



Treasury Minutes on the Fourteenth, Fifteenth, Eighteenth and Nineteenth Reports from the Committee of Public Accounts 2003-04

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**Presented to Parliament by the Financial Secretary
to the Treasury by Command of Her Majesty
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TREASURY MINUTES DATED 25 JUNE 2004 ON
THE FOURTEENTH, FIFTEENTH, EIGHTEENTH AND
NINETEENTH REPORTS FROM THE COMMITTEE OF
PUBLIC ACCOUNTS, SESSION 2003-2004

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Fourteenth Report

Inland Revenue

Tax Credits

The Committee's conclusions and recommendations

PAC conclusion (i): The Department should have been more cautious and realistic in fixing the timetable and assessing the resources needed for setting up and testing New Tax Credit assessment and payment procedures and checking claims. Their failure to do so has had serious financial consequences for many thousands of citizens and caused disruption for other areas of work for the Department. To the extent that these large complex systems were intrinsically not capable of testing sufficiently to eliminate such problems, the Department should have devised more comprehensive contingency arrangements.

1. The Inland Revenue (“the Department”) considered that there was sufficient time to implement tax credits successfully. It has learned from the unforeseen difficulties experienced with system performance in the early days of the new tax credits that were not expected by it or its IT supplier. Lessons about the underlying technology and its implementation and testing have been applied in implementing the renewals process and will continue to be applied in the future.

2. The Department invoked its contingency arrangements when it became apparent that the IT system was not working as well as it should have. These arrangements included temporarily moving staff across from other Departmental business and making interim girocheque payments to claimants where necessary. Disruption to other parts of the department’s business was kept to a minimum.

3. The Department pays any reasonable costs incurred as a direct result of its mistakes or unreasonable delays and compensates for worry and distress in accordance its standard approach, as set out in Code of Practice 1 “Putting things right”.

PAC conclusion (ii): New Tax Credits is one of a series of major IT systems that have caused serious problems, other notable cases being the National Insurance Recording System (NIRS2) and the Passport Office system. Since the Committee’s hearing, the Office of Government Commerce have updated their Gateway review guidelines. The Office of Government Commerce should analyse the weaknesses of IT partnering arrangements that have run into problems and draw together experience, best practice and guidance with the aim of helping departments to understand better how to manage the problems inherent in such partnering relationships.

4. Through the Successful Delivery Toolkit, the Office of Government Commerce (OGC) now provides access to best practice guidance: this includes a ‘Decision Map for Procurement’ and accompanying ‘Guidance for IT Contracting’ which helps departments determine whether a partnering approach is appropriate; high-level guides on ‘Managing Partnering Arrangements’ and ‘Forming Partnering Relationships in an Uncertain World’ and, together with the Senior IT Forum, guidance on ‘Effective Partnering for Customers and Suppliers’ which summarises the key issues around considering, planning and creating a partnering relationship.

5. OGC is now focused on improving communication channels to departments to help them learn lessons from best practice and embed them within behaviour. A key element of this is the continuing development of departmental Centres of Excellence, which have a clear remit to drive forward improvements in programme and project management in departments, agencies and Non Departmental Public Bodies.

PAC conclusion (iii): The level of errors in tax credit payments is unacceptable at 10% to 14% by value. The Department said that they expected an immediate halving of error rates with the introduction of New Tax Credits. They should take all necessary steps to achieve this predicted reduction, including comprehensive cross checking to other departmental information sources, set quantified targets and timescales for further reductions and report their performance against these targets.

6. The errors referred to arose in Working Families' Tax Credit (WFTC), which were replaced by the new tax credits in April 2003. The error rates in WFTC were lower than error rates had been in its predecessor, Family Credit.

7. The Department has put in place a variety of operational measures to detect and minimise non compliance in new tax credits. There are stringent 100% checks on identity to exclude fraudulent cases before payment and other system checks based on risk. Whereas under WFTC risk was assessed clerically, in new tax credits we have much more sophisticated computer-supported risk assessment of all claims and changes of circumstances, including the ability to cross check claims within the system with a wealth of data both across Revenue systems and by comparing with DWP data. These enhanced systems are designed to target the most high risk cases for investigation by our compliance teams, and to enhance the information available to those teams to support their investigations. We are monitoring their progress in order to validate our strategy. These measures are designed to improve our risk analysis and support the Department to drive down error rates year on year.

8. The Department is also monitoring claimant behaviour and the effectiveness of our risk assessment systems and investigation work in detecting and correcting non compliance by customers. Early analysis shows that our risk assessment systems are effective in differentiating between high and low risk claims and are proving valuable in targeting investigative activity by our compliance teams on the most appropriate cases.

