

ANNUAL REPORT AND ACCOUNTS
2005-06



ADULT LEARNING
INSPECTORATE

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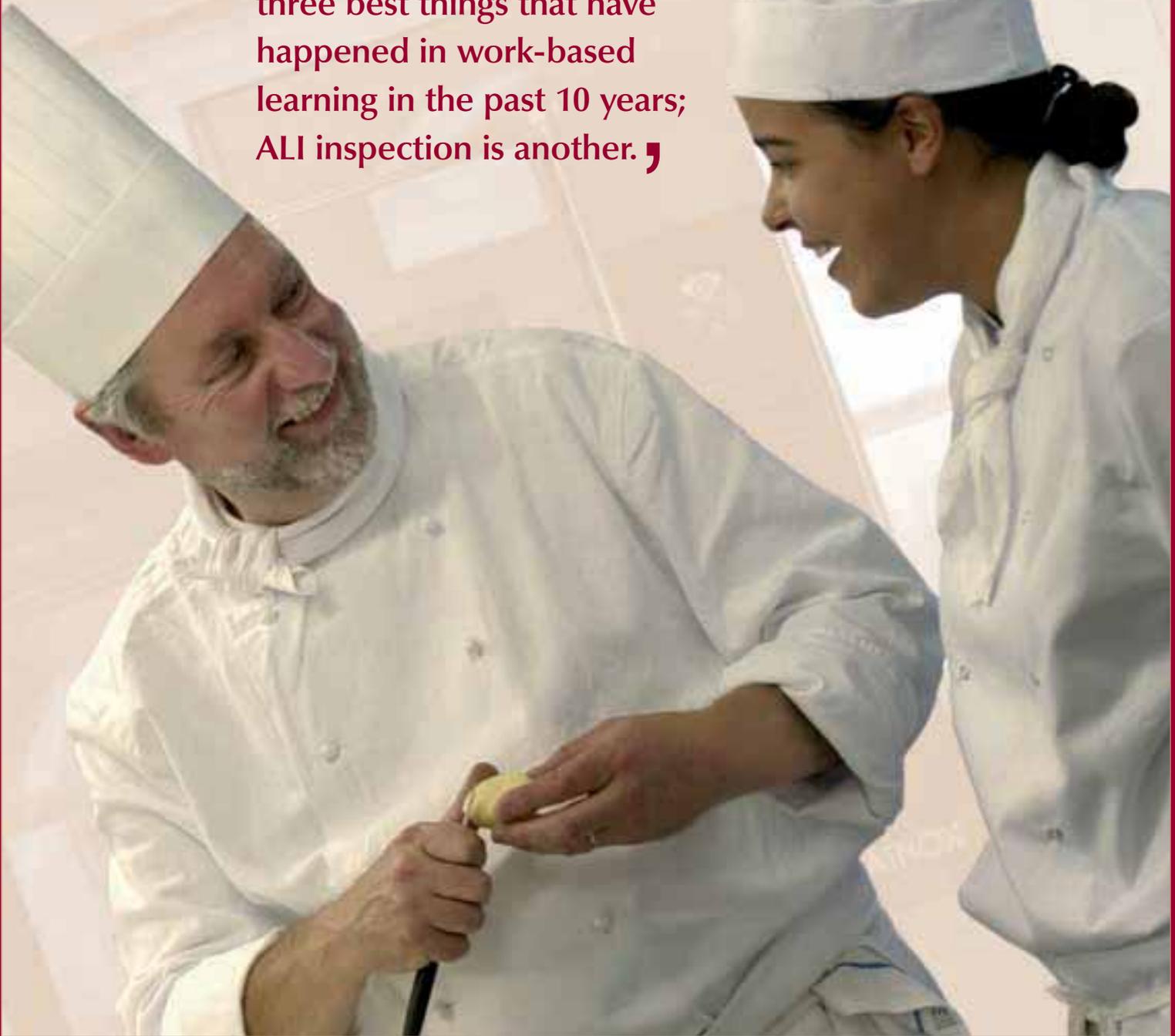
Learning and Skills Act 2000

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6 of the Learning and Skills Act 2000, together
with the Report of the Comptroller and Auditor
General thereon.



ADULT LEARNING
INSPECTORATE

‘*Excalibur... is one of the three best things that have happened in work-based learning in the past 10 years; ALL inspection is another.*’



THE ALI ACHIEVES INVESTORS IN EXCELLENCE STATUS

The presentation of the Investors in Excellence (IiE) certificate marked the beginning of a successful year in terms of achievements. To attain IiE status the ALI had to prove that everything it does in terms of the carrying out of its core functions, management and systems, matched the very best socially-engaged businesses.



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Chair's foreword

The financial year 2005-06 was successful in very many respects. Risk-proportionate inspection – *Right Touch* – was launched in April 2005 and proved to offer both reliable results and greater cost savings than the 15 per cent required by the government. The inadequacy rate for work-based learning, the first area of the Adult Learning Inspectorate (ALI) remit to enter its second round of inspection, fell sharply. Having benefited from clear identification of their strengths and weaknesses since 2001-02, and help from the ALI to improve, work-based learning providers have come of age. Their inadequacy rate has held at around 10 per cent for much of 2005-06; a dramatic improvement from nearly 60 per cent four years ago. As other parts of our remit progress, there too, inadequacy rates are falling fast as a result of co-ordinated quality assessment and quality improvement activity.

Our quality improvement services – the newspaper *Talisman*, *Excalibur* and the Provider Development Unit – continued to be highly appreciated by providers and the public funding bodies. *Excalibur* was evaluated independently during the year and received wide acclaim. For example, one provider remarked to the consultants:

"Excalibur...has got to be one of the three best things that have happened in work-based learning in the past 10 years. One of the other two is the ALI inspections."

Even in an extreme case, such as that of *Workstep*, the welfare-to-work programme for people with disabilities, *Excalibur* and the Provider Development Unit showed what could be done to turn round an ailing but vital activity by working with Jobcentre Plus contract staff and providers' representatives.

We have shown conclusively that the ALI approach – co-ordinating quality assessment and appropriate quality improvement efforts by inspectors temporarily seconded away from inspection – drives up standards. The ALI has brought marked benefits to several million working people and disadvantaged people, as this Annual Report clearly shows. Arguably it has been more effective in doing so than many, if not all, its peers. The maintenance of this secure, steady improvement is a priority for the ALI and for me and my Board.

My Board and I take great pride in the work of the ALI. After more than a year of consideration and public consultation, beginning in July 2004 and completed in November 2005, the government decided to merge the ALI with Ofsted, the Commission for Social Care

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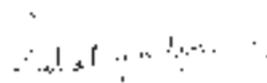
Inspection and Her Majesty's Inspectorate for Courts Administration. The ALI's Board opposed this development, believing that it risked loss of focus on the distinctive learning needs of adults and those related to employment skills. The ALI has never been opposed to reforms, indeed we argued that it has been a leader in bringing them about, but it appeared to the Board that there was a high risk of losses outweighing gains in this case. Nevertheless, the reform of inspection and regulation, not only in education and training but across government, is now proceeding. In our case, this entails a Bill which is now with Parliament, almost certainly to result in merger from 1 April 2007.

The new body will be known as the Office for Standards in Education, Children's Services and Skills. At the time of writing it seems likely that it will have a distinct adult skills division, which will include not only the ALI's remit but further education colleges from Ofsted, thus addressing a widely acknowledged flaw in the Learning and Skills Act 2000. The new inspectorate will have modern corporate governance arrangements, much like those of the ALI. Some of the ALI's quality improvement functions, which are part of *Excalibur*, will become part of the Office for Standards in Education, Children's Services and Skills. There are commitments to addressing the specific needs of customers possibly, among other things, by retaining the brands they trust. A power to conduct inspections on a directly commissioned basis may make it possible for the new organisation to retain service relationships which the ALI has forged: with the Ministry of Defence, the Home Office, the Department for Work and Pensions and the Department of Health, for example, as well as with private corporate customers.

These gains are not negligible. My chairmanship of a Strategy Board superintending the transition process should serve to protect many of the benefits that the ALI has brought to the world of government inspection.

However, the year covered by this Annual Report and Accounts, 2005-06, will be the last in which it is possible to describe the actions of a wholly independent ALI. By the time the 2006-07 report is written, the ALI will have been closed – despite its overwhelming success – after a life of only six years. In that respect, it will have resembled its two main predecessors in the further and adult education quality arena, the Further Education Funding Council inspectorate which lasted for eight years and the Training Standards Council which lasted for four. It could be said that in rejoining Ofsted, alongside other inspectorates, a cycle has been completed which began in 1993, when Her Majesty's Inspectorate was broken up to form the Further Education Funding Council and Ofsted.

My responsibility and that of my fellow board members is to protect the many benefits that the ALI has achieved and bring them into the new inspectorate. We very much look forward to working closely with the new Chief Inspector of the Office for Standards in Education, Children's Services and Skills, who is due to take up her appointment on 1 October 2006.



Richard Handover
Chair



Essential to the ALI's success has been its blend of quality assessment and quality improvement.

THE ALI GAINS RECOGNITION IN THE MIDLANDS EXCELLENCE AWARDS

The ALI won the public sector section of the prestigious Midlands Excellence Awards for 2005. It achieved the award against very stiff competition. David Sherlock commented, "This is an enormous achievement for the ALI. I believe it is the duty of every inspectorate – especially when it makes judgements about the quality improvement activities of those they inspect – to show that it practises what it preaches. This we have done and received recognition for the quality of our work, the processes we use and the self-critical culture adopted by all our staff."



Annual report 2005-06

INTRODUCTION

The ALI has now completed five years of successful operation since its launch in April 2001. In 2005-06, the ALI carried out more than 1,200 inspections of all types, contributing to a total of some 4,500 since it started out. This volume of thorough quality assessment has produced a clear picture of state-aided welfare-to-work, workforce development, and adult and community learning provision in England. It has also provided data on which the ALI has built quality improvement services that have contributed greatly to higher standards in a wide range of adult learning services.

This Annual Report gives details of a particularly satisfactory year's work, when operational quality had to be maintained while the consultations about merger which are described in the Chair's Foreword proceeded. It is therefore particularly noteworthy that not only was the volume of inspections maintained, but their cost efficiency continued to improve. The ALI has returned £8 million of its grant-in-aid to the exchequer in the past three years, as it found ways of working more cheaply as well as more effectively. As the charts in the main body of this report show clearly, alongside maintained volume and reduced cost went a very high level of operational quality. Complaints from providers continued to be few, with just 15 in the year, and just one going to independent adjudication.

Appreciation of the ALI's work among providers continued to rise steadily, with strongly positive responses to a post-inspection questionnaire rising to a new high of 88 per cent. As figure 3 in the main report shows, not only did inspection performance continue to improve from a very high base across the board, but even greater strides were made in areas that had earlier caused concern: notably the level of preparation the ALI offered providers before inspection, and the helpfulness of office-based staff in dealing with queries. These improvements were made alongside a widening of the ALI's remit to include information, advice and guidance for adults and a wide range of commissioned inspections which earned income of nearly £1 million, diluting the ALI's overhead and extending its positive influence. Commissioned inspections included supplementary inspections for colleges, assessment of new training techniques for police constables and continued monitoring of initial training in the armed services in the wake of the Deepcut tragedies.

Right Touch, the ALI's flexible and risk-proportionate approach to inspection, was introduced progressively as aspects of provision entered their second round of inspection since 2001. It has proved reliable in securing the evidence needed to make sound judgements, as well as delivering cost reductions greater than the 15 per cent required by the ALI's main sponsors, the DfES and Jobcentre Plus, an agency of the Department for Work and Pensions. *Right Touch* also demands some 25 per cent fewer inspection days. The ALI has reduced its headcount accordingly, through natural turnover and less use of contracted associate inspectors. At the year end, the ALI's workforce had fallen from 415 full-time equivalents, including associate inspectors, to 348 – a reduction of 67 full-time equivalent posts, or more than 16 per cent.

The year has also been very successful in terms of financial management. The ALI's CODA Dream finance system has matured and brought additional efficiencies and functional benefits, including online expense claims for home-based inspectors. Steady downward pressure has allowed the ALI to save £1.8 million this year in operational costs. The achievement in 2004-05 not only of unqualified accounts but a Management Letter following external audit with no recommendations for improvement has been

repeated in 2005-06. The ALI's register of fixed assets has continued to provide a very high level of accuracy, which will facilitate transfers to the new inspectorate. The ALI has proved to be flexible and responsive to changing circumstances, doing more for less.

The central achievement of the ALI, on which the new inspectorate and others might build, is to have driven up standards of service for learners. That process continued in 2005-06, with an additional boost as providers showed how they had benefited from their initial ALI inspections in 2001-02. The steady year-on-year pattern of reduction in provider inadequacy rates throughout the first inspection cycle, 2001-05, was altered by a sharp drop to around 10 per cent for work-based learning providers, which held steady in every quarter. We might reasonably expect a similar effect in other parts of the ALI remit when they embark on their second ALI inspection cycle, setting a benchmark from which the new inspectorate must seek to develop further.

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During the year, the ALI published an innovative methodological study in measuring the cost to benefit ratio achieved by inspection: *The costs and benefits of ALI inspections*. This demonstrated, among other things, that the cost of ALI inspections is recovered through the enhanced economic contribution of former learners within about five years. This analysis conforms to the actual step-change in provider inspection grades at the start of the second cycle. This method of evaluating a public service attracted favourable comment from the Cabinet Office and it is hoped that it might be developed further and applied more widely as part of the general programme of reform. Indications are that similar improvements will be found in other aspects of provision, with promising results in adult and community learning, for example. These increases in effectiveness are particularly significant in a period when government funding for adult learning is under pressure. More for less is demanded of providers too.

Essential to the ALI's success has been its blend of quality assessment and quality improvement. The ALI quality improvement arms have been: the Provider Development Unit, through which inspectors are seconded to assist weak providers that commit themselves to improvement alongside their funding agencies; *Excalibur*, the way that the ALI spreads lessons from inspection and exploits the period around inspection as a special opportunity to increase providers' emphasis on raising standards by offering enhanced support and information; and Quality Champions, a course of reflective practice, guided by the ALI and the Chartered Institute of Management, which also validates awards up to NVQ level 4. The first eight people graduated from the programme in 2005-06, laying a foundation of expert quality managers able to continue the improvement of the learning and skills sector. Well over 100 people are now studying on the programme, with demand exceeding the number of places on offer. The ALI also pursued an active improvement programme among its own staff, with the first cohort of inspectors on the ALI University of Warwick MA in Inspection proceeding from the diploma to the dissertation stage.



