

 For information

The Learning and Skills Council's
Annual Report and Accounts
for 2009–10

09.10

The Learning and Skills Council's Annual Report and Accounts for 2009–10

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of the Learning and Skills Act 2000

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Chairman's Statement



Looking back at the nine years of the Learning and Skills Council (LSC), I feel very heartened that the world of post-16 education in England has been transformed – not just by one organisation but by everyone in the lifelong learning sector.

To be Chairman of the LSC has been an enormous privilege, not just because of the sense of responsibility which comes from the mission to improve people's life prospects and contribute to the health of the economy through skills, but also from being associated with the great endeavour in which my colleagues around the country have been engaged.

People ask me what the LSC has achieved since it was established in 2001. In response, I would say that the achievements, which have been many, are not just ours but are the result of the expertise and dedication of many thousands of people.

Since the inception of the LSC, our total expenditure has amounted to more than £86 billion, of which £47 billion has been for young people, nearly £26 billion for adults and more than £13 billion on other joint projects.

These figures represent the participation of more than 7 million young people and 27 million adults over the age of 19 in LSC-funded programmes between 2002 and 2009 alone.

Despite the well-publicised problems in managing demand for the capital programme, the LSC approved 855 capital projects in detail – to a value of more than £7.2 billion – and provided approximately £4 billion of funding. These are big numbers but the real manifestation of this activity can be seen in the transformation of campuses across the country. The capital investment resulted in the refurbishment or replacement of half of England's entire college estate.

Our chief contribution to the country, though, has been to create a consistent approach to the delivery of further education that previously had not been possible.

The funding for which we were responsible has been used to invest in more than 34 million training places for young people and adults in England.

Of particular note is the record number of young people in education, recently underpinned by the expansion of the Education Maintenance Allowance (EMA) which now helps more than 600,000 young people.

We have also seen the renaissance of Apprenticeships; around 3 million adults have improved their basic skills in literacy and numeracy; and 1 million adults have achieved a qualification through Train to Gain.

Having been a member of the National Council of the LSC since its creation, I am pleased to say that we have delivered on our promises.

The vital part played by vocational training in the development of the individual and the economy was an important theme at our launch and later formed the basis of the 2007 Skills Campaign under the slogan *Our future. It's in our hands.*

Putting practical flesh on the bones of our philosophy, Train to Gain responded to some of the financial pressures which had previously prevented companies from investing in the skills of their workforce.

Bringing together the needs of the individual and the economy – and ensuring that all parts of the lifelong learning sector are working towards that goal – was the big idea on which the LSC came into existence in 2001. It has lived up to that aim.

Our legacy will be the development of the talent and the ethos which is continuing in the new bodies which succeed us – and we wish them every success.

The introduction of Train to Gain has seen training being taken up for more than 1.5 million qualifications since 2006. We recently celebrated the millionth learner, Chris Scott, a process operator at chemical manufacturer William Blythe Limited in Accrington.

Chris completed his NVQ at Level 2 in Business Improvement Techniques on 29 January this year. He is one of 62 people at the company to have completed a qualification through Train to Gain.

This comes on top of another achievement which is all too easy to forget: namely, the nearly 2.4 million adults in the workforce who gained a Level 2 (GCSE-equivalent) qualification and the 2.8 million adults who improved their basic skills between 2001 and 2008 – demonstrating our commitment to personal growth and development as well as skills for employment.

More than £1 billion a year of public money is spent on provision for people with learning difficulties and/or disabilities – and we have always regarded this group as a priority.

We now live in a country where eight in ten people will succeed in achieving the qualification they are working towards – this is a 20 per cent increase in success rates since 2001.

I have no doubt that these figures are the fruit of a better sector than that which existed before 2001. Ofsted inspected 113 colleges this year. It classed over 70 per cent as good or better. In the few which have yet to meet these standards, strong plans for improvement are in place.

Of course, the country benefits most from such improvement, socially and economically, if all sections of society are included. A modern economy cannot thrive if some people are left behind and are therefore unable to contribute fully.

For this reason, I am pleased to say that the LSC's contribution to equality has been exemplary. It was named as one of the 10 most-improved public sector organisations against the Race Equality Standard, achieving the Gold Award. It also achieved the Silver Award against the Disability Standard and Opportunity Now benchmarks.

Under the banner of Skills for Life, the strategy launched in 2001, more than 5.7 million people have been supported on 12 million courses to improve their literacy and numeracy. This includes the work we have done in the provision of English for speakers of other languages.

In conclusion, I believe the sector has provided successfully for learners of all abilities.

The hard work of the students and trainees for whom we have been responsible and their desire to re-invent themselves through skills training and find stimulation through academic study have contributed to a more self-confident, fairer and cohesive society than the one that existed when the LSC was first set up. That is a legacy to be proud of.



Christopher N Banks CBE
Chairman
Learning and Skills Council
19 July 2010

Chief Executive's Review



Progress does not happen unless people are prepared to move forward and embrace change. And change there has certainly been – the LSC, the largest ‘quango’ in the country, embraced the new and worked hard to ensure a smooth transition to the future arrangements for regulating and funding lifelong learning in England.

We have handed over to the new Skills Funding Agency, with responsibility for those aged 19 and over, and the Young People's Learning Agency (YPLA), which will have responsibility for 16–18-year-olds. During the year the National Apprenticeship Service was also successfully launched. These changes will enable greater focus on adult learning needs and education and training for young people.

Having been appointed Chief Executive of the new Skills Funding Agency, I know that it will work very closely indeed with the YPLA and local authorities to ensure continuity for our customers. The scope of each of the new organisations brought about by the Machinery of Government changes may be very different, but they will co-operate in a variety of areas that are crucial to learners and employers. We spent the latter half of the year running the new organisations on a ‘shadow’ basis and this has allowed us to both work out the kinks and build the necessary bridges among the parties.

Preparing for the new landscape has been an enormous task. I have been struck by the professionalism displayed by all our people in accomplishing what frankly many did not believe could be done. Building the new organisations, transitioning 3,200 people to more than 150 different bodies, delivering another year of strong performance against our educational goals and managing the excess demand issues while operating in an environment of political uncertainty was extraordinarily difficult. Staff set aside the unknowns that they faced on a personal level, ensured that we met our responsibility to deliver and provided the best possible handover into the new arrangements. Many staff also worked tirelessly in dealing with major demand management issues that were both remarkably challenging and highly scrutinised by the sector and Whitehall alike.

So it is with both delight and some relief that I can give my profound thanks to each and every one of the LSC's staff for their hard work and determination to succeed. I would especially like to acknowledge the support of Chris Banks, our Chairman; David Cragg, interim Chief Executive of the Skills Funding Agency; Peter Lauener, Chief Executive of the YPLA; Simon Waugh, Chief Executive of the National Apprenticeship Service; Chris Roberts, Chief Operating Officer at the LSC; David Hughes, for his work on capital and funding; and Sally Stewart, for ensuring that we preserved the talent that the LSC has built up over the years.

However, the LSC was not alone in facing difficult tasks. Our work was carried out in the midst of the worst recession in generations and this meant that the sector had major challenges of its own. Our people worked closely to understand and respond to these issues but, inevitably, we had to respond by making funding decisions on the basis of prioritised need – including, of course, in the difficult area of college capital.

Looking forward, we know that the economic climate is going to be extremely tough for some period of time and, as the public would rightly expect, our paymasters in government will want to ensure that the further education (FE) sector is providing maximum value for money.

This means being very clear about assessing the effect we have on increasing productivity through the raising of skills levels in the workplace – as well as helping those who are yet to enter employment. It also means ensuring that we remember our role in promoting social cohesion and encouraging older people to learn. It involves doing what we can to continue to support the best provision for those who learn for personal intellectual stimulation.

In the context of these difficulties, there can be even less doubt about the FE sector's resilience.

Its unswerving focus on learners and its ability to manage change will continue to pay dividends as it faces the challenges presented by the current economic climate. The sector will, I have no doubt, be one of the leading engines of recovery.

In summary, it has been a tough but rewarding year for the LSC and the sector overall. Going forward, all of us must make sure that the tough times ahead are equally productive. Having said that, I truly believe that the sector's time has come. It has never been more responsive or of better quality and, with these attributes in place, it has never faced a greater opportunity to prove its worth. I have no doubt that it will do just that.



Geoffrey Russell
Chief Executive of Skills Funding,
Department for Business, Innovation
and Skills; and Accounting Officer
for the Learning and Skills Council
19 July 2010

About Us

Our national priorities for 2009–10 were:

- to increase the demand for learning and skills
- to transform the further education (FE) system to meet demand
- to deliver better skills, leading to better lives, and
- to ensure a smooth transition to the Skills Funding Agency and the Young People's Learning Agency (YPLA).

Our work

Since 2001, we have worked to make England better skilled and more competitive. We have worked locally, regionally and nationally to ensure that learning and skills are at the heart of local and regional economic development and community regeneration.

In partnership with local authorities, schools, colleges and providers, we have worked to deliver on a commitment to deliver effective and comprehensive learning for young people in every area.

From April 2010, this work continues through two national bodies. The YPLA, a non-departmental public body of the Department for Education, supports local authorities in their new responsibilities for commissioning and funding 14–19 provision.

For adults, the Skills Funding Agency – an agency of the Department for Business, Innovation and Skills (BIS) – will ensure that public money is routed swiftly, efficiently and securely to FE colleges and providers in line with the purchasing decisions of customers through demand-led mechanisms.

Our Targets and Achievements

In the last year we have continued to contribute to a sustained rise in numbers of learners and overall qualification levels, as well as maintaining improvements in standards across further education. We have invested £13.2 billion of taxpayers' money in education and training.

Area	Target/key indicator	Achievement
Age 19 – Level 2 achievement	Increase the proportion of young people achieving Level 2 at age 19 to 82 per cent by 2010/11*	In progress 78.7 per cent in 2009
Age 19 – Level 3 achievement	Increase the proportion of young people achieving Level 3 at age 19 to 54 per cent by 2010/11*	In progress 51.4 per cent in 2009
Adults – Level 2 achievement	79 per cent of working age adults achieving at least full Level 2 qualification by 2010/11*	In progress 75.6 per cent in 2009**
Adults – Level 3 achievement	56 per cent of working age adults achieving at least full Level 2 qualification by 2010/11*	In progress 55.9 per cent in 2009**
FE college success rate indicator	FE college success rates to be 80 per cent by 2010/11	Target achieved early 80.8 per cent in 2008/09
Apprenticeship completion success rate indicator	An Apprenticeship completion success rate target of 65 per cent in 2008/09	Target achieved 70.9 per cent in 2008/09
Number of Apprenticeship frameworks completed	130,000 apprentices to complete the full Apprenticeship framework by 2010/11*	Target achieved early 143,400 framework achievements were recorded in 2008/09
Skills for Life	597,000 people of working age to achieve a first full Level 1 or above literacy qualification by 2010/11* and 390,000 people of working age to achieve a first entry Level 3 or above numeracy qualification by 2010/11*	In progress 236,400 people in 2008/09 44,000 people in 2008/09

*Public Service Agreement (PSA) target set by the Government.

**Estimates for 2009 are provisional and will be finalised in March 2011.

Sources: Department for Children, Schools and Families, SFR 06/2010, 18 March 2010 (Level 2/3 at 19); Data Service, SFR DS/SFR6, 25 March 2010

Investing in success

What we spent in total in 2009–10

Youth participation		£6,925.6m	52.5%
16–18 Learner Support (inc. EMA)		£690.8m	5.2%
Other youth non-participation		£102.8m	0.8%
16–18 capital		£212.8m	1.6%
Adult learner responsive		£1,777.3m	13.5%
Employer responsive		£1,265.2m	9.6%
Adult safeguarded learning		£210.9m	1.6%
Offender Learning		£140.5m	1.1%
19+ Learner Support		£121.1m	0.9%
Other adult non-participation		£222.5m	1.7%
19+ capital		£944.4m	7.2%
Other programmes*		£329.6m	2.5%
Administration**		£246.9m	1.9%
Total		£13,190.4m	100%

Note: Values and percentages have been rounded to aid presentation.

