

# **Office for Standards in Education, Children's Services and Skills**

## **Resource Accounts 2009-10**

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## **Resource Accounts 2009-10**

**(For the year ended 31 March 2010)**

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## **ANNUAL REPORT**

### **Introduction**

The Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000. They represent the operating costs and financial position of the Office for Standards in Education, Children's Services and Skills (Ofsted) for the year ended 31 March 2010.

In accordance with HM Treasury direction, all government departments will be reporting under International Financial Reporting Standards (IFRS) from 2009-10. A significant amount of work has been undertaken to prepare for the transition to IFRS including the preparation of audited 2008-09 shadow accounts compliant with IFRS requirements. Note 2 of the Resource Accounts shows the movement in taxpayers' equity and a new operating cost statement as a result of the adoption of IFRS.

The only entity within the boundary during 2009-10 was the Office for Standards in Education, Children's Services and Skills (Ofsted).

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

### **Management Commentary**

#### **Departmental aim and strategic objectives**

The Office for Standards in Education, Children's Services and Skills (Ofsted) is a non-ministerial government department created on 1 April 2007 as the single inspectorate in England for children, young people and adult learners.

Ofsted inspects and regulates to achieve excellence in the care of children and young people, and in education and skills for learners of all ages, thereby raising standards and improving lives. We encourage the services we inspect and regulate:

- to improve
- to be user-focused
- to be efficient and effective.

#### ***Inspection***

Inspection entails assessing a service against a published framework and criteria. It involves close observation by trained and experienced inspectors with knowledge of the sector concerned, informed by a range of data, background information, often including providers' self-assessment, and dialogue with staff and users of services. The output of inspection is normally the publication of judgements set out in a report.

#### ***Regulation***

For a range of services relating to early years and children's social care, Ofsted also by law acts as a regulator by granting licences to operate or trade. This involves registering providers who meet the legal requirements, inspecting registered providers and investigating complaints against registered providers to see if they continue to meet

the required standards. Where providers do not come up to the required standards Ofsted may refuse to register them, or take a range of enforcement measures, including prosecution.

### ***Provision of information and advice***

Publications following inspections give users of services important information about local services. Through Ofsted's inspections and inspection surveys, we investigate new initiatives and good practice so that the findings can inform their implementation and development. Ofsted uses the wealth of material gathered through its work to report publicly and inform national and local policy makers and support services. Ofsted's work is used by support services and agencies, local and national policy makers, government ministers and officials.

The Children's Rights Director is based in Ofsted, supporting the rights of children and young people. Taking into account the views of looked after children and young people, he provides advice that helps Ofsted to make sure inspection and regulation safeguard and promote the welfare of children.

### **Principal Activities**

Ofsted's principal activities in 2009-10 included:

1. regulation and inspection of childminding and early education;
2. regulation and inspection of children's social care (including children's homes, family centres and adoption and fostering services and agencies);
3. inspection of the Children and Family Court Advisory and Support Service (Cafcass);
4. inspection of maintained schools and some independent schools;
5. inspection of safeguarding and looked after children's services in local authorities;
6. inspection of child protection contact, referral and assessment arrangements;
7. inspection of providers of initial teacher education;
8. inspection of Further Education (FE) colleges, sixth form colleges and specialist colleges;
9. inspection of a wide range of work-based learning and skills training;
10. inspection of adult and community learning;
11. inspection of Department for Work and Pensions (DWP) contracted employment provision of work-based training;
12. inspection of education and training in prisons and other secure establishments;
13. inspection of welfare and duty of care arrangements in armed forces and recruitment;
14. evaluation of the quality of serious case reviews;

15. monitoring the work of other inspectorates of independent schools;
16. assessment of the quality of local authority children's services;
17. inspection of subjects, aspects and themes relating to children's services, education and skills;
18. preparation of Her Majesty's Chief Inspector's (HMCI's) Annual Report to Parliament on the state of children's services, education and skills in England;
19. provision of advice to the Secretary of State for the Department for Education (DfE) (formerly known as the Department for Children, Schools and Families (DCSF)) and to the Secretary of State for Business, Innovation and Skills (BIS); and
20. publication of inspection reports on the internet.

### **Management arrangements**

Ofsted's detailed management arrangements and responsibilities are set out in the Ofsted Corporate Governance Framework that is available on the Ofsted internet site ([www.ofsted.gov.uk](http://www.ofsted.gov.uk)).

For the first five months of 2009-10, Ofsted was managed by a Corporate Management Team (CMT) led by Her Majesty's Chief Inspector (HMCI), and included the following Executive Directors: the Director, Children, the Director, Education, the Director, Learning and Skills, the Director, Corporate Services, the Director, Organisational Development<sup>1</sup>, the Director, Finance and the National Director, Inspection Delivery.

In September 2009, Ofsted changed the structure and the way it operates to ensure the inspections and the evidence gathered have the greatest impact for children, young people, parents, carers, adult learners and employers.

CMT was replaced by an Executive Board, which supports HMCI in ensuring effective strategic and corporate management of Ofsted. For the last seven months of 2009-10, membership of the Executive Board was as follows:

- HMCI
- Executive Director
- National Director, Delivery
- Director, Development (Education and Care)
- Director, Development (Learning and Skills)
- Director, Development (Social Care)
- Director, Finance
- Director, Corporate Services
- Director, Organisational Development<sup>1</sup>
- Director, Strategy

<sup>1</sup> Fixed term role for one year

The Education and Inspections Act 2006 established a statutory Board for Ofsted. During 2009-10 the Board comprised the following non-executives:

- Zenna Atkins (Chairman)
- George Battersby
- Sharon Collins (part year)
- Dame Jane Roberts
- John Roberts
- Vijay Sodiwala
- Museji Takolia
- Christopher Trinick
- Sir Alan Steer (Co-opted Board Member)

HMCI is also a member of the Ofsted Board. It is the role of the Ofsted Board to set the strategic priorities for Ofsted, to ensure that its functions are performed efficiently and effectively and to ensure that effective governance arrangements are in place.

Under the 2006 Act, HMCI remains solely responsible for the inspection and regulation of services within Ofsted's remit and for providing the Secretary of State for Education (DfE), and the Secretary of State for Business Innovation and Skills (BIS) with information or advice on all matters relating to these activities.

The Audit Committee provides scrutiny, oversight and assurance of risk management control and governance procedures to the Accounting Officer (HMCI) and to the Ofsted Board.

During 2009-10, the Ofsted Audit Committee was chaired by Christopher Trinick, and included Museji Takolia and John Roberts, and a financially qualified and independent member, Richard Harbord.

### **Financial performance against objectives**

The total net request for resources approved, was £202.2m. Ofsted's net resource outturn was £201.9m, meaning that Ofsted under spent against this limit by £0.3m.

Ofsted's net request for resources approved by Parliament for 2009-10 of £202.2m is £10.2m (4%) lower than the net request for resources approved for 2008-09 (£212.4m) demonstrating Ofsted's achievements in lowering its costs and achieving value for money.

Ofsted's agreed limit for its administration costs reduced by £0.7m (2%) from £28.7m in 2008-09 to £28.0m in 2009-10. Actual expenditure in 2009-10 against this limit was £27.8m, an under spend of £0.2m. In 2008-09, the administration budget was underspent by 0.6m.

The net cash requirement for 2009-10 was £195.0m compared to an estimate of £201.8m. The increase in provisions which will crystallise in the following financial years and the decrease in trade receivables are the most significant factors contributing to the cash variation of £6.8m.



The 2009-10 accounts apportion net expenditure between Ofsted's six strategic objectives. These are shown in the Statement of Operating Cost by Departmental Strategic Objectives in the accounts. These objectives are the same as those set out in the 2008-09 resource accounts.

Departments preparing resource accounts under the Government Resources and Accounts Act 2000 are required to produce the following analysis. It is a reconciliation of resource expenditure between Estimates, Accounts and Budgets.

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Net Resource (Estimates)	202,218	212,435
Net Operating Cost (Accounts)	201,942	206,823
Net Resource Outturn (Accounts)	201,942	207,515
Net Resource Budget (Budget)	<u>202,218</u>	<u>212,435</u>
Net Underspend	<u>276</u>	<u>4,920</u>

Work to harmonise Estimates, Accounts and Budgets through the 'clear line of sight' project continues across government.

The whole of the resource budget related to Departmental Expenditure Limits (DEL), and none to Annually Managed Expenditure (AME).

Ofsted does not hold any significant remote contingent liabilities.

### **Departmental Report**

There is no requirement for Ofsted to publish a Departmental Report for 2009-10. Instead the achievements of 2009-10 are set out below and the Financial Tables usually published as part of the Departmental Report are provided in Annex A.

The highlights include:

- meeting our inspection targets;
- commencing new arrangements for the inspection of schools, colleges and work based learning, Cafcass, and safeguarding and looked after children's services in local authorities;
- continuing to reduce the cost of inspection and regulation of education, children's services and skills, a reduction of 30% compared to costs in 2003-04;
- restructuring the organisation and introducing new ways of working to make it more efficient and effective;
- re-tendering our inspection service provider contracts to provide better value for money and carrying out a procurement exercise to outsource routine elements of early years inspection; and
- producing our first single equalities scheme, setting out what we need to do as an inspectorate and regulator, and as an employer, to reduce inequality.

## Going Concern

The statement of financial position at 31 March 2010 shows Net Liabilities of £29.5m. 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 Ofsted's income, are surrenderable to the Consolidated Fund and are disclosed as a year-end liability.

In common with other Government departments, the future financing of Ofsted's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. Accordingly, it has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

## Important events that have occurred during the financial year

During 2009-10 Ofsted conducted a programme of regulation and inspection in accordance with statutory requirements and internal targets. Ofsted carried out over 31,000 inspections, including inspections of: nearly 20,000 childcare and early years settings (such as nurseries and childminders), almost 4,000 maintained schools and 364 independent schools, 161 colleges, 228 work-based learning providers and 122 prison, probation and other secure estate settings. Ofsted carried out around 3,700 inspections of children's homes, began a new programme of inspections of safeguarding and looked after children's services in local authorities, and commenced an annual programme of unannounced inspections of local authority child protection arrangements.

Ofsted also undertook its regular programme of surveys, publishing over 50 survey reports during the year, looking in depth at aspects of provision, national initiatives and national curriculum subjects. During 2009-10, this included reports on school subjects, including English, art and design and citizenship, as well as publications on outstanding childminders, the impact of 'Train to Gain', support for care leavers and family learning, and reports on outstanding primary and special schools.

The inspection and survey programmes enable Ofsted to build up a powerful evidence base for the Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills. The Annual Report 2008/09 was published on 24 November 2009. As well as reporting on the overall quality and standards of the services Ofsted inspects and regulates, the report had three key themes, focussing on: improving outcomes for looked after children; teaching and learning – measuring up against world-class education systems; and skills for employment – responding to a changing and challenging environment.

Ofsted continues to develop the way it carries out its inspection and regulatory work in line with better regulation principles. In 2009-10, Ofsted introduced a number of new inspection frameworks which were each the subject of substantial consultation to ensure they meet the needs of children, parents, learners and employers, and are appropriate for the sectors and providers concerned. In July 2009, Ofsted began its new three-year rolling programme of inspections of safeguarding and looked after children services in local authorities, and a new annual programme of unannounced inspections of contact, assessment and referral arrangements. In September 2009, Ofsted introduced new

arrangements for the inspection of Cafcass, maintained schools and further education and skills.

Ofsted has been involved in a high profile judicial review regarding the emergency inspection of services for children and young people in Haringey in November 2008. The Court judgement was in Ofsted's favour.

We carried out a robust inspection, came to a sound conclusion based on the evidence and acted fairly. The inspection team did a professional and rigorous job and we are pleased that the inspection process was vindicated through the intense scrutiny of the court.

The case never challenged Ofsted's inspection judgement that child protection services in Haringey in November 2008 were inadequate and children who were 'at risk' were not being protected securely enough. We believe that the inspection report at the centre of this case, and our two follow up inspections, have made a substantial contribution to improving the protection of vulnerable children in Haringey.

Ofsted inspectors will continue to report without fear or favour wherever they identify that arrangements for protecting vulnerable children are not good enough.

In September 2009, Ofsted also commenced new contracts with three private sector inspection service providers. Under these contracts, the inspection service providers work with Ofsted to inspect maintained schools and some independent schools, further education colleges, initial teacher education and adult skills providers. A procurement exercise to outsource much of the day-to-day inspection of early years settings was conducted during 2009-10, with the successful bidders announced in February 2010.

During the year, Ofsted completed an extensive programme to review and redesign our organisational structure. The new structure took effect from 1 September 2009 at the same time as our move to a smaller London office. The restructure is intended to result in greater efficiency and effectiveness and has included streamlining our processes and procedures to deliver better ways of working. It brought together the delivery of inspection into a single directorate; created a new Development directorate with sole responsibility for inspection methodology, guidance and frameworks; and established a new Strategy function, whose prime focus is on increasing Ofsted's influence on both policy thinking and policy makers. As part of the restructure Ofsted appointed dedicated specialist directors in its three key remit areas (learning and skills, education and care, and social care) to ensure the highest levels of expertise at Executive Board level.

Ofsted has continued to significantly reduce its costs in order to achieve the target set by the Better Regulation Executive: a 30% reduction in absolute terms, against the costs of delivering the inspection and regulation of education, children's services and skills in 2003-04. Ofsted is strongly committed to delivering this challenging target. We have delivered savings across all areas of the business to move towards what equated to an £80m reduction from 2003-04 expenditure levels.

### **Risk and uncertainties**

Ofsted faces a range of strategic, operational, financial and external risks. The principal risks facing Ofsted are captured on the strategic risk register and action is taken wherever

possible to mitigate these risks. The Statement on Internal Control demonstrates Ofsted's capacity to handle these risks.

The Queen's speech on 25 May 2010 presented more than 20 Bills and outlined a range of intentions drawing on the Government's stated priorities. The coalition's commitment to 'freedom, fairness and responsibility' and a 'first priority' to reduce the deficit and restore economic growth' were made clear at the outset.

There are two key measures, the Education and Children's Bill and Academies Bill that are relevant to Ofsted.

The Education and Children's Bill will aim to 'reform Ofsted and other accountability frameworks to ensure that head teachers are held properly accountable for the core educational goals of attainment and closing the gap between rich and poor.'

The purpose of the Academies Bill is to enable more schools to become Academies and give them the freedoms and flexibilities they need to continue to drive up standards. One of the main elements of the Bill is to enable all maintained schools to apply to become an Academy with schools judged 'outstanding' by Ofsted being pre-approved.

The implications of these Bills on Ofsted will become clearer later in the year and Ofsted will respond accordingly.

The financial outlook for 2010-11 and beyond is less certain for Ofsted and across the public sector as the impact of expected reductions in public sector funding becomes clearer. We will continue to monitor this situation closely and ensure that our corporate targets and financial plans remain aligned and that we continue to drive our robust approach towards delivering cost-effective services.