The ALI's quality improvement services have proved to be greatly appreciated by providers. An independent survey of the work of *Excalibur* was conducted by ECOTEC Research and Consulting Ltd in 2005-06, finding that providers regarded it as one of the most substantial gains made by government agencies over the past decade. A series of provider and employer focus groups conducted around the country for the DfES by Tri-Energy consultants as part of the government's exploration of the ALI's future, found that, while inspection necessarily has an iron fist, it can be covered in a velvet glove "which the ALI wears with grace". The ALI's quality improvement services have contributed materially to that perception of grace and value; a necessary condition where much of the provision depends as much or more upon employers or individuals funding learning, as it does on a government contribution. While the government has made no secret of concerns that inspection and quality improvement services might be incompatible, despite the 'Chinese walls' between them in the ALI, the proven effectiveness of the link has led to a decision to transfer part of *Excalibur* to the new inspectorate. It is significant also that Jobcentre Plus and the Offenders' Learning & Skills Unit have continued to employ the ALI's Provider Development Unit to assist in radically improving poor provision in extreme situations. Maintaining such a service will be a challenge to government within the new arrangements.

The ALI also continued to follow its policy of demonstrating its capacity to make judgements on the performance of other organisations, rather than relying on statutory rights to do so, by competing successfully for business excellence awards. ALI was a winner of the Midlands Excellence Award for 2005-06, succeeding in the largest business quality competition in Europe, based on the European Foundation for Quality Management model. Similarly, the ALI won an award for the best staff benefits scheme, sponsored by Pay magazine. At the year end, the ALI won the rare Five Star award for health and safety management, assessed by the British Safety Council. The ALI also won the British Safety Council's International Award for Outstanding Achievement. It is almost unprecedented that an organisation should win these accolades at the first attempt; a tribute to the extreme care that ALI staff and the Board have taken to achieve a very high level of health and safety security as part of the organisation's drive to be an exemplary employer. The ALI believes that the best guarantee of service excellence for customers is meticulous attention to the care of staff.



This annual report describes a period of considerable success and continued innovation. The prospects for skills development; for recognition of the importance of apprenticeship; for the need to focus further education on serving the economy; for helping people who are excluded for a host of reasons from opportunities to better themselves and their families – have never been better. It could reasonably be said that not only has the ALI been a conspicuously successful inspectorate, setting standards which its successor must strive hard to improve upon, but that it has done the job for which it was established and done it spectacularly well. Its passing will be lamented by its Board and staff, and particularly by the many who will not transfer to the new inspectorate.

All the indications are that it will also be lamented by its customers who were notably supportive during the government consultation; perhaps a 'first' for an inspectorate. The reasons for that high level of approval are clear in this final Annual Report. Securing them as a legacy for the Office for Standards in Education, Children's Services and Skills will be the principal task for 2006-07.



David Sherlock CBE
Chief Inspector of Adult Learning and Chief Executive

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A woman with blonde hair, wearing safety glasses and work gloves, is shown in a close-up, focused on inspecting a component. She is wearing a light blue long-sleeved shirt and a tan apron with black straps. The background is a blurred industrial or laboratory setting.

While inspection necessarily has an iron fist, it can be covered in a velvet glove “which the ALI wears with grace”.

ANNUAL PAY AWARD FOR THE ALI

The ALI’s HR team received the Award for the Best Benefit Strategy in the 11th Annual Pay Awards. The ALI had to prove that the morale, retention and productivity of its workforce were all improved, and that tax legislation relating to employee benefits was fully complied with.



Performance review

INSPECTION AND REPORTING

The ALI completed 1,202 full inspections, reinspections and short quality monitoring inspections in 2005-06. These were made up as shown in the diagram 1 below:

In addition, 107 reinspections were in progress but incomplete at the year end. Joint inspections included not only those carried out with Ofsted, but also with Her Majesty's Chief Inspector of Constabulary and the education inspectorate of the Army.

There were 457 inspection reports published, 99 per cent of which were published within six weeks of the end of the inspection. All short quality monitoring inspection reports were published within three weeks and all commissioned inspection reports were produced within the timescale agreed with each client. Providers' perceptions of the accuracy and usefulness of inspection reports in guiding quality improvement remained very high, with well over 90 per cent of them completely or largely satisfied (see diagram 3 overleaf).

The ALI has always regarded rising standards of service to learners as the only worthwhile criterion by which the effectiveness of its work should be measured. On that account, 2005-06 can be shown to have been an outstandingly successful year, with much of the rigorous analysis of providers' strengths and weaknesses, and assistance to improve, that took place in earlier years bearing fruit. In almost every area, there was a marked change for the better in 2005-06, often reflecting the passage of a section of providers into the second ALI inspection cycle. The year-on-year reduction in rates of inadequacy among providers is shown in the diagram 2 below.

Reinspection of weak provision within a year of the initial inspection continues to contribute powerfully to improvement, although the number of providers whose poor performance qualifies them for reinspection is fortunately falling sharply. Work-based learning providers' rate of improvement at reinspection, making every area of activity at least satisfactory, is 93 per cent. The least responsive learning providers to the stimulus of inspection remain prisons. Even there, the rate of improvement to a satisfactory level after reinspection is very high, at 88 per cent.

Diagram 1 – inspections in 2005-06 (no.)

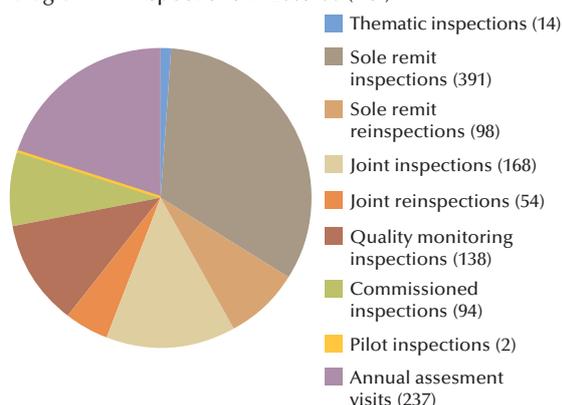
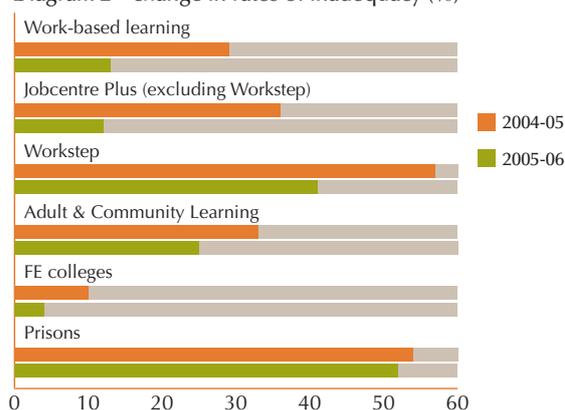


Diagram 2 – change in rates of inadequacy (%)



The key to improvement and a sustained high standard of service is often a change of culture in a provider. The ALI has a four-point strategy to help bring this about:

- Encouraging a belief that excellence is attainable through, for example, celebrating the success of others in the ALI's monthly newspaper, *Talisman*
- Rigorous quality assessment and grading, with the evidence for inspectors' judgements carefully shared with the provider
- Help for the weak but willing, particularly through the ALI's Provider Development Unit but, more generally, through *Excalibur*
- Collaboration with funding bodies to ensure that good and bad performance is reflected in contracts, or contract termination.

After its first two years of operation, the ALI sharpened the questions asked of providers after their inspections. Questionnaires about the ALI's performance attract very high rates of return. Comparisons over the past three years, on exactly comparable questions, are shown in diagram 3 below.

The bars show only the proportion of providers who were completely or largely satisfied with the ALI's performance. Almost none were dissatisfied. Positive responses across all the questions have risen steadily over the past three years, from 84 per cent in 2003-04, to 86 per cent the year after, and 88 per cent in 2005-06. The sharpest and most pleasing improvements have been made in perceptions about the standards of preparation for inspection offered by the ALI and of customer service by staff at the ALI's national administration centre in Coventry. These areas received particular attention when satisfaction was found to be low. The results are shown in the top two bar charts set out in the diagram below and are statistically significant.

The ALI deals with providers' complaints in a unit which is separated from inspection operations, in order to give providers confidence that they will be considered fairly and objectively. The number of complaints in 2005-06 was the same as that in 2004-05, at 15. This represents less than 4 per cent of major inspection events generating either a request for a review of grades or complaints about the conduct of the inspection or of individual inspectors. Three of the 15 complaints

Diagram 3 – how providers rate the ALI's performance (%)



were upheld; four were partly upheld; five were rejected; one was dropped by the provider; one was still being considered at the year end; and one proceeded to the ALI's independent adjudicator, Elizabeth Derrington, a solicitor. Most complaints, 10, were requests for grading reviews; two were about inspectors' conduct; and the remaining three were based on a combination of the two grounds. Complaints do assist the ALI in further improving its service, but the Board is nevertheless pleased that the rate of occurrence is so low.

The ALI published a number of survey reports during 2005-06. Four were printed in booklet form:

- *Aspects of vocational education and training in Australia*
- *Greater expectations: provision for learners with disabilities*
- *The costs and benefits of ALI inspections*
- *Centres of Vocational Excellence in practice (a joint survey with Ofsted).*

One was a CD ROM, distributed with the 8,000 copy print-run of *Talisman* to ensure that it reached frontline staff. This was:

- *Languages for adults – overcoming the barriers.*

Four took the form of extended pieces in, or supplements to, *Talisman*:

- *The impact of inspection on effecting sustainable improvement*
- *A review of non-accredited learning*
- *A review of progress in e-learning, focusing on e-assessment*
- *A good practice guide to Entry to Employment..*

In addition, the ALI carried out, at the request of the DfES, continuing reviews of Employer Training Pilots and other aspects of the national skills strategy. A whole edition of *Talisman* was devoted to disseminating these findings and regular reports were sent to the DfES as the research progressed.

A number of the ALI's surveys were influential on emerging policy. For example, the ALI's survey of vocational education and training in Australia was extensively quoted in Sir Andrew Foster's analysis of the English further education colleges.

Commissioned inspection continued to develop as a service in 2005-06. The purposes of offering this service are essentially twofold:

- To extend reliable independent assessment of quality to those many areas of the economy which are only slightly involved in offering government-funded training
- To supplement gradually shrinking coverage by funded inspection with additional analysis on a voluntary basis and paid for by providers themselves.

The Board believes that these will be increasingly urgent needs as pressures for reduced regulation mount.

Commissioned inspections covered a wide variety of providers and 94 inspection events; about 8 per cent of all ALI activity. Among the types of organisation that commissioned the ALI were:

- The armed services
- Government departments
- Private prisons
- Further education colleges
- Professional associations
- The Learning and Skills Council
- Private providers.

The slowest group of providers to bring to the point of contract have been those in the private sector, with leads commonly taking more than a year to reach fruition. Commissions are accepted on a full cost-recovery basis, agreed with the ALI's external auditors.

A significant development was completed in 2005-06, after some three years of work by the ALI, the Learning and Skills Council (LSC), the DfES and others. This was the launch of standard measures of provider achievement and added value, for use right across the learning and skills sector in due

course, including school sixth forms. Differences in presentation of learners' achievement levels across post-compulsory learning have caused a longstanding sense of injustice among, in particular, work-based learning providers. They have also made it extraordinarily difficult to make sound comparisons for policy formation purposes between similar curricula delivered in different types of provider. For example, school sixth forms have usually been judged on the proportion of their pupils who succeed in individual GCE A level examinations, compared with those who registered to take it a few months earlier. Work-based learning providers, on the other hand, have been judged according to the proportion of their learners who succeed in every aspect of an apprenticeship (NVQ, technical certificates and key skills certificates), compared with those who enrolled a year or two earlier. The latter is clearly the sterner test and the one that gives a clearer picture to learners embarking on a course of study of which provider gives them the highest chance of achieving their ambitions. In a world of increasing choice, clear and accurate information is vital. The differences in presentation have also led to marked distortions in the public appreciation of different types of learning, to the detriment of the national skills strategy and the improvement of economic competitiveness which is its aim.



QUALITY IMPROVEMENT

The Provider Development Unit (PDU) continued to assist weak providers in prisons and those offering Jobcentre Plus programmes, particularly Workstep. While the need for PDU services has considerably reduced since the ALI was launched, as a result of the improvements achieved in the sector, where they still operate they make a crucial difference to socially important learning programmes. Workstep in particular has benefited not only from direct support to providers but also from the production by the PDU of quality management materials for Jobcentre Plus contracting staff. At the time of writing, no arrangements have been made to secure the future of PDU services for Jobcentre Plus and other organisations which value it as an invaluable means of raising standards in social programmes of learning, for which there is little choice of provider.

Substantial improvements were made to the scope and currency of *Excalibur* products during the year. These included a revised Inspection Toolkit to reflect the launch of *Right Touch* inspections; *My Excalibur*, a subscription service for providers, matching their needs with learning materials; and a refreshed *Good Practice Database*, with livelier presentation and easier navigation. Three new products were *Building Better Practice*, *Learner-centred self assessment and Action for quality improvement*. Many of these online products were used in conjunction with local seminars, organised in partnership with the Learning & Skills Development Agency

(LSDA). During 2005-06, *Excalibur* was independently evaluated by ECOTEC consultants. The results were overwhelmingly positive, suggesting that *Excalibur* has made a strong contribution to national quality improvement, and that it is respected because of its link to quality-assured material drawn from ALI inspections. The two diagrams below summarise the answers of provider respondents to two key questions on effectiveness.

In 2005-06, it was agreed that part of *Excalibur*, at least, would transfer to the new inspectorate; an advance which was greatly appreciated. However, firm commitments have been made only about the *Good Practice Database* which, as the developments outlined above show, is only a fraction of the total *Excalibur* service. It is worth briefly recalling here that *Excalibur* was developed through a two-year collaboration with Unipart plc, the leading exponent of the international corporate university movement in this country. Under the influence of Unipart's experience, *Excalibur* became and has remained an essential part of the ALI's conception of itself as a supply chain quality manager for the learning and skills sector.