PAC conclusion (iv): The Department preferred not to launch a campaign to draw attention to compensation available for claimants who suffered as a result of the system problems. They saw their compensation arrangements for claimants as being voluntary and spontaneous. The Department should monitor the effectiveness of their arrangements and, if the number being compensated in this way is unrealistically low, target such a campaign at those likely to have been most disadvantaged.

9. The Department has measures in place to monitor compensation arrangements in those cases where tax credits claimants did not receive the service they were entitled to expect and will continue to monitor the position as claimants' awards for last year are finalised.

PAC conclusion (v): The Inland Revenue should explain to those affected how recovery and non-recovery of overpayments of tax credits will take account of implications for other benefits. They should clarify the main interdependencies of tax credits and other benefits, such as Housing Benefit, which are the responsibility of the Department for Work and Pensions. Both Departments should operate to a coherent and consistent policy that is equitable for those who were affected by New Tax Credit delays and errors in 2003 and those who are affected in the future.

10. The Department and the Department for Work and Pensions continue to work closely on the interaction between tax credits and benefits.

11. Both Departments continue to work closely with local authorities to get tax credits information to them to allow them to reassess Housing Benefit and Council Tax Benefit cases, and to ensure that local authorities' staff are able to explain to their customers the effect of tax credits payments on their Housing Benefit and Council Tax Benefit.

12. Guidance has also been issued to local authorities on treatment of in-year overpayment adjustments and additional payments so that they know what amounts to use in the Housing Benefit and Council Tax Benefit reassessment. And in the case of overpayments which are being recovered in a subsequent year, the Housing Benefit or Council Tax Benefit should, as the legislation requires, take into account the tax credit payment less the deduction for recovery of the overpayment.

Fifteenth Report

Department of Health

Procurement of vaccines by the Department of Health

The Committee's conclusions and recommendations

PAC conclusion (i): The Department failed to act promptly on a number of reviews of its procurement process, which would have provided an opportunity to achieve significant financial savings much earlier. For example, the Department's procurement unit was under-resourced and had not been able to introduce management information systems to provide readily available data on what was being spent with a particular supplier.

1. The Department accepts that greater savings were available from its procurement activity. Prior to the Committee's observation, the Department had itself commissioned and commenced action upon the reports referenced by the Committee. The Department wished to determine the full scope for action upon the reports it had commissioned and, as a result increased the coverage offered by its internal procurement advisory team. In August 2003 the Department appointed a commercial director to upgrade the commercial capability of the Department and the NHS. Since this appointment a supply chain review aimed specifically at enhancing savings has commenced for both the Department and the NHS. In April 2004 the Department completely replaced and modernised its financial systems. The changed structures and system capability will greatly improve the savings potential for the Department. Specific targets for savings and plans to deliver these are now in place and have been incorporated in the Department's response to the Gershon Efficiency Review.

PAC conclusion (ii): The Department claims general procurement savings of some £5 million per year but has also identified scope for a further £5 million which has yet to be realised. These additional savings arise from the introduction of a new financial and business management system, the co-ordination of procurement activity under the auspices of a newly appointed Commercial Director and a strengthening of its Procurement Policy Advisory Unit. The Department will need to be able to demonstrate that it has achieved the financial savings from successful implementation of these initiatives.

2. The Department agrees the Committee's comments. The commercial director has commenced implementation of the action plan to secure enhanced savings. Co-ordination of this activity with the wider NHS exposes a greater constituency to the savings methodology adopted by the Department. Tracking costs, savings and commercial opportunities will be greatly assisted by the presence of the Department's recently procured complete financial system.

PAC conclusion (iii): At around the same time the Department was letting a contract for the purchase of the smallpox vaccine, political donations were made by the successful bidder. We found no evidence that these donations had influenced the award of the contract. As in this case, however, officials dealing with contracts need to see that proper procedures are followed and that there is a clear audit trail, so that decisions on the award of contracts can always be shown to follow from an objective evaluation of tenders.

3. The Department welcomes the Committee's statement that no evidence of influence resulting from the political donations was present in the case of the purchase of the smallpox vaccine. The Department's procurement systems have been reinforced since the Committee reported. The procedures required by the Department have been rewritten and disseminated to all staff through the Department's Intranet. The procurement of all goods and services in the Department

will (since April 2004) be captured through the Department's new financial system, offering a complete audit trail. During 2003 the Department required all major purchases to be subjected to the Office of Government Commerce "gateway" review procedure which offers a controlling safeguard to large, contentious and sensitive procurements.

PAC conclusion (iv): Increasing dependence on a small number of suppliers entails a growing risk of interruptions in the supply of vaccines. To help mitigate this risk, the Department needs to encourage suppliers to stay in the market and make the necessary investment to assure long term vaccine supplies. Greater opportunity for suppliers to influence the development of the Department's immunisation policies, perhaps through the Joint Committee on Vaccination and Immunisation, might enable them to plan more strategically to meet the Department's medium and longer term vaccine requirements.