## **Public interest and other**

### **Sickness Absence**

Ofsted monitors sickness absence on an ongoing basis and reports are produced each month that are reviewed by managers. Processes are in place to ensure that long-term absences are monitored and managed in a consistent way across the organisation. This involves obtaining advice and support from occupational health specialists where this is appropriate. The attendance policy and procedure emphasises the role of the manager in conducting return to work interviews and in review meetings on absence with staff.

The average working days lost per employee to sickness for the year was 7.8, which is below the previous year's loss of 8.0 working days. This figure compares favourably with an average of 8.7 across central government departments ([www.civilservice.gov.uk](http://www.civilservice.gov.uk)).

Sickness absence statistics for 2009-10 show that the total days lost were 16,078 of which 59% was lost to long term sickness.

### **Employee Involvement**

Ofsted has a policy of actively engaging its staff and representatives through a number of well defined and established channels. Ofsted benefits from the knowledge, expertise and commitment of its employees and it is through them that we are able to deliver high quality regulatory and inspection activities.

Internal communication is currently delivered through a range of corporate channels: the Ofsted intranet, a weekly e-bulletin, *Ofsted Update*; a bi-monthly magazine, *Ofsted Matters*; and the fortnightly Managers' Briefing. Staff also receive information through remit specific newsletters and with their managers at one-to-one meetings, team meetings and events in accordance with our Corporate Meetings Framework.

During 2009-10 there have been a number of key changes which have had an impact on staff including:

- new inspection frameworks, which affected inspectors from September 2009 and required new ways of working;
- London staff relocating in September, with many becoming home-based for the first time;
- the restructure, which meant many staff started new jobs on 1 September 2009;
- new inspection service provider (ISP) contracts started in September 2009, and the outsourcing of routine elements of early years inspection and registration was agreed, with new contracts due to come into effect from September 2010.

Wherever staff are in the organisation, they are affected to a greater or lesser extent by these issues and changes. Internal communication is critical to the effective performance of an organisation, and is even more critical during times of change.

Ofsted's internal communications objectives are to:

- ensure that senior managers, managers and all staff understand the changes taking place, including the reasons for them and how they can contribute;
- give all employees the opportunity to feed back their views and be involved in decision-making wherever possible and celebrate success and the achievement of key milestones.

## **Equal Opportunities**

Our core values include an explicit commitment to valuing people's differences. This commitment is central to all that we do and how we go about it. We promote best practice in equality amongst the service providers we inspect and regulate. We also use our unique position to identify and combat discrimination and disadvantage through inspection and regulation, publishing reports and surveys and seeking to influence national policy. We aim to be an exemplary employer with a diverse and committed workforce.

- A recent employment report highlighted the considerable effort we have taken to raise awareness within the organisation of issues relating to the promotion of equality and diversity;
- The three statutory schemes (race, disability, gender) have all been assessed as compliant with legal requirements. As part of the annual review of our schemes, we have moved from separate action plans for each scheme to a combined, single plan for 2009-10 onwards. We have completed a robust and rigorous two stage consultation and engagement process to support the newly published single equality scheme;

- Equality impact assessments are now embedded as part of usual practice across the organisation and a wide range of assessments is published on our website;
- We undertook to review and amend our policies, structures and practices where necessary, to ensure that all our internal processes promote equality and eliminate discrimination and harassment, and to underline Ofsted's commitment to equalities in its role as an employer;
- There has been a shift towards integrating equalities objectives into service planning at all levels, including personal development planning for individual staff. The corporate equality and diversity groups have been increasingly effective in ensuring that our equalities plans are implemented across the organisation and that emerging issues are identified;
- The promotion of equalities through our procurement practices has been improved through a revised Procurement Code which requires contractors to demonstrate how they will support Ofsted's equalities objectives;
- Consideration of equalities issues has been introduced into our inspection frameworks as these have been updated;
- Our survey programme has continued to provide an important contribution to the national perspective on equality, with a number of reports published and/or commissioned over the past year with a bearing on equality;
- We have introduced an Equality Standard, working with the Improvement and Development Agency;
- A range of actions has been taken to continue to build awareness among staff (for example enhanced internal communications; actions in response to Investors in People assessment and staff survey);
- At January 2010, 6.1% of staff at Ofsted had classified themselves as disabled, 10.9% of staff at Ofsted were from black and minority ethnic groups, 70.8% of the Ofsted workforce were female with the greatest proportion of female staff being amongst the inspectors of childcare and social care where 90.9% were female.

### **Environmental, social and community issues**

Ofsted works to make sure that its inspection and regulatory work helps to make a difference for children, young people and adult learners – securing their educational, economic and social well-being and contributing to our success as a country.

During 2009-10, we have continued to work to ensure that sustainable development is built into Ofsted's inspection frameworks and that relevant issues are reported on, both within individual inspection reports and in corporate reports. In 2009, sustainable development was embedded into the inspection methodologies for schools and for the learning and skills sector. In December 2009 a survey report on Education for Sustainable Development in Schools improving schools improving lives was published.

Within Ofsted itself we produced our second sustainable development action plan which builds upon sustainable development work that Ofsted has been pursuing over the last year, setting ambitious new targets that we will report against annually, and

that will inform the way we integrate sustainable development into our core business activities in the future. By embedding sustainable development into every aspect of our work, through our corporate and service planning, we will become a more efficient and effective organisation which can make a more valuable contribution to local communities and society at large.

### **Provision of Information**

Ofsted's Internet site ([www.ofsted.gov.uk](http://www.ofsted.gov.uk)) presents information of interest to a range of users and stakeholders, and is heavily used. It can receive in excess of 7 million hits per month.

In addition to the information available on the website there are also over 46,000 subscribers to 'Ofsted News', our online newsletter for schools, childcare professionals and learning and skills practitioners which is delivered by email.

Ofsted also produces '*Talisman*' a newspaper with information on learning and skills inspections and developments. It is written for a wide audience, including employers and learners, and is published 10 times a year. This has over 7,943 subscribers to the printed version receiving 9,962 copies, and 1,508 on-line subscribers and is provided free of charge.

Under the Freedom of Information Act, Ofsted has procedures in place to ensure that we comply with all requests for information to be handled correctly. All requests are logged and the time taken to satisfy them is monitored in management information reports that are regularly provided to the senior management of Ofsted. Ofsted's performance, in relation to Freedom of Information responses, is also published by the Ministry of Justice.

### **Resources/Key Relationships**

It is the knowledge, expertise and commitment of our people that enables us to deliver our extensive programme of regulation and inspection. We directly employ 2,317 people across England. Around half our staff are inspectors who work in the field, and have their home as their main base.

We have an important relationship with inspection service providers and additional inspectors. Ofsted has worked very effectively with inspection service providers since it started to inspect schools in 1992. Under contracts which started in September 2009, they work with Ofsted to inspect maintained schools and some independent schools, further education colleges, initial teacher education and adult skills providers. Additionally, two new inspection service providers have been appointed for Early Years inspections, with the contracts due to commence in September 2010.

### **Information security and information risk**

- Ofsted is committed to operating a strong information assurance framework including risk management and has put in place measures to comply with the mandatory requirements set out in the Government's Security Policy Framework.
- Ofsted logs and reports on all instances of personal data related incidents.
- Ofsted completes a risk return for the Cabinet Office on an annual basis.

Summary of protected personal data related incidents formally reported to the Information Commissioner's Office in 2009-10.

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
There have been no incidents to report to the Information Commissioner's Office				

### Summary of other protected personal data related incidents in 2009-10

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.		
Category	Nature of incident	Total
i	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	2
ii	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	13
iii	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	1
iv	Unauthorised disclosure	29
v	Other	2

Whilst Ofsted takes all data losses seriously, and is working to improve data security, its performance compares favourably with other Government departments.

### Payment of Suppliers

In October 2008 the government encouraged all departments to set a target of paying invoices from small and medium sized enterprise suppliers (SMEs) within 10 days of the latter of receipt of goods/services or receipt of a valid invoice. Ofsted now aims to pay invoices from all suppliers within this target timeframe. For the year ended 31 March 2010, 75.6% (four month period year ending 31 March 2009, 83.2%) of all our payments were paid within this 10 days target.

Standard payment terms set out in the Office of Government Commerce (OGC) model contracts, and therefore a model for contractually-binding arrangements, remain at 30 days. Therefore Ofsted also continues to monitor payment performance against the 30 day target and for the period ending 31 March 2010 this was 99.3% (2008-09, 99.3%) of all payments.

For the financial year commencing 1 April 2010, Ofsted will continue to use and abide by the same policy of paying all suppliers within 10 days of the later of receipt of goods/services or receipt of the invoice, and will also continue to monitor against the 30 day standard. This policy can be found on the Office of Government Commerce website under the heading "Model Terms and Conditions of Contract"

There were no payments made to suppliers under the Late Payment of Commercial Debts (Interest) Act 1988.

The aggregate amount owed to trade creditors at 31 March 2010 compared with the aggregate amount invoiced by suppliers during the year, expressed as a number of days



in the same proportion to the total number of days in the financial year is equal to 2.9 days.

### **Pension Liabilities**

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

During the transfer in of staff to Ofsted from Local Authorities in 2001 and from the children's part of the Commission for Social Care Inspection in 2007 as the remit of Ofsted expanded, there were some staff that elected to remain in their existing Local Government (LG) Pension schemes. Ofsted pays annual pension contributions to these LG schemes, and reports any associated assets or liabilities under IAS 19.

### **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 the Government Resources & 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 herself aware of any relevant audit information, and to ensure that the auditors have also been provided with this information.

A notional fee of £103,000 has been charged for the audit. The Statutory audit work amounted to £85,000 and the audit work in the move to International Financial Reporting Standards (IFRS) amounted to £18,000.

## REMUNERATION REPORT

### Ministers

Ofsted is a non-ministerial government department.

### Appointment of non-executive Board members

The Education and Inspection Act 2006 established the Office for Standards in Education, Children's Services and Skills on 1 April 2007. The Act also established a non-executive Board for Ofsted. The Secretary of State for Education oversees the recruitment of the Board members in line with government guidelines for the recruitment of non-executives. Board members are subject to a three month notice period.

Name	Date of appointment to position	Type of contract
Zenna Atkins	Reappointed 12 December 2009*	Fixed – 3 years
George Battersby	Reappointed 2 June 2010	Fixed – 4 years
Sharon Collins	12 December 2006 (resigned July 2009)	Fixed – 3 years
Dame Jane Roberts	Reappointed 12 December 2009	Fixed – 2 years
John Roberts	Reappointed 12 December 2008	Fixed – 3 years
Vijay Sodiwala	2 June 2008	Fixed – 3 years
Sir Alan Steer	12 August 2009	Fixed – 20 months
Museji Takolia	Reappointed 12 December 2009	Fixed – 3 years
Christopher Trinick	Reappointed 12 December 2008	Fixed – 3 years

\*Resigned on 22 June 2010 with effect from 31 August 2010

None of the Ofsted Board Members holds any company directorships or other significant interests that might conflict with their advisory responsibilities. The Register of Interests is open to the public and written requests for information should be addressed to the Ofsted Corporate Governance Manager.

### Appointment of the Permanent Head of the Department and Directors

#### Service contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code. The Code 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. Early termination, other than for misconduct would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk)

On 1 October 2006 Christine Gilbert was appointed to the position of Her Majesty's Chief Inspector (HMCI) for the former Ofsted. She became Her Majesty's Chief Inspector of Education, Children's Services and Skills and Accounting Officer of the Department with the establishment of the new Ofsted on 1 April 2007.

HMCI is a crown appointment for an initial period of five years. Two members of the Executive Board were employed on a fixed term contract during 2009-10. The Interim Director, Corporate Services for the period 30 March 2009 – 31 March 2010 and the Interim Director, Finance for the period 1st March 2010 – 31 August 2010.

Unless otherwise stated the Directors are all permanent civil servants.

HMCI and the other members of the Executive Board are covered by the Civil Service Management Code. None of the Ofsted Directors hold any company directorships or other significant interests that might conflict with their management responsibilities. The Register of Interests is open to the public and written requests for information should be addressed to the Ofsted Audit Committee Secretariat at the Ofsted office in London.

### **Remuneration Policy**

The Directors are paid as senior civil servants and are subject to the recommendations of the Senior Salaries Review Body.

Ofsted has established a Senior Civil Service (SCS) Pay Committee comprising HMCI, Directors and one non-executive Board member. 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. John Roberts, a member of the Board and of Ofsted's Audit Committee, served as the independent member on the SCS Pay Committee during 2009-10.

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.

### **Remuneration (including salary) and pension entitlements**

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board members) of the department. These disclosures have been subject to external audit.

#### **Non-executive Remuneration**

During 2009-10 the Chairman of the Board received a salary in the £45,000-£50,000 band (2008-09 – £45,000 – £50,000) and all the other non executives received a salary in the £0-£5,000 band.

#### **Remuneration Senior Management (salary and payments in kind)**

HMCI's remuneration is an annual salary with a bonus of 20 per cent available for a 12-month period subject to performance. HMCI has elected to waive her entitlement to participate in a performance related pay scheme for 2009-10. Although earned in 2009-10, this payment would have been made in the next financial year (2010-11).

The salary entitlements of the most senior members of Ofsted for the year ending 31 March 2010 were as follows:

**Salaries (Note a):**

	<b>Date of appointment to Board</b>	<b>Salary year ending 31 March 2010 £000</b>	<b>Salary year ending 31 March 2009 £000</b>
Christine Gilbert HMCI	1 October 2006	195-200	230-235
Miriam Rosen Executive Director	6 April 2004	145-150	140-145
Sheila Brown National Director, Delivery	1 January 2009	140-145	30-35 (120-125 full year equivalent)
Melanie Hunt Director, Development Learning and Skills	12 June 2007	170-175	160-165
Chris Harris Interim Director, Corporate Services	1 April 2009	120-125	Not in post
Lorraine Langham Director, Organisational Development	27 June 2007	180-185	175-180
John Goldup Director, Development (Social Care)	7 September 2009	85-90 (150-155 full year equivalent)	Not in post
Patrick Leeson Director, Development (Education & Care)	14 September 2009	80-85 (150-155 full year equivalent)	Not in post
Richard Brooks Director, Strategy	23 July 2009	75-80 (110-115 full year equivalent)	Not in post
Clive Heaphy Interim Director, Finance	1 March 2010	10-15 (120-125 full year equivalent)	Not in post
Roger Shippam Director, Children	1 January 2009 (left 30 September 2009)	180-185* (125-130 full year equivalent)	30-35 (140-145 full year equivalent)
Vanessa Howlison Director, Finance	21 June 2006 (left 11 October 2009)	80-85 (120-125 full year equivalent)	120-125

\*This includes payments in respect of untaken annual leave and compensation in lieu of notice.

**Salary.**

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 (including disturbance allowances) to the extent that it is subject to UK taxation.

**Benefits in Kind**

The monetary value of benefits in kind covers any benefits provided by the employee and treated by HM Revenues and Customs as a taxable emolument. In 2009-10 Christine Gilbert received a Government Car Service allowance of £7,600 (2008-09 – £7,200).

Clive Heaphy, Interim Director, Finance received £2,700 benefit in kind, which relates to travel costs.

