

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

Resource Accounts 2000–01

**Office of Her Majesty's
Chief Inspector of
Schools in England
Resource Accounts
2000–01**

(For the year ended 31 March 2001)

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

Resource Accounts

Foreword

Entities within the Departmental Accounting Boundary

The only entity within the boundary during 2000–01 was the Office of Her Majesty's Chief Inspector of Schools in England (OFSTED).

The Aims and Objectives of the Department

The aim of the Department is to help improve the quality and standards of education through independent inspection and advice to the Secretary of State.

To achieve the aim, the Department works to:

- deliver high quality inspection of schools, funded nursery education, teacher training and local education authorities (LEAs), providing independent assessment to help them raise educational standards;
- provide high quality advice, based on inspection evidence, to the Secretary of State for Education and Employment to assist in the formulation and evaluation of Government policies.

Principal Activities

Her Majesty's Chief Inspector (HMCI) has a duty to establish and maintain the system for the regular inspection of all state-funded schools in England and providers of state-funded nursery education for four-year olds. Particular activities include:

- Organising and regulating a regular contracted schools inspection system;
- Organising and regulating a regular contracted nursery education inspection system;
- Keeping the inspection system under review;
- Awarding inspection contracts after competitive tendering;
- Inspection of Local Education Authorities (LEAs);
- Preparation of HMCI's Annual Report to Parliament on the state of education in England;
- Providing advice to the Secretary of State for Education and Employment;
- Publication of inspection reports on the Internet;
- Publication of guidance and good practise on aspects of education;
- Inspection of providers of teacher training;
- Inspection of LEA-funded further education work.

Bodies outside of the Departmental Accounting Boundary

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

Important Events which have occurred since the financial year end

The Care Standards and the Learning and Skills Acts have received Royal Assent during 2000. In 2001–02 they transfer significant new responsibilities to OFSTED for regulating childminding and daycare and the inspection of education provision for 16 to 19 year olds.

Departmental Report

The Department published a combined Departmental Report with the Department for Education and Employment in April 2000.

Pension Liabilities

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. OFSTED meets the cost of pension cover provided for the staff it employs by payment of charges calculated on an accruing basis.

Ministers

OFSTED is a non-ministerial department.

Permanent Head of the Department and Directorate

Christopher A Woodhead held the position of Her Majesty's Chief Inspector (HMCI) and permanent head of the Department until 1 December 2000 when Michael J Tomlinson who was already a director succeeded him. The following people were directors during the year:

Elizabeth L Passmore (from 8 February 2001)

Judith M Phillips

Margaret M Smith (from 1 March 2000)

David W Taylor

Michael J Tomlinson (until 1 December 2000 when he became HMCI and the permanent head of the Department)

Appointment of the Permanent Head of the Department and the Management Board

Christopher Woodhead was initially appointed for 5 years following an open competition 1 September 1994 and this was renewed 1 September 1998 for a further 5 years. He was required to give the Secretary of State not less than 3 months' notice to terminate the contract and his dismissal on grounds of incapacity or misconduct are covered by the Schools Inspection Act 1996. He gave notice of his resignation 2 November 2000 and left 28 February 2001. His duties were taken over by Michael Tomlinson from 1 December 2000. Michael Tomlinson was appointed by the Secretary of State as HMCI and permanent head from that date for a period of 12 months on similar resignation and dismissal terms. As such, he is covered by the Civil Service Management Code.

Elizabeth Passmore, Judith Phillips, Margaret Smith and David Taylor are all permanent civil servants covered by the Civil Service Management Code. Judith Phillips and David Taylor were appointed as directors 1 July 1999 following a service wide trawl. Michael Tomlinson became a Director on promotion 1 January 1995. He became HMCI and permanent head of Department 1 December 2000. Elizabeth Passmore was appointed 8 February 2001 following an open competition. Margaret Smith became a director 1 March 2001 following an open competition.