4. The number of vaccine manufacturers has declined world-wide, but the quantities of vaccines provided to industrialised and developing country markets has increased. There are challenges in maintaining vaccine supply – but these challenges may not necessarily be resolved by having more manufacturers. What is needed is the highest quality products produced by a range of vaccine manufacturers. This will provide us with the quality of vaccines we want to supply, and a choice of suppliers.

5. Where practicable, the Department awards vaccine contracts to more than one supplier. This encourages suppliers to stay in the UK market, and reduces the risk of vaccine shortages.

6. The suggestion that manufacturers should have greater opportunity to influence the Joint Committee on Vaccination and Immunisation (JCVI) does not fully take into account the main purpose of the Committee. JCVI is an independent expert committee that provides advice to Ministers on all issues relating to vaccines. Providing opportunity for suppliers to influence an independent expert Committee risks compromising its independence and the advice it presents to Ministers.

7. In order to ensure that the Department and suppliers are fully aware of each others needs, the Department already holds regular meetings with vaccine manufacturers. This provides a valuable forum for the manufacturers discuss their development plans for new and existing vaccine products in their portfolio.

PAC conclusion (v): Vaccines have been very effective in controlling or eliminating major diseases, but important risks remain to be managed. Tuberculosis, for example, is again emerging as a threat, and the Department and the NHS will need to work closely with other agencies, including the Home Office, Prison Service, Immigration Services, and local authorities to tackle it. The Chief Medical Officer is shortly to publish an action plan setting out the efforts needed to keep this disease under control.

8. The action points within the Department's Tuberculosis Action Plan will cover such areas as organisation, surveillance, screening, awareness and clinical care. The Plan will be published in the near future and, in the meantime, some of the listed actions in key areas are already being taken forward.

Eighteenth Report

Home Office

PFI: The New Headquarters for the Home Office

The Committee's conclusions and recommendations

PAC conclusion (i): Under-forecasting of staff numbers leads to bad decisions on accommodation. There is evidence of optimism bias in PFI projects for departmental accommodation: departments have assumed much lower staff numbers than they have subsequently employed. The buildings have then not been large enough to hold everyone. Yet such projects are often justified in part, as in this case, by the advantages of bringing everyone under one roof. The Home Office assumed that staff numbers would reduce due to outsourcing, efficiency gains and changes in working practices. Instead, numbers increased dramatically between 1998 and 2003 as the Home Office took on new responsibilities, although the total increase is not fully explained by these new functions. Similar stories arose at GCHQ, the Ministry of Defence, and the former Department of Social Security.

1. The Home Office notes the Committee's conclusion. While good forecasting of staff numbers is important to good estate planning, there are bound to be uncertainties in any forecasts for long timescales, especially when significant changes in functions occur. Estate plans have therefore to be flexible. The Department has contracted for a flexible building that can house a range of office functions and office occupiers.

2. The current plan is to use 2 Marsham Street to accommodate those staff in the current core Home Office Headquarters expected to remain in central London in the medium term, while relocating the headquarters of the National Offender Management Service (NOMS) away from London and the South East. That will be achievable if funds are available to meet the cost of relocating NOMS staff out of central London and a move offers value for money.

3. The Home Office's original objective of a single building in central London remains. Apart from NOMS, the numbers expected to remain in London in the medium term will fit into 2 Marsham Street.

PAC conclusion (ii): If, as is now possible, Home Office HQ numbers in London fall, the Home Office should identify other Government departments whose staff can fill up the new building. Departments' roles and responsibilities, and therefore staff levels, are inevitably subject to change, yet PFI accommodation deals tie departments into paying for servicing buildings however few staff are accommodated.

4. The Home Office currently anticipates that all the accommodation in 2 Marsham Street will be required at the time it takes possession of the building in early 2005.

5. PFI capital projects for office accommodation can be less flexible in some respects than traditional commercial leases. The Home Office does not consider that the contract for 2 Marsham Street will give rise to difficulties in practice. For example, the contract allows the Home Office to assign its obligations to another Crown body but not to the private sector. The Home Office can sublet surplus space to other occupiers whether or not they are public sector bodies. There is also provision to allow the Department to amend the scope of support services other than those directly relating to maintenance of the building. For instance, the Department can withdraw security, cleaning and catering services from the scope of the contract at five yearly intervals should it wish to do so. Taken as a whole the arrangements are almost as flexible as would be achieved in taking a traditional 25 year lease of

an equivalent size commercial office building where maintenance is provided by the landlord.