### Third party payments for services of a senior manager

In 2009-10, £205,485 was payable to Michael Page International for the services of Gary Downes who held the position of Interim Director, Finance for the period 28 September 2009 – 19 February 2010.

### Pension Benefits

The pension entitlements of the most senior members of Ofsted for the year ending 31 March 2010 were as follows:

#### Pension Benefits <sup>(Note b)</sup>:

Name	Real Increase in pension at 60 (Note b) Year ending 31 March 2010	Real increase in Lump Sum Year ending 31 March 2010	Total accrued Pension at 60 Year ending 31 March 2010	Total Lump Sum at 60 As at 31 March 2010	CETV at start of year (Note c)	CETV at end of year (Note d)	Real increase in CETV (Note e)
	£000	£000	£000	£000	£000	£000	£000
Christine Gilbert	2.5-5	-	90-95	-	1,704	1,861	0
Miriam Rosen	5-7.5	-	80-85	-	1,473	1,673	118
Sheila Brown	15-17.5	50-52.5	55-60	170-175	906	1,360	406
Melanie Hunt	2.5-5	7.5-10	30-35	95-100	532	624	56
Lorraine Langham	2.5-5	-	40-45	-	517	606	53
John Goldup	0-2.5	-	0-5	-	-	31	28
Patrick Leason	0-2.5	-	0-5	-	-	27	24
Richard Brooks	0-2.5	-	0-5	-	27	30	1
Roger Shippam	5-7.5	22-22.5	50-55	155-160	1,006	1,247	174
Vanessa Howlison	2.5-5	-	35-40	-	402	475	37
Clive Heaphy	0-2.5	-	0-5	-	-	3	2

In 2009-10 Ofsted contributed £18,700 to the partnership pension of Chris Harris

## Pension Benefits

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension 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**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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 panel of three providers. 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

## Cash Equivalent Transfer Value

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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when benefits are taken.

### **Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It does not include 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.

### **Compensation for loss of office**

Roger Shippam left under Voluntary Early Severance on Compulsory Terms on 30 September 2009; he received a contractual compensation payment of £58,601. The equivalent compensation payments of this kind made to others in 2008-09 were £73,700.

Christine Gilbert

Date: 06 July 2010

Accounting Officer for the Office of Her Majesty's Chief Inspector of Education, Children's Services and Skills

## 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 the department, 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 *Government Financial Reporting Manual (FReM)* prepared by HM Treasury, and in particular to:

- observe the Accounts Direction issued by the Treasury, including 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 Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going-concern basis.

HM Treasury has appointed HMCI as Accounting Officer of the department with responsibility for preparing the Ofsted's accounts and for transmitting them to the Comptroller and Auditor General. 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 *Managing Public Money*.



## 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 *Managing Public Money*, I require members of Ofsted's Corporate Leadership Team to sign an annual statement covering risk management and the operation of related controls in their areas of responsibility to supplement the regular reporting to the Executive Board on their stewardship of risks. The Corporate Leadership Team is all staff at senior civil service grades.

### 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 if they are realised; and, to manage them efficiently, effectively and economically. The system of internal control has been in place in Ofsted for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, in accordance with Treasury guidance.

### Capacity to handle risk

Ofsted has carefully managed risks over the past two years as it successfully established the new Ofsted. This has included undertaking a major organisational review from September 2009 and the implementation of a major review of our organisational structure stemming from that. We have also relocated to a smaller London office that reduced the number of permanent Ofsted staff based in London from 450 to 250.

Ofsted's Executive Board provided leadership of the risk management process through regular reviews of the Strategic Risk Register and through the Risk Management Moderation Group. This group is chaired by the Director, Finance and ensures that a uniform and effective risk management process and policy is implemented across the organisation.

In order to maintain a focus on managing risk and as part of embedding risk management at all levels throughout Ofsted, all Executive Board papers contain a section covering financial, efficiency and risk implications. These require consideration of risk and value for money issues across all aspects of Ofsted's work.

The Executive Board reviews progress against key operational objectives, the delivery of the department's major projects and programmes, and the management of strategic risks on a monthly basis. The Audit Committee, a sub-committee of the Ofsted Board, also reviews performance and key strategic risks at each of its meetings and the Ofsted Board reviews them on at least an annual basis.

As part of the annual corporate planning and budgeting processes, risks are identified both top down, from the Executive Board and bottom up, by Divisions and Directorates.

Risks identified are used to populate Divisional and Directorate risk registers, which are reviewed and maintained by senior managers. This is the main way in which risk is managed on a day-to-day basis. Each month each Directorate evaluates the probability and impact of their risks, and sets out the latest position on actions being taken to mitigate and manage the risk. Probability and impact scores allow those risks deemed to be the most significant for Ofsted to be easily identified.

We have in place clearly documented processes and procedures which are available to staff through the intranet and drawn to the attention of managers and new starters. These include detailed guidance on standards of behaviour and conduct, equal opportunities, fraud, whistleblowing and health and safety matters.

Risks associated with information security and data loss have continued to receive close attention during 2009-10 and a dedicated register is also maintained to monitor this form of risk. With the exception of those staff on long term sickness or maternity leave, Ofsted staff have completed training on information assurance developed by the Cabinet Office. Full details of any incidents of data loss are reported under the heading 'Information security' in the 'Public interest and other' section of these Resource Accounts.

### **Risk and control framework**

Ofsted's system of internal control is based on a framework of regular management information, financial regulations and procedures, clear delegations and accountability and appropriate segregation of duties.

Key elements of our framework of control include:

- An Executive Board<sup>2</sup> which meets at least fortnightly and includes Ofsted's executive directors. The Executive Board reviews on a monthly basis an operational report including information on strategic, corporate and operational performance, financial performance and risk management. During 2009-10, the Executive Board also considered and approved the Ofsted Corporate Plan and its resource plans and budget.
- The Ofsted Board, which meets up to five times a year and comprises, in accordance with the Education and Inspections Act 2006, a non-executive Chairman, non-executive board members and HMCI. The Ofsted Board has responsibility for determining the strategic priorities for Ofsted and for the monitoring of targets associated with these priorities. The Board also has responsibility for ensuring that all HMCI's functions are performed efficiently and effectively.
- An Audit Committee which is chaired by a non-executive board member and meets up to six times a year, usually with both Internal and External Auditors present. The Audit Committee considers all aspects of internal control including the reports from the internal and external auditors.

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<sup>2</sup> For the first five months of 2009-10, Ofsted was managed by a Corporate Management Team.

- Internal Auditors who undertake reviews to Government Internal Audit Standards and provide regular reports and an overall annual opinion on risk management, control and governance. The reports are to standards defined in the Government Internal Audit Standards 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.
- External auditors, the National Audit Office (NAO), who provide internal control comments in their management letters and other reports.
- A formal Meetings Framework that ensures that important information is communicated effectively, and on a regular basis, to all staff across the whole organisation.
- The maintenance of an organisation-wide central risk register (for strategic risks) supported by Directorate and Divisional registers.
- A scheme of delegations supported by clear mandate letters and enforced through system controls.
- A performance assessment framework which ensures that our workforce is appropriately trained and whose objectives align to those of Ofsted as a whole.
- Project management controls designed to ensure the effective management of key programmes and projects using appropriate project management methodologies.
- A Financial Control Framework which provides assurance on the integrity of the financial information received and the adequacy of the financial process.
- The monitoring of Ofsted's risk management performance and policies by the Risk Management Moderation Group which reports to the Executive Board.
- The completion of annual Assurance Statements by all Directors and Divisional Managers confirming their compliance with all standard governance arrangements, systems and processes, including policies on fraud and corruption.
- Participation in the government-wide Risk Improvement Managers network, which is designed to ensure the spread of best practice in risk management.
- Regular reports from Directors and senior managers on operational and financial aspects of their activities.
- Other specific risk reviews which may from time to time include health and safety reviews, OGC Gateway reviews of certain projects and commissioned third party reviews of certain policies and processes.

The Ofsted governance procedures and risk management processes continued to be enhanced during 2009-10. Significant areas of review included:

- The Ofsted Board reviewed and updated the Corporate Governance Framework in September 2009 in order to ensure that it continues to be maintained in line with best practice.
- The Executive Board reviewed and amended Ofsted's organisational structures to ensure that we remain fit to meet future strategic and operational challenges in a cost effective way.
- We continued to place emphasis on educating key staff on the importance of effective risk management, with a regular series of workshops entitled "Playing your part in risk management" being held across the organisation.
- A review of financial management performance in Ofsted was conducted using the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management model. All government departments have conducted similar reviews and the results were submitted to HM Treasury at the end of March 2009. During 2009-10 the comparative results were used to evaluate areas where Ofsted could improve its performance. An action plan was developed and progress against it monitored and formally reported to Executive Board in March 2010.

### **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 senior 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. Comments and recommendations made by Children, School and Families Select Committee have also been taken into account

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee and progress against a plan to tackle weaknesses and to ensure continuous improvement of the system is in place.

During 2009-10, of the 14 audits that were conducted by our internal auditors, 11 reported 'substantial' levels of assurance in those areas that were subjected to audit. Two reported partial levels of assurance and one was reported as nil assurance.

Of the reports finalised in the year, the payroll report (partial assurance) contained one high priority recommendation, the core financial controls report (partial assurance) contained three high priority recommendations and a further report on travel and subsistence claims (nil assurance) contained five high priority recommendations.

This framework has allowed the Internal Auditors to conclude in their annual report that 'with the exception of the control weaknesses identified in our detailed reports, in our opinion Ofsted has adequate and effective systems over governance, risk and control which provide reasonable assurance regarding the effective and efficient achievement of Ofsted's objectives.'

### Significant Control Issues

As Accounting Officer, I am satisfied that Ofsted complies with the Treasury requirements on risk management, internal control and governance. The last twelve months have been a time of considerable change at Ofsted, which have seen the internal restructure of the organisation; the award of contracts to new inspection service providers; the introduction of new inspection frameworks for schools and further education and skills, and our move to a smaller London office. Together these changes represented a significant challenge but our internal risk and control processes helped ensure effective delivery and minimise potential disruption. Over the next twelve months Ofsted will face the challenge of building on these changes and improving its impact, whilst operating as a smaller organisation on a reduced budget as a result of Government spending restrictions already announced in the 2010 Spending Review.

The receipt of three reports at less than substantial assurance has highlighted certain weaknesses in core financial controls, payroll and travel and subsistence claims. Once identified, a programme of work was established and is nearing completion to address areas where controls need to be strengthened and improved and where further assurance is needed.

The improvements involve a review and clarification of policies and processes and further education and training of staff along with a more rigorous and documented approach to the application of control frameworks.

Ofsted was involved in a high profile judicial review regarding the emergency inspection of services for children and young people in Haringey in November 2008. On 23 April 2010 the high court awarded judgement in Ofsted's favour.

The judgement confirms that Ofsted carried out a sound inspection, acted fairly, and came to a conclusion based on the evidence. The inspection team did a professional and rigorous job and we are pleased that the inspection process was vindicated through the intense scrutiny of the court.

The case never challenged Ofsted's inspection judgement that child protection services in Haringey in November 2008 were inadequate and children who were 'at risk' were not being protected securely enough. We believe that the inspection report at the centre of this case, and our two follow up inspections, have made a substantial contribution to improving the protection of vulnerable children in Haringey.

Ofsted inspectors will continue to report without fear or favour wherever they identify that arrangements for protecting vulnerable children are not good enough. Ofsted were legally represented in this case by the Treasury Solicitor's Department (TSol). The trial judge has requested that the issues that lead to the late disclosure of documents in 2009, are the subject of an internal review by TSol. We are cooperating with TSol's internal review as required.

Christine Gilbert:

Date: 06 July 2010

Accounting Officer for the Office of Her Majesty's Chief Inspector of Education, Children's Services and Skills

## 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 for Standards in Education, Children's Services and Skills for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Taxpayers' Equity, the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Opinion on Regularity**

*In my opinion, 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.*

### **Opinion on Financial Statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, changes in taxpayers' equity and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

the information given in the Scope, Management commentary, Public Interest and Other and the unaudited part of the Remuneration report included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

*Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP*

*Date 12 July 2010*

## Statement of Parliamentary Supply

## Summary of Resource Outturn 2009-10

	Note	Estimate			Outturn			2009-10	2008-09
		Gross expenditure	Appropriations-in-Aid	Net request for resources	Gross expenditure	Appropriations-in-Aid	Net Total	Net total outturn compared with estimate saving/ (excess)	Outturn
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	Net Total
									£'000
<b>Request for Resources 1:</b>									
Serving the interests of children and young people, parents, adult learners, employers and the wider community in England by promoting improvement in the quality of education, skills and young people's care through independent inspection, regulation and reporting	3	217,718	(15,500)	202,218	216,968	(15,026)	201,942	276	207,515
<b>Total Resources</b>	4	217,718	(15,500)	202,218	216,968	(15,026)	201,942	276	207,515
<b>Non-operating cost A in A</b>		-	-	-	-	-	-	-	-
<b>Net Cash Requirement 2009-10</b>	5			201,766		194,963	6,803		209,442

## 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 2009-10		Outturn 2009-10	
	Income	Receipts	Income	Receipts
	£'000	£'000	£'000	£'000
<b>Total</b>	6	-	-	692

Explanations of variances between Estimate and outturn are given in Note 3 and in the Management Commentary.