Director's Remuneration

Christopher Woodhead's remuneration on initial appointment was agreed by the, then, Department for Education with HM Treasury. The contract from 1 September 1998 included a basic salary, plus a potential cash bonus of up to 10% of basic salary decided annually according to performance and basic salary uprated each year by a sum equivalent to half of the performance bonus for that year. Michael Tomlinson's remuneration is an annual salary with a bonus of 12% available for a 12 month period subject to performance.

The directors are paid as senior civil servants. Details of remuneration of HMCI and the directors in the financial year ended 31 March 2001 is in note 4 to the accounts.

Employment of Disabled Persons and the Equal Opportunities Policy

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

Payment of Suppliers

OFSTED is committed to paying all undisputed invoices within 30 days of the later of receipt of goods/services or receipt of the invoice. In 2000-01 96.1% of payments achieved this target.

Auditor

The Department's auditor is the Comptroller and Auditor General.

Michael J Tomlinson

Accounting Officer for the Office of Her Majesty's Chief Inspector of Schools in England

27 September 2001

Statement of Accounting Officer's Responsibilities

Under Section 5 of the Exchequer and Audit Act 1921, the department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the department 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.

The Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

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

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

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

Statement on the System of Internal Financial Control

This statement is given in respect of the resource account for Office for Standards in Education (OFSTED). As Accounting Officer for OFSTED, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administration procedures including segregation of duties, management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by executive managers within OFSTED. In particular, the system includes:

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Principal Finance Officer;
- regular reviews by the Directorate of monthly and annual financial reports which indicate financial performance against the forecasts;
- regular reviews by the Head of finance with budget managers to assess financial control, budget variances and forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against the forecasts;
- clearly defined capital investment control guidelines;
- as appropriate, formal project management disciplines.
- an outsourced internal audit service. This service operates to the standards of the Government Internal Audit Manual;
- an Audit Committee which meets 3 times each year;
- a Head of Internal Audit who reports to me. This means, as a minimum, an annual report presented personally to me on the work and findings of the internal audit service and their independent opinion on the adequacy and effectiveness of the systems of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by:

- executive managers within OFSTED who each prepare an internal financial control statement for their area of budgetary and financial authority;
- the work of the internal auditors as described above; and
- the external auditors in their management letter and other reports.

Implementation of the Turnbull Report

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee and I am taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ended 31 March 2002, in accordance with guidance to be issued by them.

Michael J Tomlinson

27 September 2001

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

I certify that I have audited the financial statements on pages 8 to 23 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 13 and 14.

Respective Responsibilities of the Accounting Officer and Auditor

As described on page 5, the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent mis-statements or material inconsistencies with the financial statements.

I review whether the statement on page 6 reflects the Department's compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Opinion

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

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of OFSTED at 31 March 2001 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
2001

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

SCHEDULE 1**Summary of Resources Outturn
for the year ended 31 March 2001**

	2000-01						1999-2000	
	Estimate			Outturn			Net Total Outturn compared with Estimated savings/ (excess)	Prior-year Outturn
	Gross expenditure 1	Appro- priations in Aid 2	Net request for resources 3	Gross expenditure 4	Appro- priations in Aid 5	Net Total 6		
£000	£000	£000	£000	£000	£000	£000	£000	
Request for Resources 1 (Vote 4)	103,862	250	103,612	104,449	181	104,268	(656)	86,528
Total Resources	103,862	250	103,612	104,449	181	104,268	(656)	86,528
Non-Operating Cost A in A			—			—	—	—
Net Cash Requirement			104,500			102,618	1,882	88,047

Reconciliation of Resources to Cash Requirement		Note	£000	£000	£000
Net Total Resources			103,612	104,268	(656)
Capital:					
Purchase of Fixed Assets	3 & 10		3,250	1,858	1,392
Disposal of Fixed Assets	3		—	(48)	48
Non-Operating Cost A in A			—	—	—
Accruals and Adjustments:					
Non-Cash Items	16		(1,857)	(972)	(885)
Changes in Working Capital other than Cash	17		(505)	(2,488)	1,983
Net Cash Requirement (Schedule 4)			104,500	102,618	1,882

Explanation of the variation between Estimate and Outturn:

The £3.25 million Estimate for Capital was about £2 million higher than previous years due to a requirement to purchase items in preparation for new responsibilities under the Care Standard Act 2000 in the event it was decided to outsource most of the capital requirement thus leading to a capital underspend.