* 'Other programmes' includes non-departmental spending. Administration costs are net, and include sundry income.

** 'Administration' includes items related to Machinery of Government changes.

Management and Structure

The Learning and Skills Council (LSC) was established by the Learning and Skills Act 2000 to fund education and training for over-16s, except for higher education.

Management Group (until 31 March 2010)

We have been responsible to the Government for:

- raising participation and achievement by young people
- increasing adults' demand for learning
- raising skills levels for national competitiveness
- improving the quality of education and training delivery
- making sure opportunities are equal through improving access to learning
- improving the further education (FE) system's effectiveness and efficiency, and
- ensuring a smooth transition to the Skills Funding Agency and the YPLA.

We have been led and guided by the National Council and its committees, offering independent views and experience from across society, and raising issues that affect people, communities and employers.

Geoffrey Russell
Chief Executive

Verity Bullough
National Director, Funding, Planning and Performance
Appointed National Director of Employer Services, Skills Funding Agency*

Margaret Coleman
Regional Director,
Yorkshire and the Humber

Mary Conneely
Regional Director,
Regeneration London
Appointed National Projects Director, Skills Funding Agency*

David Cragg OBE
Machinery of Government Transition Director
Interim Chief Executive, Skills Funding Agency*

Thomas Crompton
Regional Director,
East Midlands

Malcolm Gillespie
Regional Director,
South West

Simon Waugh
Chief Executive, National Apprenticeship Service

Paul Holme
Economic Response Director
Appointed Provider Services Divisional Director (North), Skills Funding Agency*

David Hughes
National Projects Director
Appointed National Director of College and Learning Provider Services, Skills Funding Agency*

John Korzeniewski
Regional Director,
North West

Jill Lowery
Regional Director,
London (interim)
Appointed Divisional Director for Provider Services (South), Skills Funding Agency*

Caroline Neville
Regional Director,
East of England

Marinos Paphitis
Regional Director, South East
Appointed Executive Director (South), Skills Funding Agency**

Chris Roberts
Chief Operating Officer
Appointed Executive Director (North), Skills Funding Agency**

David Russell
National Director, Finance and Resources
Appointed Strategic Director Finance, Funding and Corporate Services, Young People's Learning Agency*

Dorothy Smith
Regional Director, North East (interim)

Sally Stewart
National Director,
Human Resources
Appointed National Director of Human Resources, Skills Funding Agency*

David Way
Deputy Chief Executive,
National Apprenticeship Service

Rob Wye
National Director, Young People's Learning and Skills
Appointed Director of Strategy and Implementation, Young People's Learning Agency*

* Worked in shadow organisations from October 2009.

**Worked in new roles from January 2010.

National Council (until 31 March 2010)

The National Council has been responsible for overseeing policy and decision-making, while day-to-day management has been the responsibility of the Chief Executive and the Management Group.

Chairman

Christopher N Banks CBE
Chairman, Learning and Skills Council and Chief Executive, Big Thoughts Ltd

Members

Gareth Cadwallader
Chairman,
Sophrosyne Ventures LLP

John Cridland CBE
Deputy Director-General,
CBI

Ian Ferguson CBE
Chairman,
Data Connection Ltd

Margaret Galliers CBE
Principal,
Leicester College

Bryan Gray CBE
(stepped down August 2009)
Chairman,
Northwest Regional
Development Agency

Sir Deian Hopkin
(stepped down June 2009)
Former Vice Chancellor,
London South Bank
University

Sally Hopson MBE
Retail and People Director,
Pets at Home

Robert Hough
(joined August 2009)
Chair,
Northwest Regional
Development Agency

Claire Ighodaro CBE
Former Finance Director,
BT Broadband

Dame Mary Marsh
Director,
Clare Social Leadership

Frances O'Grady
Deputy General Secretary,
Trades Union Congress

Emma Pearson-Winstone
Learner Representative
Chair, National Learner Panel

Geoffrey Russell
(joined March 2009)
Chief Executive, Learning
and Skills Council

Mark Sanders
Chief Executive,
Bury Metropolitan Borough
Council

Malcolm Trobe
President,
Association of School and
College Leaders

Les Walton OBE
(joined July 2009)
Chair (designate) of Young
People's Learning Agency

Jill Youds
Director of Talent and
Learning,
Virgin Media

Special advisers

John Merry CBE
Leader, Salford Council

Sir George Sweeney
Former Principal, Knowsley
Community College

Other committees

- Adult Skills and Apprenticeships Committee
- Appointments Committee
- Audit Committee
- Capital Committee
- Chair's Committee
- Equality and Diversity Committee
- Remuneration Committee
- Reorganisation Committee, and
- Young People's Learning Agency Committee.

Taking Care of Our People

To meet our goal of building the nation's skills base, it was essential that our own staff had the knowledge and skills needed to help us deliver our ambitious plans, as well as supporting them to prepare for the Machinery of Government transition.

Development and training

In 2009–10, a key focus was preparing our staff for the Machinery of Government changes, with many staff needing to adapt to new roles and responsibilities and the associated knowledge and skills. We continued our emphasis on accredited development programmes that increase business and management skills, as well as continuing to focus on performance improvement.

Key programmes over the last year included:

- the development and delivery of a corporate learning and development programme that focuses on transition, knowledge and skills acquisition and improved performance
- continued work to help embed the Oracle Human Resources (HR) system, providing staff and managers with direct access to the information they needed
- the rollout of a new and successful Maximising Your Potential transition programme, and
- the final cohorts in our Introduction to Management and ProActive management development programmes, leading to Level 3 and Level 5 qualifications.

Our aim has been to provide a flexible approach to development that has met key business requirements and ensured that our staff have had the knowledge and skills to perform effectively. In addition to workshops and courses across the country, we have offered a range of more than 200 online materials and courses in association with Ashridge Business School and SkillSoft. These have allowed staff to learn at work or at home and to progress at their own pace. We continued to demonstrate our commitment to up-skilling our staff by monitoring attainment against the Skills Pledge and building on existing good practice to maintain our Investors in People corporate accreditation, achieved in March 2008.

Learning and development managers and union learning representatives have worked closely with the business to drive up the performance of our people through a robust performance management and review process. We believe in continuous improvement, and introduced an evaluation and review framework so that we could measure the success of our Programmes through our online learner management system.

Communication and consultation

Employee communications were an integral part of business planning. We aimed for clear and consistent messages; made sure that communications were properly targeted, relevant and fit for purpose; and listened to feedback and acted on it. We communicated on every aspect of our business and performance to our staff. We used a range of communication tools, including the weekly staff bulletin, management cascade briefings and notes, as well as a dedicated intranet site that contained key information on HR policies and procedures. To help deal with common queries and particular HR or management issues, we had a central HR telephone service and online toolkits for managers and employees to explain key HR areas. We worked closely with the Public and Commercial Services union (PCS), the recognised trade union that represented our staff, meeting them regularly to discuss a range of subjects. We continued to be committed to building on the positive partnership approach with the PCS at both national and local level. The Open Forum, an employee information and consultative framework, had groups operating at local and national level, and was a further mechanism for management to have direct contact with staff. It was designed to complement the existing channels of communication that we had with the PCS. Our aim was to be open and transparent in all of our communications, and to respond positively to queries.

Our Working Practices

Stakeholder communications

The LSC has worked effectively with a large number of partners and stakeholders, based on two-way communication and an open and transparent approach.

Colleges and training providers

In the last year, we have worked alongside all LSC-funded providers to ensure that they are informed about – and involved in – our programmes and the policy decisions behind them.

Through close working with the FE Reputation Group and the FE Communications Gateway Panel, we have ensured more effective provider communications to providers, provider groups and the FE sector as whole.

We have enjoyed good working relationships and offered support and guidance in joint activities to individual providers as well as to provider representative groups.

Employers

Our relationship with employers became increasingly important, reflected in the time and effort taken to develop effective channels and communications and share ideas and approaches.

Employer engagement continues through the dedicated National Employer Service, and with other employers through programmes such as the National Apprenticeship Service and Train to Gain.

Our staff worked with employers at a national, regional and local level, and maintained one-to-one relationships with key employers and organisations that represent them.

We had regular meetings with groups such as the CBI, the Institute of Directors, the British Chambers of Commerce and the Federation of Small Businesses, and attended and spoke at relevant employer conferences and seminars. We also regularly consulted with employers on key areas of learning and skills delivery.

Third sector

We worked closely with a range of third sector stakeholders, as providers and employers and as a source of expertise and valuable feedback on learning and skills delivery, particularly to underrepresented and disadvantaged groups.

Opinion formers

We have maintained regular contact with a small number of individuals who have been identified as being particularly interested in our work. Communication with business and education leaders, politicians and representative groups was through small discussion forums and seminars, face-to-face meetings and specialist newsletters.

Learners

Learners played an integral role in how we shaped our work, our policies and our approach. Advice was sought through the National Learner Panel, which acted as the voice of the learner. The panel was made up of independent volunteers involved in all aspects of FE, giving learners a voice at national level.

Other partners

We worked with a range of delivery partners in different sectors.

Equality and diversity

As a public sector organisation, promoting equal opportunities has been one of our core responsibilities – both in the way we treat our own staff and in the standards that we apply to and demand of the learning and skills sector. We have had a statutory duty to report annually on our actions and progress towards equality and diversity.

Our Single Equality Scheme was published in 2007, placing the commitment to equality and diversity at the heart of everything we do. In 2008–09 we commissioned an external review of our progress. The findings from the review indicated that the LSC has been at the forefront of addressing equality and diversity, has been perceived as a good role model in the learning and skills sector and has had significant impact and influence.

We have had in place a comprehensive approach to equality impact assessment, completing initial screenings of over 100 business policies, including HR policies. We have published full assessments on several of our key programme policy areas.

The LSC workforce

As part of the Single Equality Scheme, we set ourselves a number of workforce equality goals which have aimed to make our workforce more representative. We have made substantial progress, particularly in the proportional representation of women in senior roles (bands 4 and 5) – 49 per cent – and in the proportion of staff from black and minority ethnic backgrounds (bands 3, 4, and 5) – 10 per cent.

Following our recent impact assessment of the Machinery of Government transition process, we have confirmed that the proportions of these employees moving to the new organisations are comparable with those in the LSC workforce.

The LSC's approach and success were acknowledged in an article produced by the Equal Opportunities Review which highlighted the following.

- The independent evaluation of our Single Equality Scheme has shown that the LSC has been at the forefront of equality and diversity practice.
- Key factors that have contributed to its success are strong leadership, an active Equality and Diversity Committee, visible champions, an effective equality impact assessment framework and comprehensive monitoring systems.

Areas of weakness identified in the independent evaluation have been addressed by the LSC.

The LSC sought to identify best practice and address possible areas of concern, to act as a role model for the sector and to ensure that best practice would be embedded into the new organisations from April 2010.

The LSC's performance on workforce equality has also been recognised by a number of external benchmarks. The LSC was named as one of the 10 most-improved public sector organisations against the Race Equality Standard, achieving the Gold Award. The LSC has also achieved the Silver Award against the Disability Standard and Opportunity Now benchmarks. We were commended for our cohesive approach to diversity management.

As part of our proactive support for our employees, particularly during this year of transition, we have put in place several programmes such as health and well-being, a Respect toolkit, and an employee development programme which attracted over 1,000 employees.

Our commitment to the Mindful Employer Charter has been reviewed and our progress towards the objectives set has shown that we moved from commitment in some parts of the organisation to commitment in most parts of the organisation.

Environmental, social and community issues

The 'Doing Our Bit' initiative continued to highlight the importance of reducing waste, improving use of resources, supporting local communities and ensuring that there is sustainable development across all LSC activity. In March 2010, *Case Studies of Action to Support Sustainable Development from Around the LSC* was published to illustrate progress by highlighting some of the actions and projects from across the organisation (readingroom.lsc.gov.uk/lsc/National/Doing_Our_Bit_32pp.pdf).