PAC conclusion (iii): The Home Office should revisit their implausibly high assumption that 1300 of their officials plus support staff need regular access to Ministers and Parliament. The greater part of their 3500 headquarters staff could probably be moved out of London, and the Home Office should take full advantage of the opportunity provided by Sir Michael Lyons' review of relocation.

6. The number of staff across the Home Office Group accommodated in central London is expected to reduce significantly over the next few years. The Department's response to Sir Michael Lyons' review of relocation envisages the transfer of up to 2,300 posts, including NOMS staff, subject to funds being found and a satisfactory business case being prepared. That would be a very substantial relocation of staff from central London. In addition to this, the Departmental Reform programme envisages a reduction in the size of the main Department's Headquarters of c.30 per cent.

7. As 2 Marsham Street comprises three linked blocks it would be possible to share occupation with other Government Departments reasonably readily should that be needed. Options for relocating Home Office sponsored Agencies and Non-Departmental Public Bodies, that have a requirement to remain in London, to 2 Marsham Street will also be considered.

PAC conclusion (iv): There can be no operational reason why the Prison Service HQ needs to be in London at all. Originally the Home Office wanted it in the same building as the central Home Office, though more for convenience than demonstrated business need.

8. The Home Office agrees that the existing Prison Service Headquarters, and the new NOMS Headquarters, has no compelling operational reason for staying in central London. As noted above, subject to funds being found and a satisfactory business case, relocation out of central London could be achieved by 2008.

PAC conclusion (v): To get the softer, but important, benefits that the move to the new building is intended to bring the Home Office will have to set up a systematic management framework. This is a deal that potentially offers real benefits to the Home Office and the taxpayer. Staff to be located in the Marsham Street building do not deliver services directly to the public as customers but by developing effective policies and programmes. This means that the intended benefits of the new accommodation which arise through better team working and flexibility may not be readily apparent and therefore difficult to quantify. Other departments that have faced similar challenges, such as the Treasury and GCHQ, may be able to advise.

9. The Home Office agrees and already has arrangements in hand to manage benefits realisation. A Programme Board was established in late 2002 with the task of bringing together all the key support service projects in the main Department, including the delivery of the new Headquarters building. The Programme's objectives include promoting and measuring the softer benefits of better team working and flexibility that the new building will enable. The Programme Board also includes projects that are delivering information and communications technology refresh: introducing an electronic Corporate File system; reducing the amount of paper held through an electronic data records project, improved HR finance and procurement systems. The Home Office is currently considering running workshops for all staff moving to the new building which would include a site visit and a session explaining the building's facilities and how to take best advantage of the flexible office space it provides. There are close relations with other Government departments, which have recently moved, or are about to do so, to ensure that we continue to share lessons learned.

PAC conclusion (vi): We doubt whether the potential return from the Home Office's right to share refinancing gains is worth the £2.75 million price the Home Office paid for it. The analysis done by the Home Office does not appear to relate the extra £2.75 million demanded by AGP for the concession to the probability that re-financing might take place. Given that subsequently the Treasury was able to negotiate far wider-reaching concessions on sharing re-financing gains without making any payment for them, it seems questionable that the Home Office should have agreed to any payment in this case.

10. The Home Office recognises it will not get a direct return for the additional payments unless the funding is refinanced. At the time that the 2 Marsham Street deal was negotiated the OGC were advising that a 50:50 share should be the norm for refinancing gains and were discussing this with the Private Sector. After careful consideration, the Home Office concluded that it would be prudent to secure a 50:50 share.

PAC conclusion (vii): The Home Office should decide quickly on the future of Horseferry House, a building incapable of future economic occupation. Since 2002 there has been a decline in the commercial property market and it is surprising that the Home Office does not know how much its freeholds are currently worth, particularly as it expects to sell them.

11. The Home Office expects to declare Horseferry House surplus to requirements in the very near future. The precise timing of the sale will depend on advice, including a valuation, from agents. We continue to expect the value to exceed the price offered by AGP.

Nineteenth Report

The Department for Education and Skills (DfES) and The Office for Standards in Education (OFSTED)

Making a Difference: Performance of Maintained Secondary Schools in England

The Committee's conclusions and recommendations

PAC conclusion (i): In consultation with parents and schools, the Department should consider the best ways to make information on the performance of secondary schools available to parents. Not all parents will be aware of the full range of different sources of information on the performance of schools, and many parents will not have ready access to the Department's and Ofsted's websites. Parents need to know what information is available, how it can help them, and how to get the information they decide they want.