Diagram 4 – how would you rate Excalibur (%) for

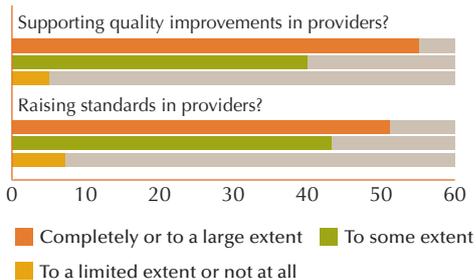
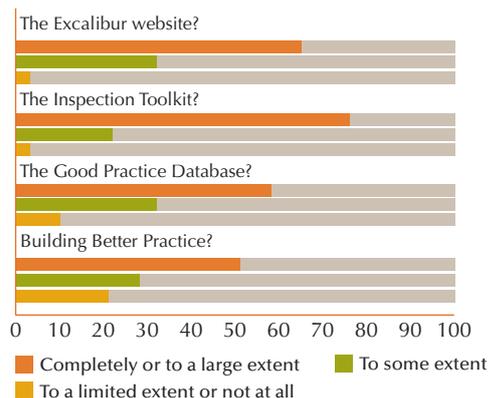


Diagram 5 – how useful (%) was



The ALI has 10 link inspectors working with the regional structure of the two principal funding agencies, the LSC and Jobcentre Plus, and with the LSC's national contracting service which deals with national employers. Their job is to ensure that *Right Touch* is calibrated exactly to serve quality assessment and improvement needs locally, and that contracting decisions are accurately influenced by the ALI's judgements on each provider. As described earlier in this Annual Report, it is the ALI's view that well-informed contracting is an essential contribution to continuous improvement and close relations with funding agencies are therefore indispensable. The recent Foster Report on further education colleges, and the government's response to it, suggests that this service will be increasingly important in future, as public sector providers become subject to market contestability.

To make a contribution of lasting national significance, the initiative for quality improvement has to be passed to trainers and quality managers in the sector itself. This perception has been at the heart of *Excalibur* and the ALI's monthly newspaper, *Talisman*. The *Excalibur Good Practice Database*, for example,

enables providers not only in England but worldwide to learn from one another's successes and to contact one another to work in co-operation. *Talisman* celebrates success, enables others to aspire to it and emulate it, and tells providers clearly what the ALI values. Inspection evidence, and the work of the PDU in particular, have shown that relatively passive approaches to transferring the responsibility for continuous improvement to providers are not enough. Consequently, the ALI collaborated with the Chartered Institute of Management to design, and then operate, a modular learning programme for learning and skills sector quality managers, called the Quality Champions Programme. This is intended to be followed alongside daily work and to be enriched by the experience of work. It culminates in an NVQ at level 4, awarded by the Chartered Institute of Management. The first cohort completed the programme in 2005-06. Demand for places exceeds supply, even with two entries a year. It is hoped that the new inspectorate will continue to give its efforts to this programme.

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ORGANISATIONAL DEVELOPMENT

The ALI continues to take very seriously the requirement in its original remit letter that it should strive to be an exemplary employer. Not only is this desirable in itself, but it is an important point of credibility when the ALI inspects employers that are themselves exemplary. It is also the most potent guarantee that our staff will treat others as well as they feel treated themselves. Sustaining the aspiration to excel, first during the merger of the TSC and the FEFC, then through a period of rapid expansion and training, and finally through downsizing and threatened closure, has offered challenges of every kind.

Permanent staff numbers have fallen by 21 (8 per cent) from 1 April 2005 to 31 March 2006, with more forecast in the early months of 2006-07 through retirement or turnover. The average headcount for comparison between 2004-05 and 2005-06 is:

	2004-05	2005-06
Inspectors and inspection managers	143	133
Associate inspectors (registered)	161	109
Office-based staff	111	106
Total	415	348

All numbers are expressed as full-time equivalents. The overall reduction in the ALI workforce in the past year has been 67 full-time equivalent posts (16 per cent). There has been a freeze on all new recruitment during 2005-06, with vacancies filled through competitive internal interview and retraining where necessary.

SUMMARY OF THE 2005-06 APPRAISALS

The performance of all ALI staff, associate inspectors and Board members is formally appraised. In the case of staff, this process involves annual target-setting, in agreement with managers, and two formal appraisal interviews. Good performance is recognized through payment of a non-consolidated bonus, on the scale set out below:

Outstanding contribution to ALI	10 per cent
Exceeding targets	6 per cent
Meeting targets	2 per cent
Developing towards the standard	0
Not meeting targets	0



As at 31 March 2005, 250 staff employed by the ALI were required to receive an annual appraisal during 2005-06.

The graphs and tables show an analysis of the appraisal process during 2005-06.

Breakdown across job families

Job families describe a number of roles which perform in the same or similar kind of work. They may cross functional boundaries and consider how many levels of that type of work there are and the key factors that differentiate them.

The ALI has five job families:

JF 1 = Administrative: this includes administrative staff and co-ordinators and certain individuals with people management responsibilities.

JF 2 = Professional & Management 1: this includes advisers and certain individuals with people management responsibilities who are not heads of functions.

JF 3 = Professional & Management 2: this includes inspectors, PDU advisers and senior professionals and certain individuals with people management responsibilities.

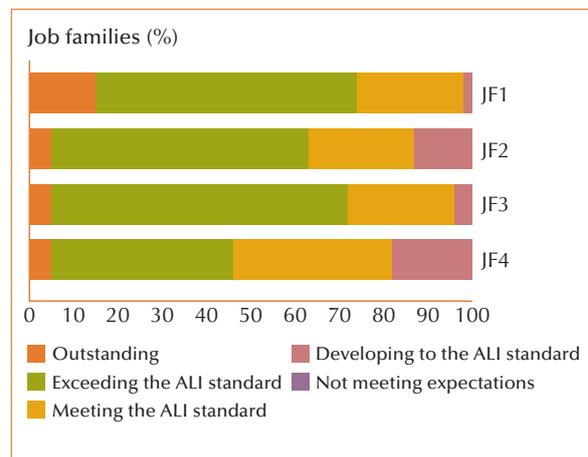
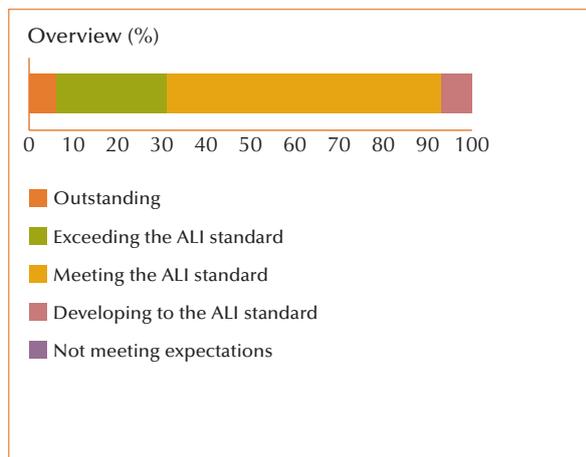
JF 4 = Senior Management: this includes heads of functions and inspection managers.

JF 5 = Directors.

The ALI sets targets for the ethnic diversity of its staff in accordance with the Race Equality Scheme. This scheme refers to the 2001 national census as a source of benchmarks. The ALI's target for 2005-06 was 91.5 per cent white and 8.5 per cent of people from all non-white minority groups; the average proportions achieved over the year were 91.2 per cent and 8.8 per cent respectively. These figures are very close to the National Equality Scheme target for the ALI for 2008 (91 per cent and 9 per cent, respectively).

The proportion of men to women among ALI staff is approximately even: 46 per cent men to 54 per cent women. The balance slightly favours men in the three most senior job families and decisively favours women in the two most junior. The gender ratio among associate inspectors is very similar to that among permanent staff. Approximately 10 per cent of ALI staff and 2 per cent of associate inspectors have a declared disability.

The ALI is an active learning organisation that sets a target of 10 training days a year for every member of its staff. It met that target. Inspectors and inspection managers received, on average, a little more training than office-based staff. There was a wide variety of training, much of it leading to formal qualifications which included NVQs at levels 4 and 5 (successfully completed by 18 people) and the Chartered Manager award, made to two ALI staff among only 350 people in the



country. The ALI offers a unique MA in Inspection in partnership with the University of Warwick. Eight inspectors have completed the Postgraduate Diploma stage and are proceeding, a further 11 inspectors have recently joined the course. Among managers in the wider learning and skills sector, eight successfully completed the ALI/Chartered Management Institute Quality Champions Scheme in 2005-06 and 107 people are now on this new programme. The final award is an NVQ at level 4. Among non-accredited courses, the ALI offered diversity training for all its staff; a range of management courses ranging from single topics to Prince II Project Management and various computing programmes; and training to become Investors in People (IiP) assessors.

In April 2005, the ALI having largely achieved a mature and experienced inspector workforce, a new integrated structure for continuous professional development of inspectors was introduced. This is called Inspection Quality and Improvement and comprised 92 training events in 2005-06, three-quarters of which were open to associate inspectors. Particular attention was given to the roll-out of *Right Touch* inspections.

There were also regular master classes by the most experienced inspectors and office-based professionals. The ALI also has a small group of inspector coaches, who work with their colleagues to resolve difficulties and continuously raise performance. There were 29 inspectors who successfully completed advanced awards in 2005-06, and a further 62 continue their studies into 2006-07.

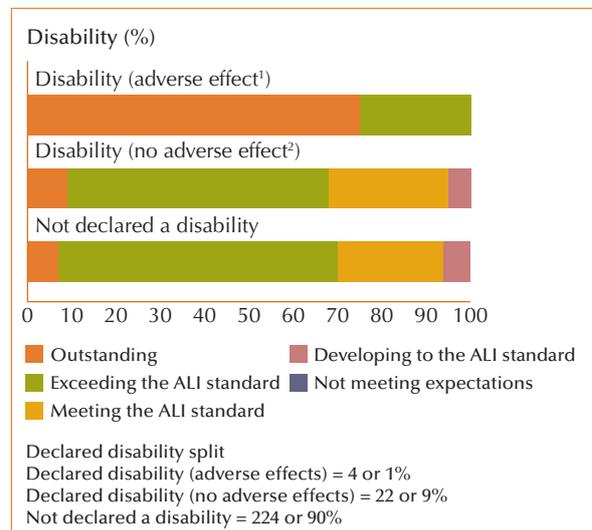
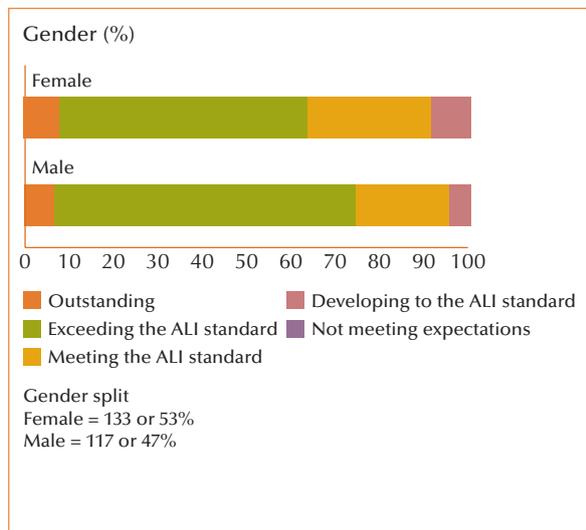
Among online packages available to staff are a number from the Ashridge Virtual Learning Resource Centre, from the BBC's innovative *Fifty Lessons* programme which offers master classes from 400 business leaders, to *Cardinus* which contributes to the ALI's health and safety training.

Strict attention to health and safety management is a core element of the ALI approach. Three priority risks have been identified and concentrated upon:

- Driving
- Lone working
- Inspection in unexpectedly hazardous environments.

¹adverse affect, means to have a disability that affects your ability to perform day-to-day activities and it would be likely that adjustments are in place to support you.

²no adverse affect, means to have a disability but it does not affect your ability to perform day-to-day activities and it would be likely that adjustments may or may not be in place to support you.

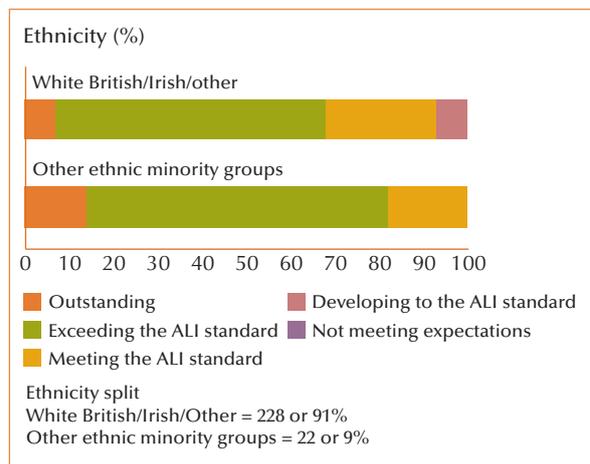
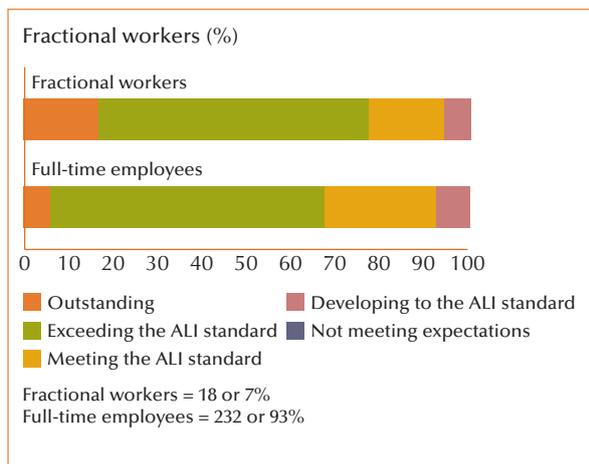


Much of the ALI car fleet of over 100 vehicles began to be replaced during 2005-06, through a new four-year contract with Inchcape. The minimum Euro NCAP crash-test rating for ALI vehicles is four stars and maximum carbon dioxide emissions have remained 180 gms/km. The ALI has an almost all-diesel fleet, with new vehicles conforming to Euro IV standards of exhaust cleanliness and recyclability. All ALI drivers have undergone the Institute of Advanced Motorists (IAM) defensive driving course, and many have proceeded to the full IAM qualification. Access to SatNav equipment has been added recently to the facilities available to ALI drivers as an important safety aid. Advice from the Suzy Lamplugh Trust has led to the use of a 'buddy' system to ensure that, for example, inspectors working alone at evening classes are checked back in by their teams. All ALI staff have been issued with personal hazard alarms. All ALI full-time inspectors have been trained and externally examined to evaluate potential hazards their teams may face on forthcoming inspections, and to manage them.