The LSC has played a significant and important role in the development of the learning and skills of the nation. Note 3a to the accounts on page 55 shows the range of programmes that were funded in 2009–10.

LSC staff and their friends and families routinely took part in many charitable fund-raising events and were duly celebrated in in-house communications.

Risk Management and Financial Controls

A new process for risk management was developed following the appointment of a new Chief Executive for the LSC in early 2009. In May 2009, a new Performance and Risk Report was introduced. It replaced the previous Risk Advisory Group template and formed a key part of the new process. The report provided a means of monitoring key business activity and expenditure, reporting progress and risk and holding Senior Responsible Owners to account.

The Performance and Risk Report was developed over the year in response to feedback from users of the Report. All owners of the key risks were required to review the risks for which they were responsible and to provide details on how the risks were being mitigated. Changes were made to improve the co-ordination of the receipt of the risk templates and their subsequent analysis and inclusion in the Performance and Risk report.

In order to provide a focus for the early identification of risks, a horizon scanning process was introduced in mid-2009. All regional directors, national directors and other senior staff were required to submit a horizon scan of their area of responsibility on a fortnightly basis. To aid consistency, responses were co-ordinated by the same team that produced the

Performance and Risk Report and any relevant issues were incorporated into that Report. The collated report from all horizon scan submissions was shared with all senior staff and allowed the information gathered to inform discussions with partners and others.

Changes were made to the format of the reporting template to reflect handover arrangements to the new organisations that were created as a result of the Machinery of Government changes. Formal arrangements were also made to hand over the reported risks to individuals in the Young People's Learning Agency (YPLA) and the Skills Funding Agency as the two successor organisations.

The National Audit Committee continued to be responsible for providing the overarching challenge function and for seeking assurance that the risks were being managed effectively.

There was regular monthly reporting on risk matters, with all key risks being considered at the monthly Management Group meeting and at regular Department for Business, Innovation and Skills (BIS)/LSC review meetings. There were also regular reports provided to the National Audit Committee, the LSC, BIS and the Department for Children, Schools and Families (DCSF).

Management Commentary

Reporting of personal data-related incidents

The tables that follow have been prepared in response to Cabinet Office guidance (originally issued to the LSC via the Department for Universities, Innovation and Skills (DIUS) on 2 May 2008) on reporting personal data-related incidents in the management commentary section of departmental resource accounts.

Table 1: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office in 2009–10

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
May 2009	Loss arising from theft of personal data from vehicle	Learner's personal data	5	Notification to BIS, the Information Commissioner, police and the 5 individuals
Further information on information risk	The LSC continued to monitor and assess its information risks, in the light of the incident noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems.			

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office but recorded centrally within the department are set out in Table 2. Small, localised incidents are not recorded centrally and are not cited in these figures.

Table 2: Summary of other protected personal data-related incidents in 2009–10

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	Nil
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	Nil
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	Nil
IV	Unauthorised disclosure	Nil
V	Other	Nil

Financial commentary

Accounts direction and statutory background

1. These accounts have been prepared under an accounts direction issued by BIS in accordance with Schedule 1 to the Learning and Skills Act 2000 and the financial memorandum between the Department for Education and Skills and the LSC dated 8 May 2006, that is now under the authority of BIS.
2. The Apprenticeships, Skills, Children and Learning Act 2009 provided for the dissolution of the LSC and the transfer of functions, staff and property to the Young People's Learning Agency (YPLA), the Skills Funding Agency, Regional Development Agencies and local authorities.
3. This is the final set of accounts for the LSC, as 2009–10 was its final year of operation and it formally ceased operations on 31 March 2010.
4. Under Amendment Order SI 2010/1151, paragraph 14 of Schedule 1 to the Learning and Skills Act 2000 remains in force to ensure the preparation of final accounts for the LSC. The Chief Executive of Skills Funding has been given the responsibility for preparing these final accounts.

Going concern

5. The accounts have been prepared on the assumption that, under the conventions of Machinery of Government changes, the LSC's functions will continue in operational existence for the foreseeable future albeit through different delivery bodies.
6. The Statement of Financial Position at 31 March 2010 shows net liabilities of £86.5 million (2008–09: £164.3 million net liabilities). This reflects the inclusion of liabilities falling due in future years which will now be financed by the organisations that continue the functions of the LSC or by BIS.
7. Grant-in-aid for 2010–11, taking into account the amount required to meet the LSC's, Skills Funding Agency's and YPLA's liabilities falling due in the year, has already been included in the estimates of BIS and the Department for Education (DfE) for that year. These estimates have been approved by Parliament, and there is no reason to believe that the departments' future sponsorship and future Parliamentary approval will not be forthcoming.
8. Consequently, it is appropriate under the requirements of the Government Financial Reporting Manual to prepare this final set of accounts on a going concern basis.

Machinery of Government changes

9. The LSC ceased operation on 31 March 2010 as part of planned Machinery of Government changes. As a consequence, a provision of £36.9 million was established relating to the onerous lease costs of surplus properties. The remaining net book value of £3.7 million of fixtures and fittings in these buildings was charged to expenditure. £3.9 million was incurred buying out some employment benefits for individuals who transferred to local authorities as part of the Machinery of Government changes and a further £1.4 million was incurred for redundancies.
10. As noted above, the functions of the LSC have transferred into various organisations and, accordingly, a share of the assets, liabilities and reserves transfer also. Note 16 to the accounts shows how the final Statement of Financial Position of the LSC has been divided between the organisations that will take forward its functions.

Year-end position

11. The net book value of fixed assets at 31 March 2010 increased from £80.1 million to £91.8 million as the LSC continued to invest in the IT systems that will provide the platform for the delivery of programmes in the post-LSC landscape.
12. At 31 March 2010, the LSC had receivables of £240.5 million (31 March 2009: £248.9 million), reflecting a fall in the level of FE college debtors as the value of outstanding advances of funds contracted relative to last year.
13. At 31 March 2010, the LSC held cash balances of £151.0 million (31 March 2009: £111.3 million), including funds drawn from the European Social Fund (ESF) as well as grant-in-aid. BIS authorised a working balance of 1 per cent of the annual resource budget throughout each financial year. At 31 March 2010 the balance of BIS and DfE funds amounted to £7.3 million or 0.06 per cent (31 March 2009: 0.4 per cent) with the sharp reduction in value reflecting the clearing of creditors ahead of the closure of the LSC.
14. At 31 March 2010, the LSC had payables of £491.8 million (31 March 2009: £561.2 million), with the reduction attributable to a fall in outstanding amounts due to FE colleges and in creditors across a range of other programmes.
15. International Financial Reporting Standard (IFRS) 7 requires organisations to disclose information on the significance of financial instruments to their financial position and performance and this is shown in notes 15 and 21 to the accounts.
16. The most significant credit risk to the LSC has arisen from the failure of learners to repay loans provided to them under the Professional and Career Development Loan programme. In such circumstances, the LSC has had an obligation to fund the cost of the default to the bank that provided the loan. The situation for 2009–10 is as described in note 15 to the accounts.
17. Additional significant credit risk to the LSC has arisen from the non-payment of debts owed by private sector training providers that are contracted to provide training services. The likelihood of such an eventuality is mitigated by monthly reconciliation of a provider's entitlement to funding and subsequent amendment to future funding in the demand-led system. The financial impact of this is largely attributable to provider insolvency and the overall financial impact is currently not material – see note 23 to the accounts.
18. The remaining balances of the LSC transferred to the Skills Funding Agency, YPLA and BIS on 1 April 2010. Note 16 to the accounts shows what balance is attributable to each receiving organisation as part of its opening Statement of Financial Position.

Development and performance

19. The accounts cover the period from 1 April 2009 to 31 March 2010.
20. The majority of the LSC's funding was grant-in-aid from government. In 2009–10, this amounted to £12,937.0 million (2008–09: £11,894.9 million).
21. The largest source of income was the ESF, which contributed £239.7 million (2008–09: £159.0 million).
22. The Treasury requires non-departmental public bodies (NDPBs) to disclose the full costs of their activities in their accounts. The LSC has included notional income of £9.0 million (2008–09: £10.4 million) for the cost of capital in its accounts. This is based on a rate of 3.5 per cent (2008–09: 3.5 per cent). See also 'Cost of capital' – note 8 to the accounts.

23. The results for 2009–10 show net expenditure of £12,859.2 million (2008–09: £11,838.0 million). This is derived from the comparison of expenditure against income for the year. As an NDPB, the LSC has been required to break even one year with another against the resource budget, and for 2009–10 the total expenditure was within the resource budget set by BIS of £12,955.1 million. Total reserves in the same period decreased by £77.8 million.
24. Capital expenditure on additions in the year, mainly on computer systems, totalled £40.8 million (2008–09: £43.8 million).
25. Research and development expenditure during the year, including the National Employer Skills Survey and various other activities, amounted to £2.5 million (2008–09: £5.4 million).
26. The Late Payment of Commercial Debts (Interest) Act 1998 requires government bodies, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services, or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. In 2009–10, the LSC paid 96.5 per cent (2008–09: 96.0 per cent) of its invoices within 30 days and 81.3 per cent (2008–09: 70.2 per cent) of its invoices within 10 days. It incurred £nil in interest charges in respect of late payments for 2009–10 (2008–09: £nil).
27. During the year, 23,980 days (2008–09: 25,858 days) were attributable to sickness absence. Using the average number of payroll staff employed over the year (per note 5 to the accounts) this equates to approximately 7.9 days' sickness per employee per year (2008–09: 8.3 days).
28. LSC programme expenditure increased by over 9 per cent to £12.9 billion.
29. Youth and Adult Apprenticeships expenditure rose by 13.8 per cent and 10.6 per cent respectively.
30. BIS capital programme expenditure delivered strong growth, up 46.7 per cent relative to 2008–09. This reflects the new clarity of direction that exists within the programme, with current and future funding now aligned to need.
31. After allowing for some costs relating to the Machinery of Government changes, administration expenditure fell slightly as the LSC continued to contain costs within budget by achieving its Comprehensive Spending Review (CSR) efficiency savings target despite organisational change.
32. Public finance restraint is expected, at the very least over the short to medium term. Although the precise impact is currently unknown, the LSC has achieved all of its CSR efficiency targets to date, enabling it to live within its administration budget again for 2009–10. This augurs well for the organisations that will take forward its agenda.

Main trends and factors underlying development and performance

Auditor

33. The accounts are audited by the Comptroller and Auditor General, who is appointed by statute and whose Certificate and Report appear on page 44. Total audit fee expenditure is expected to be £257,000, of which £242,000 (2008–09: £220,000) relates to the statutory audit of the LSC's accounts. In addition, an audit fee of £15,000 was incurred to support conversion to IFRS in 2009–10. No other services were provided by external audit during the year.

34. As Accounting Officer I confirm that:

- there is no relevant audit information of which the auditors are unaware;
- I have taken all the steps that I ought to in order to ensure that I am aware of relevant audit information; and
- I have taken all the steps that I ought to in order to establish that the LSC's auditors are aware of the information.



Geoffrey Russell
Chief Executive of Skills Funding,
Department for Business, Innovation
and Skills; and Accounting Officer for
the Learning and Skills Council
19 July 2010

Remuneration Report

The Remuneration Committee has formed an important part of our governance structure and process, providing informed and independent decisions on reward policy and practice.

Given our status as an NDPB, the existence of the Remuneration Committee has allowed us greater freedom from our sponsoring department (BIS) on reward policy and practice.