1. The Department of Education and Skills (the Department) accepts this recommendation.
2. Research shows that between 70-80 per cent of homes with school-aged children have internet access and that web access is popular. The performance tables site was the most frequently visited site on the Department's website last year with around 400,000 hits. The School Search facility on the Department's Parent Centre site, which allows parents to find schools by name or distance from their home, has links to performance table entries and Office for Standards in Education (Ofsted) reports.
3. Hard copies of performance tables are available in local libraries for those without Internet access, and are available free from the Department's publication centre – some 10,000 telephone calls requesting one or more copies were received last year. Performance data and Ofsted findings are also made known to parents through school prospectuses and Governors' Annual Reports.
4. The Ofsted web-site attracts in excess of 120 million hits a year, making it the most visited of all Government sites. All school inspection reports and a range of other reports and documents may be assessed from the site. In addition, following a school inspection, every parent is sent a copy of the summary of the inspection report and schools must make the full report available to parents and indeed any member of the public who wishes to see it.
5. The Department's guidance, in the A to Z of school leadership and management section of the TeacherNet website, encourages governing bodies to consider placing copies of the inspection report in local public libraries and sending the report or summary to local newspapers and radio stations.
6. The Department recognises the need to improve communications to parents on the performance of schools. The Department is currently consulting on the development of a new annual School Profile. The intention is that this should be a succinct, easily accessible document, available in both paper and electronic formats. It would give parents a broader, deeper understanding of an individual school's performance. The Profile, as proposed, would bring together in one place a range of relevant information about how a school serves its pupils – including a range of performance indicators, Ofsted assessments, the context in which a school operates, its priorities for development and what it offers in terms of a broader curriculum and to the wider community.

PAC conclusion (ii): Information available for parents should include measures of the performance of secondary schools that take account of the influence of important external factors. Adjusting academic achievement for the influence of external factors can have a substantial effect on reported school performance. When this was done, some schools moved from the bottom to the top 20%. The Department should further develop the work carried out by the National Audit Office, and make publicly available the results for all schools for the 2004–05 academic year.

PAC conclusion (iii): The Department should identify which external factors have a substantial effect on academic achievement, and take them into account when assessing and reporting school performance. The Department is already reporting indicators that adjust academic achievement for pupils' prior academic achievement. It should analyse which other external factors have a substantial influence and consider whether or not they should also be taken into account and the relevant data collected.

7. The Department agrees with the Committee that external factors other than pupils' prior attainment can significantly affect the performance of a school.

8. Value added (VA) measures were introduced into the secondary school performance tables (PT) in 2002. The PT methodology was developed through extensive consultation with schools and local education authorities (LEAs) and exploited the data available at that time. It is based on individual pupil prior attainment, which is the factor with by far the most influence on subsequent achievement (usually accounting for around 70 per cent of variance in outcomes).

9. At the time this methodology was developed, VA was not a concept generally understood outside the statistical community, and certainly not by the public at large. The priority was to find a simple and transparent approach, capable of being understood by a wide audience: there were also fears that including factors other than prior attainment might risk suggesting acceptance of poorer educational outcomes for particular groups of pupils. The simplicity of the PT measure has been a powerful tool in improving general understanding of the meaning of value added, and how it reflects school effectiveness better than raw results.

10. Before 2002, the Department collected school-level aggregates on factors which research had shown could affect pupil performance; but, because the Department's VA measures were pupil-based, it was not until the introduction of the pupil level annual schools' census in 2002 that this information could in principle be included in them. The data quality is now much higher, putting the Department in a position to give serious consideration to their use in performance tables and the proposed new School Profile.

11. The Department announced in January 2004 its intention to develop a more sophisticated VA methodology which takes account of factors other than just prior attainment. It has been working with academics who lead in this field (including the National Foundation for Educational Research) and, in May 2004, reached a broad consensus with them on the way forward.

12. The Department is currently carrying out thorough analyses to establish which factors might be included in an improved, more 'contextual' VA measure. It intends to start consulting schools this autumn on an approach that can be trialled in 2005, and used for all schools in the performance tables showing 2006 exam results.

PAC conclusion (iv): Social and economic deprivation should be taken into account in assessing the performance of schools. Eligibility for free school meals can be shown to be strongly correlated with educational disadvantage. But it is only a partial measure of economic and social deprivation. The Department should examine how further indicators might be developed, for example using data on families in receipt of Income Support or the Working Families Tax Credit.

13. The Department accepts this recommendation and has begun exploratory work.

14. The Department, through its Pupil-led Autumn School Census (PLASC), collects from most maintained schools individual pupils' known eligibility for free school meals (FSM). This measure, both at pupil and at school level, has been shown to be significantly associated statistically with measures of pupil – and school – academic outcomes, and with measures of pupil progress and value added. The Department's Autumn Package of Pupil Performance provides national distributions of school performances sub-divided according to schools with broadly similar levels of FSM rates, and OFSTED Performance and assessment reports on schools (known as PANDA reports) place individual schools' performance in that framework.