COMMUNICATIONS

The communications division is responsible for disseminating key messages from inspection findings, supporting the Board, Chief Inspector and Directors in the presentation of key messages, managing stakeholder relationships, and ensuring that ALI staff have the information they need to carry out their duties effectively.

A great deal of communication effort in 2005-06 went into public affairs management. The ALI secured the services of Luther Pendragon to guide approaches to key opinion formers in government and elsewhere. The ALI made its case for continued independence powerfully and widely, without alienating those on whose support quality assessment and improvement services depend in the long term. Responses to the consultation on the ALI's future showed a high level of support for the organisation and a widely held belief that the inspectorate had made a profound difference to the success of the learning and skills sector. Employers in particular endorsed the ALI's approach and it will be important to harness that goodwill in the future for the benefit of the new inspectorate.



The ALI has continued to influence policy and practice through dissemination of its inspection findings. Through the *Chief Inspector's Annual Report*, the ALI has found new and innovative ways of providing information in a user-friendly format, observing high production values. This year's report reflected not only on 2004-05, but on the first four-year cycle of the ALI, highlighting progress in the three key areas of the inspectorate's remit: preparation for work, workforce development and community renewal. The launch of the report was attended by over 100 providers listed as among the best in the country – their number offering testament to the rapidly improving standards in the sector. As in previous years, there was an opportunity to hear from learners themselves describing how they had benefited directly from excellent adult education and training. A question and answer forum allowed people from across the learning and skills spectrum to openly debate the key issues facing the sector. This annual event has an important part to play in celebrating achievement and inspiring providers to aim for excellence.

There has been a significant increase in press coverage over the year, with the great majority continuing to be exceptionally positive. The ALI has established a strong presence in the regional press, with local journalists covering publication of inspection reports in their area as a matter of routine. This is helping the ALI to reach learners, parents and local communities in promoting the

importance of good-quality adult learning and where to find it. *Talisman*, the ALI's newspaper, has established itself as one of the most influential journals of its kind, uniting the many different parts of the learning and skills sector with a common voice. As well as stimulating debate about the key issues of the day, it has an important role to play in disseminating good practice, profiling providers from a wide range of backgrounds to show that excellence is attainable. The mailing list currently stands at over 8,500 and demand continues to grow. A special issue of *Talisman* which focused on diversity issues was shortlisted for a national award. *Talisman* is also the medium for distributing most of the ALI's survey reports, some published on CD-ROM.

A new website was launched in October. Its structure was devised to better reflect the diverse range of customers the ALI now serves and to meet their particular needs; by, for example, improved signposting of information for learners and a focus on companies in the private sector. Increased functionality meant that *Excalibur* products could be developed and updated more quickly and more cost-effectively. The web team has also worked hard to ensure that all ALI products meet stringent accessibility guidelines. The ALI websites have been widely admired and transferring their quality to the new inspectorate will be a substantial challenge over the coming year.

The ALI has continued to provide a comprehensive framework of internal communication channels, including a weekly electronic bulletin, monthly team briefings and regular staff meetings. These are used to disseminate strategic, operational, performance and change-management information, ensuring staff have access to relevant and timely information not only about the ALI but also the sector more widely and their areas of professional expertise. With over half the ALI's employees being home-based, the annual staff conference provides an essential forum for inspectors and office-based staff to come together to exchange ideas and discuss important organisational issues. Following extensive consultation, a new intranet was developed which has vastly improved the speed with which information can be shared. The 2005 Midlands Excellence Awards highlighted communication with staff as a particular strength, with the intranet identified as central to the effective management of information and knowledge.

GOVERNANCE AND CORPORATE SERVICES

The Board met six times in 2005-06. On all but one occasion, a strategy session preceded formal business. This structure allowed members to contribute freely to setting the general direction of the ALI. The whole executive team, whether members of the Board or not, joined Board meetings and were able to add to debate. The result has been a lively Board, operating according to the best modern principles of corporate governance and playing a visible part in the affairs of the ALI.

Attendance at Board meetings has been good, with an average of eight members attending out of the nine possible. This exemplary level of commitment, while essential with a small Board, deserves special note because participation for most is honorary. The streamlined committee structure introduced in 2004-05 worked well and members felt that they had a thorough grasp of the issues before taking decisions. Further rationalisation has been decided for 2006-07, perhaps with only the audit committee and remuneration committee remaining, to reflect the limited future of the ALI and the need to direct as much management effort as possible into the formation of an adult learning and skills directorate in the new inspectorate, the Office for Standards in Education, Children's Services and Skills.



Business planning and risk management have continued to be particular strengths of the ALI. A simple 'traffic light' system alerts senior managers and the Board to potential problems. Steps toward resolution are carefully monitored throughout the business by divisional management teams, through regular meetings of the executive team and then to the audit committee and the main Board. The key issues in 2005-06 formed around the need for articulation of the ALI's point of view in regard to public consultation on the future of the organisation and its remit. The Board's perception was that it had not adequately influenced government thinking about the value of its work in the learning and skills sector, nor was it sufficiently in touch with opinion formers such as government advisers. The Chairman and the Chief Inspector took personal responsibility for alleviating this situation, achieving responses such as 'The ALI punches well above its weight.'

The ALI is an Investor in Excellence, a very taxing recognition based on the European Foundation for Quality Management (EFQM) model. It covers every aspect of business operation, including some that are challenging for a national, largely home-based operation, such as community service, and some that pose problems for an organisation which does a very unusual if not unique job, such as performance benchmarking. The ALI's staff have always worked together to produce substantial charitable donations, but demonstrating a community contribution involved, in addition, ALI staff voluntarily refurbishing a shelter for homeless people in Coventry. The ALI entered for the Midlands Excellence Award in 2005-06, the largest EFQM business quality competition in Europe, and won in its public sector category. The award was presented by Lord Coe in front of an audience of 1,300 business people in Birmingham and is now added to the ALI's considerable collection of certificates of achievement.





The rising standards of service to learners is the only worthwhile criterion by which the effectiveness of ALL work should be measured.

CBE FOR DAVID SHERLOCK

David Sherlock, Chief Inspector of Adult Learning, was made a CBE in the New Year's honours list for his services to lifelong learning.



Developments for 2006-07

The coming year will necessarily be devoted to achieving the challenging balance between running the ALI with its customary efficiency and effectiveness, and contributing to the formation of the proposed new inspectorate. The parliamentary bill required to establish the new body has not yet been enacted and, until such date, no winding-up order can be issued in respect of the ALI. The executive team has undertaken to remain with the ALI until the business is closed. The decision has been taken to reject the ALI's national administration centre as a base for the new inspectorate. It remains to be seen how many office-based ALI staff will exercise their right to transfer to the new inspectorate in a new location and to contribute their experience and skills. In the meantime, retaining their service in order to deliver the 2006-07 Business Plan is the challenge for managers and the ALI's sponsors. All inspectors and inspection managers will have the right to transfer and it seems likely that most will exercise it. The appointment of a new Chief

Inspector for the Office for Standards in Education, Children's Services and Skills, expected on 1 October 2006, will critically influence the culture of the new inspectorate and the transferability of features from the ALI. It is planned that the ALI will produce statutory accounts for 2006-07 in line with all statutory reporting requirements.

Staffing will continue to be reduced by natural turnover, in line with the Gershon requirements. Vacancies which must be filled will be offered within the ALI, Ofsted and CSCI, in order to carry on reducing staff, overall, for the new inspectorate. If key staff leave, interim management appointments may also be used. The new inspectorate will start out with a requirement to assess the scope for reducing its expenditure by around a third over the medium-term. The impact of that for the ALI's remit is not yet clear.

The coming year will necessarily be devoted to achieving the challenging balance between running the ALI with its customary efficiency and effectiveness, and contributing to the formation of the Office for Standards in Education, Children's Services and Skills.



The ALI's Board, directors and staff are expert at their jobs; this has been shown in this Annual Report and its predecessors. Their morale is high, sustained by past achievements and the clarity with which continuing improvement can be proven to be taking place in the learning and skills sector. The service of learners in welfare-to-work, workforce development and adult and community learning will remain everyone's priority. The ALI's Business Plan for 2006-07 has been approved by ministers. It includes a further reduction of expenditure of £3 million, and an associated cutting back to core business. For example, further new products for *Excalibur* will not proceed and emphasis will be placed on the part of its services which appears most secure; the *Good Practice Database*. *Talisman* was redesigned to mark its 50th issue and it will continue to flourish in 2006-07, but its future is wholly uncertain, so that no further development can take place. Insofar as it is possible without excessively compromising operational delivery and standards, staff will be released or committed to the transfer of services to the new inspectorate.

The ALI has been the summation of what has been learned from the experience of its predecessor organisations, the FEFC inspectorate and the TSC, in either one or both of which many of its staff served. Continuity of that experience is important. Nevertheless, the ALI is acutely conscious that it is part of an even wider stream of events which will certainly continue. These are the results of globalisation which include:

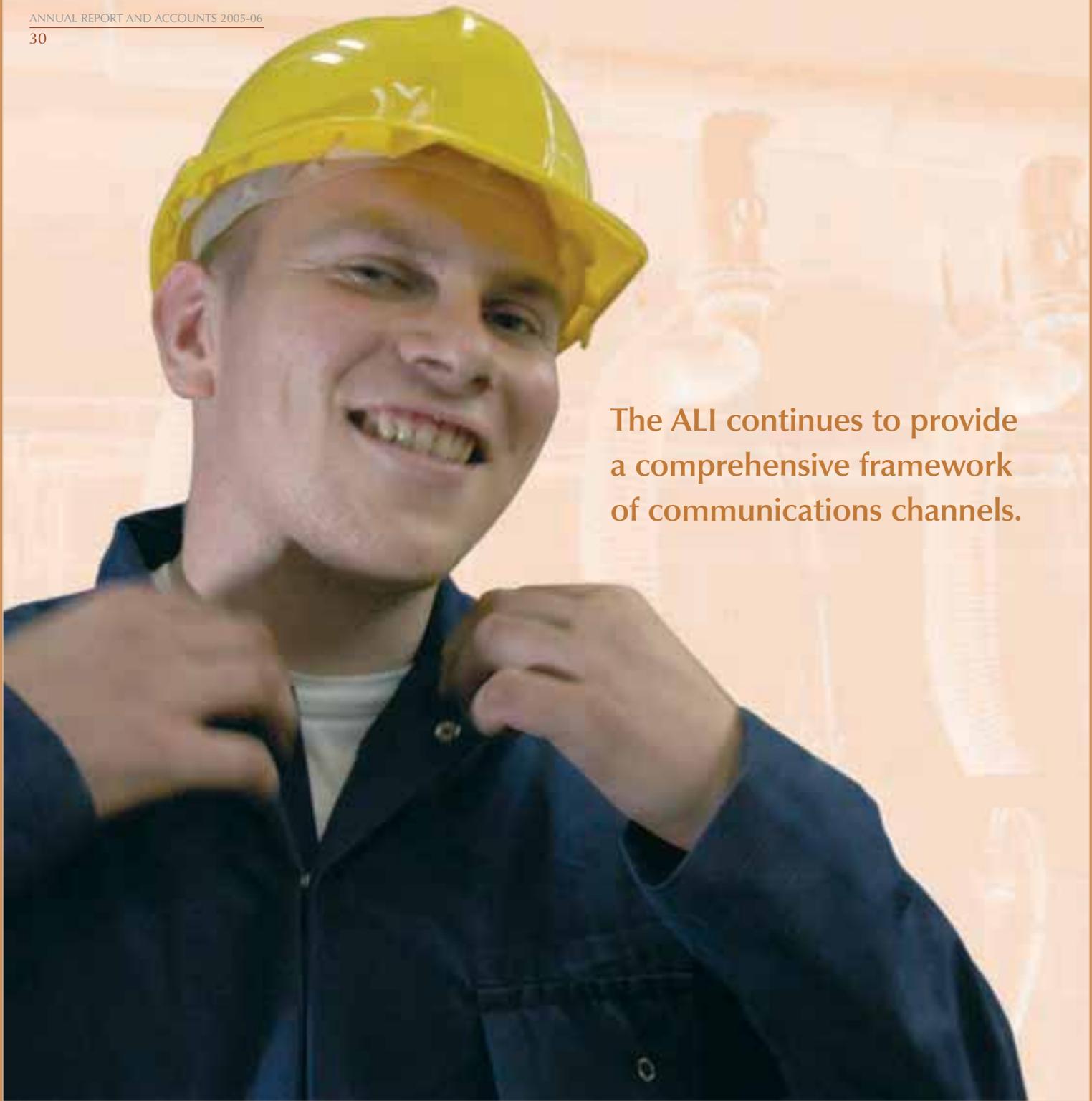
- A focus on economic ends in adult learning
- The use of private investment and private providers to offer public services
- The application of quantifiable measures of success for public services, describing the impact on end users, such as tangible improvements in learner achievement rates
- The definition of departments of state as purely policy entities, with operations moved progressively further away from government and physical location in the national capital.



Taken together, these changes profoundly alter the complexion of the modern democratic nation state. They also lessen central control over the delivery of public services. Given that adult learning will always be a partnership of interests – government (national and local), individual citizens, private enterprise, charities – the controls retained to ensure that public investment serves the public interest cannot consist solely of regulation. They must be consultative and inclusive in style and they must add value. The ALI is proud to have successfully pioneered these forms of control and, in 2006-07, will seek to transfer their essence to its successor.



The ALI's Board, directors and staff are expert at their jobs... Their morale is high, sustained by past achievements and the clarity with which continuing improvement can be proven to be taking place in the learning and skills sector.



The ALI continues to provide a comprehensive framework of communications channels.

TALISMAN RECEIVED AWARD OF EXCELLENCE

Issue 37 of *Talisman*, a special issue devoted to diversity, won an Award of Excellence at the annual Communicators in Business Awards. A panel of over 60 judges assessed entries for style, substance and impact.



Financial commentary 2005-06

BACKGROUND

The accounts cover the year from 1 April 2005 to 31 March 2006. They have been prepared in accordance with the direction of 25 May 2001, given by the Secretary of State for Education and Skills, and with the consent of the Treasury, in accordance with Schedule 6, paragraph 14 of the Learning and Skills Act 2000, and the Financial Memorandum of the ALI dated 10 February 2004.

The ALI is an executive non-departmental public body (NDPB) established under the terms of the Learning and Skills Act 2000. It was launched on 1 April 2001, working with the Department for Education and Skills (DfES) and the Department for Work and Pensions (DWP) as its main sponsors. The DfES sponsor team channels grant-in-aid funding:

- from the DfES to enable the ALI to inspect learning provision funded by grant or contract through the Learning and Skills Council (LSC); and learning in custody in conjunction with the Offenders' Learning and Skills Unit (OLSU)
- from the DWP to enable the ALI to inspect Jobcentre Plus programmes.