Chairman

Christopher N Banks CBE

Chairman, Learning and Skills Council, and Chief Executive, Big Thoughts Ltd

Members

Gareth Cadwallader

Chairman, Sophrosyne Ventures LLP

Frances O'Grady

Deputy General Secretary, Trades Union Congress

Stephen Marston

Director General, Universities and Skills Group, BIS

The Chief Executive and the Director of Human Resources were invited to attend and speak at meetings except when their own remuneration was being considered. The Head of Reward for the LSC was also invited to attend, where appropriate.

The committee met three times during the period April 2009 to March 2010.

The committee determined the reward for members of the Management Group and other key senior executives. Honoraria for National Council members were determined by the Secretary of State. The reward policy complied with relevant HM Treasury guidance and was based on the philosophy that remuneration arrangements should support the LSC in the achievement of its business objectives. The reward policy was designed to attract and retain the right calibre of people, to focus individuals to deliver superior performance and to encourage team-based collaboration across the LSC.

In determining the appropriate levels of reward, the LSC has taken into account local market competitiveness, the views of major stakeholders and the UK regulatory framework. Reward levels were compared with those in organisations of similar size and focus in each of the LSC's regions.

The Remuneration Committee's terms of reference have been as follows:

- To review and advise the National Council on the framework and policy for the appointment, pay and performance of LSC staff.
- Subject to any determination relating to the Chief Executive's appointment made by the Secretary of State, to review and make recommendations to the Chairman on any revisions to the Chief Executive's terms and conditions of employment, including remuneration.
- To assist the Chairman in monitoring annually the performance of the Chief Executive against the annual performance plan and, in light of that performance appraisal, to advise the Chairman of any performance-related pay increase or bonus to be paid.
- To review the performance of senior staff within the National Council who report directly to the Chief Executive; to review the remuneration of such staff at least annually; and to make recommendations to the Chief Executive on any pay increase or remuneration arrangements that may be appropriate.

Components of remuneration

The Chairman of the LSC (who has also chaired the Remuneration Committee) and members of the LSC National Council received a salary (Chairman) or an honorarium. There has been no bonus payment attached to any of these appointments.

The Chief Executive and members of the Management Group (the national and the regional directors) have received a total reward package made up of base salary, annual bonus, flexible benefits and a defined benefit pension. Subject to the requirements of the role, there may have been a job-need car (or, from September 2006 until 31 March 2010, a job-need taxable but non-pensionable car allowance) provided by the LSC. Bonus payments were not guaranteed.

From April 2006 until March 2010, the LSC bonus plan was structured to focus on encouraging and rewarding team-based achievement at both the national and regional level, as assessed against the Public Service Agreement targets set by the former Department for Education and Skills. For senior staff, a discretionary element recognised outstanding individual contributions.

Relationship between base salary and variable reward

General

The LSC set base salaries at the market median and recognised achievement through the bonus scheme.

Salaries for national, regional and other senior directors have been benchmarked using a range of appropriate data sources including the Association of Colleges' Principal Salary survey, Hay Group management consultants and Senior Civil Service pay scales. If an individual's salary fell below 90 per cent of the pay benchmark, an adjustment should normally have been made to bring it to that minimum level.

Chief Executive

The reward package for the Chief Executive involved two key elements (base salary and bonus), determined by the Secretary of State after considering proposals from the Chairman. The bonus has been assessed on achievement against corporate and personal targets. During 2009–10 the Chief Executive, Geoffrey Russell, received no pay increase.

Due to the nature of his role, the Chief Executive has not received an automatic salary progression award.

Base pay changes 2009–10

Base pay for national and regional directors rose by an average of 3.13 per cent. This included an amount set aside for raising the spot rates (the normal salary value) for each role by 2.00 per cent. The remainder was used to move employees from the 90 per cent minimum towards that spot rate. The average increase for other senior directors was 2.91 per cent (including an increase in spot rates of 2.00 per cent).

Duration of contracts, notice periods and termination arrangements

Members of the National Council

Members of the National Council were appointed by the Secretary of State for Business, Innovation and Skills, but did not have service contracts.

Appointment was for a fixed term, usually four years, and on a part-time basis. Over the course of a year, members of the National Council have been expected to devote 12–15 days to work for the LSC, mainly in either half- or part-days.

An honorarium was offered for these appointments, normally of £4,000. Travel, subsistence and other expenses were payable in line with the current terms for LSC executive staff. There were no bonus payments for these appointments.

Chair of the National Council

Appointment was for a fixed term, usually four years, and on a part-time basis – at least two days a week were expected to be devoted to the work of the LSC.

The salary for the year to March 2010 was £51,400. Salary was reviewed in accordance with guidance provided by the Cabinet Office covering the pay of statutory office holders (their salaries are linked to movements in the Senior Civil Service pay bands). Travel, subsistence and other expenses were payable in line with the latest terms for LSC executive staff. There have been no bonus payments for this appointment.

Resignation could be at any time by notice in writing to the Secretary of State for Business, Innovation and Skills. The Secretary of State could, by giving written notice, remove the Chair from office if he or she was satisfied that the member had not attended National Council meetings for more than six consecutive months, or that the member was unable or unfit to carry out their role, or by giving six months' notice in writing.

LSC Management Group members and other senior staff

Appointment was by service contract, which could be ended by either party giving 12 weeks' written notice.

The Chief Executive Geoffrey Russell was appointed on a fixed-term contract that ended on 31 March 2010.

There were no specific termination clauses in Management Group member service contracts.

The preceding narrative section of the Remuneration Report has not been subject to audit. However that remaining part of the Remuneration Report on pages 24 to 29 has been audited.

Board members' emoluments

Audited information

Chairman and Chief Executive

The Chief Executive was appointed by the other members of the National Council with the approval of the Secretary of State for Business, Innovation and Skills. The other members of the National Council were appointed by the Secretary of State.

The amount of the Chief Executive's bonus was decided by the Remuneration Committee, which reviews performance against an annual personal responsibility plan agreed by the Chairman. The bonus was also approved by the Secretary of State.

The LSC held no contracts with a notice period greater than 12 months.

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
The emoluments of the Chairman (Christopher N Banks CBE, age 50) for the period:		
Salary	51	51
Taxable benefit	0	0
	51	51

The emoluments of the Chief Executive (Geoffrey Russell, age 52) for the period:		
Basic salary and other emoluments	209	6
Taxable benefit in kind	0	0
Pension contribution (opted to join nuvos pension scheme)	51	1
Bonus	15	0
	275	7

The emoluments of the former Chief Executive (Mark Haysom CBE, age 56) for the period:*		
Basic salary and other emoluments	120	223
Taxable benefit in kind	0	0
Pension contribution (opted to join premium pension scheme)	16	30
Bonus**	0	36
	136	289

*The former Chief Executive, Mark Haysom CBE, resigned on 23 March 2009. He received payment of six months of his 2008–09 contractual salary and benefits.

**The bonus payment relates to the previous year.

National Council members

The non-executive members of the National Council were appointed by the Secretary of State for Business, Innovation and Skills.

	Date commenced/ reappointed or extended	Term (years)*	Emoluments year ended 31 March 2010 £'000	Emoluments year ended 31 March 2009 £'000
Non-executive members				
Christopher N Banks CBE	15/06/08	3	0.0	0.0
Gareth Cadwallader	01/06/08	3	4.0	4.0
John Cridland CBE	01/09/07	3	4.0	6.3
Ian Ferguson CBE	01/06/08	3	0.0	0.0
Margaret Galliers CBE	11/09/08	3	2.1	4.1
Sally Hopson MBE	01/07/08	2	4.0	3.0
Robert Hough	17/08/09	1	2.5	0.0
Claire Ighodaro CBE	01/03/09	3	4.0	4.0
Dame Mary Marsh	01/03/09	3	4.3	3.7
Frances O'Grady CBE	01/06/08	3	4.0	4.0
Emma Pearson-Winstone	01/07/08	2	4.0	3.0
Mark Sanders	05/01/09	2	4.0	1.0
Malcolm Trobe	01/09/07	3	4.0	6.3
Les Walton OBE (Chair, YPLA Committee)	14/07/09	1	30.0	0.0
Jill Youds	01/07/08	2	4.0	3.0

* Number of years rounded up to nearest whole, but no term has extended beyond 31 March 2010.

	Date of cessation			
Former members				
Shirley Cramer CBE	30/11/08	1	0.0	2.7
Bryan Gray CBE	31/07/09	Indeterminate	1.3	4.0
Professor Sir Deian Hopkin	30/06/09	3	0.0	0.0
John Taylor	30/09/08	4	0.0	3.0

Note: The emoluments above relate to National Council members. Note 6a to the accounts also includes the emoluments of regional council members.

Senior Management Group emoluments

	Year ended 31 March 2010 Salary* £'000	Year ended 31 March 2010 Benefits in kind (to nearest £100)	Year ended 31 March 2009 Salary £'000	Year ended 31 March 2009 Benefits in kind (to nearest £100)
National directors				
David Way				
Deputy Chief Executive, National Apprenticeship Service (from 01/04/09)	135–140	0	130–135	0
Paul Holme				
Economic Response Director	115–120	0	35–40	0
Verity Bullough				
National Director, Funding, Planning and Performance	120–125	0	125–130	0
Sally Stewart				
National Director, Human Resources	140–145	0	115–120	0
David Russell				
National Director, Finance and Resources	140–145	3,100	145–150	3,900
Rob Wye				
National Director, Young People's Learning and Skills	130–135	0	130–135	0

	Year ended 31 March 2010 Salary* £'000	Year ended 31 March 2010 Benefits in kind (to nearest £100)	Year ended 31 March 2009 Salary £'000	Year ended 31 March 2009 Benefits in kind (to nearest £100)
Regional directors				
Caroline Neville				
East of England	145–150	0	130–135	0
Thomas Crompton				
East Midlands and redundancy	155–160 50–55	0	130–135	0
Total	210–215			
David Hughes				
London	165–170	3,000	140–145	3,500
Chris Roberts				
North East	165–170	0	135–140	1,500
John Korzeniewski				
North West	145–150	0	135–140	0
Marinos Paphitis				
South East	135–140	0	95–100	600
Malcolm Gillespie				
South West and redundancy (including payment in lieu of notice)	150–155 65–70	0	130–135	0
Total	215–220			
David Cragg OBE				
West Midlands Interim Chief Executive of the Skills Funding Agency (from 2/11/09)	165–170	0	135–140	0
Margaret Coleman				
Yorkshire and the Humber and redundancy (including payment in lieu of notice)	135–140 60–65	0	120–125	0
Total	200–205			
Mary Conneely				
Regeneration London	145–150	0	130–135	0

*Salary includes bonus payments for both 2008–09 and 2009–10. It was the usual practice of the LSC to pay annual bonuses in the July of the following year to which they related. As the LSC closed on 31 March 2010, the bonuses relating to 2009–10 were paid in March 2010.