The total net Outturn compared with the estimate shows a £0.6 million excess. This is mainly due to a change in Ofsted's accounting policy on contractual accruals.

Analysis of income payable to the Consolidated Fund

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

	2000-01 Forecast		2000-01 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Income for fees not classified as A-in-A	1	<i>1</i>	—	—
Income from the sale of assets not classified as A-in-A	—	—	—	—
	1	<i>1</i>	—	—

SCHEDULE 2**Operating Cost Statement
for the year ended 31 March 2001**

	Note	2000-01		1999-2000	
		£000	£000	£000	£000
Administration Costs					
Staff costs	4		4,222		19,473
Other administration costs	5		9,683		14,078
Gross administration costs			13,905		33,551
Operating income	7		55		963
Net administration costs			13,850		32,588
Programme costs					
Request for Resources					
Staff costs	4	16,904		—	
Expenditure	6	73,640		53,617	
Gross Programme costs		90,544		53,617	
Less: Income	7	126		1,143	
Net programme costs			90,418		52,474
Net operating cost	2 & 9		104,268		85,062
Net resource outturn	2 & 9		104,268		86,528

The expenditure reported in the accounts for the year ended 31 March 2001 is for continuing activities

**Statement of Recognised Gains and Losses
for the year to 31 March 2001**

	Note	2000-01	1999-2000
		£000	£000
Net gain on revaluation of tangible fixed assets	15	187	38

SCHEDULE 3**Balance Sheet
as at 31 March 2001**

	Note	31 March 2001		31 March 2000	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	10		4,905		4,145
Current Assets					
Debtors	11	5,091		4,868	
Cash at bank and in hand	12	6,437		12,971	
		<u>11,528</u>		<u>17,839</u>	
Less:					
Creditors (due within one year)	13	<u>6,462</u>		<u>11,412</u>	
Net Current Assets			5,066		6,427
Total Assets less Current Liabilities			9,971		10,572
Creditors (amounts falling due after more than one year)					
Provisions for liabilities and charges	14		771		1,129
			<u>9,200</u>		<u>9,443</u>
Taxpayers' Equity					
General Fund	22	8,198		8,539	
Revaluation Reserve	15	596		456	
Donated Asset Reserve	15	406		448	9,443
			<u>9,200</u>		<u>9,443</u>

Michael J Tomlinson

27 September 2001

SCHEDULE 4**Cash Flow Statement
for the year ended 31 March 2001**

		2000-01	1999-2000
	Note	£000	£000
Net cash outflow from operating activities	16	(100,808)	(85,319)
Capital expenditure and financial investment	3	(1,810)	(1,262)
Payments to the Consolidated Fund		(1,294)	(104)
Financing from Consolidated Fund		97,378	97,880
(Decrease)/increase in Cash in the Period	12	(6,534)	11,195
Analysis of capital expenditure and financial investment			
		£000	£000
Purchase of fixed assets	3	1,858	1,288
Proceeds of disposal of fixed assets	3	(48)	(26)
Net cash outflow from investing activities		1,810	1,262
Analysis of financing			
		£000	£000
From Consolidated Fund		97,378	97,880
Consolidated Fund Extra Receipts received and not paid over		—	1,466
Consolidated Fund Extra Receipts paid over during the year		(1,294)	(104)
Decrease/(Increase) in cash		6,534	(11,195)
Net Cash Requirement (Schedule 1)		102,618	88,047