PRINCIPAL ACTIVITIES

The ALI's main functions are set out in the Learning and Skills Act 2000. Under this Act, the ALI has responsibility for the inspection of:

- further education for people aged 19 or over, which is funded by the LSC or a local education authority (LEA), including adult and community learning
- training provided wholly or partly on employers' premises for people aged over 16 years of age, which is wholly or partly funded by the LSC
- training funded (through Jobcentre Plus) under the Employment and Training Acts, including the New Deals
- training offered and funded by employers, at the invitation and expense of the employer.

The ALI inspects in line with the *Common Inspection Framework*, which was drawn up in partnership with the Ofsted and which applies (with variations to accommodate schools regulations) to all post-16 learning provision. The *Common Inspection Framework* was first published in February 2001 after public consultation. It was amended in 2004-05 and applied in revised form from 1 April 2005. It has statutory force under the Learning and Skills Act 2000 and cannot be amended without further public consultation and the consent of the Secretary of State for Education and Skills. The *Common Inspection Framework* has achieved consensual support across the learning and skills sector and enables comparison to be made between similar subjects delivered in differing settings, over time.

Additional duties for the ALI have been specified in the Secretary of State's remit letter and subsequent grant letters, to include inspection of **learnirect**, adult careers guidance, adult and community learning, and vocational provision overseas.

The ALI's remit for adults in further education colleges is inspected jointly with Ofsted, which has a corresponding remit for the minority of learners aged between 14 and 18. The ALI also works with Ofsted on the inspection of teacher training and Joint Area Reviews. Many other inspections are conducted collaboratively, including those with Estyn (work-based learning provision which takes place in both England and Wales); with Her Majesty's Chief Inspector of Constabulary (training in the police service); and with inspectors in the armed forces.

All provision identified at initial inspection as inadequate is subject to a reinspection; support for providers deemed unsatisfactory can be provided through the ALI's Provider Development Unit.

The ALI provides an agreed number of thematic or survey reports which guide policy formation for DfES, DWP and other departments of state. During 2005-06, the ALI produced 14 survey reports for DfES and DWP.

A more comprehensive performance review is included in the Annual Report on page 13.

2006-07 DEVELOPMENTS

At the time of writing, progress towards merger is well in hand, with agreement on a divisional structure which maintains a distinct, but not separate, identity for the remit of the ALI. A great deal of work to develop the new inspectorate and to wind up the ALI is expected to preoccupy the organisation during 2006-07. The year will be devoted to achieving the difficult balance between running the ALI with its customary efficiency and effectiveness, and contributing to the formation of the Office for Standards in Education, Children's Services and Skills.

FINANCIAL RESULTS FOR 2005-06

The income and expenditure account shows a retained deficit for 2005-06 of £2,333,000 compared with a surplus of £317,000 in 2004-05. The result takes into account costs of compulsory redundancies – £2,687,000 – relating to the closure of Spring Place. After adjustments of £7,000 for movements on capital grants this results in an increase of £2,333,000 in the negative balance on the general reserve to £3,993,000 at 31 March 2006 (31 March 2005, £1,667,000). It should be noted that positive or negative balances are the result of public accounting practices, rather than denoting the more familiar profit or loss. There has been a reduction of grant-in-aid compared with 2005-06 (total grant-in-aid received for 2005-06 was £25,830,000 compared with £26,655,000 in 2004-05). Of the total grant-in-aid received, £480,000 was used to fund capital expenditure (2004-05, £666,000) with the balance of £25,350,000 used to fund operating costs (2004-05 £25,989,000).

The ALI achieved £1,007,000 in other operating income (2004-05 £1,910,000). Most of this income (£906,000) was generated from commissioned inspection activity, delivered on a full-cost recovery basis to other government departments and private sector employers. The business case for commissioned work was approved by DfES and Treasury in January 2004. Coupled with transfers from the government capital grants reserve of £1,121,000 (2004-05, £943,000) this equates to gross turnover of £27,478,000; a decrease of 4.7 per cent over 2004-05 (£28,842,000).

Total operating costs, excluding exceptional costs, for 2005-06 were £26,720,000, a decrease of 6.3 per cent on 2004-05 (£28,523,000). Just over half of total operating expenditure was accounted for by staff costs. Inspection fees and charges decreased by 33 per cent to £4,728,000 (2004-05, £7,020,000), reflecting a smaller number of onsite inspection days delivered by associate inspectors. Other costs fell by 5.6 per cent to £5,954,000 (2004-05, £6,310,000) due to increased efficiency and a planned reduction in staff development expenditure, which reflects the ALI's maturity.

Overall operating expenditure has been contained during 2005-06, working towards the 15 per cent efficiency gains required of the ALI over the period to 2007-08 as part of the Gershon review. Operating costs were £2,370,000 less than originally envisaged in the ALI's 2005-06 business plan, with the requirement for grant-in-aid reduced by a corresponding amount. Substantial savings against budget have been achieved on payroll costs (£279,000) (after inclusion of an additional £525,000 for 2005-06 staff bonus) and other fees and charges (£1,241,000). Smaller savings have been achieved in a range of other budget heads (£850,000). These saving have been achieved without detriment to the quality and volume of inspection, by reducing the average number of inspector days devoted to each first inspection; strict vacancy management; and a further increase in emphasis on efficiency and value for money. Regular reporting to the ALI's sponsors throughout the year has enabled the timely redirection of savings in grant-in-aid to help fund other government programmes.

KEY PERFORMANCE INDICATORS

The Business Plan for 2005-06 included the following key performance indicators for inspection:

Activity	Target 2005-06	Actual 2005-06	Target 2004-05	Actual 2004-05
Number of first inspections	789	787	828	799
Number of reinspections	170	162	192	176
Number of annual assessment visits	0	237	0	0
Number of surveys	12	14	13	14
Development inspections	70	2	48	1
Cost of each inspection day	£1,035	£1,086	£918	£875
Total number of inspection days delivered	23,694	22,624	30,582	29,868
Support staffing as a percentage of total establishment staff (expressed as full time equivalents)	16.5%	15.2%	16.5%	15.3%
Support service overheads as a percentage of turnover	20.5%	20.2%	19.7%	19.1%

POST-BALANCE SHEET EVENTS

There are no post-balance sheet events relevant to the financial statements for 2005-06.

FIXED ASSETS

During the year the ALI spent £82,000 (2004-05 £186,000) and £398,000 (2004-05 £480,000) on additions to intangible and tangible fixed assets, respectively. There is also £403,000 relating to accelerated depreciation on the useful economic life of assets located at Spring Place. The movements in intangible and tangible fixed assets are set out in notes 6 and 7 to the financial statements.

CORPORATE GOVERNANCE

The ALI is overseen by a Board of nine members appointed by the Secretary of State for Education and Skills. The only executive member of the Board is the Chief Inspector of Adult Learning, David Sherlock CBE, who is also the Chief Executive and Accounting Officer. The Board's main responsibilities include:

- approval of the strategic direction of the ALI
- informing the Secretary of State of changes likely to affect the ALI's strategic direction
- ensuring compliance with statutory or administrative requirements for the use of public funds
- regular review of financial information on the management of the ALI
- demonstration of high standards of corporate governance
- establishment of an appropriate committee structure
- making arrangements for the annual appraisal of directors by committee chairs.

The Board meets every quarter, with an additional meeting held each June to approve the Annual Report and Accounts (in total, the Board met six times in 2005-06). Formal meetings are attended by observers from the ALI's main stakeholders or partners: DfES, Jobcentre Plus, LSC and Ofsted.

In 2005-06 the Board had four committees, each with formal terms of reference and chaired by a non-executive director. The Remuneration Committee met four times, and other committees met quarterly. In 2005-06 these committees were:

- Audit, governance and corporate services (AGCS)
- Inspection and reporting
- Organisational development (OD)
- Remuneration.

The AGCS committee is the only Board committee specifically required by the ALI's management statement. The committee's core role is to review the adequacy and effectiveness of the ALI's internal control systems and its arrangements for risk management, control and governance. The committee has four members, one of whom is a qualified accountant. All meetings of the committee are attended by the Chief Inspector, the Director of Finance (up until 31 January 2006 and then from 1 February 2006, the Director of Organisational Development as Company Secretary and the Head of Finance), representatives from internal and external audit and the DfES. The committee assesses itself annually against the National Audit Office checklist to demonstrate its compliance with good practice.

The table below provides details of Board and committee membership between 1 April 2005 and 31 March 2006.

Name	Date of appointment	Date of reappointment	Role	Committee membership
Richard Handover	2/1/02 to 31/12/05	1/1/06 to 31/12/07	Board Chair	Remuneration (member)
David Sherlock CBE	2/8/00	–	Board member Chief Inspector of Adult Learning	Audit, Governance & Corporate Services (in attendance)
Philip Candy	1/4/05 to 31/3/09	–	Board member	Inspection & Reporting (member)
Paulene Collins OBE	14/12/00	1/1/05 to 13/12/07	Board member	Inspection & Reporting chair wef 20 January 2005) Audit, Governance & Corporate Services (member) Remuneration (member)
David Croll	14/12/00	1/1/05 to 13/12/06	Board member Diversity Champion	Remuneration Committee (Chair) Organisational Development (Chair wef 8 February 2005) Inspection & Reporting (member)
Peter McKee	20/9/02 to 19/9/06	–	Board member Health & Safety Champion	Audit, Governance & Corporate Services (member) Inspection & Reporting (member)
Elaine Nicholls	1/4/05 to 31/3/09	–	Board member	Audit, Governance & Corporate Services (member) Organisational Development (member)
Christopher Trinick	14/12/00	15/12/04 to 13/12/07	Board member Vice Chair (wef 19/5/05)	Audit, Governance & Corporate Services (chair) Organisational Development (member wef 8 February 2005) Remuneration (member)
Richard Wilson	1/4/05 to 31/3/08	–	Board member Excalibur Champion	Inspection & Reporting (member) Organisational Development (member)

The normal period of tenure for Board members is four years. Philip Candy, Elaine Nicholls and Richard Wilson were appointed to the Board on 1 April 2005.

The ALI maintains a record of declarations of interest made by Board members and employees. A copy of the register of interests is available from the Manager, Executive Support Team, Adult Learning Inspectorate, Spring Place, Coventry CV5 6UB. Details are also available at www.ali.gov.uk. Details of related party transactions and connected bodies are given in note 21 to the financial statements.

The ALI complies with all the relevant Treasury requirements regarding corporate governance. It is committed to the principles of the Combined Code on Corporate Governance. In accordance with the Freedom of Information Act 2000, the ALI operates a publication scheme, which is available on the ALI website at www.ali.gov.uk. This sets out details of what the ALI publishes, how the information can be reached and any charges which may be made. The information available includes minutes of formal meetings of the Board and its committees.

EQUAL OPPORTUNITIES AND DIVERSITY

The ALI is committed to equality of opportunity and diversity in all aspects of its activities. It inspects and grades equality of opportunity during each provider inspection. Diversity is promoted inside the organisation and externally through contributions to sector-wide and community initiatives. It is the policy of the ALI that nobody should be unfairly discriminated against directly or indirectly because of their ethnicity, national origin or nationality, gender, sexual orientation, marital status, religious beliefs, political affiliation, age, social class, disability, trades union membership, employment status or role as a carer. The ALI has a diversity strategy and a full range of supporting policies and procedures. All staff have received relevant information and training. The development of diversity is guided by a diversity steering group with broad staff representation and a designated 'champion' among Board members.

The ALI seeks to ensure that no job applicant or employee receives less favourable treatment, directly or indirectly, on the grounds of disability. The ALI is committed to meeting the full range of its obligations under the Disability Discrimination Act 2005 and has implemented robust staff monitoring procedures which cover all aspects of the employment process. Reasonable adjustments are made in relation to premises and working practices where required. Motorised doors are installed at Spring Place, adding to a full range of other measures intended to assist people with impaired mobility and those with sensory impairments.

HEALTH AND SAFETY MANAGEMENT

The management of health and safety in the ALI is rigorous and the organisation achieved the British Safety Council's Five Star award for health and safety management and International Award for Excellence in 2005-06. Risk and health and safety management are an integral part of the organisation. The significant health and safety risks to the organisation are assessed and mitigation measures implemented to reduce the risk identified.

The top risks to the ALI's staff and particularly inspectors include driving, personal safety, manual handling, and slips, trips and falls. All inspectors and inspection managers have been trained and externally examined in risk assessment to equip them for inspection activity. Risk assessments are a legal requirement and have been undertaken for all inspection and reinspection activities for several years now. Specific detail for each inspection complements the generic risk assessment and is returned electronically by the lead inspector to Spring Place for recording and analysis. All inspectors and office staff carry out risk assessments of their home-based workstations and office working environments every two years. An online training and recording system has now been implemented.

The analysis of audits and accident statistics have resulted in improvement actions, such as advanced and defensive driver training, and training in manual handling, and personal safety. To complement the personal safety training, personal attack alarms were distributed to all staff. The accident rate for the ALI is well below the average for the sector. There were 28 accidents/incidents reported in the year 2005-2006 compared with 25 accidents/incidents in year 2004-05. There were 14 accidents in Spring Place and 14 on inspection activity. The majority were slips, trips and falls, consistent with the national trend. There were only two reported minor injuries as a result of car accidents by drivers. There were 36 reported car damage incidents by inspectors.

CONSULTATION WITH EMPLOYEES

The ALI has a Joint Consultative Committee (JCC), which represents staff wishes in consultation with managers. A revised constitution was agreed in 2004-05, reflecting the new information and consultation regulations that came into force in April 2005. Staff representatives consider the impact of issues and represent employees under three categories:

- **Strategic:** changes that could affect all ALI staff, for example, management policy and procedure, remuneration and benefits
- **Operational:** changes that are likely to only affect staff in one department, for example, departmental workload and structure changes
- **Individual:** issues that affect specific individuals, for example, particular welfare issues and disciplinary or grievance hearings.

The JCC meets regularly (at least quarterly) to discuss and deal with these matters.

ENVIRONMENTAL POLICY

During 2005-06 the ALI continued to implement its environmental policy by increasing the use of sustainable resources. Measures included:

- reducing paper consumption
- using stationery items made from recyclable materials, including paper, cups, bin bags and consumables such as hand towels
- increasing the proportion of waste recycled
- maximizing the efficient use of energy and materials
- maintaining the carbon dioxide emissions levels at 180gsm/kg for the ALI cars.