The notes on pages 37 to 71 form part of these accounts



## Operating Cost Statement

### for the year ended 31 March 2010

			2009-10	2008-09
	Note	Staff Costs	Other Costs	Income
		£'000	£'000	£'000
<b>Administration Costs:</b>				
Staff Costs	8	13,413		15,670
Other administration Costs	9		14,532	12,421
Operating Income	11		(83)	-
<b>Programme Costs:</b>				
<b>Request for resources 1</b>				
Staff Costs	8	101,418		106,702
Programme costs	10		87,605	88,878
Income	11		(14,943)	(15,192)
<b>Totals</b>		<b>114,831</b>	<b>102,137</b>	<b>(15,026)</b>
<b>Net Operating Cost</b>	4		<b>201,942</b>	<b>208,479</b>

The notes on pages 37 to 71 form part of these accounts

**Statement of Financial Position****as at 31 March 2010**

	Note	31 March 2010		31 March 2009		1 April 2008	
		£'000	£'000	£'000	£'000	£'000	£'000
<b>Non-current assets:</b>							
Property, plant and equipment	12	658		899		663	
Intangible assets	13	3,339		5,412		6,852	
<b>Total non-current assets</b>			<b>3,997</b>		<b>6,311</b>		<b>7,515</b>
<b>Current assets:</b>							
Trade and other receivables	16	7,330		11,020		8,317	
Cash and cash equivalents	17	303		685		592	
<b>Total current assets</b>			<b>7,633</b>		<b>11,705</b>		<b>8,909</b>
<b>Total assets</b>			<b>11,630</b>		<b>18,016</b>		<b>16,424</b>
<b>Current liabilities</b>							
Trade and other payables	18	(17,955)		(18,179)		(25,675)	
<b>Total current liabilities</b>			<b>(17,955)</b>		<b>(18,179)</b>		<b>(25,675)</b>
<b>Non-current assets less net current liabilities</b>			<b>(6,325)</b>		<b>(163)</b>		<b>(9,251)</b>
<b>Non-current liabilities</b>							
Provisions	19	(21,743)		(19,945)		(10,616)	
Other payables	18	-		(67)		(137)	
Net retirement benefit schemes liability	28	(1,392)		(586)		-	
<b>Total non-current liabilities</b>			<b>(23,135)</b>		<b>(20,598)</b>		<b>(10,753)</b>
<b>Assets less liabilities</b>			<b>(29,460)</b>		<b>(20,761)</b>		<b>(20,004)</b>
<b>Financed by:</b>							
<b>Taxpayers' equity</b>							
General fund			(28,044)		(20,141)		(20,004)
Pension reserve			(1,416)		(620)		-
<b>Total taxpayers' equity</b>			<b>(29,460)</b>		<b>(20,761)</b>		<b>(20,004)</b>

Christine Gilbert  
Accounting Officer for the  
Office for Standards in Education, Children's Services and Skills

06 July 2010

The notes on pages 37 to 71 form part of these accounts

## Statement of Cash Flows

### for the year ended 31 March 2010

		<u>2009-10</u>	<u>2008-09</u>
		<u>£'000</u>	<u>£'000</u>
	Note		
<b>Cash flows from operating activities</b>			
Net operating cost		201,942	208,479
Adjustment for non-cash transactions	10.1	(13,115)	(16,633)
IAS 19 opening balance sheet transfer from provisions		–	(181)
IAS 19 Pension Liability – staff costs		(10)	34
(Decrease)/Increase in trade and other receivables		(3,690)	2,703
(Increase)/Decrease in trade payables		291	7,501
<u>less:</u> movements in payables relating to items not passing through the OCS		(1,141)	785
Use of provisions	19	<u>8,561</u>	<u>4,557</u>
<b>Net cash outflow from operating activities</b>		<u>192,838</u>	<u>207,245</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	12	312	839
Purchase of intangible assets	13	1,054	1,293
Proceeds of disposal of property, plant and equipment		–	–
<b>Net cash outflow from investing activities</b>		<u>1,366</u>	<u>2,132</u>
<b>Cash flows from financing activities</b>			
Advances from the Contingency Fund		–	20,000
Repayments to the Contingency Fund		–	(20,000)
From the Consolidated Fund (Supply) – current year		194,584	209,535
From the Consolidated Fund (Supply) – prior year		–	–
Capital element of payment in respect of finance lease		(70)	(65)
<b>Net Financing</b>		<u>194,514</u>	<u>209,470</u>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund</b>		<b>310</b>	<b>93</b>
Payments of amounts due to the Consolidated Fund		<u>(692)</u>	<u>–</u>
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund</b>		<u>(382)</u>	<u>93</u>
Cash and cash equivalents at the beginning of the period	17	<b>685</b>	592
Cash and cash equivalents at the end of the period	17	<b>303</b>	685

The notes on pages 37 to 71 form part of these accounts

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010

	Note	General Fund	Pension Reserve	Total Reserves
		£000	£000	£000
<b>Balance at 31 March 2008</b>		<u>(20,004)</u>	–	<u>(20,004)</u>
<b>Changes in taxpayers' equity for 2008-09</b>				
Net actuarial gain/(loss) in pension schemes		–	(439)	(439)
Non-cash charges/(receipts) – interest on capital	9,10	(661)	–	(661)
Non-cash charges – auditors remuneration	9,10	72	–	72
IAS 19 opening balance transfer from Provisions		181	(181)	–
Net operating cost for the year		<u>(208,479)</u>	–	<u>(208,479)</u>
<b>Total recognised income and expense for 2008-09</b>		<u>(208,887)</u>	<u>(620)</u>	<u>(209,507)</u>
Net Parliamentary Funding – drawdown		209,535	–	209,535
Net Parliamentary Funding – deemed		590	–	590
Supply payable/(receivable) adjustment		(683)	–	(683)
CFERs payable to the consolidated Fund		<u>(692)</u>	–	<u>(692)</u>
<b>Balance at 31 March 2009</b>		<u>(20,141)</u>	<u>(620)</u>	<u>(20,761)</u>
<b>Changes in taxpayers' equity for 2009-10</b>				
Net actuarial gain/(loss) in pension schemes		–	(796)	(796)
Non-cash charges/(receipts) – interest on capital	9,10	(1,030)	–	(1,030)
Non-cash charges – auditors remuneration	9,10	103	–	103
Net operating cost for the year		<u>(201,942)</u>	–	<u>(201,942)</u>
<b>Total recognised income and expense for 2009-10</b>		<u>(202,869)</u>	<u>(796)</u>	<u>(203,665)</u>
Net Parliamentary Funding – drawdown		194,584	–	194,584
Net Parliamentary Funding – deemed		683	–	683
Supply payable/(receivable) adjustment		(301)	–	(301)
CFERs payable to the consolidated Fund	6	–	–	–
<b>Balance at 31 March 2010</b>		<u>(28,044)</u>	<u>(1,416)</u>	<u>(29,460)</u>

The notes on pages 37 to 71 form part of these accounts

## Statement of Operating Costs by Departmental Strategic Objectives for the year ended 31 March 2010

							2009-10 £000
	Strategic Objective 1	Strategic Objective 2	Strategic Objective 3	Strategic Objective 4	Strategic Objective 5	Strategic Objective 6	Total
Gross Expenditure	192,778	11,055	3,521	936	1,438	7,240	216,968
Income	(15,026)	-	-	-	-	-	(15,026)
<b>Net Expenditure</b>	<b>177,752</b>	<b>11,055</b>	<b>3,521</b>	<b>936</b>	<b>1,438</b>	<b>7,240</b>	<b>201,942</b>
							2008-09 £000
	Strategic Objective 1	Strategic Objective 2	Strategic Objective 3	Strategic Objective 4	Strategic Objective 5	Strategic Objective 6	Total
Gross Expenditure	195,368	10,331	3,647	677	6,048	7,600	223,671
Income	(15,192)	-	-	-	-	-	(15,192)
<b>Net Expenditure</b>	<b>180,176</b>	<b>10,331</b>	<b>3,647</b>	<b>677</b>	<b>6,048</b>	<b>7,600</b>	<b>208,479</b>

### Objective One – Better outcomes

To deliver planned inspection programmes which maximise the impact of inspection and regulation on the quality of provision for children, young people and adult learners – with a particular focus on vulnerable and underachieving people – so that their life outcomes and general well-being are enhanced. To identify strengths and weaknesses in priority areas – nationally, regionally and locally – and to make effective use of that information to drive improvement.

### Objective Two – Better inspection and regulation

To ensure that inspection continues to develop as high quality, coherent and well matched to the needs of the user and the quality of the service, with an increased focus on targeting inspection where it makes most difference. To use the views of users, stakeholders and key partners, to influence how, what and when we inspect, to promote improvement and to track future improvement. To ensure that we take swift enforcement action, acting quickly to drive improvement.

### Objective Three – Better communication

To ensure that all Ofsted's communications are clear and accessible to the whole range of audiences at an appropriate level, and support informed choice and drive improvement. To ensure quick and effective responses to enquiries and complaints.

### Objective Four – Better consultation

To ensure that consultation with users, stakeholders, partners and the public is inclusive and effective.

**Objective Five – Better value for money**

To ensure that value for money is a continued focus for improvement. To ensure that our operational and business support functions provide good value for money and compare well against external benchmarks.

**Objective Six – Better ways of working**

To achieve excellent performance through a high quality workforce that appropriately reflects the diversity of the communities it serves. To be an exemplary employer, committed to its staff, responsive to employee views and focused on development and continuous improvement. To build and develop Ofsted's capacity for improvement.

These strategic objectives are not to be confused with the Department for Education (DfE) Strategic Objectives.

## NOTES TO THE OFSTED RESOURCE ACCOUNTS

### 1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Ofsted for the purpose of giving a true and fair view has been selected. The particular policies adopted by Ofsted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

IFRS has introduced terminology changes (including revised titles for financial statements) and changes in the format of the financial statements.

In addition to the primary statements prepared under IFRS, the FReM also requires Ofsted to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes shows outturn against Estimate in terms of the net resource requirement and the Net Cash Requirement. The Statement of Operating Cost by Departmental Strategic Objectives and supporting notes shows the Department's income and expenditure by the objectives agreed with Ministers.

#### 1.1 Accounting Convention

These accounts have been prepared under the modified historical cost convention.

#### 1.2 Valuation of Non Current Assets

Property, plant, equipment and intangible assets are held at depreciated historic cost as a proxy for current value, as permitted by the 2009-10 FReM. Ofsted has a small asset base. Revaluation adjustments are very minor and have not been used in the preparations of these accounts.

Property, plant, equipment and purchased software licenses are capitalised if they are intended for use on a continuous basis for more than one year. The threshold for capitalising non current assets is £10,000 on an individual basis. Individual items are not grouped.

The Regulatory Support Application (RSA) element of the Ofsted contract for outsourced IS services is capitalised as a Finance Lease at the net present value of the minimum lease payments using HM Treasury discount rate of 3.5% with any enhancements capitalised as separate additions in the year the asset is enhanced. These assets are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

#### 1.3 Depreciation and Amortisation

Depreciation is provided on all non current assets on a straight line basis to write off cost (less any estimated residual value) evenly over the asset's anticipated life. A full year depreciation charge is made in the year of acquisition.

Asset lives are in the following ranges:

- Information Technology – 3 to 5 years
- Motor Vehicles – 3 years
- Furniture and Fittings – 4 to 15 years
- Purchased Computer Software – 5 years
- Finance Lease (RSA) – 10 years from the inception of the lease. Enhancements are depreciated over the remaining life of the asset

#### **1.4 Operating and Other Income**

Operating and other income relates to charges levied by Ofsted on its directly provided services. It comprises principally fees for registration and inspection of privately and publicly funded provisions. Although there are moves towards recovering full cost, the charges to the majority of providers do not currently represent Ofsted's full costs. Ofsted's income includes income appropriated-in-aid of the Estimate, which in accordance with the FReM should be treated as operating income.

Income has been adjusted for deferred income relating to invoices sent out before the year end but which relate to registration renewals for the new financial year in the case of both Childcare and Social Care. Due to a change in the regulations relating to independent school inspections during the period 1 September 2008 to 31 August 2009, the fee charged after the first inspection of the cycle covered both inspections during the 6 year cycle and is collectable in equal instalments annually over the cycle. The debt is included within Trade Receivables, analysed to reflect the date when it is due and subject to specific bad debt provision in recognition of the extended collection period. The income relating to the first inspection is recognised when the inspection takes place. The balance has been deferred and will be recognised in future years. From 1 September 2009, schools who have not been billed under the previous arrangements are being billed one sixth of the fee for the 2 inspections in the 6 year cycle each year. This is recognised as income when billed as it approximates to the value of inspections completed in the year.

#### **1.5 Administration and Programme Expenditure**

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in FReM 11.3.3 by HM Treasury.

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 set by HM Treasury, 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 exclusively or largely engaged in delivering inspections or in direct support of inspections 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.



## 1.6 Capital Charge

A charge, reflecting the cost of capital utilised by Ofsted, 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:

- (a) property, plant and equipment and intangible assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:
  - additions at cost;
  - disposals as valued in the opening statement of financial position (plus any subsequent capital expenditure prior to disposal);
  - impairments at the amount of the reduction of the opening statement of financial position value (plus any subsequent capital expenditure);
  - depreciation of property, plant and equipment and amortisation of intangible assets.
- (b) donated assets, and cash balances with the Office of the Paymaster General, where the charge is nil.

## 1.7 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' 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 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.

Ofsted has a small number of employees who are members of local authority pension schemes. The pension schemes are accounted for as defined benefit schemes and are independent of Ofsted. Contributions are paid to these schemes in accordance with the recommendations of independent actuaries to enable the administering bodies to meet from the schemes the benefits accruing in respect of current and future service. Pension assets are measured on a bid value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return of a high quality corporate bond of equivalent term and currency to the liability. The present value of liabilities of Ofsted's defined benefit pension schemes expected to arise from employee service in the period is reflected in the operating deficit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in staff costs.

The pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the Statement of Financial Position.

## 1.8 Leases

All leases are accounted for under IAS17, Leases. Classification is made at the inception of the relevant lease.

Ofsted has two main types of operating leases, those for the payment of rent on property 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.

Ofsted reviewed all existing contractual arrangements under 'International Accounting Standards Interpretations IFRIC 4 'Determining Whether an Arrangement Contains a Lease' to determine whether individual contracts are a lease in substance but not in legal form. Except for the Regulatory Support Application (RSA) element of the Ofsted contract for outsourced IS services, no contractual agreements inspected contained elements indicating that they were leases. The RSA element of the aforementioned contract has been classified as a finance lease as a result of this review. The 10 year contract gives Ofsted a perpetual and irrecoverable license to use RSA.

Ofsted has capitalised the present value of the minimum lease payments of RSA as the non current asset and this is the amount also recorded as the liability. The asset is depreciated over the shorter of the period of the lease and the useful life of the asset. The lease accrues interest, with rental payments representing partly the repayment of the capital element of the lease and partly the finance charge on the lease.

### **1.9 Financial Instruments**

Ofsted does not have any complex Financial Instruments, however, financial assets and financial liabilities are recognised on Ofsted's Statement of Financial Position when Ofsted becomes a party to the contractual provisions of the instrument. Ofsted assesses whether, under IAS 39, an embedded derivative is required to be separated from its host contract. Ofsted does not have any embedded derivatives.

### **1.10 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. Income and Expenditure is otherwise shown net of recoverable VAT.

### **1.11 Provisions**

A provision is a liability which is uncertain in timing or amount and is only recognised when it exists at the statement of financial position date. A provision is recognised when the following three criteria are met in line with IAS37 Provisions, Contingent Liabilities and Contingent Assets:

- a) there is a present obligation (either legal or constructive) as a result of a past event;
- b) it is probable that a transfer of economic benefits will be required to settle the obligation, and;
- c) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date.

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%),

except for the early departure costs provision for which the discount rate for valuing pension liabilities (currently 1.8%) is applied.

### **1.12 Contingent Liabilities and Contingent Assets**

Contingent liabilities and contingent assets are not recognised as liabilities or assets in the statement of financial position of Ofsted.

A contingent liability is disclosed in the notes of Ofsted's resource accounts when the possibility of an outflow of economic benefit to settle the obligation is more than remote. A contingent asset is disclosed in the notes of Ofsted's resource accounts when an inflow of economic benefit is probable.

In addition to contingent liabilities disclosed in accordance with IAS37, Ofsted discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money and Government Accounting Northern Ireland.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS37 are stated at the amounts reported to Parliament.

### **1.13 Financial Assets and Liabilities**

Ofsted holds the following financial assets and liabilities:

- 1) Assets
  - Cash and cash equivalents
  - Trade Receivables – current
  - Trade Receivables – non-current
- 2) Liabilities
  - Trade and other payables – current
  - Other payables > 1 year – non-current
  - Provisions arising from contractual arrangements – non-current

Financial Assets and Liabilities are accounted for under IAS32, Financial Instruments: Presentation, IAS39 Financial Instruments: Recognition and Measurement and IFRS7 Financial Instruments: Disclosure.