SCHEDULE 5**Resources by Departmental Aim
for the year ended 31 March 2001**

Aims/Objectives	Note	2000-01			1999-2000		
		<i>Gross</i>	<i>Income</i>	<i>Net</i>	<i>Gross</i>	<i>Income</i>	<i>Net</i>
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Objective 1: To deliver high quality inspection of schools, funded nursery education and LEAs	18	89,889	156	89,733	76,255	1,842	74,413
Objective 2: To inform those concerned with education	18	14,560	25	14,535	10,913	264	10,649
Net Operating Costs	18	104,449	181	104,268	87,168	2,106	85,062

Notes to the Departmental Resource Accounts

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

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

1.2 Tangible Fixed Assets

Title to the freehold land and buildings shown in the accounts is held by OFSTED, being property of the departmental estate.

Freehold land and buildings have been restated at their current cost using professional valuations every five years and appropriate indices in the intervening years. Other tangible assets have been stated at current cost using appropriate indices. The minimum level of capitalisation of a tangible fixed asset is £1,000 except where a class of assets is grouped.

1.3 Depreciation

Freehold land is not depreciated.

Depreciation is provided at the rates calculated to write off the valuation of the freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Freehold buildings	15 years
Equipment and computers	3 to 15 years
Motor Vehicles	3 years
Furniture, Fixtures and Fittings	15 years

1.4 Donated Assets

Donated tangible fixed assets are capitalised at their current value on receipt and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equivalent to the depreciation charge on the asset is released from the donated asset reserve to the operating cost statement.

1.5 Operating Income

Operating income relates directly to the operating activities of the department. It comprises principally, registration fees and other charges for services provided on a full cost basis. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund, which the Treasury has agreed should be treated as operating income.

1.6 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs incurred in running and managing OFSTED, including staff employed exclusively or mainly in overhead tasks. Income is analysed in the notes, between that which is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit and that operating income which is not. Programme costs reflect the cost of activities to achieve OFSTED's operational aims. It includes the pay costs of internal staff (HMI and others) exclusively or largely engaged in inspections or in direct support of inspections.

1.7 Capital Charge

A charge reflecting the cost of capital used by the department, is included in the operating costs. The charge is calculated at the Government's standard rate of 6% in real terms on all assets less liabilities, with the exception of Bank and Cash balances and Donated Fixed Assets. This charge has been split between programme and administration costs.

Notes to the Accounts (*continued*)

1.8 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. The department meets the cost of pension cover provided for the staff it employs by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

1.9 Operating Leases

OFSTED has two main types of operating leases, those for the payment of rent in the Head Office and the majority of the regional offices and those for the rental of office equipment at all locations.

Rentals payable are charged to the operating cost statement on a straight-line basis over the term of each lease.

1.10 Early Departure Costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The department provides in full for this cost when the early retirement programme has been announced and is binding on the department. The department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote.

1.11 Contracts Accruals

A new accounting policy for identifying Contracts accruals has been adopted by OFSTED and used for the purpose of the contract accrual at 31 March 2001. In addition to accruing for the full cost of completed inspections where the report has been received, contract accruals are also made at 50% for completed inspections where the inspection report has not yet been received.

2 Analysis of Net Resource Outturn and Net Operating Cost by Function

	Other		2000-01		Estimate	Savings
	Admin	Current	Net A-in-A	Total		
	£000	£000	£000	£000	£000	£000
Request for Resources 1	13,905	90,544	181	104,268	103,612	(656)
Resources Outturn	13,905	90,544	181	104,268	103,612	(656)
Non A-in-A Operating Income				—	—	—
Excess A-in-A				—	—	—
Net Operating Costs (Schedule 2)				104,268	103,612	(656)

3 Analysis of Capital Expenditure, Financial Investment and Associated A-in-A

	Capital Expenditure	Loans etc	A-in-A	Net Total
	£000	£000	£000	£000
Request for Resources 1	1,858	—	48	1,810
Total	1,858	—	48	1,810
Net Expenditure	1,858	—	48	1,810

4 Staff Numbers and Costs

The average number of whole-time equivalent persons (including senior management) employed during the year was apportioned between objectives using a revised method for 2000-01.