PAYMENT OF CREDITORS

The Late Payment of Commercial Debts (Interest) Act, which came in to force on 1 November 1998, requires government bodies, in the absence of any agreement to the contrary, to pay suppliers within 30 days of the provision of goods or services, or the date on which the invoice was received. During the year ending 31 March 2006, 96 per cent (2004-05, 93 per cent) of all third party supplier invoices were paid within 30 days. This was a continuing improvement, reflecting measures to improve prompt payment. No claims for interest under the Act were received from associate inspectors during 2005-06 (2004-05, nil).

The ALI supports the Better Payment Practice Code by usually agreeing payment terms in advance when ordering goods and services; by setting out payment procedures on the purchase order; by settling invoices in accordance with any agreed contract terms or within 30 days, as required by law; and by informing suppliers of incorrect invoices promptly to encourage settlement.

AUDIT

Section 14 of schedule 6 of the Learning and Skills Act 2000 appoints the Comptroller and Auditor General as the ALI's external auditor. The National Audit Office (NAO), which carries out the audit on behalf of the Comptroller and Auditor General, charged £31,000 for the audit of the 2005-06 financial statements (2004-05, £30,500).

PricewaterhouseCoopers provided internal audit services at a cost for 2005-06 of £56,642 (2004-05 £60,345). They were appointed in 2002-03 by competitive tender for a three-year period to 31 March 2005. This contract was extended for a further two years to maintain continuity, in agreement with the DfES and NAO. The value of non-audit services provided to the ALI by PricewaterhouseCoopers in 2005-06 was £nil (2004-05 £18,261). The ALI's commissioned work was audited in October 2005 by PricewaterhouseCoopers, which concluded that controls were adequate.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

As far as I am aware as Accounting Officer, there is no relevant audit information of which the ALI's auditors are unaware and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the ALI's auditors are aware of that information.



David Sherlock CBE
Chief Inspector of Adult Learning
13 June 2006



Remuneration report

(unaudited section of the Remuneration report)

The Financial Regulations issued by the Treasury requires that the Annual Report & Accounts now includes a Remuneration Report containing certain specified information. This report is included below.

The Remuneration Committee comprises four board members and is chaired by the chair of the Organisational Development Committee, David Croll.

BUSINESS CONDUCTED IN YEAR

The Remuneration Committee met four times during the year ended 31 March 2006 and agreed the bonuses of the Chief Inspector and other executive directors for 2005-06.

THE REMUNERATION COMMITTEE'S TERMS OF REFERENCE

The Remuneration Committee's terms of reference are to:

- make recommendations to the DfES on the total remuneration, pension and benefits package for the Chief Inspector including, where appropriate, bonuses and incentive payments
- determine the framework for the remuneration of executive directors (excluding assistant directors) in accordance with requirements specified by the DfES
- within the terms of the agreed framework, determine the total remuneration and benefits package for executive directors including, where appropriate, bonuses and incentive payments
- make recommendations to the DfES on the targets for any performance-related incentive scheme applicable to the Chief Inspector and to agree the targets applicable to executive directors

- within the constraints of the Principal Civil Service Pension Scheme, determine the policy and scope for pension arrangements for executive directors
- determine the standard form of contract for executive directors, in accordance with any requirements specified by the DfES
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the organisation and consistent with DfES guidance
- to agree the policy for authorising claims for expenses by the Chief Inspector and executive directors
- be exclusively responsible for establishing selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee
- report the proceedings of the committee to the Board and in the annual report.

POLICY ON CHIEF INSPECTOR'S REMUNERATION

The Chief Inspector's remuneration is renewed annually and, subject to full satisfactory performance, amended in the light of the Secretary of State's decision on the recommendations of the senior salaries review body. The Chief Inspector has a contract of employment, which commenced on 3 August 2000, in which details of his six months' notice period and termination payment are outlined. Arrangements for termination awards are in line with the Civil Service Pension Scheme rules.

AUDITED SECTION OF THE REMUNERATION REPORT – EMOLUMENTS OF SENIOR EMPLOYEES

Salary and benefits in kind

	2005-06		2004-05	
	Salary £000s	Benefits in kind £000s	Salary £000s	Benefits in kind £000s
David Sherlock CBE Chief Inspector	144	5.7	135	9.7
Denis McEnhill Director of Inspection	100	3.4	90	6.2
Nicky Perry Director of Inspection	101	4.7	92	7.9
Andrew Tyley Director of Finance (Resigned 31 January 2006)	91	5.1	90	7.1
Lisa Yeoman Director of Organisational Development	94	5.2	89	7.6

Emoluments include salary, performance pay, bonus, and allowances. Performance pay is calculated according to annual performance measured by the appraisal process. The figures exclude pension payments made to the Principal Civil Service Pension Scheme in accordance with the scheme as noted in accounting policies 1(v) on page 52. Benefits in kind are the monetary value of a leased company car and medical benefits provided to staff in the course of their duties.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

Executive Directors' remuneration is paid in accordance with the annual pay remit and agreed with the Remuneration Committee.

Directors receive performance pay in accordance with their bonus scheme arrangements, which are agreed as part of the annual pay remit. Directors have a Principal Statement that outlines details of their notice period and termination payments. They are members of the Principal Civil Service Pension Scheme, which provides details of the terms relating to severance for loss of office. There are no special arrangements for Directors normally to receive termination awards. All Executive Directors commenced with the ALI on or after 1 October 2000, and have between 3 and 6 months' notice period, depending on their individual contracts. Arrangements for termination awards are in line with the Civil Service Pension Scheme rules.

No termination payments were made to the Chief Inspector or any Executive Directors during 2005-06

The pension details, shown in the table on page 42, include the cash equivalent transfer value (CETV) accrued at the end of the reporting

period. The CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. CETVs are calculated within the guidelines and framework prescribed by the scheme actuary.

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

There were no employer contributions to the partnership pension account for either the Chief Inspector or Executive Directors during the year.



David Sherlock CBE
Chief Inspector of Adult Learning
13 June 2004

PENSION BENEFITS

	2005-06 £000s	2004-05 £000s
David Sherlock CBE		
Chief Inspector		
Real increase in pension at retirement	0 – 2.5	2.5 – 5
Real increase in lump sum at retirement	2.5 – 5	5 – 10
Total accrued pension at retirement	35 – 40	35 – 40
Lump sum at retirement	115 – 120	105 – 110
Cash equivalent transfer value	898	800*
Real increase in cash equivalent transfer value at 31 March 2006	36	40
Denis McEnhill		
Director of Inspection		
Real increase in pension at retirement	0 – 2.5	0 – 2.5
Real increase in lump sum at retirement	5 – 7.5	2.5 – 5
Total accrued pension at retirement	30 – 35	25 – 30
Lump sum at retirement	90 – 95	75 – 80
Cash equivalent transfer value	676	509*
Real increase in cash equivalent transfer value at 31 March 2006	51	19
Nicky Perry		
Director of Inspection		
Real increase in pension at retirement	0 – 2.5	0 – 2.5
Real increase in lump sum at retirement	5 – 7.5	2.5 – 5
Total accrued pension at retirement	20 – 25	20 – 25
Lump sum at retirement	65 – 70	60 – 65
Cash equivalent transfer value	509	378*
Real increase in cash equivalent transfer value at 31 March 2006	44	18
Andrew Tyley		
Director of Finance		
Real increase in pension at retirement	0 – 2.5	2.5 – 5
Real increase in lump sum at retirement	N/A	–
Total accrued pension at retirement	20 – 25	20 – 25
Lump sum at retirement	N/A	–
Cash equivalent transfer value	308	211*
Real increase in cash equivalent transfer value at 31 March 2006	23	23
Lisa Yeoman		
Director of Organisational Development		
Real increase in pension at retirement	0 – 2.5	5 – 10
Real increase in lump sum at retirement	5 – 7.5	20 – 25
Total accrued pension at retirement	25 – 30	25 – 30
Lump sum at retirement	80 – 85	75 – 80
Cash equivalent transfer value	531	380*
Real increase in cash equivalent transfer value at 31 March 2006	41	9

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



Statement of the responsibilities of the ALI and the Chief Inspector of Adult Learning

Under schedule 6, paragraph 14 of the Learning and Skills Act 2000, the ALI is required to prepare a statement of accounts in a form and on a basis determined by the Secretary of State for Education and Skills with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the ALI's state of affairs at the year-end, and of its income, expenditure and cash flows for the financial year just ended.

In preparing the accounts the ALI is required to:

- observe the accounts direction issued by the Secretary of State for Education and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards have been followed, and disclose and explain any material departure from these in the financial statements
- prepare financial statements on the going-concern basis, unless it is inappropriate to presume that the ALI or its inspection services will continue.

The Accounting Officer for the DfES, the Permanent Secretary, has designated the Chief Inspector of Adult Learning as Accounting Officer for the ALI. The Chief Inspector of Adult Learning is responsible for the proper management of the ALI's resources and staff; for ensuring high standards of corporate governance; and for ensuring that government guidance on regularity, propriety and value for money is complied with.

The ALI's Accounting Officer is responsible for:

- advising the Board on the proper discharge of its responsibilities in accordance with statute and its Financial Memorandum
- ensuring the efficient, economic and effective management of the ALI's resources, including cash, liquid assets, capital assets and equipment and personnel
- ensuring that the ALI keeps proper accounts and other records in relation to the accounts
- signing the final statement of accounts and sending copies of the statement to the Secretary of State for Education and Skills and the Comptroller and Auditor General no later than the end of August following the financial year to which the statements relate
- observing the guidance in *Government Accounting: A Guide on Accounting and Financial Procedures for the Use of Government Departments* and all other guidance on the responsibilities of accounting officers that the Treasury, or the Cabinet Office, may issue from time to time.

A copy of the Accounts Direction is available from the Adult Learning Inspectorate, Spring Place, Coventry Business Park, Herald Avenue, Coventry CV5 6UB.

David Sherlock CBE
Chief Inspector of Adult Learning
13 June 2006



Statement on internal control

SCOPE OF RESPONSIBILITY

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the ALI's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*. I am also accountable to the Board for maintaining effective systems for identifying, evaluating and managing the principal risks of the ALI. The Board's role is to determine the ALI's risk management culture, an appropriate risk appetite and level of exposure, and for approving major decisions which affect the organisation's risk profile. It also has responsibility for monitoring management of corporate risks, for satisfying itself that divisional risks are being actively managed and annually reviewing the ALI's approach to risk management.

The ALI's relationships with its sponsor departments (DfES and DWP) are maintained through regular meetings with the sponsor teams and periodic meetings with ministers. DfES and DWP both have observer status on the ALI Board.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level, rather than eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance. The system of internal control is designed to identify and prioritise the risks to the achievement of ALI policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently. The system of internal control has been operative for the year ended 31 March 2006, and up to the date of approval of this Annual Report and Accounts. It accords with Treasury guidance.

CAPACITY TO HANDLE RISK

The ALI has given priority to the implementation of a comprehensive risk management system. It is a routine concern for all staff. The priority given to risk management is reflected in the Corporate Plan for 2003-06 and it is given extensive coverage in each annual business plan. All ALI staff have received risk management training and they have access to the risk register, both in hard copy and online. Risk management systems have been refined during the year to accommodate new risks as they emerge, and to reflect more accurately an assessment of likelihood, financial and reputational impact. In addition, a formal process has been followed through which each director signs off the management of those divisional risks for which they are responsible.

THE RISK AND CONTROL FRAMEWORK

Risk identification and assessment is an integral part of ALI business planning, with risks aligned to each corporate and divisional objective for the year ahead. The process of risk assessment is led by the executive team, with widespread consultation and review by managers prior to consideration by the Board.

The process for recording risks is highly structured and based on a powerful database designed specifically for this purpose. The business plan includes an assessment of mitigation factors for corporate risks and makes clear links at divisional level to divisional objectives and deliverables.

Our work on risk management over the past few years has shown that the ALI has a robust system for reporting on risk management through the divisional management teams. In this way, those held responsible for managing and monitoring risks submit regular reports on activity and any changes to the risk profile. New risks which are identified during the year are added to the risk register.

Monthly divisional meetings report to the executive team on management of risks, to the Board's committees and to the Board itself. Each risk is assessed either as 'green' (no issues or actions outstanding), 'amber' (active monitoring required) or 'red' (positive action required to manage risk).

The risk reporting system first introduced in April 2003 has proved effective in maintaining a high level of awareness of risk management at all levels of the ALI. It has contributed to a steady reduction in the number of red and amber risks during 2005-06. Stakeholder involvement is provided by representation from the ALI's sponsor departments (DfES and DWP), the LSC and Ofsted at Board meetings.

The risk and control framework applied by the ALI is considered to be an example of best practice in the sector.

REVIEW OF EFFECTIVENESS

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of our internal auditors and of ALI managers who have responsibility for the internal control framework. I also take careful account of comments made by the external and internal auditors in their Management Letter and other reports. I have been advised on the implications of the result of my review by the Board, and the audit, governance and corporate services committee. I have ensured that there are plans to address weaknesses and secure continuous improvement of the system. I believe that the ALI's system of risk management is more robust and more fully developed than those normally found in the public services and the private sector.

The effectiveness of the systems of internal control has been maintained by:

- regular monitoring of key performance indicators and the status of corporate risks by the Board
- review and approval by the Board of key policies which underpin internal control systems

- regular monitoring of divisional risks by divisional management teams, the executive team and Board committees, with oversight of the status of all divisional risks by the audit, governance and corporate services committee
- scrutiny of all internal and external audit reports by the audit, governance and corporate services committee, supported by follow-up reports on the management response to control weaknesses
- approval of the Head of Internal Audit's annual report
- maintenance of an effective quality assurance system supported by an annual programme of quality audits and a range of documented policies and procedures
- continuity of external standards such as Investors in People (IiP) and Investors in Excellence (IiE).

SIGNIFICANT INTERNAL CONTROL PROBLEMS

My review confirms the strength of internal controls and that no significant breaches in them have occurred in 2005-06.

However, the transition arrangements to the new Office for Standards in Education, Children's Services & Skills, necessarily transferring responsibility for strategic decisions away from the ALI, create an external risk that liabilities may be imposed on the ALI. The ALI is seeking to manage and minimise these external risks so far as it is able.



