5 years	**2,650**	2,740
Expiry thereafter	**4,237**	2,646
	7,148	5,386
Other		
Expiry within 1 year	–	28
Expiry between 2 and 5 years	**42**	–
Expiry thereafter	–	–
	42	28

21. CONTINGENT LIABILITIES

(a) In 2001 a large number of staff transferred to Ofsted from 79 Local Authorities. Many also transferred their pensions into the Principal Civil Service Pension Scheme (PCSPS). Payment for transferred pension entitlement has been slow, and £4 million remains outstanding. The Cabinet Office has advised that any resultant liability would accrue to Ofsted.

(b) There are no non-statutory and statutory liabilities that have been reported to Parliament under the guidance in chapter 26 of Government Accounting 2000.

22. PROVISION FOR DOUBTFUL DEBTS

There is a provision for doubtful debts arising in the year of £350,023.

23. WRITE-OFFS

There is a bad debt write-off of £3,777 for the year.

24. RELATED PARTY TRANSACTIONS

Ofsted had a small number of transactions with the following other Government Departments, Central Government bodies and organisations during the year:

Adult Learning Inspectorate
Audit Commission
Criminal Records Bureau
Department for Education and Skills
Department for Work and Pensions
HM Revenue & Customs
HM Treasury
Learning and Skills Council
Local Education Authorities
NHS Trusts
Treasury Solicitors Department

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

25. LOSSES AND SPECIAL PAYMENTS

The total of all losses that have been brought to account in this year are as follows:

	No. of cases	£000
Fruitless payments and constructive losses	120	52
Special Payments	20	178
Total Losses and Special Payments	**140**	**230**

26. FINANCIAL INSTRUMENTS

FRS13, *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 largely non-trading nature of its activities and in the way in which government departments are financed, Ofsted 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. Ofsted has very limited powers to borrow or invest surplus funds and, except for relatively insignificant purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the department in undertaking its activities.

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