	2000-01	1999-2000
	Number	Number
Objective 1	397	448
Objective 2	145	64
Total	542	512

Payroll costs (Schedule 2)

	2000-01	1999-2000
	£000	£000
Administration Costs	4,222	19,871
Programme Costs	16,904	—
Total	21,126	19,871

The definitions of administration and programme costs agreed by HM Treasury to be valid from 1 April 2000 are in note 1.6. Up to that time the definitions required all staff costs to be administration costs.

Staff costs consist of:

	2000-01	1999-2000
	£000	£000
Wages and Salaries	16,900	15,556
Social Security Costs	1,486	1,375
Other Pension Costs	2,610	2,408
Early Departure Costs	130	134
Total	21,126	19,473

For 2000-01 contributions of £2,610,006 were paid to the PCSPS at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range 12-18.5% of pensionable pay.

In the 1999-2000 annual accounts Staff Costs included payments to staff agencies for the services of temporary staff. This year such costs have been included in Note 5 Other Administration; comparative figures for 1999-2000 have also been re-classified.

The salary and pension entitlements of the most senior managers of the Department were as follows:

Name	Age	Salary	Real increase in pension	Total accrued pension at age 60
C A Woodhead	54	£125,000-£129,999	£0-£2,500	£10,000-£15,000
M J Tomlinson	58	£90,000-£94,999	£2,500-£5,000	£25,000-£30,000
D W Taylor	55	£80,000-£84,999	£2,500-£5,000	£20,000-£25,000
J M Phillips	60	£80,000-£84,999	£2,500-£5,000	£20,000-£25,000
E L Passmore ¹	51	£10,000-£14,999	£0-£2,500	£10,000-£15,000
M M Smith	53	£5,000-£9,999	—	—

C A Woodhead resigned on 28 February 2001.

E L Passmore was appointed on 8 February 2001 and M M Smith on 1 March 2001.

The Real Increase in Pension is calculated from 31 March 2000, or from the date of appointment of the Director, if later.

Total Accrued Pension is calculated at 31 March 2001 or at the date of leaving, if earlier.

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is a statutory scheme which provides benefits on a "final salary" basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings.

¹ E L Passmore was employed by OFSTED before becoming a Director. The disclosure here relates solely to her time as a Director.

Notes to the Accounts (continued)

Pensions increase in payment in line with the Retail Prices Index. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

5 Other Administration Costs

	2000-01	1999-2000
	£000	£000
Rentals under operating leases	2,861	1,655
Accommodation-Service Charge	185	176
Accommodation-CILOR	377	448
Building Maintenance & Utilities	216	239
Staff Training	909	586
Agency Staff	131	398
Supernumerary Staff	32	146
Stationery & Office Supplies	154	178
Cleaning	117	112
Information Systems Maintenance & Licenses	543	219
Hire of Plant & Machinery	38	53
Travel & Subsistence	119	2,277
Outside Professional Assistance	839	3,781
Hospitality	11	10
Printing Distribution & Publicity	418	1,161
Postage and Telecommunications	505	628
Other Expenses	1,005	729
VAT Refunds	(377)	—
Non cash items:		
Depreciation (see note below)	1,289	958
Loss on disposal of fixed assets	33	77
Revaluation Adjustment	(5)	23
Cost of Capital charge	238	199
Auditor's Remuneration	45	25
Total	9,683	14,078
Depreciation:		
Per Tangible Fixed Assets analysis (note 10)	1,343	1,010
Less: Donated Asset adjustment (note 15)	(54)	(52)
	1,289	958

6 Net Programme Costs

	2000-01	1999-2000
	£000	£000
Staff costs		—
Other current expenditure	75,133	53,487
VAT Refunds	(1,589)	—
Cost of capital charge	96	130
	90,544	53,617
Less: programme income (see Note 7)	(126)	(1,143)
	90,418	52,474