15. The conditions under which a free meal is an entitlement (which are prescribed in law) are one specific measure of socio-economic disadvantage. But although the FSM data collected are reliable and robust, not all pupils eligible for a free school meal take up their entitlement. Eligibility for a free school meal does not discriminate between the socio-economic backgrounds or circumstances of pupils (and their parents) who are not in receipt of Income Support, Income-based Job-seekers Allowance, support under the Immigration and Asylum Act 1999, or (subject to Income and Working Tax Credit conditions) Child Tax Credit.

16. The Department has been investigating what socio-economic information about parental background and that of geographical areas could in principle be used to enhance the measures of school performance. The 2001 Census of Population (CoP) Small Area Statistics, for example, provide a range of aggregate indicators of neighbourhood social circumstances, and there are commercial products which enhance CoP data with other information to give 'typologies' of neighbourhood. The Department had opened discussion both with the Office of National Statistics (ONS) and with other data providers on the provision and quality of such information and has begun initial analytical work.

17. Individual CoP data (and other personal information collected by government departments) are subject to confidentiality restraints. Information about neighbourhoods – which would not be subject to those constraints – is not necessarily representative of individual pupils or of school populations. Census and other data become out of date, and parents and schools may have legitimate concerns about the ways in which the Department might propose to use neighbourhood data to stand proxy for their particular circumstances.

18. At school level, broader socio-economic measures might replace the FSM data the Department currently collects about individual pupils in assessing school performance. But this process might not add to the understanding and interpretation of performance generally, and might, potentially, give perverse interpretations for particular schools. In taking this work forward, the Department will address all of these issues with the necessary care.

PAC conclusion (v): Performance measures adjusted for external factors, as well as measures of raw academic achievement, can assist in developing and evaluating policies for secondary education. Performance measures adjusted for external factors are useful in judging the impact of educational policies and initiatives on school performance, because they exclude the factors outside the control of schools. Identifying key sources of educational disadvantage can also help policy-makers find solutions for issues that schools themselves cannot be expected to solve.

19. The Department agrees with the conclusion. The Department's policy evaluations aim to take into account external factors before estimating the policy impact. Usually this is best achieved through the kind of multivariate regression techniques employed in the analysis for the National Audit Office (NAO) report on secondary education. The analysis undertaken for the NAO by the National Foundation for Education Research is similar to the methodology the same researchers are currently using on the evaluation of the Excellence in Cities

programme. Other policies whose evaluations are currently using, or have used, this technique include, Beacon Schools, Pupil Learning Credits, Diversity Pathfinders, Academies, the Octet Project and Specialist Schools. New evaluations that will use this technique include Federations, the Primary Leadership Programme, the Academy for Gifted and Talented Youth and Building Schools for the Future.

20. The Department agrees that the data in the National Pupil Database, which combines pupils' performance with information on their background characteristics, provides important information to help identify 'educational disadvantage'. We can identify pupils and schools that are performing less well than would be expected given their attainment at a previous key stage. This kind of analysis has underpinned the Key Stage 3 and Primary strategies. Since the introduction of PLASC, we have also been able to use data on the performance and progress of pupils from minority ethnic groups and pupils with special educational needs.

PAC conclusion (vi): Adjusted performance measures also show that specialist schools, faith schools, beacon schools and single sex schools do better than average. The strengths of these schools, such as a strong set of values and ethos, should be identified by the Department and promoted across the school sector.

21. The Department accepts this recommendation.

22. The Government is already convinced of the benefits of specialism. That is why the Chancellor announced in his Budget Statement on 17 March 2004 that the Department would be "designating up to a thousand more specialist schools alongside more city academies". With announcements from the latest round, it will achieve nearly 2000 specialist schools later this year, meeting a key target almost two years early.

23. The Department is looking to build on the existing knowledge base about the 'specialist dividend' with further qualitative evaluation of the programme including on ethos. However, the best advocates are schools themselves: the Specialist Schools Trust and the Youth Sports Trust are instrumental in promoting the programme and supporting aspiring specialists, including through their networks of schools. We also encourage specialist schools, through their community plans, to help secondary school partners, where relevant, to work towards gaining the status.

24. Beacon Schools have played an important role in improving the culture of collaboration between schools and have developed effective ways of sharing good practice to support effective teaching and learning across schools. The Department intends to build on their work through the Leading Edge Partnership programme. This was introduced in 2002 to take the achievements of the Beacon School model to the next level and already includes over 50 per cent of the secondary schools which were in the Beacon programme. As well as sharing practice around effective teaching and learning within their own Leading Edge Partnerships we want lead schools and their partners to contribute to system-wide improvement by tackling underachievement among particular groups of pupils.