David Sherlock CBE
Chief Inspector of Adult Learning
13 June 2006



Adult Learning Inspectorate The Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Adult Learning Inspectorate for the year ended 31 March 2006 under the Learning and Skills Act 2000. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the Statement of Total Recognised Gains and Losses and related notes. These financial statements have been prepared under the accounting policies set out on pages 51 to 53.

RESPECTIVE RESPONSIBILITIES OF THE INSPECTORATE, THE CHIEF INSPECTOR OF ADULT LEARNING AND THE AUDITOR

The Inspectorate and the Chief Inspector of Adult Learning are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Learning and Skills Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the responsibilities of the ALI and the Chief Inspector of Adult Learning on page 43.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and HM Treasury directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Inspectorate has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified

by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 44 to 45 reflect the Inspectorate's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Inspectorate's corporate governance procedures or its risk and control procedures.

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

BASIS OF AUDIT OPINION

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Inspectorate and Chief Inspector of Adult Learning in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Inspectorate's circumstances, consistently applied and adequately disclosed.

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

OPINION

In my opinion:

- the financial statements give a true and fair view, in accordance with the Learning and Skills Act 2000 and directions made thereunder by HM Treasury, of the state of the Inspectorate's affairs as at 31 March 2006 and of its deficit for the year then ended
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and HM Treasury directions made there under

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



Sir John Bourn
Comptroller and Auditor General

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

20 June 2006

Income and expenditure account

for the year ended 31 March 2006

	notes	2005-06 £000s	2004-05 £000s
Income			
Grant-in-aid	2a	25,350	25,989
Other operating income	2b	1,007	1,910
Transfers from government capital grants reserve	13	1,121	943
		27,478	28,842
Expenditure			
Staff costs	3	15,314	14,249
Inspection fees and expenses	4a	4,728	7,020
Other costs	4b	5,954	6,310
Depreciation	6&7	691	797
Exceptional depreciation	6&7	403	–
Loss on asset revaluation	6&7	27	145
Notional cost of capital	1viii	6	2
Exceptional costs	11	2,687	–
		29,810	28,523
Operating (deficit)/surplus		(2,332)	319
Loss on sale of fixed assets		(7)	(4)
Reversal of notional cost capital		6	2
(Deficit)/surplus for the period	14	(2,333)	317

All activities are classed as continuing on the basis that the inspectorate's activities will continue in operational existence for the foreseeable future following the creation of the new inspectorate.

Statement of total recognised gains and losses

for the year ended 31 March 2006

	notes		
(Deficit/surplus) for the period		(2,333)	317
Revaluation of fixed assets taken to reserve	7	60	125
Revaluation of depreciation taken to reserve	7	(2)	(53)
		(2,275)	389

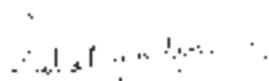
The notes on pages 51 to 66 form part of these accounts.

Balance sheet

as at 31 March 2006

	notes	31 March 2006 £000s	31 March 2005 £000s
Fixed assets			
Intangible assets	6	140	164
Tangible assets	7	892	1,458
Current assets			
Debtors	8	866	738
Cash at bank and in hand	9	275	1,218
		1,141	1,956
Creditors			
Amounts falling due within one year	10	(2,345)	(3,434)
		(1,204)	(1,478)
Net current liabilities			
Total assets less current liabilities		(172)	144
Provisions for liabilities and charges	11	(2,687)	(53)
Long term creditor	12	(102)	(136)
Total assets less total liabilities		(2,961)	(45)
Financed by:			
Government capital grants reserve	13	1,032	1,622
General reserve	14	(3,993)	(1,667)
		(2,961)	(45)

The notes on pages 51 to 66 form part of these accounts



Richard Handover
Chair

13 June 2006



David Sherlock CBE
Chief Inspector of Adult Learning and
Accounting Officer

13 June 2006

Cash flow statement

for the year ended 31 March 2006

	notes	2005-06 £000s	2004-05 £000s
Grant-in-aid received from DfES		25,350	25,989
Other cash receipts		(185)	2,862
Cash paid to and on behalf of employees		(15,796)	(14,330)
Other cash payments		(10,269)	(13,416)
Payments against provisions		(51)	(42)
		(26,116)	(27,788)
Net cash (outflow)/inflow from operating activities		(951)	1,063
Capital expenditure:			
Payments to acquire intangible assets		(82)	(186)
Payments to acquire fixed assets		(390)	(476)
Receipts from sale of fixed assets		–	–
		(472)	(662)
Net cash (outflow)/inflow before financing		(1,423)	401
Financing:			
Grant applied for purchase of tangible fixed assets		–	2
Grant-in-aid applied for purchase of intangible fixed assets	6	82	186
Grant-in-aid applied for purchase of tangible fixed assets	7	398	480
Net cash (outflow)/inflow (after financing)		(943)	1,069
(Decrease)/increase in cash during the period		(943)	1,069

The notes on pages 51 to 66 form part of these accounts

Notes to the financial statements

Note 1. Statement of accounting policies

i) Basis of preparation

The accounts are drawn up in accordance with the *Accounts Direction* dated 25 May 2001 given by the Secretary of State for Education and Skills, in accordance with *Treasury Executive NDPBs' annual reports and accounts guidance* and the Learning and Skills Act 2000, Schedule 6, paragraph 14, and the Financial Memorandum between the Secretary of State and the ALI dated 10 February 2004, copies of which may be obtained from the ALI or the DfES.

The accounts are prepared under the modified historical cost convention and in accordance with the accounting disclosure requirements of the Treasury and the Companies Act 1985 (as amended by the Companies Act 1989), and accounting standards issued or adopted by the Accounting Standards Board, with the exception of the requirement contained in FRS3 for the inclusion of a note showing historical cost profits and losses. The particular accounting policies adopted by the ALI are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The accounts have also been prepared on the going concern basis which assumes that the inspectorate's activities will continue in operational existence for the foreseeable future. The ability of the activities to continue in operational existence is dependent on the merger with Ofsted, the Commission for Social Care Inspection and Her Majesty's Inspectorate for Court Administration. The parliamentary bill required to establish the new body has not yet been enacted and, until such date, no winding-up order can be issued in respect of the ALI.

ii) Grants from the DfES

Grants received from the DfES are credited to the Income and Expenditure Account when applied for current purposes, and credited to the government capital grants reserve account when applied to meet the cost of acquiring or constructing assets which are capitalised. Grants held in this account are released to the Income and Expenditure Account over the expected useful life of the relevant assets.

Treasury guidelines on the issue of grant-in-aid preclude NDPBs retaining more funds than are required for its immediate needs. Treasury accounting rules also preclude the accruing of any grant-in-aid receivable to cover liabilities that are payable in the next accounting period. As a result, the grant-in-aid paid in any year may contribute to a surplus or deficit of income over expenditure as appropriate. Any surplus or deficit will be taken into account in the funding of the following year's grant-in-aid.

These accounts reflect liabilities that have been incurred as a consequence of the decision to close Spring Place in preparation for the merger with Ofsted and costs will be funded through grant-in-aid. These accounts are therefore prepared on a going concern basis for 2005-06.

The Inspectorate confirms that government grants received from both the DfES and DWP have been used only for their approved purposes.

iii) Value Added Tax (VAT)

The ALI engages in the provision of inspection activities, which are VAT exempt, and inspection-related consultancy work, which is classed as taxable supplies.

Inspection services of any kind carried out in the education and training sector fall within the scope of the exemption for examination services under item 3 of Group 6 to Schedule 9 of the VAT Act 1994. The ALI qualifies as exempt from VAT for these services as an eligible body defined in Note (1)(d) of Group 6.

For inspection-related consultancy work, the Inspectorate is a VAT registered entity, and raises VAT-inclusive sales invoices.

VAT costs are included in each expenditure category and are not identified separately in the accounts.

iv) Staff bonus payments

The ALI has accrued for the 2005-06 staff bonus in the 2005-06 accounts in line with the financial accruals concept. Bonuses have previously been accounted for in the year in which the cash payment was made to the employee.

This is a change to the ALI's accounting policy on bonus payments and has been approved by the ALI's Board and the NAO.

v) Pension costs

All employees of the ALI (other than those on casual contracts) are entitled to be members of the Principal Civil Service Pension Scheme (PCSPS). The conditions of the Superannuation Acts 1965 and 1972, and subsequent amendments, apply to the employees of the ALI. Costs of the ALI's contributions are charged to the Income and Expenditure Account in the year in which they are incurred. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Contributions are paid to the PCSPS at rates determined from time to time by the Government Actuary and advised by the Treasury.

vi) Operating leases

Rental payable in respect of operating leases is charged on a straight-line basis to the Income and Expenditure account over the lease term, even if the payments are not made on that basis.

vii) Fixed assets and depreciation

Following the decision to merge the ALI with Ofsted from 1 April 2007, the decision has been made to close Spring Place. As a consequence the building refurbishment conducted at Spring Place will have a revised useful economic life to 31 March 2007. The 2005-06 annual accounts therefore include accelerated depreciation, as shown in note 7, to recognise the revised life of the Spring Place building refurbishment. The 2006-07 accounts will include only one year's depreciation relating to building refurbishment at Spring Place.

Expenditure on the acquisition of tangible and intangible assets is capitalised where these costs exceed £2,500 or where an asset forms part of a larger group that in total is more than £2,500.

Depreciation is provided on intangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

- IT software licences - 3 years or 31 March 2007 whichever is the sooner.

Depreciation is also provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

- Spring Place refurbishment – to 31 March 2007
- office furniture – 3 years
- office equipment – 3 years
- Spring Place IT equipment (hardware and software) – 3 years
- Inspector home furniture and IT equipment – 3 years.

Depreciation is calculated on a monthly basis and is charged from the month of acquisition. No depreciation is charged in the month of disposal.

viii) Notional costs

Following the Treasury guidance on NDPBs' Annual Reports and Accounts, which requires NDPBs to disclose the full cost of their activities, the ALI has included charges for the notional cost of capital.

The Income and Expenditure Account result for the year is arrived at after charging a notional cost of capital calculated at 3.5 per cent (2004-05, 3.5 per cent) of total assets, less current liabilities.

Note 2(a). Grant income

The following note shows grant-in-aid received by the ALI for the year to 31 March 2006.

	Year ended 31 March 2006		Year ended 31 March 2005	
	Grant received from DfES/DWP £000s	Allocation of grant £000s	Grant received from DfES/DWP £000s	Allocation of grant £000s
Grant-in-aid income	25,830	25,830	26,655	26,655
Transferred to Government Capital Grant Reserve (Note 13)	–	(480)	–	(666)
	25,830	25,350	26,655	25,989

Note 2 (b). Analysis of other operating income

	2005-06 £000s	2004-05 £000s
Income from commercial inspection activities	906	1,561
Cost recovery of ALI staff working with partners	83	266
Share of rebates earned by third party supplier	–	33
Income from nominee conferences/ other	18	50
	1,007	1,910

In 2005-06 the ALI continued commissioned inspection activity, carrying out work for government departments and private UK companies on a cost-recovery basis. Significant contracts were delivered for, among others, the Ministry of Defence, Offenders' Learning and Skills Unit and the Home Office.

	UK 2005-06 £000s	UK 2004-05 £000s	Overseas 2005-06 £000s	Overseas 2004-05 £000s	Total 2005-06 £000s	Total 2004-05 £000s
Commercial income	906	1,541	–	20	906	1,561
Inspector fees and salaries	437	627	–	7	437	634
Travel and subsistence	69	155	–	3	69	158
Overheads	342	724	–	10	342	734
Capital charge	20	30	–	2	20	32
Total costs	868	1,536	–	22	868	1,558
Surplus/(deficit)	38	5	–	(2)	38	3

This analysis conforms to The Treasury's *The Fees and Charges Guide* and is not intended to comply with SSAP25, *Segmental Reporting*.

Note 3. Employees

(a) Employee costs

The total costs of employees (including the Chief Inspector) of the ALI and temporary agency staff during the period to 31 March 2006 were:

	2005-06 £000s	2004-05 £000s
Salaries and wages	11,798	11,228
Social security costs	1,179	1,140
Pension costs	2,215	1,646
Temporary agency staff	122	235
Total costs of employees	15,314	14,249
Recoveries of costs of secondees to partners	(81)	(257)
Net costs of employees	15,233	13,992

These costs exclude fees paid to associate inspectors who are not employees of the ALI.

As noted in 3(b) below, a number of ALI employees were seconded to partners during the year. The total costs of employees shown above include costs of £81,000 (2004-05, £257,000) subsequently recovered from partners in respect of salaries, NI and pension contributions. This income is also shown in 2(b) above and the remaining income covers other non-payroll expenses incurred on behalf of the partners.

Further to note 1(iv) of the accounting policies the ALI has approved £525,000 for the 2005-06 staff bonus, which appears on the salaries and wages line.

As also noted in 3(b) below, two people were seconded from partners in industry. The costs incurred in relation to these secondments during the year amounted to £99,000 (2004-05, £28,000). These costs are included in the staff costs in 3(a) above.

(b) Employee numbers

The average number of employees during the year expressed as full-time equivalents was:

	2005-06	2004-05
Directors and Assistant directors	7	7
Inspection managers	13	13
Inspectors	108	110
PDU advisers	5	13
Excalibur	15	11
Inspection support	30	34
Office support	61	66
Secondments from partners in industry	2	1
Total average number of employees	241	255

In addition to these employees, an average of one (2004-05, four) inspector was seconded to partner organisations.

Included in the above staff numbers are four (2004-05, three) full-time equivalent (FTE) staff on short-term contracts. Their salaries are included in the table in 3(a).

As well as normal operating variations, the totals are influenced by variations in the number of positions filled by temporary staff or consultants.

Note 4a. Inspection costs

	2005-06	2004-05
	£000s	£000s
Fees paid to associate inspectors	2,607	4,127
NIC paid on fees paid to associates	311	488
Inspection expenses	1,810	2,405
Total inspection costs	4,728	7,020

Note 4b. Other costs

	2005-06 £000s	2004-05 £000s
Board members' emoluments	10	10
Travel, subsistence & hospitality		
Board	23	24
Employees	889	909
Courses, conference, venues	950	1,058
Office supplies and services	754	553
Telephones and ICT	880	862
Premises and equipment	640	634
Recruitment and advertising	30	107
Other professional charges	436	1,003
Charges for vehicle and equipment leases	521	527
Consultancy fees	642	420
Staff welfare and relocation	146	170
External auditors' remuneration	31	31
Bank charges	2	2
Total other costs	5,954	6,310

Note 5. Board members' emoluments*(a) Total emoluments received by Board members*

The total emoluments, including non-consolidated bonus received by the Chair and Chief Inspector in the year to 31 March 2006, excluding out of pocket expenses, were £176,947 (2004-05, £161,627). Board members other than the Chair and Chief Inspector were neither paid nor were entitled to any emoluments.