7 Operating income

	2000-2001			1999-2000		
	Appropriated-in-aid	Not Appropriated-in-aid	Total	Appropriated-in-Aid	Not Appropriated-in-Aid	Total
	£000	£000	£000	£000	£000	£000
Operating income analysed by classification and activity:						
Administration Income	55	—	55	266	697	963
Programme Income	126	—	126	374	769	1,143

Operating income not appropriated in aid (ie transferred to the Consolidated Fund) is analysed for resource budget purposes between that included in public expenditure and that which is not. In 2000-01 all operating income not classified as A-in-A was within public expenditure, as was the case in 1999-2000.

8 Administration Cost Limits

	2000-01		1999-2000	
	Outturn	Limit	Outturn	Limit
	£000	£000	£000	£000
Requests for Resources 1 (See Note 1.6 and Schedule 1)	104,268	103,612	86,528	95,820

9 Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

	2000-01	1999-2000
	£000	£000
Net Operating Cost	104,268	85,062
Operating income not classified As A-in-A	—	1,466
Net Resource Outturn	104,268	86,528

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

10 Tangible Fixed Assets

	<i>Land & Buildings</i>	<i>Equipment & computers</i>	<i>Furniture Fixtures & Fittings</i>	<i>Motor Vehicles</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2000	1,017	3,315	2,010	451	6,793
Additions	—	1,070	897	21	1,988
Disposals	—	(16)	—	(143)	(159)
Revaluation	209	58	51	(14)	304
At 31 March 2001	1,226	4,427	2,958	315	8,926

Notes to the Accounts (*continued*)

	<i>Land & Buildings</i>	<i>Equipment & computers</i>	<i>Furniture Fixtures & Fittings</i>	<i>Motor Vehicles</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Depreciation					
At 1 April 2000	147	1,582	748	171	2,648
Charged in the year	51	1,054	197	41	1,343
Disposals	—	(7)	—	(71)	(78)
Revaluation	57	35	16	—	108
At 31 March 2001	<u>255</u>	<u>2,664</u>	<u>961</u>	<u>141</u>	<u>4,021</u>
Net Book Value at 31 March 2000	<u>870</u>	<u>1,733</u>	<u>1,262</u>	<u>280</u>	<u>4,145</u>
Net Book Value at 31 March 2001	<u>971</u>	<u>1,763</u>	<u>1,997</u>	<u>174</u>	<u>4,905</u>

Freehold land and buildings at the Preston Regional Office were professionally valued during August 2000 by PACE (Property Advisors to the Civil Estate), at £162,500 for Land and £302,500 for Buildings. Land and Buildings at the Guildford Regional Office were also valued by PACE in June 1998 on the basis of open market value at £230,000 for Land and £350,000 for Buildings. All assets of Ofsted are revalued annually based on relevant price indices supplied by the Office of National Statistics.

11 Debtors

	2000-01	1999-2000
	£000	£000
VAT	895	546
Trade debtors	15	6
Deposits and advances	2,000	2,012
Other debtors	14	2
Prepayments	2,167	2,302
Total	<u>5,091</u>	<u>4,868</u>
Of these amounts, the following are due after more than 1 year:		
Deposits and advances	50	94
Prepayments	373	649
Total	<u>423</u>	<u>743</u>

In the accounts for 1999-2000, prepayments by the department to the Civil Superannuation Vote towards meeting liabilities relating to early retirement were offset against the provision for those liabilities.

In the accounts for 2000-01, such prepayments are recognised separately from the liability. Accordingly, the prior year balances above have been restated to include such prepayments at 31 March 2000 (£414,000 in amounts falling due within one year, and £649,000 in amounts falling due after one year). See Note 14.

A total of 11 staff had loans outstanding at 31 March 2001 of £2,500 or more, in aggregate £82,791 (31 March 2000 there were 8 staff, in aggregate £92,803).