Senior Management Group pension entitlements

	Accrued pension and related lump sum at age 60 as at 31/03/10 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31/03/10 £'000	CETV at 31/03/09 £'000	Real increase in CETV £'000
National directors					
Geoffrey Russell	0–5	2.5–5	62	1	53
Chief Executive (from 23/03/09)					
Mark Haysom CBE*	10–15	0–2.5	232	188	28
Former Chief Executive					
David Way	45–50	2.5–5	1,124	1,011	59
Deputy Chief Executive, National Apprenticeship Service (from 01/04/09) and National Director, Adult Learning, Skills and Employment					
	and lump sum 145–150	and lump sum 7.5–10			
Paul Holme	40–45	0–2.5	830	745	38
Economic Response Director					
	and lump sum 120–125	and lump sum 5–7.5			
Verity Bullough	10–15	0–2.5	196	157	27
National Director, Funding, Planning and Performance					
	and lump sum 40–45	and lump sum 5–7.5			
Sally Stewart*	25–30	0–2.5	386	330	32
National Director, Human Resources					
David Russell	60–65	2.5–5	1,497	1,385	68
National Director, Finance and Resources					
	and lump sum 185–190	and lump sum 7.5–10			
Rob Wye	45–50	2.5–5	992	876	59
National Director, Young People's Learning and Skills					
	and lump sum 140–145	and lump sum 7.5–10			

	Accrued pension and related lump sum at age 60 as at 31/03/10 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31/03/10 £'000	CETV at 31/03/09 £'000	Real increase in CETV £'000
Regional directors					
Caroline Neville*	10–15	0–2.5	250	199	35
East of England					
Thomas Crompton	45–50	2.5–5	977	849	80
East Midlands	and lump sum 135–140	and lump sum 10–12.5			
David Hughes*	15–20	2.5–5	243	194	32
London					
Chris Roberts	45–50	2.5–5	1,112	980	79
North East	and lump sum 140–145	and lump sum 10–12.5			
John Korzeniewski	50–55	2.5–5	1,229	1,123	70
North West	and lump sum 150–155	and lump sum 7.5–10			
Marinos Paphitis	30–35	2.5–5	683	568	77
South East	and lump sum 100–105	and lump sum 10–12.5			
Malcolm Gillespie	20–25	0–2.5	506	466	40
South West	and lump sum 65–70	and lump sum 5–7.5			
David Cragg OBE	30–35	0–2.5	703	651	51
West Midlands Interim Chief Executive, Skills Funding Agency (from 2/11/09)	and lump sum 90–95	and lump sum 5–7.5			
Margaret Coleman	45–50	2.5–5	1,168	1,040	74
Yorkshire and the Humber	and lump sum 145–150	and lump sum 7.5–10			
Mary Conneely*	15–20	2.5–5	329	262	34
Regeneration London					

*Opted to join premium.

Unaudited information

Salary

For the purposes of the analysis, 'salary' includes the following where applicable:

- gross salary payable
- compensation or redundancy
- performance pay or bonuses
- other allowances, and
- overtime payable.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. The benefits provided by the LSC to national and regional directors disclosed on the previous pages relate to lease cars.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory-based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose to join either premium or a good-quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, nuvos and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Nuvos is a relatively new defined benefit scheme where employee contributions are currently at 3.5 per cent of pensionable pay. Pension benefits build up at the rate of 2.3 per cent of pensionable earnings per annum and the option is available at retirement to convert up to 25 per cent of total notional pension benefits into a lump sum.

The partnership pension account is a stakeholder pension arrangement. The employer makes 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 chosen by the employee. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable

salary (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 centrally provided risk benefit cover (death in service and ill-health retirement).

Further details of the Civil Service pension arrangements can be found at civilservice-pensions.gov.uk.

Cash equivalent transfer values

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures (and, from 2003–04, the other pension details) include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the Civil Service pension arrangements

and for which the Civil Service vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reductions to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Geoffrey Russell
Chief Executive of Skills Funding,
Department for Business, Innovation
and Skills; and Accounting Officer for
the Learning and Skills Council
19 July 2010

Statement of the Chief Executive of Skills Funding's Responsibilities

Our National Council and committee members have played a key role at both the national and regional levels. At each level, they have supported and challenged what we do, provided leadership to the LSC and the FE system, and acted as ambassadors.

Statement of the Learning and Skills Council's and Chief Executive's responsibilities

1. Under paragraph 14(1) of Schedule 1 to the Learning and Skills Act 2000, as amended by the Apprenticeships, Skills, Children and Learning Act 2009, the Chief Executive of Skills Funding is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State, with the consent of HM Treasury. The accounts have been prepared on an accruals accounting basis and must show a true and fair view of the LSC's state of affairs at the year-end, and of its income, expenditure and cash flows for the financial year.
2. In preparing the accounts, the LSC and Chief Executive of Skills Funding have been required to:
 - observe the accounts direction issued by the Secretary of State, 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 departures in the financial statements, and
 - prepare the financial statements on a going-concern basis, unless it is inappropriate to presume that the body will continue in operation.
3. The Accounting Officer for the former DIUS designated the Chief Executive of the LSC as the Accounting Officer for the LSC. The relevant responsibilities as Accounting Officer are set out more fully in the Framework Document for Executive NDPBs at annex 7.4 of *Managing Public Money*, in particular items 5 and 6 under Governance and Accountability.
4. Following the closure of the LSC, the responsibility as Accounting Officer for the closure of the LSC's 2009–10 accounts, and the preparation of this Annual Report, have been passed to the Chief Executive of Skills Funding, within the Skills Funding Agency. The Skills Funding Agency is an agency of BIS.

Statement on Internal Control

The Accounting Officer's Statement on Internal Control 2009–10

Scope of responsibility

1. As Accounting Officer for the Learning and Skills Council, I had responsibility for maintaining a sound system of internal control that supported the achievement of the LSC's policies, aims and objectives while safeguarding the public funds and Council assets for which I was personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.
2. The LSC was abolished on 31 March 2010. The responsibility for the 2009–10 Annual Report and Accounts was designated to me in my role as Chief Executive of Skills Funding, within BIS. In signing this statement I therefore have direct knowledge of the LSC's control environment.
3. The LSC was an NDPB established by the Learning and Skills Act 2000. The National Council consisted of between 12 and 16 members, one of whom was appointed as the Chairman. They met regularly with me and with my senior Management Group to provide strategic guidance and oversight. As Chief Executive I was a member of the National Council. Schemes existed for delegation of authority from the National Council to me and in turn from me to the Management Group.
4. From 5 June 2009, DIUS merged with the Department for Business, Enterprise and Regulatory Reform (BERR) to create BIS. The sponsorship of the LSC hence transferred from DIUS to BIS, and appropriate communication channels were put in place to ensure that BIS was informed of the business of the LSC, and that we in turn were informed of the department's requirements of the LSC. DCSF also provided significant funding for the LSC and retained an interest in the LSC through a financial memorandum, regular dialogue and observation, along with BIS officials, of National Council meetings.
5. The National Council, through its Audit Committee and during Council meetings, was informed of the risks facing the LSC and the LSC's processes for dealing with those risks.

The purpose of the system of internal control

6. The system of internal control was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It could therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control was based on

an ongoing process designed to identify and prioritise the risks to the achievement of the LSC's 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, effectively and economically. Systems of internal control were in place in the LSC for the year ended 31 March 2010. From 1 April 2010, residual actions undertaken to complete and provide assurance to support the Annual Report and Accounts took place within the Skills Funding Agency controls framework. Both systems of internal control accorded with Treasury guidance.

The risk context for the LSC

7. The LSC was one of the biggest NDPBs in the UK, funding and regulating all education and training in England from the age of 16 other than in universities. It paid out over £1 billion per month to millions of customers directly and via thousands of suppliers. It was responsible for the quality of provision and collecting data to report progress in meeting the targets set by government. Hence it played a crucial role in education and skills in England, and any significant failure in its mainstream operations could have been catastrophic in its effect.

8. In 2008–09, the LSC failed to properly manage the pipeline of college rebuilding applications compared to the funding available (see below). A significant amount of senior management time and effort was required to mitigate the effects of this during the past year. The LSC was also in its final year of existence as a result of Machinery of Government changes and hence in the process of transitioning its approximately 3,200 staff to the YPLA and the Skills Funding Agency, including transferring some 745 staff to more than 150 local authorities and other government bodies. In April 2009, the National Apprenticeship Service was also formed as a separately managed organisation within the LSC by means of an internal selection process for some 400 posts, creating significant shortages of resource in the rest of the LSC.
9. These events were occurring at the same time that the LSC had quickly to transform itself. This required a significant change in the nature of the structure and accountabilities of a very large organisation, moving from nine independent regional organisations to a national structure with much more central oversight. Finally, as a result of the merger of DIUS and BERR, the Government decided to make a late change to the Skills Funding Agency's organisational structure by involving Regional Development Agencies in the determination of what adult skills were to be funded. This required new ways of working to be developed and a further transfer of staff at a late stage.

10. Any of these factors would represent a significant risk; taken together, they amounted to an unprecedented level of difficulty and risk to the effective delivery of the LSC's main operational functions.
11. In the event, the very difficult college capital issue was effectively managed (as set out in the section on college capital funding, below); the LSC was restructured and continued to manage its other programmes; the National Apprenticeship Service was created and achieved a significant increase in the number of Apprenticeships; the shadow YPLA and Skills Funding Agency were set up, and both launched smoothly on 1 April 2010; and, finally, the transfer of staff to other public bodies was achieved.
12. During all of this, despite some fairly close calls, there were no material operational failures and the LSC continued to work towards and achieve – or exceed – its various government targets.

Capacity to handle risk

13. Traditionally, in order to deliver on the ambitious goals that government set for the LSC, the LSC's risk appetite was considered to be high, including risks to the LSC's reputation. The organisation sought to manage and mitigate identified risks but in its 2008–09 Statement on Internal Control the LSC recognised that risk management needed improvement. In more recent times, when the environment changed, the LSC's ability to manage risks became yet more constrained.

14. The LSC had an established risk management policy, which was refined and enhanced during 2009–10.

The risk and control framework

15. A national risk manager, through a director, supported the management of risk across the organisation. Each business unit and region had an appointed senior manager to act as risk champion. These managers did not own the risks but acted as stewards of the process. Guidance required consideration of risk management to be a standing agenda item for all senior management teams, including the LSC's Management Group.
16. In 2008–09, as was demonstrated by the college capital funding difficulties, this process was not strong enough to deal with the changed funding environment and did not lead to timely recognition of the need to adapt our structure and ways of working to a new and much more difficult world. Significant change was needed and the key steps taken to achieve this in 2009–10 are set out below.
17. Identified key risks had an assigned senior owner who was required to evaluate and manage them appropriately. A balanced response was encouraged, whereby the cost of control was weighed against the likely impact of a risk becoming a reality and the estimated consequences if it did. Guidance was available via the intranet and ongoing advice and support were provided.

18. Risk matters were co-ordinated centrally and there was regular monthly reporting with all key risks being considered by the Management Group. A Performance and Risk Report was developed which was the means by which business performance was recorded; there was no separate 'risk register'. The report showed both actual and forecast performance, as well as the risks to that performance, with details on how these risks were being mitigated and a forecast of the probable outcome. The report was shared and discussed with the Management Group, the National Council, sponsor department officials and ministers.
19. The risk management process was supported by the provision of weekly horizon-scanning templates completed at national and regional levels by all directors. These were co-ordinated centrally, reported to the Chief Executive and shared weekly with key senior managers as well as the Chairman. The horizon-scanning process was a means of early identification of emerging issues and risks. Action could be taken quickly if needed; otherwise the risk was monitored by the Management Group by means of the monthly Performance and Risk Report.
20. Risk management is too often viewed as mainly a reporting process. To embed the process of identification and management of risk into the fabric of how the business operated in that final and very risky year, bonuses of the Management Group and all directors were directly linked to identifying and managing risks effectively. Any risks graded red or red/amber at year end, or any failure to identify a significant risk, would result in 30% of the possible bonus being nil. The

National Audit Committee was the arbiter of risk ratings and the Chief Internal Auditor's views were also considered. In the event, of the many red risks that we started with, only one remained at the end of the year. As a consequence, all management and directors' bonuses were nil for the risk element of their bonus.

21. During the year, the reporting line of the Chief Internal Auditor was changed so that he reported directly to the Chief Executive, with an additional right and obligation for him to report any matters of concern to the Chair of the National Audit Committee.
22. The following sections describe some of the key elements of the risk and control framework.

Audit Committee

23. A duly constituted Audit Committee operated through the year and its terms of reference reflected best practice. It consisted of National Council members, regional audit committee members and co-opted members required for their expertise; all were non-executives.
24. In order to strengthen the National Audit Committee, three regional audit committee chairs were appointed in April 2009, bringing the overall total membership, including the Chair, up to nine. The Audit Committee met regularly and considered reports from Internal Audit on the system of internal control, risk management and governance; from the Provider Financial Assurance team on providers' systems of internal control; and from the National Audit Office. The Audit Committee also took evidence from senior managers when deemed appropriate.