(b) Emoluments of the Chair

Richard Handover, Chair, has received £10,044 (2004-05, £9,768) in the year to 31 March 2006. The Chair receives no bonuses or taxable benefits, and no pension contributions are payable on his behalf.

(c) Emoluments of other Board members

Details of the emoluments of the Chair are set out above. Details of non-taxable travel and subsistence payments made to Board members are shown in note 4 on other costs.

A total of nine members (2004-05, nine) submitted claims for non-taxable travel and subsistence payments during the year. These amounted to £18,000 (2004-05, £11,000) in total. The balance of expenditure shown in note 4 relates to expenditure where payments were made directly to suppliers for goods or services to enable members to carry out their duties.

During the year to 31 March 2006, no monies were paid to third parties on behalf of Board members (2004-05, £nil) in respect of their services.

Note 6. Intangible fixed assets

	IT software licences £000s
Cost or valuation	
At 1 April 2005	250
Additions	82
Disposals	–
Revaluation	(12)
As at 31 March 2006	320
Depreciation	
At 1 April 2005	86
Charge for the year	100
Change in useful economic life	–
Disposals	–
Revaluation	(6)
As at 31 March 2006	180
Net book value at 31 March 2006	140
Net book value at 31 March 2005	164

Note 7. Tangible fixed assets

	ICT £000s	Furniture £000s	Refurbishment £000s	Total £000s
Cost or valuation				
At 1 April 2005	1,677	535	1,219	3,431
Additions	388	10	–	398
Disposals	(264)	(4)	–	(268)
Revaluation:				
to income and expenditure	(42)	–	–	(42)
to government capital grants reserve	–	2	58	60
As at 31 March 2006	1,759	543	1,277	3,579
Depreciation				
At 1 April 2005	1,097	423	453	1,973
Charge for the year	377	52	162	591
Change in useful economic life	–	–	403	403
Eliminated on disposals	(257)	(4)	–	(261)
Revaluation:				
to income and expenditure	(21)	–	–	(21)
to government capital grants reserve	–	1	1	2
As at 31 March 2006	1,196	472	1,019	2,687
Net book value at 31 March 2006	563	71	258	892
Net book value at 31 March 2005	580	112	766	1,458

Following a decision in the year to close Spring Place within the next financial year, a change in the economic life has been made for Spring Place refurbishment costs. An additional charge of £403,000 has been recognised in the year in relation to this change.

Building refurbishment costs, office equipment/furniture and ICT hardware and software costs were revalued by comparing average indices for the year of purchase with those for the financial year. Indices were drawn from the Office of National Statistics publication *Price Index Numbers for Current Cost Accounting (MM17)*.

Note 8. Debtors: amounts falling due within one year

	31 March 2006	31 March 2005
	£000s	£000s
Trade debtors	302	124
Accrued income	1	4
Other debtors	147	118
Prepayments	416	492
Total debtors: amounts falling due within one year	866	738

Note 9. Cash balances

	31 March 2006	31 March 2005
	£000s	£000s
Total cash held in the Paymaster General's account as at 31 March 2006	275	1,218

On 31 March 2005 the DfES paid the ALI £984,000 in advance for 2005-06. The working cash balance, excluding this advance payment, was £234,000.

Note 10. Creditors: amounts falling due within one year

	31 March 2006	31 March 2005
	£000s	£000s
Trade creditors	596	835
VAT creditor	14	–
Income tax and social security creditor	435	465
Other creditors	43	379
DfES deferred grant-in-aid	–	984
Rent creditor	34	34
Accruals and deferred income	1,223	737
Total creditors: amounts falling due within one year	2,345	3,434

Note 11. Provisions for liabilities and charges

	31 March 2006 £000s	31 March 2005 £000s
Provisions at 1 April 2005	53	64
Utilisation of provision for legal claims	(51)	(10)
Payment for early retirement costs	–	(32)
Release of balance of income tax and NI provision/pension provision	(2)	(2)
Increase in provision for legal claims	–	33
Provision for compulsory redundancy	2,687	–
Total provisions for liabilities and charges as at 31 March 2006	2,687	53
Allocated as follows:		
Provision for legal claims	–	53
Provision for compulsory redundancy	2,687	–
Total provisions for liabilities and charges as at 31 March 2006	2,687	53

A provision amounting to £2,687,000 has been included to recognise the compulsory redundancies which will be incurred on 31 March 2007 as a consequence of the closure of Spring Place, the ALI's national administration centre.

Note 12. Long-term creditor

	31 March 2006 £000s	31 March 2005 £000s
Creditor due within one year (see note 10)	34	34
Long-term creditor	102	136
Total creditor in respect of rent	136	170

Note 13. Government capital grants reserve

		31 March 2006	31 March 2005
	note	£000s	£000s
Balance at 1 April 2005		1,622	1,830
Allocated from grant-in-aid	2	480	666
Additional capital grant received from local authority		–	1
Released to income and expenditure account		(1,121)	(943)
Released to general reserve in respect of disposal	14	(7)	(4)
Surplus on revaluation	7	60	125
Additional depreciation on revaluation	7	(2)	(53)
Balance as at 31 March 2006		1,032	1,622

The balance on the account represents grant-in-aid funding used to finance the purchase of the ALI's fixed assets. A proportion is transferred to the Income and Expenditure Account over the useful economic life of the relevant assets, to offset the depreciation charge based on historical cost on those assets.

Note 14. General reserve: reconciliation in movement of government funds

	31 March 2006	31 March 2005
	£000s	£000s
Balance at 1 April 2005	(1,667)	(1,988)
Retained (deficit)/surplus for the year	(2,333)	317
Released from government capital grants reserve in respect of disposal	7	4
Balance as at 31 March 2006	(3,993)	(1,667)

Note 15. Leases and hire purchase agreements

At 31 March 2006, the ALI had the following commitments to make payments within the next 12 months for operating leases:

	31 March 2006 £000s	31 March 2005 £000s
Land and buildings		
Operating leases which expire:		
Within one year	–	–
Between one and five years	–	–
After more than five years	364	364
Other operating leases		
Operating leases which expire:		
Within one year	192	284
Between one and five years	190	287
After more than five years	–	–

Note 16. Financial commitments at the end of the period

Commitments under operating leases are set out in note 15 above.

At 31 March 2006 the ALI had £nil (2004-05, £nil) capital commitments.

Note 17. Statement of losses and special payments

The ALI has delegated authority, under the terms of its Financial Memorandum with the DfES signed on 10 February 2004, to write off individual losses up to a value of £5,000, subject to an annual limit of £25,000. The ALI also has the delegated authority to make individual ex-gratia payments up to a value of £10,000, subject to an annual limit of £50,000. Above these levels the ALI must seek approval from the DfES to write off losses and to make ex-gratia payments.

There were £nil losses (2004-05, £nil) requiring approval from the DfES.

Note 18. Reconciliation of operating deficit/surplus to movements in net funds

	2005-06	2004-05
	£000s	£000s
Operating (deficit)/surplus for the period	(2,333)	319
Transfer from deferred government capital grants/reserves	(1,121)	(943)
Add:		
Depreciation on intangible fixed assets	100	73
Depreciation on tangible fixed assets	994	724
Loss on revaluation of assets	27	145
Notional cost of capital	6	2
(Increase) in debtors	(129)	(118)
Increase in creditors	1,547	901
Decrease in long-term creditors	(34)	(34)
Receipts from sale of fixed assets	–	–
Net cash (outflow)/inflow	(943)	1,069

Reconciliation of net cash flow to movement in net funds

Net funds at 1 April 2005	1,218	149
Net funds at 31 March 2006	275	1,218
	(943)	1,069

Note 19. Pensions

The PCSPS is an unfunded multi-employer defined benefit scheme, but the ALI is unable to identify its share of the underlying assets and liabilities. The scheme actuary last valued the scheme at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

From 1 October 2002, employees may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good-quality 'money purchase' stakeholder-based arrangement with a significant employer contribution (partnership pension account).

Classic scheme

Benefits accrue at the rate of 1/80th of pensionable pay for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Premium scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service, or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths of the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them from undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic plus scheme

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

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

Partnership pension account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute, but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25 per cent of the fund as a lump sum.

From 1 April 2004, employers' contributions were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands up to 30 September 2003. From 1 October 2003 contributions were payable at the rates appropriate to each employee's membership of the four new schemes described above. From 1 April 2005 employers' contributions increased to a range of between 16.2 per cent and 24.6 per cent dependent on salary band and from 1 April 2006 will increase further to a range between 17.1 per cent and 25.5 per cent. For 2005-06 total employers' contributions of £2,215,000 (2005, £1,646,000) were payable to the PCSPS in respect of all schemes in operation during the year.

Pension aggregation

Employees who have left the pension scheme and wish to rejoin have the option of keeping the two periods of service separate, or can choose to join the two periods of service together. Option choices can be made up until retirement.

Retirement age

Employment with the ALI will terminate at the end of the month in which employees reach the age of 65, or 40 years' pensionable service provided employees have reached 60 years of age. If the employee or the ALI wish their employment to continue beyond this date, their continued employment will be subject to business need, medical and risk assessment, and the terms of the pension scheme.

One (2004-05, two) employee has not joined the PCSPS. No payments have been made on their behalf

into any other pension scheme. All other employees are members of one of the four schemes (Classic, Premium, Classic plus and partnership pension account) described above.

Note 20. Contingent liabilities

A number of potential claims arise out of the merger to form the Office for Standards in Education, Children's Services and Skills, the outcome of which cannot at present be stated with certainty. Further information on the nature of the contingent liability is not given as it may prejudice the ALI's position with other parties. Full provision will be made in the financial statements when the extent of the liability is known with reasonable certainty.

Note 21. Related party transactions and connected bodies

The ALI is sponsored by the DfES and the DWP, which are regarded as related parties.

The ALI also had various material transactions with the Offenders' Learning and Skills Unit (OLSU), Ufi **learn**direct, and the Adult Basic Skills Strategy Unit (ABSSU), all being entities for which the DfES is regarded as the parent department. These transactions relate to inspections carried out during the normal course of business.

During the year, the ALI had similar material transactions with the following public bodies:

Office for Standards in Education (Ofsted), Department for Work and Pensions (Jobcentre Plus), Ministry of Defence, Home Office (Her Majesty's Prison Service and Inspectorate of Constabulary), Local Education Authorities, and the Department of Health.

The following Board members had related party transactions, in that they held appointments with organisations which were directly or indirectly related to providers where the ALI carried out inspections or reinspections in the normal course of business:

Philip Candy, National Director, Education Training and Development (ETD), NHS Connecting for Health

North Staffordshire Combined Healthcare NHS Trust
Barnsley Hospital NHS Foundation
Northern & Yorkshire NHS Assessment Centre
Walsall Hospital NHS Trust
The Royal Wolverhampton Hospitals NHS Trust

Professor Paulene Collins OBE, Director of Quality Assurance, College of Law

Shropshire County Council County Training
Walford and North Shropshire College
North Staffordshire Combined Healthcare NHS Trust

David Croll, Principal and Chief Executive, Derby College

Derby LEA Reinspection
Connexions Derbyshire Limited
Derby College

Richard Handover, Chair, Adult Learning Inspectorate

Chair of Strategy Board constituted to create the new organisation which will replace the ALI, Ofsted, CSCI and the Children and Family Court Advisory and Support Service (CAFCASS).

Peter McKee, Chief Executive Officer, TRL Electronics plc and Managing Director, TRL Technology Ltd

Stanmore College

Elaine Nicholls, HR Director of Matthew Boulton College of Further and Higher Education

Matthew Boulton College of Further and Higher Education
Birmingham Women's Health Care NHS Trust (until October 2005)

David Sherlock CBE, Chief Inspector, Adult Learning Inspectorate

Advisory Committee member on the MoD Defence Education & Skills Advisory Board

Chris Trinick, Chief Executive, Lancashire County Council

University of Central Lancashire
Lancashire County Council Reinspection
North Lancashire Training Group
Preston College

No other Board member, key manager or other related party had been involved in any material transactions with the ALI during the year ended 31 March 2006.

Note 22. Key financial targets

The *Accounts Direction* requires that the notes to the accounts include details of the key corporate financial targets set by the Minister, together with the performance achieved. The ALI's annual business plan is submitted to the Minister for approval and includes a range of financial targets as part of the key performance indicators.

The cost per inspection day in 2005-06 was £1,086 (2004-05, £875) against a target of £1,035 (2004-05, £918). The actual costs are 4.9 per cent above target, reflecting fewer than budgeted inspection days being delivered.

The ratio of support staffing as a percentage of total establishment staff was 15.2 per cent (2004-05, 15.3 per cent) against a target of 16.5 per cent (2004-05, 16.5 per cent). This slight decrease reflects the number of vacancies not filled in 2005-06 in response to the staff savings required for 2005-06 and beyond.

The cost of support services as a percentage of overheads was 20.2 per cent (2004-05, 19.1 per cent), compared with a target of 20.5 per cent (2004-05, 19.7 per cent).

Note 23. Financial instruments (FRS13)

The ALI has no borrowings and relies primarily on departmental grants for its cash requirements. It is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling. It is not exposed to interest rate risk or currency risk.



Glossary of terms

ABSSU	Adult Basic Skills Strategy Unit	LSC	Learning and Skills Council
ALI	Adult Learning Inspectorate	LSDA	Learning and Skills Development Agency
CAFCASS	The Children and Family Court Advisory and Support Service	NAO	National Audit Office
CETV	Cash equivalent transfer value	NIC/NI	National Insurance Contributions/National Insurance
CSCI	Commission for Social Care Inspection	NDPB	Non-departmental Public Body
DfES	Department for Education and Skills	Ofsted	Office for Standards in Education
DWP	Department for Work and Pensions	OLSU	Offenders Learning and Skills Unit
EFQM	European Foundation for Quality Management	PCSPS	Principal Civil Service Pension Scheme
FEFC	Further Education Funding Council	PDU	Provider Development Unit
FRS	Financial Reporting Standard	SSAP	Statement of standard accounting practice
FTE	Full time equivalent	TSC	Training Standards Council
IAM	Institute of Advanced Motorists	Ufi	University for Industry
ICT	Information and communications technology	VAT	Value Added Tax
liE	Investors in Excellence		
liP	Investors in People		
JCC	Joint Consultative Committee		

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