12 Cash at Bank and in Hand

	2000-01	1999-2000
	<u>£000</u>	<u>£000</u>
Balance at 1 April 2000	12,971	1,776
Net Cash Inflow (Outflow)		
Department	(6,534)	11,195
Payable to Consolidated Fund	<u>—</u>	<u>—</u>
Balance at 31 March 2001	<u>6,437</u>	<u>12,971</u>
The Office of HM Paymaster General provides a Current account banking service. The following balances are held at 31 March 2001:		
Balances at PGO	6,413	12,968
Commercial banks and cash in hand	<u>24</u>	<u>3</u>
	<u>6,437</u>	<u>12,971</u>

13 Creditors: amounts falling due within one year

	2000-01	1999-2000
	<u>£000</u>	<u>£000</u>
Trade Creditors	4,100	976
Other Creditors	3	2
Amounts payable to Consolidated Fund:		
Surplus to be surrendered	2,305	8,968
Excess Appropriations-in-Aid	54	1,267
Consolidated Fund Extra Receipts	<u>—</u>	<u>199</u>
	<u>6,462</u>	<u>11,412</u>

14 Provision for liabilities and charges

	<i>Early Retirement Commitments</i>
	<u>£000</u>
Balance at 1 April 2000	1,129
Arising during the year	119
Amount utilised in year	(477)
Balance at 31 March 2001	<u>771</u>

The balance of provision for early retirement at 31 March 2000 recognised in the accounts for 1999-2000 (£66,000), was net of the balance on amounts pre-funded by the department to the Civil Superannuation Vote towards meeting the liability.

In the accounts for 2000-01, the gross liability and the balance of pre-funded amounts are recognised separately. Accordingly, the balance on the provision at 1 April 2000 is restated as the gross amount. The offset of £1,063,000 taken into account in the provision at 31 March last year is instead recognised as a prepayment. See Note 11.

Notes to the Accounts (*continued*)

15 Reserves

	<i>Revaluation Reserve</i>	<i>Donated Assets Reserves</i>
	<u>£000</u>	<u>£000</u>
Balance at 1 April 2000	456	448
Arising on Revaluation during the year (net)	175	12
Transferred to General Fund in respect of realised Element of Revaluation Reserve	(12)	—
Previous Revaluation Loss	(23)	—
Transfer in respect of Donated Asset Depreciation	—	(54)
Balance at 31 March 2001	596	406

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

The donated assets reserve reflects the net book value of assets donated to the department.

The net gain on revaluation of tangible fixed assets is made up as follows:

	<u>£000</u>
Arising on Revaluation during the year (net):—	
Revaluation Reserve	175
Donated Assets Reserve	12
Reported in Schedule 2	<u>187</u>

16 Reconciliation of Operating Cost to Operating Cash Flows

	2000-01		1999-2000	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Net Operating Cost		104,268		85,062
Adjustment for non-cash transactions:				
Depreciation	(1,289)		(958)	
Loss on Disposal of Assets	(33)		(77)	
Revaluation Adjustment	5		(23)	
Cost of Capital Charge-Admin	(238)		(199)	
Cost of Capital Charge-Programme	(96)		(130)	
Movement in Provision	724		(58)	
Auditor's Remuneration	(45)	(972)	(25)	(1,470)
		<u>103,296</u>		<u>83,592</u>
Adjustment for movement in working capital other than cash:				
Increase in Debtors	637		789	
(Increase)/Decrease in Creditors	(3,125)	(2,488)	887	1,676
		<u>100,808</u>		<u>85,268</u>
Adjustment for transfer from provisions		—		51
Net Cash Flow from Operating Activities		100,808		85,319

17 Working Capital Movement

	2000-01	1999-2000
	£000	£000
Increase in Debtors	637	789
(Increase)/Decrease in Creditors	(3,125)	887
Total	(2,488)	1,676

18 Notes to Schedule 5

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

	2000-01 Programme	2000-01 Admin
	£000	£000
Objective One	1,375	3,411
Objective Two	223	552
	1,598	3,963

The average capital employed during the year has been split on the same basis as used in the calculation of the split of cost of capital between programme and administration. This has then been divided between that relating to Objectives 1 and 2, in accordance with the percentages used in Schedule 5.