#### ***Financial Assets***

Ofsted does not currently have any financial assets that need to be classified as available-for-sale or financial assets at fair value through profit or loss neither does it have cash equivalents or derivative Financial Instruments. Ofsted's financial assets include trade and other receivables and cash.

The subsequent measurement of financial assets depends on their classification, as follows:

#### *Trade and other receivables*

Trade and other receivables have fixed or determinable payments that are not quoted in an active market. They do not carry any interest and are initially recognised at their face value. If time value of money is of significance, they are then carried at amortised cost using effective interest method. Appropriate allowances (provisions/write offs) for estimated irrecoverable amounts (bad debts) are recognised in the operating cost statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the estimated future recoverable amount. The carrying amount of the asset is reduced, with the amount of the loss recognised in the operating cost statement.

#### *Cash and cash equivalents*

Cash balances are measured as the amounts received in Ofsted's bank account. Ofsted does not currently have cash equivalents.

Cash balances are recorded at current values. Account balances are set-off only where there is a formal agreement with the bank to do so. Interest earned on bank accounts and interest charged on overdrafts are recorded as, respectively, 'Interest Receivable' and 'Interest Payable' in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate. All other financial instruments are held for the sole purpose of managing the cash flow of Ofsted on a day to day basis or arise from the operating activities of Ofsted.

### ***Financial Liabilities***

Financial liabilities are classified where appropriate as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortised cost (face value less any discounts). Financial liabilities include trade and other payables, accruals and derivative Financial Instruments. Ofsted does not currently have financial liabilities classified as fair value through profit or loss, neither does it have derivative Financial Instruments. Ofsted determines the classification of its financial liabilities at initial recognition. Ofsted's financial liabilities include trade and other payables.

The measurement of financial liabilities depends on their classification, as follows:

#### *Trade and other payables*

Trade and other payables including accruals are generally not interest bearing and are stated at their fair value on initial recognition. Subsequently, they are measured at amortised cost using the effective interest method if time value of money is of significance.

### **1.14 Estimation techniques used and changes in accounting estimates**

Ofsted has applied standard quantitative techniques in calculating provisions for early departure costs based on relevant cost estimates provided by external bodies which are considered to be both robust and accurate. When estimating liability in terms of annual compensation payments (acp's), Ofsted has confirmed the days left as at 31 Mar 2010,

until an individual will reach 60 years of age. Likewise, in terms of annual enhancement compensation (payable for life), Ofsted has taken life expectancy data produced by Office for National Statistics (ONS).

In terms of calculating the estimated liability it currently has in relation to potential payments to staff for untaken annual leave, Ofsted used a sample of 20% of employees and extrapolated the results gained to produce an estimated figure for its whole workforce.

When calculating the probable cost of the pension shortfall relating to staff transferring to outsourced early years inspections Ofsted has considered a range of estimates provided by external bodies and has selected the most robust and accurate basis. Ofsted has based its provision on an estimate of shortfall provided by the Government Actuarial Department and an assumption that 25% of staff transferring will elect to transfer to the outsourced providers scheme.

### **1.15 IFRSs in issue but not yet effective**

Ofsted has considered the impact of any new IFRSs that have been issued but that are not yet effective. Ofsted has not applied the following IFRSs, which are not yet effective, but will be applicable:

- IAS 24 Related Party Disclosures (effective date 1 January 2011)
- IFRIC 14 Prepayment of a Minimum Funding Requirement (effective date 1 January 2011)
- IFRS 9 Financial Instruments (effective date 1 January 2013)

The revision of IAS 24 simplifies and clarifies the definition of a related party, and provides government-related entities with partial exemption from the disclosure requirements relating to related party transactions and outstanding balances (including commitments).

IFRIC 14 amendment allows, in certain circumstances, an entity to treat the prepayment of future contributions to a pension scheme where there is a minimum funding requirement as an asset.

Under IFRS 9, financial assets should be classified on the basis of the entity's business model for their management, and their contractual cash flow characteristics. They should be measured at fair value, and subsequently at either fair value or amortised cost. IFRS simplifies the classification and measurement of financial assets, removing the numerous categories of financial asset specified in IAS 39, and resulting in one impairment method.

Ofsted will plan to apply the above IFRSs during the financial year that they become effective.

The impact that the initial application of the above IFRSs has been assessed and is not considered to have a significant impact on the financial statements.

## 2 First-time adoption of IFRS

	<u>General Fund</u>	<u>Pension Reserve</u>
	<u>£'000</u>	<u>£'000</u>
Taxpayers' equity at 31 March 2009 under UK GAAP	(21,164)	(620)
<i>Adjustments for:</i>		
IAS 19 Employee benefit accrual for untaken annual leave	(4,154)	-
IAS 17 Finance Lease – Regulatory Support Application (RSA) element of the Ofsted contract for outsourced IS services.	5,177	-
<b>Taxpayers' equity at 1 April 2009 under IFRS</b>	<u>(20,141)</u>	<u>(620)</u>
	<u>£'000</u>	
Net operating cost for 2008-09 under UK GAAP	206,823	
<i>Adjustments for:</i>		
IAS 19 Employee benefit accrual for untaken annual leave	256	
IAS 17 Finance Lease charges relating to RSA element of the Ofsted contract for outsourced IS services.	1,400	
<b>Net operating cost for 2008-09 under IFRS</b>	<u>208,479</u>	

Aside from the cash balances of £685k reported under UK GAAP at 31 March 2009, Ofsted did not hold any cash equivalents.

IAS 19 'Employee Benefits' requires Ofsted to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future. As such, an adjustment has been made to recognise the estimated liability Ofsted currently has in relation to potential payments to staff and other related costs for untaken annual leave.

International Accounting Standards Interpretations IFRIC 4 'Determining Whether an Arrangement Contains a Lease' requires Ofsted to apply the appropriate accounting policies and disclosures in accordance with IAS 17 'Leases' in relation to any operating and finance leases identified. As such, an adjustment has been made to recognise that the Regulatory Support Application (RSA) element of the Ofsted contract for outsourced IS services is a finance lease agreement.

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

In adopting IFRS for the first time, Ofsted has adhered to the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards. The date of transition

to IFRS is 1 April 2008 for the purposes of preparing the opening IFRS statement of financial position. In line with HM Treasury guidance, the aforementioned adjustments arising from different accounting policies resulting from the application of IFRS for the first time have been taken through the General Fund.

### 3 Analysis of net resource outturn by section

						Outturn	2009-10	2008-09
						Net	Estimate	
	Admin	Other	Gross	A in A	Net	Net	Net Total	Prior-year
	£'000	Current	Resource	£'000	Total	Total	saving/	Outturn
	£'000	£'000	Expenditure	£'000	£'000	£'000	(excess)	£'000
<b>Request for Resources 1</b>	27,945	189,023	216,968	(15,026)	201,942	202,218	276	207,515
<b>Total</b>	<u>27,945</u>	<u>189,023</u>	<u>216,968</u>	<u>(15,026)</u>	<u>201,942</u>	<u>202,218</u>	<u>276</u>	<u>207,515</u>

The under spend of £0.3m resulted from an approved increase in income of £0.6m partly offset by small overspends on staff and operational expenditure.

#### 4 Reconciliation of outturn to net operating cost and against Administration Budget

##### 4.1 Reconciliation of net resource outturn to net operating cost

			2009-10	2008-09
	Note	Outturn	Supply Estimate	Outturn compared with estimate
		£000	£000	£000
Net Resource Outturn	3	201,942	202,218	276
IFRS adjustments	2	-	-	-
Prior period adjustments		-	-	-
Non-supply income (CFERS)	6	-	-	-
Non-supply expenditure		-	-	-
<b>Net operating cost</b>		<b>201,942</b>	<b>202,218</b>	<b>276</b>
				207,515
				1,656
				-
				(692)
				-
				208,479

##### 4.2 Outturn against final Administration Budget

		2009-10	2008-09
		Budget	Outturn
		£000	£000
Gross Administration Budget		28,115	27,945
Income allowable against the Administration Budget		(95)	(83)
<b>Net outturn against final Administration Budget</b>		<b>28,020</b>	<b>27,862</b>
			28,091



## 5. Reconciliation of net resource outturn to net cash requirement

				2009-10	2008-09
	Note	Estimate	Outturn	Net Total Outturn compared with Estimate saving/ (excess)	Outturn
		£000	£000	£000	£000
Net Resource Outturn	3	202,218	201,942	276	209,171
Capital:					
Acquisition of property, plant and equipment	12	1,381	312	1,069	839
Acquisition of intangible assets	13	-	1,054	(1,054)	1,293
Accruals adjustments:					
Non-cash items	9, 10, 19	(3,125)	(13,115)	9,990	(16,633)
Changes in working capital other than cash		-	(3,848)	3,848	10,292
Changes in payables falling due after more than one year		-	67	(67)	70
Use of provision	19	1,292	8,561	(7,269)	4,557
IAS 19 opening balance transfer from provisions		-	-	-	(181)
IAS 19 Pension Liability – staff costs		-	(10)	10	34
<b>Net cash requirement</b>		<b>201,766</b>	<b>194,963</b>	<b>6,803</b>	<b>209,442</b>

The increase in provisions which will crystallise in the following financial years and the £3 million decrease in trade receivables are the most significant factors contributing to the cash variation of £6.8 million.

The £7.3 million variance in use of provisions is mainly attributable to timing differences arising from an acceleration in 2009 Reorganisation process.

## 6 Analysis of income payable to the Consolidated Fund

In addition to Appropriations in Aid the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Forecast 2009-10		Outturn 2009-10	
	Income	Receipts	Income	Receipts
	£'000	£'000	£'000	£'000
Operating income and receipts – excess A in A	–	–	–	<i>692</i>

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

	Note	2009-10 £000	2008-09 £000
Operating income	11	15,026	15,192
Income authorised to be appropriated-in-aid		(15,026)	(14,500)
Operating income payable to the Consolidated Fund	6	–	692

## 8 Staff numbers and related costs

Staff costs comprise:

	2009-10			2008-09
	TOTAL	Permanently employed staff	Others	TOTAL
	£000	£000	£000	£000
Wages and salaries	89,910	81,468	8,442	89,619
Social security costs	7,094	6,894	200	7,036
Other pension costs	15,008	14,584	424	16,653
<b>Sub Total</b>	<b>112,012</b>	<b>102,946</b>	<b>9,066</b>	113,308
Restructuring costs	2,819	2,819	–	9,064
<b>Total</b>	<b>114,831</b>	<b>105,765</b>	<b>9,066</b>	122,372
Less recoveries in respect of outward secondments	–	–	–	–
<b>Total Net Costs*</b>	<b>114,831</b>	<b>105,765</b>	<b>9,066</b>	122,372

\* No salary costs have been capitalised.

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 2007. 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)). The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

For 2009-10, employers' contributions of £15,065,575 (2008-09 – £16,445,546) were payable to the PCSPS at any one of four rates in the range 16.7% to 24.3% of pensionable pay. Employer contribution rates are reviewed every four years following a full scheme valuation by the Government Actuary. This year the salary bands have been revised but the rates will remain the same. 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 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £62,128 (2008-09 – £44,357) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. In addition, employer contributions of £2,799 (2008-09 – £3,770) 0.8% of pensionable pay were payable to the PCSPS to cover the cost of the 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 statement of financial position date were £8,721 (2008-09 – £3,633). There were no contributions prepaid at that date.

For 2009-10 employers' contributions of £89,832 (2008-09 – £110,324) were payable to the Local Government Pension Scheme (LGPS). Also, for 2009-10 employers' contributions of £4,479 (2008-09 – £3,982) were payable to the National Health Service Pension Scheme (NHSPS). There were also payments of £43,370 (2008-09 – £30,731) for other pension schemes for seconded staff. See note 28 for further pension disclosure.

There were no ill health retirements during the year funded by Ofsted.

### Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

	2009-10			2008-09
	Total	Permanently employed staff	Others	Total
	No.	No.	No.	No.
Objective 1 – Better outcomes	2,038	1,837	201	2,270
Objective 2 – Better inspection & regulation	127	114	13	105
Objective 3 – Better communication	40	36	4	88
Objective 4 – Better consultation	11	10	1	28
Objective 5 – Better value	17	15	2	28
Objective 6 – Better ways of working	84	76	8	45
<b>Total</b>	<b>2,317</b>	<b>2,088</b>	<b>229</b>	<b>2,564</b>

The 2009-10 accounts have been produced by apportioning staffing between six main priorities (our key objectives).

## 9 Other Administration Costs

		<u>2009-10</u>	<u>2008-09</u>
		<u>£000</u>	<u>£000</u>
	<b>Note</b>		
Rentals under operating leases		<b>2,760</b>	2,882
Interest charges		-	-
PFI service charges		-	-
Research and development expenditure		-	-
Non-cash items:			
Depreciation	12	<b>80</b>	59
Amortisation	13	<b>469</b>	7
Finance charge on finance leases		<b>1</b>	-
Impairment	15	<b>3</b>	-
Interest on capital		<b>(155)</b>	(66)
Auditors' remuneration and expenses		<b>103</b>	72
Provision provided/(written back) in year	19	<b>1,528</b>	465
Unwinding of discount on provisions	19	<b>9</b>	54
Other expenditure:			
Accommodation costs		<b>2,326</b>	1,380
Staff overheads		<b>1,384</b>	1,203
Other costs		<b>2,632</b>	3,294
Printing, postage & stationery		<b>692</b>	489
Outside professional assistance		<b>2,616</b>	2,581
IS costs		<b>97</b>	1
Provision for doubtful debts		<b>(10)</b>	-
Net bad debt (write-back)/ write-off		<b>(3)</b>	-
		<u><b>14,532</b></u>	<u>12,421</u>

## 10 Programme Costs

		<u>2009-10</u>	<u>2008-09</u>
		<u>£'000</u>	<u>£'000</u>
	<b>Note</b>		
Rentals under operating leases		2,129	2,135
Interest charges		-	-
PFI service charges		-	-
Research and development expenditure		-	-
Non-cash items:			
Depreciation	12	452	527
Amortisation	13	2,658	2,725
Finance charge on finance leases		3	7
Impairment	15	18	17
Interest on capital		(875)	(595)
Provision provided/(written back) in year	19	6,386	5,122
Unwinding of discount on provisions	19	34	-
Other expenditure:			
Establishment		3,004	2,981
Inspection costs		39,737	45,570
Travel		8,745	9,298
Training		2,060	2,664
Printing and postage		3,340	3,515
IS		2,204	1,340
Other staff related costs		1,081	680
Legal		501	232
Catering		44	64
Outside professional assistance		16,161	12,749
Provision for doubtful debts		(58)	(88)
Net bad debt (write-back)/ write-off		(19)	(82)
Other		-	17
<b>Total</b>		<u>87,605</u>	<u>88,878</u>

### 10.1 Total Non-Cash Transactions

The non-cash transactions included in the Reconciliation of net resource outturn to net cash requirement (note 5), and Cash flows from operating activities (Statement of Cash Flows) comprises:

		<u>2009-10</u>	<u>2008-09</u>
		<u>£'000</u>	<u>£'000</u>
	<b>Note</b>		
Non cash staff costs	8	2,401	8,426
Other Administration Costs (non cash items)	9	2,038	591
Programme Costs (non cash items)	10	8,676	7,616
		<u>13,115</u>	<u>16,633</u>

## 11 Income

Operating income, analysed by classification and activity, is as follows:

	<u>2009-10</u>	<u>2008-09</u>
	<u>£'000</u>	<u>£'000</u>
All operating income is included within public expenditure		
Administration income:		
From Government Departments and others	<u>83</u>	-
<b>Sub-Total Administration income</b>	<u>83</u>	<u>-</u>
Programme income:		
Income from sales & services	<u>3,069</u>	2,692
Inspection of independent schools fees	<u>608</u>	614
Children's Services applications & fees	<u>10,365</u>	9,850
College inspection fees	<u>665</u>	1,326
Other	<u>236</u>	710
<b>Sub-Total Programme Income</b>	<u>14,943</u>	<u>15,192</u>
<b>Total</b>	<u>15,026</u>	<u>15,192</u>

The following is an analysis of income from services provided to external and public sector customers for fees and charges purposes.