25. The Government supports more faith schools in the maintained sector as part of its policy on increasing diversity and raising standards. While the case for faith schools has never rested on superior performance, many faith schools do perform well and the Department has identified some of the factors that may be relevant in explaining why this is so:

- They tend to have strong values and a unique ethos.
- Many draw from communities that particularly value education – Jewish, Muslim and Sikh schools for example.
- Parents who seek out faith schools may provide their children with a high level of support.

26. Social background may also be a consideration. On average faith schools have fewer pupils with free school meals than other schools.

27. The Department is actively encouraging faith schools to work in partnership with others in the local family of schools and to share values, ethos and best practice. It is also planning to introduce parental involvement networks to promote and change the culture around parental involvement in their children's education.

28. As part of its extended schools programme the Department is actively encouraging schools to think about parenting and family learning opportunities as a means of raising attainment. The aim of the extended schools programme as a whole is that every school will offer a range of services to their pupils, parents and community. Services might include child care, adult learning, information and communication technology, sports, and arts facilities, and health and social care provision. By 2006 we will have at least one school in every local education authority (LEA) providing the full range of extended services, including parenting and family learning. LEAs will also receive funding to support other schools in developing the extended services that are right for them and their community.

29. The Department has introduced new "competition" arrangements for providing additional secondary schools in order to encourage a range of school providers, including faith groups, to put forward proposals and increase the diversity of provision. The Secretary of State will decide such proposals and contribution to raising standards will be key consideration.

30. On single sex schools the Department will consider what lessons can be learned, but many are selective and this could be an explanatory factor in their performing well.

PAC conclusion (vii): Ofsted should set out in inspection reports where a school ranks in terms of academic achievement before and after taking account of the influence of external factors. Ofsted's inspections reports are an important source of information for parents and schools, and including this data would give a more rounded view of the quality of education provided.

PAC conclusion (viii): Ofsted should use the adjusted information to help underpin its advice to schools on how their approach to education can be best matched to pupils from different backgrounds. The adjusted data enable those schools that are raising the achievements of the more educationally disadvantaged pupils to be readily identified. Through its inspections, Ofsted is well placed to look behind the data to explore the reasons for good performance, and to advise schools with pupils from similar backgrounds that, according to the adjusted data, are not doing so well.

31. Ofsted agrees that it is important to take account external factors in its inspection of schools. PANDA reports provide comparative information about schools' performance, both at national level and in relation to "similar schools". Similarity is acknowledged not just in terms of socio-economic disadvantage, using free school meals indicators, but through prior attainments of pupils as they enter the school. This information is available to schools and inspectors before and during inspection and is presented clearly in every published inspection report. Ofsted is currently reviewing the data which are provided in the PANDA and inspection reports. In particular it is considering how the data about pupils now available through PLASC can be used to develop alternative measures, including contextual value added analyses. This work seeks to improve the information that will be available for discussion with the school.

32. Ofsted agrees that information from assessment and other data can provide a valuable starting point in identifying strengths and weaknesses of a school. This is an important part of intelligent and diagnostic inspection that leads ultimately to the

identification of features in need of improvement in a school and how best a school might move forward. As noted in paragraph 31, some contextual information is already considered in inspections and often forms the basis for discussion with the school. The results of the further work Ofsted is currently undertaking on other measures will improve the information that is available for discussion with the school.

PAC conclusion (ix): Ofsted has been inspecting schools for 10 years, during which more than 1000 schools have been put in special measures. But over this period the characteristics of a good school have become increasingly well understood. The Department should review why a significant number of schools are nevertheless not up to an acceptable level of performance.

33. Ofsted's evidence about schools becoming subject to special measures indicates that the features behind the judgement are, principally and most frequently:

- Weaknesses in leadership, management and governance;
- Underachievement and low standards;
- Weaknesses in teaching and learning.

34. The Department agrees with the Committee that over the past ten years the characteristics of a good school have become increasingly well understood; at the same time, expectations of school performance have, rightly, risen. The inspection framework has become more robust to reflect these higher expectations. LEAs have an important role to play in ensuring schools provide an acceptable standard of education.

35. The Department has a range of policies which are designed to challenge and support LEAs to prevent school failure and to tackle it where it occurs. These include risk analysis and challenge to LEAs about vulnerable schools, including the use of Fischer Family Trust data to identify underperformance as a precursor to failure; the Leadership Incentive Grant to strengthen leadership; the establishment of Federations or Academies; Fresh Start (closure and reopening of a school with capital funding for improved facilities and revenue funding for an agreed raising attainment plan); Collaborative Restart with a strong partner school; and the setting up of School Improvement Partnership Boards.