19 (a) Capital Commitments

OFSTED has entered into a 7 year contract for the provision of IT equipment and services for the new Early Years Directorate. This contract will give rise to regular payments that will be subject to performance. In addition, it is expected that there will be assets owned by Logica but which are required by FRS 5 to be capitalised on the OFSTED balance sheet as at 31 March 2002. The value of these assets as at 31 March 2002 is still to be determined. The total contract value over the 7 years is expected to be of the order of £36m.

OFSTED has entered into other capital commitments at 31 March 2001 totalling £2,893,000 (2000 Nil).

(b) Other Commitments

OFSTED has entered into non-cancellable inspection and other contracts (which are not operating leases) for various services totalling £94,523,000 (2000 £32,681,000).

20 Commitments under Operating Leases

At 31 March 2001 OFSTED was committed to making the following payments during the next year:

Operating leases expiring:	Land & Buildings	Other
	£000	£000
Within 1 year	22	—
Between 2 and 5 years	307	38
After 5 years	4,785	—
Total Commitments	5,114	38

21 Contingent Liabilities

The transfer of responsibility for the regulation of childminding and day care from local authorities to OFSTED on 1 September 2001 may give rise to severance costs in 2001-02. These costs are estimated to not be more than £250,000.

There were no contingent liabilities at 31 March 2000.

Notes to the Accounts (continued)**22 Reconciliation of Net Operating Cost to changes in General Fund**

	2000-01	1999-2000
	<u>£000</u>	<u>£000</u>
Net Operating Cost for the year (Schedule 2)	104,268	85,062
Income not appropriated in aid paid to Consolidated Fund	—	104
	104,268	85,166
Net Parliamentary Funding	103,536	87,669
	(732)	2,503
Transferred to General Fund of realised element of Revaluation Reserve (see Note 15)	12	45
Non-cash Charges		
Cost of Capital	334	329
Audit Fees	45	25
	(341)	2,902
Net increase (decrease) in General Fund	8,539	5,637
General Fund at 1 April 2000	8,539	5,637
General Fund at 31 March 2001 (Schedule 3)	8,198	8,539

23 Analysis of Net Operating Cost

	2000-01		1999-2000
	Budget	Outturn	Outturn
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Core Department	103,612	104,268	85,062

24 Related Party Transactions

OFSTED has a small number of transactions with other Government Departments and other Central Government bodies which are:

- HM Treasury
- Treasury Solicitors
- DfES
- Department of Health
- DTLR
- MOD
- Home Office
- Audit Commission
- LEAs
- Teacher Training Agency
- Qualifications and Curriculum Authority

No member of the senior management team has entered into, or has personal interest in contracts entered into with companies or other organisations in which a member of the senior management team has an interest.

25 Reconciliation of Appropriation Accounts to the Resource Accounts for the Year Ended 31 March 2001

		<u>£000</u>
Net Expenditure per Appropriation Accounts		103,301
Add:	Adjustment for non-cash items:	
	Depreciation	1,289
	Loss on Disposal of Fixed Assets	33
	Cost of Capital Charge	334
	Revaluation Adjustment	(5)
	Movement in Provision	(724)
	Auditor's Remuneration	45
		<u>972</u>
		104,273
Less:	Cash Account A-in-A adjustment	1,202
	Proceeds of Disposal of Fixed Assets	(48)
		<u>(1,154)</u>
		103,119
Less:	Capital Expenditure-Appropriation A/C	<u>(1,641)</u>
		101,478
Add:	Working Capital Movements	
	Administration Costs	(739)
	Operating Income	404
	Programme Costs	1,916
	Programme Income	1,209
		<u>2,790</u>
Net Resource Outturn (Schedule 2)		<u>104,268</u>

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