	<u>2009-10</u>		
	<u>Income</u>	<u>Full Cost</u>	<u>Surplus/</u>
	<u>£000</u>	<u>£000</u>	<u>(Deficit)</u>
			<u>£000</u>
Social Care Registration and Inspection	5,648	20,029	(14,381)
Childcare Registration and Inspection	5,383	38,303	(32,920)
Other Income (Inc Independent Schools)	990	4,569	(3,579)
<b>Sub-Total Income from External Customers</b>	<u>12,021</u>	<u>62,901</u>	<u>(50,880)</u>
Income from other Government Departments	3,005	3,791	(786)
<b>Total</b>	<u>15,026</u>	<u>66,692</u>	<u>(51,666)</u>

	<u>2008-09</u>		
	<u>Income</u>	<u>Full Cost</u>	<u>Surplus/</u>
	<u>£000</u>	<u>£000</u>	<u>(Deficit)</u>
			<u>£000</u>
Social Care Registration and Inspection	6,275	16,060	(9,785)
Childcare Registration and Inspection	4,901	42,852	(37,951)
Other Income (Inc Independent Schools)	1,036	3,128	(2,092)
<b>Sub-Total Income from External Customers</b>	<u>12,212</u>	<u>62,040</u>	<u>(49,828)</u>
Income from other Government Departments	2,980	3,978	(998)
<b>Total</b>	<u>15,192</u>	<u>66,018</u>	<u>(50,826)</u>

Whilst taking into consideration the need to maintain an adequate supply of providers and to protect the interest of children, Ofsted are encouraging the fee setting departments to move the fee regime closer to a full cost recovery basis, in line with government policy on Fees and Charges, over a timescale which avoids causing undue economic stress. The key considerations are:

The financial state of various providers who are suffering a substantial decrease in revenues due to policy changes (e.g. children's homes), long term trends (e.g. voluntary adoption agencies and adoption support agencies) or the economic climate (e.g. boarding schools).

The implementation of regimes which clearly align any fee subsidy with the aims of the subsidising department.

Allowing time for fee levels to rise to avoid sudden large increases, particularly in the higher value fees. Also setting fees for future years to allow providers to plan beyond the current year.

**12 Property, plant and equipment**

	<b>Information Technology</b>	<b>Furniture &amp; Fittings</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or valuation</b>				
At 1 April 2009	1,888	801	268	2,957
Additions	312	-	-	312
Disposals	(497)	(450)	(268)	(1,215)
Impairments	(135)	-	-	(135)
<b>At 31 March 2010</b>	<b>1,568</b>	<b>351</b>	<b>-</b>	<b>1,919</b>
<b>Depreciation</b>				
At 1 April 2009	1,246	544	268	2,058
Charged in year	415	117	-	532
Disposals	(497)	(450)	(268)	(1,215)
Impairments	(114)	-	-	(114)
<b>At 31 March 2010</b>	<b>1,050</b>	<b>211</b>	<b>-</b>	<b>1,261</b>
<b>Net Book Value at 31 March 2010</b>	<b>518</b>	<b>140</b>	<b>-</b>	<b>658</b>
Net Book Value at 1 April 2009	642	257	-	899
<b>Asset financing:</b>				
Owned	518	140	-	658
Finance leased	-	-	-	-
<b>Net Book Value at 31 March 2010</b>	<b>518</b>	<b>140</b>	<b>-</b>	<b>658</b>

	<b>Information Technology</b>	<b>Furniture &amp; Fittings</b>	<b>Motor Vehicles</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or valuation</b>				
At 1 April 2008	1,079	801	268	2,148
Additions	839	-	-	839
Disposals	-	-	-	-
Impairments	(30)	-	-	(30)
<b>At 31 March 2009</b>	<b>1,888</b>	<b>801</b>	<b>268</b>	<b>2,957</b>
<b>Depreciation</b>				
At 1 April 2008	846	371	268	1,485
Charged in year	413	173	-	586
Disposals	-	-	-	-
Impairments	(13)	-	-	(13)
<b>At 31 March 2009</b>	<b>1,246</b>	<b>544</b>	<b>268</b>	<b>2,058</b>
<b>Net Book Value at 31 March 2009</b>	<b>642</b>	<b>257</b>	<b>-</b>	<b>899</b>
Net Book Value at 1 April 2008	233	430	-	663
<b>Asset financing:</b>				
Owned	642	257	-	899
Finance leased	-	-	-	-
<b>Net Book Value at 31 March 2009</b>	<b>642</b>	<b>257</b>	<b>-</b>	<b>899</b>



### 13 Intangible assets

Intangible assets comprise purchased software licences and the Regulatory Support Application (RSA) finance lease.

	<u>RSA Finance Lease</u>	<u>Software</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Cost or valuation</b>			
At 1 April 2009	17,254	465	17,719
Additions	737	317	1,054
Disposals	-	-	-
Impairment	-	-	-
<b>At 31 March 2010</b>	<u>17,991</u>	<u>782</u>	<u>18,773</u>
<b>Amortisation</b>			
At 1 April 2009	11,940	367	12,307
Charged in year	3,025	102	3,127
Disposals	-	-	-
Impairment	-	-	-
<b>At 31 March 2010</b>	<u>14,965</u>	<u>469</u>	<u>15,434</u>
<b>Net Book Value at 31 March 2010</b>	<u>3,026</u>	<u>313</u>	<u>3,339</u>
Net Book Value at 1 April 2009	<u>5,314</u>	<u>98</u>	<u>5,412</u>
<b>Asset financing:</b>			
Owned	-	313	313
Finance leased	3,026	-	3,026
<b>Net Book Value at 31 March 2010</b>	<u>3,026</u>	<u>313</u>	<u>3,339</u>
	<u>RSA Finance Lease</u>	<u>Software</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Cost or valuation</b>			
At 1 April 2008	16,062	364	16,426
Additions	1,192	101	1,293
Disposals	-	-	-
Impairment	-	-	-
<b>At 31 March 2009</b>	<u>17,254</u>	<u>465</u>	<u>17,719</u>
<b>Amortisation</b>			
At 1 April 2008	9,283	291	9,574
Charged in year	2,657	76	2,733
Disposals	-	-	-
Impairment	-	-	-
<b>At 31 March 2009</b>	<u>11,940</u>	<u>367</u>	<u>12,307</u>
<b>Net Book Value at 31 March 2009</b>	<u>5,314</u>	<u>98</u>	<u>5,412</u>
Net Book Value at 1 April 2008	<u>6,779</u>	<u>73</u>	<u>6,852</u>
<b>Asset financing:</b>			
Owned	-	98	98
Finance leased	5,314	-	5,314
<b>Net Book Value at 31 March 2009</b>	<u>5,314</u>	<u>98</u>	<u>5,412</u>

## 14 Financial Instruments

As the cash requirements of Ofsted are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size.

The majority of financial instruments relate to contracts for non-financial items in line with Ofsted's expected purchase and usage requirements and Ofsted is therefore exposed to little credit, liquidity or market risk.

No evidence of embedded derivatives was found from a risk-based review of all existing contractual arrangements.

	2009-10 £000	2008-09 £000
<b>Debtors and other debtors</b>		
Trade receivables	2,555	5,694
Deposits and advances	555	232
Other receivables	45	58
Prepayments and accrued income	3,249	4,351
VAT	1,169	992
Bad debt provision	(243)	(307)
	<u>7,330</u>	<u>11,020</u>
Overdue but not provided for yet in following periods:		
Not yet due	6,736	10,637
1-30 days	426	250
31-60 days	54	59
61-90 days	94	49
>91 days	20	25
	<u>7,330</u>	<u>11,020</u>
Overdue debt provided for in following periods:		
>120 days	(155)	(307)
Other Periods	(88)	-
	<u>(243)</u>	<u>(307)</u>
Movement in the bad debt provisioning:		
At 1 April 2009	307	504
Charge for the year/(reduction in provision)	(42)	(84)
Utilised/(write offs)	(22)	(113)
<b>At 31 March</b>	<u>243</u>	<u>307</u>

## 15 Impairments

The total impairment charge for the year was £21k (2008-09 – £17k) charged directly to the operating cost statement. This represents a write off of previously capitalised IT hardware that became obsolete.

**16 Trade receivables and other current assets**

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Amounts falling due within one year:</b>			
Trade receivables	1,910	4,913	4,213
Deposits and advances	277	199	198
Other receivables	45	58	37
Prepayments and accrued income	3,249	4,351	2,806
VAT	1,169	992	1,039
	<u>6,650</u>	<u>10,513</u>	<u>8,293</u>

The figure for other receivables constitutes the excess untaken annual leave debtor adjustment under IAS 19

**Amounts falling due after more than one year:**

Trade receivables	416	474	-
Deposits and advances	264	33	24
Other receivables	-	-	-
Prepayments and accrued income	-	-	-
	<u>680</u>	<u>507</u>	<u>24</u>

**16.1 Intra-Government Balances**

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>	<u>31/3/10</u>	<u>31/03/09</u>	<u>1/4/08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
	<u>Amounts falling due within one year</u>			<u>Amounts falling due after more than one year</u>		
Balances with other central government bodies	2,550	1,819	1,108	-	-	-
Balances with local authorities	1,206	830	773	-	-	-
Subtotal: intra-government balances	3,756	2,649	1,881	-	-	-
Balances with bodies external to government	2,894	7,864	6,412	680	507	24
<b>Total debtors at 31 March</b>	<u>6,650</u>	<u>10,513</u>	<u>8,293</u>	<u>680</u>	<u>507</u>	<u>24</u>

Included within trade receivables is Nil (2008-09 – £692k) that will be due to the Consolidated Fund once the debts are collected.

**17 Cash and cash equivalents**

	<u>£000</u>
Balance at 1 April 2008	592
Net changes in cash and cash equivalent balances	93
Balance at 31 March 2009	685
Net changes in cash and cash equivalent balances	<u>(382)</u>
<b>Balance at 31 March 2010</b>	<b><u>303</u></b>

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/04/08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
The following balances at 31 March were held at:			
Government Banking Services	301	683	590
Commercial banks and cash in hand	<u>2</u>	<u>2</u>	<u>2</u>
Balance at 31 March	<b><u>303</u></b>	<b><u>685</u></b>	<b><u>592</u></b>

**18 Trade payables and other current liabilities**

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Amounts falling due within one year:</b>			
Trade payables	816	–	3,800
Other payables	1,858	3,248	2,746
Other taxation and social security	2,237	2,317	3,609
Accruals and deferred income	12,676	11,169	14,865
Current part of finance lease	67	70	65
Merger Related Cash Balance	–	–	559
Amounts issued from the Consolidated Fund supply but not spent at year end	301	683	31
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	<u>–</u>	<u>692</u>	<u>–</u>
	<b><u>17,955</u></b>	<b><u>18,179</u></b>	<b><u>25,675</u></b>
<b>Amounts falling due after more than one year:</b>			
Other payables, accruals and deferred income	–	–	–
Finance Leases	<u>–</u>	<u>67</u>	<u>137</u>
	<b><u>–</u></b>	<b><u>67</u></b>	<b><u>137</u></b>

## 18.1 Intra-Government Balances

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
	<u>Amounts falling due within one year</u>			<u>Amounts falling due after more than one year</u>		
Balances with other central government bodies	5,030	5,596	7,972	-	-	-
Balances with local authorities	14	3	61	-	-	-
Balances with NHS Trusts	1	6	1	-	-	-
Balances with public corporations and trading funds	-	-	8	-	-	-
Subtotal: intra-government balances	<u>5,045</u>	<u>5,605</u>	<u>8,042</u>	-	-	-
Balances with bodies external to government	<u>12,910</u>	<u>12,574</u>	<u>17,633</u>	-	67	137
Total creditors at 31 March	<u>17,955</u>	<u>18,179</u>	<u>25,675</u>	-	67	137

## 19 Provisions for liabilities and charges

	<u>2007 Merger</u>	<u>Early departure costs</u>	<u>Early Years Project</u>	<u>Property Dilapidation</u>	<u>Vacant Property Provision</u>	<u>2009 Reorganisation</u>	<u>Other</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April 2008	2,050	2,453	-	1,348	4,044	196	525	10,616
Provided in the year	-	-	-	706	3,981	8,426	989	14,102
Provisions not required written back	-	(43)	-	-	-	-	(46)	(89)
Provisions utilised in the year	(1,608)	(486)	-	-	(2,377)	(69)	(17)	(4,557)
Unwinding of discount	-	54	-	-	-	-	-	54
LGPS Transfer	(181)	-	-	-	-	-	-	(181)
Balance at 31 March 2009	<u>261</u>	<u>1,978</u>	<u>-</u>	<u>2,054</u>	<u>5,648</u>	<u>8,553</u>	<u>1,451</u>	<u>19,945</u>

	<u>2007 Merger</u>	<u>Early departure costs</u>	<u>Early Years Project</u>	<u>Property Dilapidation</u>	<u>Vacant Property Provision</u>	<u>2009 Reorganisation</u>	<u>Other</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April 2009	261	1,978	-	2,054	5,648	8,553	1,451	19,945
Provided in the year	-	6,501	4,756	497	246	-	1,809	13,809
Provisions not required written back	(201)	-	-	-	-	(2,636)	(656)	(3,493)
Provisions utilised in the year	(60)	(509)	-	(565)	(1,582)	(5,334)	(511)	(8,561)
Unwinding of discount	-	43	-	-	-	-	-	43
Balance at 31 March 2010	<u>-</u>	<u>8,013</u>	<u>4,756</u>	<u>1,986</u>	<u>4,312</u>	<u>583</u>	<u>2,093</u>	<u>21,743</u>

**Analysis of expected timing of discounted flows**

	2007 Merger £000	Early departure costs £000	Early Years Project £000	Property Dilapi- dation £000	Vacant Property Provision £000	2009 Reorgani- sation £000	Other £000	Total £000
In the remainder of the Spending Review period to 2011	–	1,857	4,756	471	1,379	583	2,025	11,071
Between 2012 and 2016	–	4,482	–	664	2,933	–	21	8,100
Between 2017 and 2021	–	966	–	851	–	–	19	1,836
Thereafter	–	708	–	–	–	–	28	736
<b>Balance at 31 March 2010</b>	<b>–</b>	<b>8,013</b>	<b>4,756</b>	<b>1,986</b>	<b>4,312</b>	<b>583</b>	<b>2,093</b>	<b>21,743</b>

Included in the amounts not expected to be called until after 2021 are:

	2007 Merger £000	Early departure costs £000	Early Years Project £000	Property Dilapi- dation £000	Vacant Property Provision £000	2009 Reorgani- sation £000	Other £000	Total £000
Amounts not expected to be called until the period beginning 2061	–	–	–	–	–	–	–	–
Amounts not expected to be called until the period beginning 2086	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–

**19.1 2007 Merger**

On 1st April 2007, as a result of the creation of the new Ofsted, a significant number of staff transferred from the Commission for Social Care Inspection. A value of £4.7 million had been estimated by the Government Actuary's Department (GAD), for the potential deficit that may have accrued to the new Ofsted should those staff have decided to transfer their respective pensions from the Local Government Pension Scheme (LGPS) into the Principal Civil Service Pension Scheme (PCSPS). The aforementioned deficit, which Ofsted had agreed to pay, had arisen from the relative underperformance of these LGPS schemes when taking into account external market conditions. It has now been confirmed that this transfer process has been concluded.