Within the LSC, each region had a duly constituted regional audit committee which provided scrutiny and challenge to regional operations. A particular strength of these arrangements was that all regional audit committees were required to review and advise on each regional director's personal Statement on Internal Control. In recognition of the heightened risk level, the Audit Committee increased the frequency of its meetings during the year.

25. The process changed during the year due to Machinery of Government changes and the move to the shadow structures of the YPLA and the Skills Funding Agency and the impact on regions, groups and regional directors' accountabilities. Regional audit committees signed off the regional Statements on Internal Control from April 2009 up to the end of September/November 2009. Arrangements were made for regional directors to provide supporting statements to the end of March 2010.
26. While the National Audit Committee was no longer in existence after 31 March 2010, former members met informally to support me in considering the accounts and this Statement on Internal Control in June 2010.

Management Group

27. Owing to Machinery of Government changes and the need for parallel transition arrangements, the membership of the Management Group had increased from 15 to 20 members by the end of 2008–09.

28. During the past year, the Management Group changed to the Transitional Support Management Group with a much reduced membership from May 2009, with the emphasis being on national business units and national management of programmes and back office functions rather than on regions.

29. The reformed Management Group allowed a centrally focused approach to performance and the risks thereto. In addition to the national focus, I also maintained a requirement upon regional directors to provide a chain of personal assurance as to the adequacy of internal control and general oversight of staff and the business in their regions. This was in view of the changes brought about by the move to shadow-running of the new organisations in autumn 2009. It was undertaken to ensure that the new structures would be successful when launched on 1 April 2010, while not losing focus on the mainstream business that the LSC was delivering.

Internal Audit

30. A professional and independent Internal Audit service was maintained throughout the year. Regular quarterly reports were provided on findings, including progress against the audit plan that was targeted towards the high-risk areas.

31. I met regularly with the Chief Internal Auditor and received an Annual Report on the findings which included a professional opinion as to the level of assurance that was applicable to the LSC. For 2009–10 the Chief Internal Auditor has, with the

exception of risk management, given a substantial assurance opinion over the operation of the LSC's systems of internal control, risk management and governance. This indicated that the LSC had operated basically sound systems, but there were some weaknesses related to the earlier part of the year that prevented him from giving full assurance on risk management.

32. Through his report, the Chief Internal Auditor alerted me to where improvements were necessary, and I took a personal interest in the implementation of improvement plans. An evaluation of each region's and group's self-assessment by Internal Audit informed each of the personal Statements on Internal Control received from directors. This process also took account of the changes to structures brought about by the moves to the shadow structures of the YPLA and the Skills Funding Agency.

Financial management

33. As Accounting Officer I had a responsibility to ensure that there were effective systems in place to manage and monitor all budgets delegated to me. I can confirm that all budgets that I was responsible for were managed and monitored in line with the LSC's financial memorandum with its sponsor department, that there were effective systems in place to manage and monitor budgets and that accurate financial records were maintained. I also confirm that budgets were spent on achieving the outputs and outcomes detailed in our Grant Letter.

34. The Chartered Institute of Public Finance and Accountancy (CIPFA) Consultancy was commissioned by BIS in October 2009 to undertake a summarised review of the financial management of the LSC.

35. The results showed that securing stewardship was the strongest financial management style and demonstrated that the basic elements of sound financial management were in place in relation to risk management, financial analysis and financial reporting. The findings suggested that leadership was focused on financial management and on introducing further principles of best practice. Information was perceived by the review to match the depth and quality of comparable frameworks of financial reporting to be found in the better-performing organisations assessed. A particular strength noted was the monthly financial management analysis, including the actual to budgeted in-year position and outturn forecasts.

36. The overall conclusion supported our view that we had put generally sound financial arrangements in place despite the nature and extent of the changes and challenges that the LSC was experiencing.

37. A review of the personal Statements on Internal Control signed by all national and regional directors in 2009–10 indicated that the formal system of internal budget delegation operated across the LSC. In a number of cases, however, it was noted that the budget delegations were not timely or complete.

Provider Financial Assurance

38. As Accounting Officer I was required to be satisfied that those organisations that the LSC funded also operated in an appropriately controlled environment. The LSC had a Provider Financial Assurance (PFA) function, with responsibility for co-ordinating and carrying out a programme of visits designed to gain assurances over the systems of control operated by providers and also providers' use of LSC funds. The level of assurance work carried out by PFA teams, or by others on which PFA teams relied, was commensurate with the level of associated risks. I received from each of my regional directors their personal assurance that providers maintained and operated adequate controls. They based this assurance on a number of things, foremost of which were:

- PFA reports
- receipt and examination of FE college accounts and audit reports
- contract managers' reports
- performance reviews
- Audit Committee scrutiny, and
- third-party assurance (from Ofsted and the Higher Education Funding Council for England).

Responsibility for the review of the effectiveness of the system of internal control

39. As Accounting Officer I had responsibility for reviewing the effectiveness of the system of internal control. My review was informed by the work of our internal auditors; the Management Group within the LSC, who had responsibility for the development and maintenance of the internal control framework; the LSC's audit team, which reviews the records and claims of providers; the external auditors of our providers; and comments made by the National Audit Office as the LSC's external auditor in its reports. I was advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, the Management Group and Internal Audit. I also evaluated the Statements on Internal control from regional and national office directors in support of the review of effectiveness.

Internal control issues

40. As Accounting Officer I was satisfied, with the exception of risk management in the initial part of the year, that the LSC's governance and internal control were consistent with the principles of *Managing Public Money* during 2009–10.

41. Where control weaknesses have been identified, action has been taken to manage risks and improve internal control. The following sections describe some of the key issues.

Risk management

42. The Chief Internal Auditor's report was qualified in recent years based on assessments that risk management was not fully embedded within the organisation.
43. A new risk management process was developed to address these issues following the appointment of a new Chief Executive. In May 2009, a new Performance and Risk Report was introduced that formed a key part of the new process. Internal Audit was wholly supportive of its introduction. The report provided a means of monitoring key business activity, reporting progress and risk and holding Senior Responsible Owners (SROs) to account.
44. Other structural changes were made to provide better co-ordination of the receipt of risk templates and their subsequent analysis and inclusion in the Performance and Risk Report.
45. Internal Audit had previously recommended that focus needed to be directed towards the early identification of emerging risks. A horizon-scanning process was introduced in mid-2009 to address this issue. All regional and national directors and other senior staff submitted a horizon scan covering their area of responsibility on a fortnightly basis. To aid consistency, responses were co-ordinated by the same team that produced the Performance and Risk Report and any relevant

issues were incorporated into it. The separate collated report from all horizon scan submissions was shared with all senior staff and allowed the softer intelligence gathered to inform discussions with partners.

46. Internal Audit acknowledges that significant progress had been made by the end of the year as the process evolved to meet business needs.
47. As the LSC moved towards its closure, changes were made to the format of the reporting template to reflect and capture the handover arrangements to the new organisations. Formal arrangements were made to hand over the reported risks to new individuals in the two organisations. Details of these activities were reported to the National Audit Committee in March 2010 as part of a separate review undertaken by Internal Audit.

College capital funding

48. The LSC took the decision to defer decisions on college rebuilding projects and suspended the building programme in December 2008. An independent review into the operation of the building programme was undertaken by Sir Andrew Foster and his report was published in April 2009. It assessed existing LSC processes and considered how they could be enhanced to deliver more effective management of the programme. The report concluded that the most significant responsibility for the problems rested with the general and financial management of the LSC and its corporate governance systems.

49. Agreed actions in response to the report were to undertake a review of financial data held by the LSC about capital projects; appoint a director to be personally responsible for the capital programme; consult with the sector on the approach that should be used in prioritising remaining funds for schemes; and appoint an external team of specialists to ensure that the information held was accurate and comprehensive and provided a sound basis for taking future decisions.

50. In September 2009 a joint team of internal auditors from DCSF and the LSC undertook a review of the implementation of the Foster Report's recommendations. The team found that all the recommendations were accepted by the LSC and by BIS and were either fully implemented or were being actioned. The audit opinion in this area was that controls were basically sound. During the review the team found that there were risks facing the ongoing governance, management and delivery of Machinery of Government changes and the capital programme, but that progress had been made in implementing and embedding enhanced programme and risk management procedures towards the end of 2009.

51. Further work was done in March 2010 to confirm that Internal Audit recommendations made following the initial audit had been implemented. The review

concluded that good progress had been made and considered that basically sound systems of control were in place in respect of all the risks identified in the previous audit. Further joint audit work will be undertaken by BIS and Skills Funding Agency internal audit functions in 2010–11.

52. A separate audit took place during February 2010 to consider the implementation of the Review of Capital recommendations made by Grant Thornton, which had been appointed as the external specialists as recommended by Foster. In the opinion of Internal Audit, there was substantial assurance provided that the majority of recommendations made by Grant Thornton had been implemented.

Governance of Education Maintenance Allowance – Learner Support services

53. In August 2007 a contract was awarded to Liberata for the delivery of a single system for Learner Support. The project suffered delays, resulting in an adverse effect on learners and a consequent reputation risk for the LSC. The LSC disengaged with Liberata in November 2008 and service delivery was taken over by Capita. An independent review of the issues, causes and lessons that could be learned in the delivery of Education Maintenance Allowance (EMA) to learners was commissioned by the Chairman of the LSC and conducted by a National Council member, Claire Ighodaro. The Ighodaro Report identified critical shortcomings in the governance and management of the project and made a number of recommendations.

54. Internal Audit work had identified critical weaknesses in the financial framework under which payments were made. In May 2009 Internal Audit also looked at the reliability of data and management information received by the Learner Support team and how effectively this was being used to inform LSC decision-making and forecasting.
55. A follow-up review undertaken in late 2009 indicated that the recommendations made in the first review, which had looked at payments made for services delivered, had largely been implemented. In relation to the recommendations arising from the Ighodaro Report, all had been implemented. In relation to the data review, six of the 11 recommendations had been implemented by the end of 2009.
56. Overall, Internal Audit concluded that the general control environment within the Learner Support team had improved. Factors behind this included implementation of the audit recommendations, use of systems that were fit for purpose and improved business relationships.
57. Further evidence to support these improvements was provided by the risk management process. EMA was identified as a key risk with an assigned risk owner. Risk templates were updated each month with risk mitigation action. The overall assessment indicated an enhanced control framework, with handover of the risk to the YPLA assessed as amber/green.

Internal Audit Investigations Unit

58. Of the 16 fraud investigations undertaken in the year, the Internal Audit Investigations Unit (IAIU) continued to investigate two. A further six were suspended, as they had been referred to the police for action, and eight were closed. The maximum amount at risk for all investigations in year was £7.1 million, although at year-end the figure for the 8 remaining investigations was £5.2 million.
59. The number of allegations considered by the IAIU and successfully concluded as requiring no further action increased by 98 per cent in the year to 89. At year-end, 31 allegations were carried forward for vetting, which is the lowest level since 2006–07.
60. Cases currently being vetted and recent investigations of note include the following.
- Following an allegation concerning a training provider and possible collusion with a senior member of LSC staff, a joint IAIU/HR investigation was carried out. As a result of the findings from the investigation, a disciplinary hearing was conducted in October 2009, at which point the individual was summarily dismissed. An appeal hearing was conducted in November 2009, although the appeal was not upheld. Subsequently, members of the IAIU met with the South Yorkshire Police Economic Crime Unit, where the findings of the investigation were presented to it for consideration as to whether any criminal offences may have been committed.
 - An allegation concerning an FE college remains within the IAIU's vetting files. This case attracted media interest and the informant had also contacted the police, the National Audit Office, other government departments and ministers. The latest position, after several meetings with the college, its solicitors and forensic accountants, was the start of a piece of work to reconcile the original investigation evidence supplied to the college's forensic accountants with the evidence more recently supplied to the LSC, in order that areas of concern or areas where additional investigation work may be required could be identified. Subsequently, there was a need for an investigation to be commissioned. The IAIU ensured that the strategy and scope of work to be undertaken was sufficiently robust. The IAIU also quality assured the fieldwork, conclusions and recommendations undertaken by the appointed investigators, as well as the resulting report.
61. During the year, the IAIU saw two of its investigations come to court.
- Following a longstanding investigation by the IAIU and a subsequent referral to the police, who in turn referred the case to the Serious Fraud Office, five people appeared in Birmingham Crown Court on 19 October 2009. On 4 June 2010, four people were given jail sentences and a fifth was to be sentenced at a later date.