36. The majority of failing schools recover, and sustain their recovery. There has been a solid reduction in the average time a school spends in special measures which is currently around 18 months.

PAC conclusion (x): The Department or Ofsted should identify and disseminate widely good practice on how the transition from primary to secondary education can be smoothly achieved without detriment to pupils' education. Secondary schools seek to smooth the transition from primary to secondary schooling, for example by developing links with feeder primary schools, and there is a role for the Department or Ofsted to identify and disseminate good practice.

37. The Department accepts this recommendation.

38. Ensuring progression and continuity between Key Stages 2 and 3 through effective teaching and learning is a fundamental objective of the Key Stage 3 (KS3) National Strategy. This is critical to ensure that all pupils begin secondary school on a secure basis and from there can progress to Level 5 and above at the end of KS3.

39. The KS3 Strategy is focussing on curriculum continuity in response to evidence from Ofsted and others which suggests that it is this aspect of transfer which needs to be strengthened the most. The Strategy offers materials, training and funding to support school leaders and teachers in developing effective transfer

practices and integrating these into a whole-school approach to improved transfer. These measures are part of a wider intervention package schools can use flexibly to support progression of all pupils, and particularly those performing below expectations, at the point of transfer and throughout KS3.

40. Exemplifying good practice is inherent within Strategy transfer support, including new guidance “Curriculum Continuity” made available to all schools from spring 2004. This will reinforce wider Strategy action to ensure schools make transfer a particular priority in 2004.

PAC conclusion (xi): The Department should make the funding arrangements for schools simpler, fairer and more transparent. The number and complexity of funding streams for schools is unacceptably high and a recipe for confusion. Funding of schools for the 2003–04 academic year is also likely to have an adverse impact on the performance of an unknown number of schools. There has also been much complaint regarding the lack of certainty about funds from one year to the next, and whether resources have been distributed according to need.

41. The Department accept the principles embodied in this recommendation.

42. The Department has already taken action to make the funding arrangements for schools simpler, fairer and more transparent, though it accepts that there is further action to be taken. In doing so, the Department is mindful that there can be tension between the principles of simplicity, fairness and transparency.

43. Progress towards greater fairness and transparency was made with the introduction of new formula funding arrangements in 2003-04. These distribute the total available for schools between LEAs in accordance with up-to-date and objective measures of actual need, rather than on the basis of the out-of-date data and historic patterns of spending used in the previous arrangements. The new arrangements give all LEAs the same funding for equivalent pupils, plus top-ups for additional educational needs, for the higher cost of recruiting and retaining staff in some areas, and for sparsity.

44. The Department notes the Committee’s view that the changes to the school funding system last year will have had a negative impact on overall school performance. There is no evidence to suggest that moving resources to more disadvantaged schools has a negative impact on overall attainment within the school system. Nor does it seem reasonable to argue that it is a poor use of money to give schools in challenging circumstances additional resources to cope with difficult children. The Department wishes to ensure that resources are allocated in the best possible way. To this end it has committed itself to a sophisticated programme of statistical research into the impact of resourcing on attainment.

45. The Department acknowledges that the introduction of the new arrangements brought instability, and many schools had to take difficult decisions with little time for effective planning. It therefore introduced changes for 2004-05 and 2005-06 to restore stability and certainty to school funding, including a guaranteed minimum increase in funding for all schools of at least four per cent per pupil, where pupil numbers are static. It will review the operation of these arrangements when we come to consider options on school funding for the longer term.

46. As part of the New Relationship with Schools Programme, the Department is committed to developing school funding arrangements which support rather than distract schools in their key task of school improvement and teaching and learning. The Standards Fund has already been reformed to make it much simpler for schools. They are now able to spend most elements of the Fund on anything that will improve standards, and they do not have to account in detail for how they spend the money.

47. Work is now in progress to further streamline school funding and to introduce greater predictability in order to help schools to be even more effective in their financial planning and management. First, the Department is working towards increasing rationalisation of the range of departmental grants which schools receive in addition to funding from the LEA's Schools Budget. Its aim is to replace as many existing funding streams as possible with a Single Improvement Grant for all schools. Second, as the Prime Minister made clear in his speech in early May to the Annual Conference of the National Association of Headteachers, the Department is exploring how it can move to three-year budgets for schools aligned to the school year rather than the financial year.

48. These are complex issues and will need to accord with whatever options on school funding in the longer term emerge from the planned review of the arrangements in place for 2004-06. But above all the Department will want to make progress on these issues in a way that promotes stability and is manageable for schools. It also needs to make sure that the arrangements are developed work for schools, local authorities and central government. The Department will therefore develop our proposals in consultation with our national partners, including representatives of headteachers, school governors and local authorities.



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