**19.2 Early departure costs**

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 1.8% in real terms.

### **19.3 Early Years Project**

During 2009-10 Ofsted undertook an analysis of the workforce capacity in Early Years to determine how many inspectors are required to meet our inspection commitments. This provision represents known redundancy commitments arising from a restructure of Early Years to address the over-capacity in some parts of the country.

### **19.4 Property Dilapidation**

Ofsted leases all of the property it uses. It is a standard contractual requirement that the lessee returns leased estate in good order at the end of the lease period, and makes good any dilapidation. This payment will materialise at the end of the lease, but a charge is made in the accounts every year reflecting the annual wear and tear on the buildings.

### **19.5 Vacant Property Provision**

Ofsted has a number of vacant properties as a result of past organisational changes and restructuring. The provision reflects future contractual costs of all vacant leased property net of likely rental incomes. In view of the current economic climate impacting on the likelihood of renting out the vacant properties there was a marked increase in the Provision for the year.

### **19.6 2009 Reorganisation**

This provision represents known redundancy commitments arising from a recent restructuring to improve the way we work and the requirement to transfer functions out of London.

### **19.7 Other**

The amount includes a £1.3 million provision for Early Years Outsourcing Pensions bulk transfer based upon Government Actuaries Department (GAD) estimate, an injury provision and provision for Compromise Agreements.

## 20 Notes to the Statement of Operating Costs by Departmental Strategic Objectives

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

Ofsted does not receive any programme grants.

Ofsted capital is employed for both programme and administration purposes. It has been allocated in proportion to the percentage of staff employed for programme and administration duties respectively.

### Capital Employed by Departmental Strategic Objectives at 31 March 2010

	<u>2009-10</u>	<u>2008-09</u>
	£000	£000
Objective One – Better outcomes	26,220	16,294
Objective Two – Better inspection & regulation	1,504	862
Objective Three – Better communication	479	304
Objective Four – Better consultation	127	56
Objective Five – Better value for money	196	504
Objective Six – Better ways of working	985	634
	<u>29,511</u>	<u>18,654</u>

## 21 Capital commitments

There are no contracted capital commitments at 31 March 2010 (2009: £nil).

The RSA element of the Ofsted contract for outsourced IS services constitutes a finance lease. Ofsted are committed to £67k (2009:£137k) as the capital element of payment in respect of the aforementioned finance lease.



## 22 Commitments under leases

### 22.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below, analysed according to the period in which the lease expires for each of the following periods.

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>
	£000	£000	£000
Obligations under operating leases comprise:			
Land:			
Not later than one year	-	-	-
Later than one year and not later than five years	-	-	-
Later than five years	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Buildings:			
Not later than one year	-	1,213	59
Later than one year and not later than five years	5,486	5,759	9,256
Later than five years	13,645	16,307	13,024
	<u>19,131</u>	<u>23,279</u>	<u>22,339</u>
Other:			
Not later than one year	-	51	51
Later than one year and not later than five years	973	721	9
Later than five years	-	-	-
	<u>973</u>	<u>772</u>	<u>60</u>

Significant operating lease arrangements include those for properties occupied by Ofsted staff as required to carry out their administrative duties.

### 22.2 Finance leases

Total future minimum lease payments under finance leases are given in the table below, analysed according to the period in which the lease expires.

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>
	£000	£000	£000
Obligations under finance leases comprise:			
Buildings:			
Not later than one year	-	-	-
Later than one year and not later than five years	-	-	-
Later than five years	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Less interest element	-	-	-
Other:			
Not later than one year	69	-	-
Later than one year and not later than five years	-	144	216
Later than five years	-	-	-
	<u>69</u>	<u>144</u>	<u>216</u>
Less interest element	2	7	14
Present Value of obligations	<u>67</u>	<u>137</u>	<u>202</u>

Finance lease arrangements relate specifically to the Regulatory Support Application (RSA) element of the Ofsted contract for outsourced IS services.

## 23 Other financial commitments

Ofsted has entered into a six year non-cancellable contract (which is not a lease or PFI contract), for the inspection of schools, independent schools and FE College inspection. The department has also entered into a similar contract for the inspection of schools, colleges, apprenticeships, adult skills, surveys and Initial Teacher Education. The department has also entered into a non-cancellable contract (which is not a lease or PFI contract) for IS services.

The payments to which Ofsted is committed, analysed by the period during which the payment is due are as follows.

	<u>31/3/10</u>	<u>31/3/09</u>	<u>1/4/08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Not later than one year	43,692	41,993	53,785
Later than one year and not later than five years	149,791	127,692	26,808
Later than five years	15,338	42,211	–
	<u>208,821</u>	<u>211,896</u>	<u>80,593</u>

## 24 Contingent liabilities disclosed under IAS 37

Ofsted has no non statutory and statutory contingent liabilities that have been reported.

In 2010, there are a few potential legal claims which are at an early stage and thus cannot be quantified.

## 25 Losses and special payments

### 25(a) Losses Statement

	<u>2009-10</u>		<u>2008-09</u>	
	<u>No. of cases</u>	<u>£000</u>	<u>No. of cases</u>	<u>£000</u>
Total Fruitless payments and constructive losses	182	45	147	44

### 25(b) Special Payments

	<u>2009-10</u>		<u>2008-09</u>	
	<u>No. of cases</u>	<u>£000</u>	<u>No. of cases</u>	<u>£000</u>
Total Special Payments	3	4	9	100

## 26 Related-party transactions

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

Audit Commission	HM Procurator General and Treasury Solicitor
British Council	
Cabinet Office	HM Revenue & Customs
Civil Service Pensions	HM Treasury
Commission for Social Care Inspection	Learning and Skills Council
Criminal Records Bureau	Local Authorities
Department for Education	Ministry of Defence
Department for Work and Pensions	National Audit Office
Department of Health	National School of Government
Food Standards Agency	NHS Trusts
Government Actuary's Department	Office of Government Commerce
Government Car & Despatch Agency	Office of National Statistics
HM Courts Service	Rail Accident and Investigation Bureau
HM Inspectorate of Constabulary	Youth Justice Board England & Wales
HM Prisons Service	

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

## 27 Third-party assets

Ofsted holds monies on behalf of a tenant as security for future rent commitments and is a third party asset.

This is not a departmental asset and is not included in the accounts. The asset held at the 31st March 2010 to which it was practical to ascribe monetary values comprised monetary assets, such as bank balances and monies on deposit, and listed securities. They are set out in the table immediately below.

	<u>31 March</u> <u>2009</u> <u>£000</u>	<u>Gross</u> <u>inflows</u> <u>£000</u>	<u>Gross</u> <u>outflows</u> <u>£000</u>	<u>31 March</u> <u>2010</u> <u>£000</u>
Monetary assets such as bank balances and monies on deposit	210	-	-	210
Listed Securities	-	-	-	-

## 28 Pension arrangements – local government pension scheme defined benefit scheme disclosure

Ofsted has a small number of staff that contribute to a Local Government Pensions Scheme (LGPS). The LGPS is a guaranteed, final salary scheme open primarily to employees of local government but not to new entrants outside local government. It is a funded scheme, with its pension funds being managed and invested locally within the framework of regulations provided by Government.

Ofsted has a small number of staff who transferred to it in 2007 and 2001 but elected to remain in their existing local government pension schemes. Their accrued and future service is in the LGPS. The staff from 2007 remained in the Teesside LGPS Pension fund and the staff from 2001 remained in the West Yorkshire LGPS Pension Fund. The level of contributions to both funded schemes is the amount needed to provide adequate funds to meet pension obligations as they fall due. As at 31 March 2010, contributions of £82k (2008 – £108k) and £72k (2008- £75k) were made by Ofsted and the scheme participants to both Teesside and West Yorkshire LGPS Pension funds respectively.

The obligation and cost of providing the pensions is assessed annually using the projected unit method. The date of the most recent actuarial review was 31 March 2007.

Where required to do so we have maintained a separation of the schemes in the disclosures. We have not shown the previous four years information as per IAS 19 requirements as the information was not readily available.

A summary of disclosure information as per IAS 19 Retirement Benefits is as follows:

i) The amount recognised in the Statement of Financial Position are as follows:

	Teesside Pension Fund			West Yorkshire Pension Fund		
	31 Mar-10	31 Mar-09	1 Apr-08	31 Mar-10	31 Mar-09	1 Apr-08
	£'000	£'000	£'000	£'000	£'000	£'000
Present Value of Funded Obligation	1,576	1,592	1,587	4,988	3,933	4,033
Fair Value of Scheme Assets	1,633	1,868	1,880	3,539	3,071	3,559
Net Assets	57	276	293	(1,449)	(862)	(474)
Present Value of Unfunded Obligation	-	-	-	-	-	-
Unrecognised Past Service Cost	-	-	-	-	-	-
<b>Net Asset/(Liability) in Balance Sheet</b>	<b>57</b>	<b>276</b>	<b>293</b>	<b>(1,449)</b>	<b>(862)</b>	<b>(474)</b>
<b>Bid Value of Scheme Assets</b>	<b>1,633</b>	<b>1,868</b>	<b>1,880</b>	<b>3,539</b>	<b>3,071</b>	<b>3,559</b>

ii) The principal actuarial assumptions used as at the balance sheet date are:

Financial Assumptions as at	Teesside Pension Fund			West Yorkshire Pension Fund		
	31 Mar-10	31 Mar-09	1 Apr-08	31 Mar-10	31 Mar-09	1 Apr-08
	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
Price Increases	3.80%	2.90%	3.70%	3.70%	2.90%	3.60%
Salary Increases	5.30%	4.40%	5.20%	5.45%	4.65%	5.35%
Pension Increases	3.80%	2.90%	3.70%	3.70%	2.90%	3.60%
Discount Rate	5.70%	6.40%	6.60%	5.70%	5.80%	6.10%

### Mortality Assumptions:

The post retirement mortality tables adopted were the PA2 series projected to calendar year 2007 for current pensioners and 2017 for non-pensioners with a 90% scaling factor. The assumed life expectations from age 65 are:

	Teesside Pension Fund 31 Mar-10 Years	West Yorkshire Pension Fund 31 Mar-10 Years
<i>Retiring today</i>		
Males	19.51	21.60
Females	22.55	25.30
<i>Retiring in 20 years</i>		
Males	20.41	23.90
Females	23.43	27.70

The Actuarial assumptions are that 50% of retiring members will opt to increase their lump sums to the maximum allowed, whilst 50% take only 3/80ths of the cash.

### iii) Sensitivity Analysis:

The following table sets out the impact of a change in the discount rates on the Total Obligation and Projected Service Cost along with a +/- 1 year age rating adjustment to the mortality assumption.

Adjustment to discount rate	Teesside Pension Fund			West Yorkshire Pension Fund		
	+1%	0%	-1%	+1%	0%	-1%
	£'000	£'000	£'000	£'000	£'000	£'000
Present Value of Total Obligation	1,535	1,576	1,618	4,484	4,988	6,288
Projected Service Cost	46	48	49	62	77	97
<b>Adjustment to mortality age rating assumption</b>	<b>+1 year</b>	<b>none</b>	<b>-1 year</b>	<b>+1 year</b>	<b>none</b>	<b>-1 year</b>
Present Value of Total Obligation	1,517	1,576	1,635	5,190	4,988	5,361
Projected Service Cost	45	48	50	75	77	79

iv) The composition of assets in the scheme and the expected rate of return were:

	31 Mar-10		31 Mar-09		1 Apr-08	
	Value	Rates of Return	Value	Rates of Return	Value	Rates of Return
	£'000	% p.a.	£'000	% p.a.	£'000	% p.a.
Equities	3,801	7.5 to 8	3,275	6.5 to 6.8	3,944	7.1 to 7.5
Gilts	591	4.5	561	3.8	482	4.3 to 4.6
Other Bonds	148	5.5 to 5.7	181	5.8 to 6.4	168	6.1 to 6.6
Property	169	7 to 8.5	233	5.5 to 6.3	270	6.5 to 6.6
Cash	244	0.7 to 3	394	2.0 to 5.0	354	5.0 to 5.25
Other	219	8.0	295	6.5	221	7.5
Total	<u>5,172</u>		<u>4,939</u>		<u>5,439</u>	

**Splits of assets between investment categories as at:**

	31 Mar-10	31 Mar-09	1 Apr-08
Equities	73.5%	66.3%	72.5%
Gilts	11.5%	11.3%	8.8%
Other Bonds	3.0%	3.7%	3.1%
Property	3.0%	4.7%	5.0%
Cash	5.0%	8.0%	6.5%
Other	4.0%	6.0%	4.1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### Expected Return on Assets

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2009 for the year ended 31 March 2010). The return on gilts and other bonds are assumed to be the gilt yield and the corporate bond yield respectively at the relevant date. The return on the equities and properties is then assumed to be a margin above the gilt yields.