- Following a referral to the IAIU in early 2006, a lengthy investigation and subsequent referral to the police, two defendants appeared in court on 29 September 2009 charged with offences under the Forgery and Counterfeiting Act 1981. The defendants have recently pleaded guilty, and sentencing is expected at a later date.

Machinery of Government/transition

62. The YPLA and the Skills Funding Agency operated in shadow form to 31 March 2010. The YPLA Chief Executive Designate was appointed in July 2009. An Acting Chief Executive Designate of Skills Funding was appointed in December 2009.
63. The LSC's governance arrangements were revised to reflect the requirements of the LSC, the Skills Funding Agency and the YPLA. Non-executive structures were aligned and three separate Committees of National Council were established. These were the YPLA Committee, the Adult Skills and Apprenticeships Committee and the Chair's Committee, which was responsible for the LSC as a whole. The work of the LSC Council was facilitated through these committees and ensured that the LSC complied with its statutory requirements. A number of LSC executive groups and boards were replaced by a more streamlined structure.
64. The Management Group was also reformed and further groups were established, including the Regional Directors' Group and a Transition

Management Team. The role of the latter was to direct, oversee and maintain accountability through the transition from the LSC to the new bodies.

65. LSC regions defined their transition and handover plans. A summary of the core issues arising from group and regional transition plans was prepared and discussed by senior management, and a high-level National Transition Plan was presented to the Management Group in September 2009.
66. Internal Audit work through the year confirmed that while the YPLA and the Skills Funding Agency operated in shadow form to March 2010, the risks associated with transition into the new bodies were successfully managed.
67. As part of the transition process, all regions were required to provide details of their risks and to agree a handover process to new owners. A final Performance and Risk Report was produced that identified all the LSC risks transferring, with acknowledgements from the new risk owners that the risks were formally transferred.

National Apprenticeship Service

68. The National Apprenticeship Service (NAS) came into operation in April 2009. Work was undertaken by Internal Audit to look at the implementation of the recommendations made in the government health check of the online National Apprenticeship Vacancy Matching Service and the Office of Government Commerce

(OGC) Gateway review completed in late 2008. They found that all the recommendations in the health check and six of 10 recommendations in the OGC review had been implemented by mid-2009, with appropriate progress made on the remaining four.

69. In April 2010, the NAS underwent a further OGC review (Operations Review and Benefits Realisation), which rated the service as amber (successful delivery appears feasible). It found that the NAS had achieved the initial programme objectives of establishing an organisation with clear vision and had an enthusiastic and dedicated workforce. The review found the service to be of great benefit, particularly to stakeholders, and made four recommendations, which have been accepted by management and are being actioned during 2010.
70. In addition, work by Internal Audit was undertaken to ensure that effective governance, accountability and management arrangements were in place for the establishment of the NAS. While Internal Audit concluded that some evidence existed to demonstrate that the risks were being managed, it made a number of recommendations but was able to give only a limited assurance over the level of control established throughout the organisation.
71. A follow-up review in early 2010 found that the audit recommendations had been

implemented and that substantial assurance could be provided. There were three risks identified that required management action assessed at amber/green, with implementation dates of mid to late 2010.

Information assurance

72. The 2008–09 Statement on Internal Control highlighted the fact that due to late confirmation of data requirements by DIUS, little progress had been made against a number of actions to meet the minimum requirements on data-handling outlined in the Hannigan Report.
73. Internal Audit considered that acceptable progress had been made towards implementing the audit recommendations made from testing carried out in 2008–09. While there were some systems of control operating, these were only sufficient to give a restricted assurance over the level of control established in relation to managing information assurance risks. Full compliance against the Security Policy Framework by the end of 2009–10 continued to pose a significant challenge.
74. The Annual Report on Information Security produced by the LSC's Senior Information Risk Owner in April 2010 reported that of the 126 controls, processes, policies and procedures outlined within the Security Policy Framework and against which the LSC was required to be compliant, all were complete except for seven, which were partially complete. Three were non-compliant while the rest were fully, mostly or generally compliant, or were not applicable.

75. In February 2010, the LSC undertook a self-assessment against Level 1 of the Information Assurance Maturity Model. The LSC was between 81 per cent and 100 per cent compliant across six headings.

76. In overview, the report concluded that the LSC could identify its information assets and assess the level of business risk surrounding them. An Information Security Risk Register is now maintained.

Travel and expenses

77. In preparation for the publication of details of Council members' and staff expenses, Internal Audit was asked to provide assurance over compliance with LSC systems.
78. The review gave no indication of fraud, although many examples of non-compliance and ignorance of the policies were identified, along with some errors. A 'restricted assurance' opinion was appropriate, due to the extent of non-compliance with systems (mainly inconsistent use of corporate procurement cards) and the failure of the systems to meet business need. A number of the issues identified were addressed in 2009–10 and the expenses policy is being reconsidered, as much of the non-compliance was due to policy not reflecting current business conditions.

Business continuity planning

79. Follow-up work on the recommendations set out in the improvement plan for the 'BCP Management Letter' issued in June 2008 was undertaken by Internal Audit. Although there had been progress in implementing recommendations, the LSC still lacked established arrangements to co-ordinate business continuity planning activities across the organisation. The LSC had revised its Business Continuity Policy in August 2008 but had not yet developed its approach, processes and arrangements for business continuity plans in line with BS 25999.
80. There was a good response to dealing with the threat of a swine flu pandemic, where plans were revised and advice was given to regions about the actions they should take.
81. Going forward, it was recommended and agreed that arrangements for business continuity plans in line with BS 25999 will be developed; that the Business Continuity Policy will be revised in the light of the new organisations; that roles and responsibilities for both the Skills Funding Agency and the YPLA will be established to ensure that there are effective arrangements for business continuity management; and that arrangements will be put in place for formal and regular reporting to senior management on the overall management of business continuity planning, its delivery and its implementation in both the Skills Funding Agency and the YPLA.

Data management

82. The Internal Audit review undertaken in early 2009 looked at the corporate management of LSC data including identification, documentation and specification of business requirements and ownership of data sets.
83. The review identified that there were significant initiatives being driven forward to improve controls and procedures around corporate data management. These included work streams around the Information Security Improvement Project, the implementation of the Mood enterprise architecture toolset and the Reporting and Management Information Tools Policy. The review concluded that while these were positively contributing to governance and control, until they were fully implemented only a restricted assurance could be given.

Business change programmes

84. The Internal Audit review concluded that effective corporate programme and project management was not embedded across the LSC. A supportive programme management framework to ensure delivery was not in place, leading to exposure to the key risk of failing to effectively design and set up programmes and projects that contributed to the achievement of LSC objectives and impacting on the LSC's ability to engage effectively with the sponsor departments.

Many of the requirements of the OGC framework for managing projects were missing. Work was commissioned by the National Director of Finance and Resources to develop a table of the biggest projects in the LSC; this also identified significant issues regarding governance and project management.

85. Following agreement of the top programmes and risks, work was undertaken with SROs to adopt the training required to carry out the roles as set out in the OGC framework. In order to facilitate and support the introduction of the framework, a Corporate Programme Management Office function was created to act as a centre of excellence. Other aspects of the framework will also be implemented. This work was supported by the Director of Information Management Strategy, who agreed that a consolidated approach to change programmes was necessary that would integrate the overall business change programme and support information management programmes.
86. In the absence of an information compliance statement, Internal Audit was unable to give any in-year assurance on IT-related legislation.

Train to Gain

87. The National Audit Office undertook an evaluation of how effectively Train to Gain had been designed and implemented and assessed its performance from its introduction in March 2006. The report, *Train to Gain: Developing the skills of the workforce*, was prepared for Parliament and published in July 2009. It concluded that the programme was not good value for money.
88. BIS and the LSC's view was that while inevitably there was some 'deadweight' in this programme, overall it was a valuable and effective way of increasing essential skills for those already in the workforce, and was doing so in record numbers at the height of the recession, precisely when it was most needed.
89. Following the National Audit Office report, the Public Accounts Committee took evidence in late 2009 and published its report in January 2010. The Public Accounts Committee concluded that Train to Gain had not been well managed, and there should have been realistic targets and better management of demand, together with more focus on the areas where it had been most effective. BIS and the LSC agreed that it was a sensible stage at which to implement a number of refinements and, indeed, many of these had been in the process of implementation.

Conclusion

90. The benefit of hindsight allows me to conclude that the key risks faced by the LSC in its final year were effectively managed. Improvements to processes and practices were put in place and a more risk-aware culture was embedded; these have been inherited by the Skills Funding Agency and the YPLA.
91. For that achievement, I can only express my heartfelt gratitude and pay tribute to the staff of the LSC, ably supported and challenged by the dedicated members of the national and regional councils. Clearly, there is still more to be done.



Geoffrey Russell
Chief Executive of Skills Funding,
Department for Business,
Innovation and Skills;
and Accounting Officer for the
Learning and Skills Council
19 July 2010

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 Learning and Skills Council (LSC) for the year ended 31 March 2010 under the Learning and Skills Act 2000. These comprise the Net Expenditure Statement, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive of Skills Funding and auditor

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

Scope of the audit of the financial statements

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

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

Opinions

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the LSC's affairs as at 31 March 2010 and of its net expenditure, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Learning and Skills Act 2000 and the Secretary of State's directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Learning and Skills Act 2000 and the Secretary of State's directions issued thereunder; and
- the information given in Our Targets and Achievements, Management and Structure, Our Working Practices and the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept, or
- the financial statements are not in agreement with the accounting records or returns, or
- I have not received all of the information and explanations I require for my audit, or

- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria, London SW1W 9SP
22 July 2010

Net Expenditure Statement

for the year to 31 March 2010

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Expenditure			
Programme expenditure			
School sixth forms	3	2,200,894	2,113,280
16–18 further education	3	3,572,718	3,298,538
Family Learning Impact Fund	3	9,125	8,240
Young People Apprenticeships and Entry to Employment	3	908,927	798,922
Learners with learning difficulties and/or disabilities	3	234,035	224,538
Learner Support 16–18	3	690,793	631,485
14–19 reform	3	102,754	120,973
DCSF capital	3	212,782	196,822
19+ further education	3	1,584,279	1,468,938
Other adult responsive	3	192,993	188,615
Adult Apprenticeships	3	384,220	347,288
Train to Gain	3	881,038	886,858
Adult safeguarded learning	3	210,871	214,087
Offender Learning	3	140,535	139,045
Learner Support 19+	3	121,132	128,558
Adult skills reform	3	89,423	80,248
Quality reform	3	65,826	83,772
Capacity and infrastructure	3	67,219	64,898
BIS capital	3	944,379	643,754
Non-departmental programmes	3	329,569	233,086
Administration costs			
Staff costs	5a	134,899	127,199
Other costs	6a	82,945	53,634
Depreciation, impairment and losses on disposal	6b	29,048	18,130
Total expenditure		13,190,404	12,070,908
Income			
Other income	7	331,204	232,872
Total income		331,204	232,872
Net expenditure before interest		(12,859,200)	(11,838,036)
Cost of capital – notional income	8	8,967	10,401
Net expenditure after cost of capital charge and interest		(12,850,233)	(11,827,635)

All activities are continuing, as they will pass to other bodies following the closure of the LSC on 31 March 2010.

See note 2 on the adoption of International Financial Reporting Standards (IFRS).

The notes on pages 49 to 79 form part of these accounts.