## v) Analysis of the amount charged to the Operating Cost Statement:

	<b>Year to</b> <b>31 Mar-10</b> <b>£'000</b>	Year to 31 Mar-09 £'000	Year to 1 Apr-08 £'000
Current service cost	104	80	108
Past service cost	2	10	19
Losses/(gains) on curtailments and settlements	0	0	0
<b>Total Operating Charge</b>	<b>106</b>	<b>90</b>	<b>127</b>
Analysis of amount credited to Other Finance Income:			
Expected return on Pension Scheme Assets	322	286	382
Interest on Pension Scheme Liabilities	(348)	(256)	(323)
<b>Net Return</b>	<b>(26)</b>	<b>30</b>	<b>59</b>
<b>Employers' Contribution</b>	<b>122</b>	<b>94</b>	<b>142</b>
<b>LGPS Pension Costs</b>	<b>10</b>	<b>(34)</b>	<b>(74)</b>
<b>Actual Return on Scheme Assets</b>	<b>(1,021)</b>	<b>(1,015)</b>	<b>(40)</b>

## vi) Movement in benefit obligation during the year:

	<b>Year to</b> <b>31 Mar-10</b> <b>£'000</b>	Year to 31 Mar-09 £'000	Year to 1 Apr-08 £'000
<b>Opening Defined Benefit Obligation</b>	<b>5,525</b>	5,620	6,053
Current service cost	104	80	108
Interest cost	348	256	323
Actuarial losses/(gains)	1,323	(509)	(660)
Losses/(gains) on curtailments	-	-	-
Liabilities extinguished on settlements	-	-	-
Estimated benefits paid (net of transfers in)	(780)	38	(264)
Past service cost	2	10	19
Contributions by scheme participants	42	30	41
Unfunded pension payments	-	-	-
<b>Closing Defined Benefit Obligation</b>	<b>6,564</b>	<b>5,525</b>	<b>5,620</b>

**vii) Movements in Fair Value of scheme assets during the year:**

	<b>Year to</b> <b>31 Mar-10</b>	Year to 31 Mar-09	Year to 1 Apr-08
	<b>£'000</b>	£'000	£'000
<b>Opening Fair Value of scheme assets</b>	<b>4,939</b>	5,439	5,560
Expected return on scheme assets	<b>322</b>	286	382
Actuarial gains and (losses)	<b>527</b>	(948)	(422)
Contributions by employer	<b>122</b>	94	142
Contributions by Scheme participants	<b>42</b>	30	41
Estimated benefits paid (net of transfers in)	<b>(780)</b>	38	(264)
Receipt of bulk transfer value	-	-	-
<b>Fair value of Scheme assets at end of period</b>	<b>5,172</b>	4,939	5,439

**viii) Reconciliation of opening & closing balances of the net pension asset:**

	<b>Year to</b> <b>31 Mar-10</b>	Year to 31 Mar-09	Year to 1 Apr-08
	<b>£'000</b>	£'000	£'000
<b>Surplus/(Deficit) at the beginning of the year</b>	<b>(586)</b>	(181)	(493)
Service cost	<b>(104)</b>	(80)	(108)
Employer contributions	<b>122</b>	94	142
Unfunded pension payments	-	-	-
Past Service Costs	<b>(2)</b>	(10)	(19)
Other Finance Income	<b>(26)</b>	30	59
Settlements / Curtailments	<b>0</b>	0	0
Actuarial gain/(loss)	<b>(796)</b>	(439)	238
<b>Surplus/(Deficit) at the end of the year</b>	<b>(1,392)</b>	(586)	(181)

**ix) History of surplus/(deficit) and of experience gains and losses:**

	<b>Year to</b> <b>31 Mar-10</b>	Year to 31 Mar-09	Year to 1 Apr-08
	<b>£'000</b>	£'000	£'000
Amounts for the current and previous period			
Defined Benefit Obligation	<b>(6,564)</b>	(5,525)	(5,620)
Fair Value of scheme assets	<b>5,172</b>	4,939	5,439
Surplus/(Deficit)	<b>(1,392)</b>	(586)	(181)
Experience adjustments on scheme liabilities	-	-	-
Experience adjustments on scheme assets	-	-	-

For consistency with previous disclosures the assets shown are at mid market price for the periods prior to 31 Dec 2009. The asset value shown as at 31 Dec 2009 is based on bid price, with all asset values estimated where necessary.

Note ix) above provides a summary of the schemes history as per IAS 19.



## **29 Events after the reporting period**

IAS 10, Events after the Reporting Period, requires disclosure of the date on which the financial statements were 'authorised for issue' and who gave that authorisation. The financial statements were authorised for issue on the 12 July 2010 by Christine Gilbert (Accounting Officer). There have been no events after the reporting period requiring an adjustment to the financial statements.

## Appendix A

## Financial Tables: Unaudited

Table 1: Total public spending for Ofsted

	£'000						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated Outturn	Plans
<b>Consumption of resources:</b>							
Regulation and inspection of education, children's services and skills	255,625	265,256	211,026	214,263	198,161	201,318	190,196
<b>Total resource DEL</b>	<b>255,625</b>	<b>265,256</b>	<b>211,026</b>	<b>214,263</b>	<b>198,161</b>	<b>201,318</b>	<b>190,196</b>
Resource AME							
Regulation and inspection of education, children's services and skills	-319	-1,137	-5,831	-347	9,329	1,474	-425
<b>Total resource Budget</b>	<b>255,306</b>	<b>264,119</b>	<b>205,195</b>	<b>213,916</b>	<b>207,490</b>	<b>202,792</b>	<b>189,771</b>
<b>Capital spending</b>							
Regulation and inspection of education, children's services and skills	1,919	1,453	-508	-	809	1,381	-
<b>Total capital budget</b>	<b>1,919</b>	<b>1,453</b>	<b>-508</b>	<b>-</b>	<b>809</b>	<b>1,381</b>	<b>-</b>
<i>of which:</i>							
Capital DEL	1,919	1,453	-508	-	809	1,381	-
<b>Total public spending<sup>(2)</sup></b>	<b>252,136</b>	<b>255,660</b>	<b>203,254</b>	<b>213,007</b>	<b>207,726</b>	<b>201,284</b>	<b>185,625</b>

## Note:

(1) This table was created using data from the HM Treasury COINS database.

(2) Total public spending calculated as the total of the resource budget plus the capital budget, less depreciation.

(3) See the main body of the report for more information on Ofsted's cost reduction targets.

(4) 2006-07 shows a negative figure for the total capital budget due to proceeds from the sale of one of the surplus estate properties.

(5) From 2004-05 forward the outturn figure and plans for future years have been adjusted to reflect the Machinery of Government change in 2007-08 in relation to creation of the new Ofsted with responsibility for the children's care remit of the Commission for Social Care Inspection (CSCI), the remit of the Adult Learning Inspectorate (ALI), and the remit of the HM Inspectorate of Courts Administration (HMICA) for the inspection of the Children and Family Court Advisory and Support Services (CAFCASS).

(6) This table uses COINS data taken using Clear Line of Sight

**Table 2: Resource budget for Ofsted**

	£'000						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
						Estimated	
	Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
<b>Resource DEL</b>							
<b>Regulation and inspection of education, children's services and skills</b>							
Administration and inspection							
RfR1 A	255,625	265,256	211,026	214,263	198,161	202,792	190,196
<b>Total voted</b>	<b>255,625</b>	<b>265,256</b>	<b>211,026</b>	<b>214,263</b>	<b>198,161</b>	<b>202,792</b>	<b>190,196</b>
<b>Total resource budget</b>	<b>255,625</b>	<b>265,256</b>	<b>211,026</b>	<b>214,263</b>	<b>198,161</b>	<b>202,792</b>	<b>190,196</b>

Note:

- (1) From 2004-05 forward the outturn figure and plans for future years have been adjusted to reflect the Machinery of Government change in 2007-08 in relation to creation of the new Ofsted with responsibility for the children's care remit of the Commission for Social Care Inspection (CSCI), the remit of the Adult Learning Inspectorate (ALI), and the remit of the HM Inspectorate of Courts Administration (HMICA) for the inspection of the Children and Family Court Advisory and Support Services (CAFCASS).

**Table 3: Capital budget for Ofsted**

	£'000						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
						Estimated	
	Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Plans
<b>Capital DEL</b>							
<b>Regulation and inspection of education, children's services and skills</b>							
Administration and inspection							
RfR1 A	1,919	1,453	-508	-	809	1,381	-
<b>Total voted</b>	<b>1,919</b>	<b>1,453</b>	<b>-508</b>	<b>-</b>	<b>809</b>	<b>1,381</b>	<b>-</b>
<b>Total capital budget</b>	<b>1,919</b>	<b>1,453</b>	<b>-508</b>	<b>-</b>	<b>809</b>	<b>1,381</b>	<b>-</b>

Note:

- (1) From 2004-05 forward the outturn figure and plans for future years have been adjusted to reflect the Machinery of Government change in 2007-08 in relation to creation of the new Ofsted with responsibility for the children's care remit of the Commission for Social Care Inspection (CSCI), the remit of the Adult Learning Inspectorate (ALI), and the remit of the HM Inspectorate of Courts Administration (HMICA) for the inspection of the Children and Family Court Advisory and Support Services (CAFCASS).

Table 4: Capital employed by Ofsted

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated Outturn	Plans
<b>Assets and liabilities on balance sheet at end of year:</b>							
<b>Assets</b>							
Fixed assets							
Administration and inspection							
Intangible	947	194	178	73	98	3,339	230
Tangible	9,513	2,302	1,424	663	899	658	249
<i>of which:</i>							
Land and buildings	364	1,169	-	-	-	-	-
Plant and machinery	9,149	1,133	1,424	663	899	658	249
Investments	-	-	-	-	-	-	-
Current assets	8,238	6,202	6,672	8,872	11,651	7,633	7,633
<b>Liabilities</b>							
Creditors (<1 year)	-16,730	-19,956	-18,928	-21,675	-13,901	-17,955	-17,955
Creditors (>1 year)	-	-	-204	-	-	-	-
Net retirement benefit schemes	-	-	-	-	-586	-1,392	-1,392
Provisions	-10,686	-14,085	-10,963	-10,616	-19,945	-21,743	-10,672
<b>Total capital employed in Department</b>	<b>-8,718</b>	<b>-25,343</b>	<b>-21,821</b>	<b>-22,683</b>	<b>-21,784</b>	<b>-29,460</b>	<b>-21,907</b>

## Note:

- (1) From 2003-04 to 2005-06 the figures reflect the remit of the old Ofsted. From 2006-07 forward the outturn figure and plans for future years have been adjusted to reflect the Machinery of Government change in 2007-08 in relation to creation of the new Ofsted with responsibility for the children's care remit of the Commission for Social Care Inspection (CSCI), the remit of the Adult Learning Inspectorate (ALI), and the remit of the HM Inspectorate of Courts Administration (HMICA) for the inspection of the Children and Family Court Advisory and Support Services (CAFCASS).

**Table 5: Administration costs for Ofsted**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated Outturn	Plans
<b>Administration expenditure</b>							
Pay bill	9,539	10,803	12,089	8,747	15,670	10,009	13,881
Other	15,396	13,425	16,314	12,774	12,421	17,639	13,551
<b>Total administration expenditure</b>	<b>24,935</b>	<b>24,228</b>	<b>28,403</b>	<b>21,521</b>	<b>28,091</b>	<b>27,648</b>	<b>27,432</b>
Administration income	-390	-197	-307	-5	-	-83	-95
<b>Total capital budget</b>	<b>24,545</b>	<b>24,031</b>	<b>28,096</b>	<b>21,516</b>	<b>28,091</b>	<b>27,565</b>	<b>27,337</b>

Note:

- (1) 2004-05 forward the outturn figure and plans for future years have been adjusted to reflect the Machinery of Government change in 2007-08 in relation to creation of the new Ofsted with responsibility for the children's care remit of the Commission for Social Care Inspection (CSCI), the remit of the Adult Learning Inspectorate (ALI), and the remit of the HM Inspectorate of Courts Administration (HMICA) for the inspection of the Children and Family Court Advisory and Support Services (CAFCASS).

**Table 6: Staff in post**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated Outturn	Plans
<b>Administration expenditure</b>							
Civil Service full-time equivalents	2,450	2,259	2,154	2,407	2,168	2,000	2,000
Overtime	10	9	-	8	5	8	-
Casuals	12	11	60	102	84	50	50
Administration income	-390	-197	-307	-5	-	-83	-95
<b>Total capital budget</b>	<b>2,472</b>	<b>2,279</b>	<b>2,214</b>	<b>2,517</b>	<b>2,257</b>	<b>2,058</b>	<b>2,050</b>

Note:

- (1) 2004-05 forward the outturn figure and plans for future years have been adjusted to reflect the Machinery of Government change in 2007-08 in relation to creation of the new Ofsted with responsibility for the children's care remit of the Commission for Social Care Inspection (CSCI), the remit of the Adult Learning Inspectorate (ALI), and the remit of the HM Inspectorate of Courts Administration (HMICA) for the inspection of the Children and Family Court Advisory and Support Services (CAFCASS).

**Table 7: Identifiable expenditure on services by country and region**

OFSTED	£ million						
	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Plans	2009-10 Plans	2010-11 Plans
North East	12	12	10	12	11	11	10
North West	33	40	31	30	28	27	25
Yorkshire and Humberside	24	24	20	22	21	20	19
East Midlands	21	24	19	19	18	17	16
West Midlands	26	25	23	23	22	21	20
Eastern	29	29	24	25	23	22	21
London	37	36	26	28	26	25	24
South East	44	41	35	33	31	30	28
South West	26	26	21	21	20	19	18
<b>Total England</b>	<b>252</b>	<b>257</b>	<b>209</b>	<b>213</b>	<b>200</b>	<b>192</b>	<b>181</b>
Scotland	0	0	0	0	0	0	0
Wales	0	0	0	0	0	0	0
Northern Ireland	0	0	0	0	0	0	0
<b>Total UK identifiable expenditure</b>	<b>252</b>	<b>257</b>	<b>209</b>	<b>213</b>	<b>200</b>	<b>192</b>	<b>181</b>
Outside UK	0	0	0	0	0	0	0
<b>Total identifiable expenditure</b>	<b>252</b>	<b>257</b>	<b>209</b>	<b>213</b>	<b>200</b>	<b>192</b>	<b>181</b>
Non-identifiable expenditure	0	0	0	0	0	0	0

**Table 8: Identifiable expenditure on services, by country and region, per head**

OFSTED	£'s per head						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Outturn	Outturn	Outturn	Outturn	Plans	Plans	Plans
North East	5	5	4	5	4	4	4
North West	5	6	4	4	4	4	4
Yorkshire and Humberside	5	5	4	4	4	4	4
East Midlands	5	6	4	4	4	4	4
West Midlands	5	5	4	4	4	4	4
Eastern	5	5	4	4	4	4	4
London	5	5	4	4	3	3	3
South East	5	5	4	4	4	4	3
South West	5	5	4	4	4	4	3
<b>Total England</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>
Scotland	0	0	0	0	0	0	0
Wales	0	0	0	0	0	0	0
Northern Ireland	0	0	0	0	0	0	0
<b>Total UK identifiable expenditure</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>

## Notes for Tables 7 and 8

- Tables 7 and 8 show analyses of the department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in Chapter 9 of Public Expenditure Statistical Analyses (PESA) 2008. The figures were taken from the HM Treasury public spending database in December 2009 and the regional distributions were completed in January and February 2010. Therefore the tables may not show the latest position and are not consistent with other tables in the Departmental Report.
- The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.
- TES is a near-cash measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises.
- The data are based on a subset of spending – identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions. Expenditure that is incurred for the benefit of the UK as a whole is excluded.
- Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.







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