Statement of Financial Position

as at 31 March 2010

	Note	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 1 April 2008 £'000
Non-current assets				
Property, Plant and Equipment	9	5,735	12,525	16,063
Intangible Fixed Assets	10	86,071	67,557	38,391
Total non-current assets		91,806	80,082	54,454
Current assets				
Trade and other receivables	11a	240,507	248,916	219,069
Cash and cash equivalents	12	150,987	111,287	98,346
Total current assets		391,494	360,203	317,415
Total assets		483,300	440,285	371,869
Current liabilities				
Trade and other payables	13a	(491,836)	(561,212)	(569,069)
Total assets less current liabilities		(8,536)	(120,927)	(197,200)
Non-current liabilities				
Provisions	14	(46,566)	(21,409)	(23,899)
Financial guarantee	15	(31,408)	(21,933)	0
Assets less liabilities		(86,510)	(164,269)	(221,099)
Represented by				
Taxpayers' equity				
General reserve		(86,510)	(164,269)	(221,099)
Total reserves		(86,510)	(164,269)	(221,099)

The notes on pages 49 to 79 form part of these accounts.



Geoffrey Russell
 Chief Executive of Skills Funding,
 Department for Business, Innovation and Skills;
 and Accounting Officer for the Learning and Skills Council
 19 July 2010

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

	Note	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Balance at 31 March		(164,269)	(220,245)
Effects of changes under International Financial Reporting Standards (IFRS)	2	0	(854)
Restated balance at 1 April		(164,269)	(221,099)
Net expenditure		(12,850,233)	(11,827,635)
Non-cash charges – cost of capital		(8,967)	(10,401)
Total recognised income and expense for the year		(12,859,200)	(11,838,036)
Grant funding from BIS/DCSF		12,936,959	11,894,866
Balance at 31 March		(86,510)	(164,269)

The notes on pages 49 to 79 form part of these accounts.

Statement of Cash Flows

for the year to 31 March 2010

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Cash flows from operating activities			
Net expenditure after cost of capital and interest		(12,850,233)	(11,827,635)
Adjustment for cost of capital charge	8	(8,967)	(10,401)
Depreciation charges	6b	23,177	15,645
Loss on disposal of non-current assets	6b	5,871	479
Loss on impairment	6b	0	2,006
Decrease/(Increase) in receivables – excludes capital debtors	11a	8,452	(29,849)
(Decrease) in payables – excludes capital creditors	13a	(73,957)	(14,466)
Increase/(Decrease) in provisions for liabilities and charges	14	25,157	(2,490)
Increase in financial guarantees for liabilities and charges	15	9,475	21,933
Net cash outflow from operating activities		(12,861,025)	(11,844,778)
Cash flows from investing activities			
Purchase of Property, Plant and Equipment		(247)	0
Purchase of Intangible Fixed Assets		(36,002)	(37,157)
Proceeds of disposal of property, plant and equipment		15	10
Proceeds of disposal of intangible assets		0	0
Net cash outflow from investing activities		(36,234)	(37,147)
Cash flows from financing activities			
Grant-in-aid funding from DCSF/BIS		12,936,959	11,894,866
Net cash inflow from financing activities		12,936,959	11,894,866
Net increase in cash and cash equivalents in the period		39,700	12,941
Cash and cash equivalents at 1 April 2009	12	111,287	98,346
Cash and cash equivalents at 31 March 2010		150,987	111,287

The notes on pages 49 to 79 form part of these accounts.

Notes to the Accounts

Accounting policies

1 Statement of accounting policies

This is the first year that the financial statements have been presented on an International Financial Reporting Standards (IFRS) basis (see note 2).

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

1.1 Going concern

The Apprenticeships, Skills, Children and Learning Act 2009 provides for the dissolution of the LSC and the transfer of functions, staff and property to the Young People's Learning Agency (YPLA), the Skills Funding Agency and local authorities. The accounts have been prepared on the assumption that, under the conventions of Machinery of Government changes, the LSC's functions will continue in operational existence for the foreseeable future albeit through different delivery bodies.

The sponsoring departments' estimates and forward plans include provision for the continuation of the LSC's activities in other bodies. Note 16 shows the transfer of the LSC's assets and liabilities at closure. Therefore, these accounts have been prepared on a going-concern basis.

1.2 Accounting convention

These accounts are prepared under the modified historical cost accounting convention, so Property, Plant and Equipment, Intangible Fixed Assets and inventories are reflected at current values where the impact of doing so is material.

1.3 Property, Plant and Equipment

Property, Plant and Equipment are carried at fair value. Depreciated historical cost is used as a proxy of fair value for the following classes of assets:

- furniture and fittings
- plant and machinery
- computers and other IT hardware.

Costs comprise purchase prices and those costs that are directly attributable to making the asset capable of operating in the manner intended by LSC management.

For the purposes of calculating the current value of Property, Plant and Equipment, revaluation is applied (where material) to the closing carrying value of assets in use at 31 March using indices prepared by the Office for National Statistics.

The minimum level for capitalisation of a Property, Plant and Equipment asset is £5,000. All assets falling into the following categories are capitalised:

- individual assets which are capable of being used for more than one year, and which have a cost equal to or greater than £5,000
- groups of assets that individually may be valued at less than £5,000 but taken together form a single collective asset because the items fulfil all of the following criteria:
 - a. the items are functionally interdependent
 - b. the items are acquired at about the same date and are planned for disposal at about the same date

- c. the items are under single managerial control, and
- d. each individual asset thus grouped has a value of over £1,000.

1.4 Intangible Fixed Assets

Intangible Fixed Assets are carried at fair value that is determined by reference to an active market where possible. Where there is no active market, the LSC uses depreciated replacement cost as a proxy for fair value.

The majority of Intangible Fixed Assets comprises computer software systems that have been developed exclusively for the LSC. Expenditure on research of such systems is recognised as expenditure when incurred. Where separately identifiable, development expenditure to support the creation of a software system is capitalised where the LSC can demonstrate all of the following criteria:

- a. completion of the system is technically feasible and adequate resources are available to do so
- b. an intention to complete the system for use
- c. ability to use the system
- d. how the system can generate future economic benefits
- e. attributable development expenditure can be reliably measured.

Computer software licences are capitalised if they are capable of being used for more than one year and have an initial cost, individually or as a group, equal to or greater than £5,000.

1.5 Depreciation

The depreciation methods that best reflect the pattern of the consumption of economic benefits and the periods over which such benefits are expected to be consumed by the LSC are summarised in the table overleaf.

Table 1: Summary of depreciation methods

	Category	Component (if applicable)	Method	Useful life
Property, Plant and Equipment	IT	Desktop IT	Straight line	3 years
		Other IT	Straight line	5 years
	Plant and machinery		Straight line	3 years
	Furniture and fittings	Furniture	Straight line	5 years
		Fitting out	Straight line	Less than 10 years or the duration of the building lease
Intangible Fixed Assets	Internally developed systems		Straight line	5 years
	Software licences		Straight line	Life of the licence or 3 years where none given

For Property, Plant and Equipment the residual values, depreciation methods and useful life assumptions described in Table 1 shall be reviewed at least annually by each financial year-end. For Intangible Assets, amortisation periods and methods described in Table 1 shall be reviewed at least annually by each financial year-end. Any changes arising from these reviews will be accounted for as changes to accounting estimates.

1.6 Revaluation

For all classes of assets, revaluation shall be undertaken with sufficient regularity to ensure that carrying values do not differ materially from fair values. There was no revaluation in 2009–10.

1.7 Impairment

Property, Plant and Equipment and Intangible Assets are subject to impairment reviews to ensure that they are carried at no more than the recoverable amount: the higher of net selling price or value in use. For each financial reporting period, the LSC will assess whether there are any internal or external indications of impairment in its assets and will estimate the recoverable amounts of any such assets affected.

1.8 Subsequent measurement

Where material, any surplus arising from indexation is recognised directly in a revaluation reserve within equity, except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in the Net Expenditure Account, in which case the credit is to the Net Expenditure Account.

1.9 Subsequent measurement – IT systems

The LSC's software systems have been designed and built specifically for LSC use. They are not income generating and there was no active market for them. As there are no appropriate indices to apply to these assets, the LSC therefore considers depreciated historical cost to be the most suitable model of depreciated replacement cost (as a proxy for fair value).

1.10 Leases

Operating leases and the rentals are charged to the Net Expenditure Account on a straight-line basis over the lease term.

1.11 Receivables: programme expenditure

Programme receivables derive from various programmes. They mostly reflect part of the normal operation of the reconciliation process of the respective programme to ensure that only amounts earned on the basis of actual delivery are paid to providers and recorded in the LSC's accounts. In the vast majority of cases, these amounts are offset against future payments to providers and recovered (usually in following month).

The LSC also has receivables that are the result of assurance work. This work may determine either:

- an actual amount that needs to be recovered from a provider, or
- a data error that is extrapolated across the data population to determine an amount to be recovered from a provider.

These amounts are only included in the LSC's accounts when a reliable value for the recovery has been established. In most cases, the amounts are recovered through in-year data adjustments that result in reduced future payments to providers.

1.12 Provisions

Provisions are recognised when it is probable that the LSC has been required to settle a present obligation and a reliable estimate can be made of that obligation. The obligation is normally the amount that the LSC would pay to settle the obligation at the Statement of Financial Position date or to transfer it to a third party at that time. Where the impact is material, expected future cash flows have been discounted using an appropriate discount rate.

1.13 Financial instruments

The LSC has been party to many contracts in the course of providing programme funding and in the course of its own operation that have given rise to assets and liabilities in its Statement of Financial Position. Where such financial instruments are deemed to have a significant impact on the medium to long term financial risk profile of the LSC, they have been recognised in the financial statements in accordance with International Accounting Standards (IAS) 39 and details are disclosed in accordance with the provisions of IFRS 7.

1.14 Grant-in-aid from the sponsoring department

All grant-in-aid has been recorded as financing as it is a contribution from the LSC's controlling party giving rise to a financial interest. It is recorded as financing in the Statement of Cash Flows and credited to the general reserve.

1.15 Cost of capital

A charge, reflecting the cost of capital, is included in the Net Expenditure Account. This charge is calculated at the Government's standard rate of 3.5 per cent in real terms on all assets less liabilities, except for bank balances at the Office of HM Paymaster General. When the average capital employed over the year is negative, the cost of capital becomes notional income.

1.16 Programme accounting basis

Learning participation

Learning participation programme expenditure is recognised in the accounts when the grant is paid to colleges in line with an agreed profile for the academic year.

The LSC has sometimes paid advances of funding to colleges that experience cash flow difficulties. These are repayable, usually over a short term, through profiled deductions from future payments. Where they have not been recovered by the year-end, the balances are included within advances and FE college debtors.

Capital funding

Funding for the building of FE colleges is recognised in the financial year that the funding is fully approved and in accordance with the LSC Capital Handbook. This usually means that fully verified claims for capital project funding that are received between 2 February in the previous financial year and 1 February in the current financial year count as expenditure in the current financial year.

Exceptionally, the conditions of the capital grant funding to colleges have allowed the LSC to bring forward approvals of payments for evidenced capital expenditure, but only where it has had the funds available to do so. Where they have occurred, the approved values have also been recognised as expenditure in the current year.

Exceptional funding support

Exceptional funding support provided to colleges in difficulty has been charged to expenditure over the life of the agreed recovery plan, which typically covers a period of four years. Where the plan is for a period of greater than one year, this element of the funding is shown in FE college prepayments.

Youth and adult analysis

For the academic year ending 31 July 2009, allocations to FE institutions were mainly assigned between Youth and Adult. Only a small element of the allocations required apportionment into Youth and Adult, and this was based on the allocations already detailed in the age bands.

Apprenticeships

Apprenticeships programme expenditure is accounted for on the basis of providers' actual delivery (subject to contract value) in the financial year concerned.

Train to Gain

Train to Gain programme expenditure is accounted for on the basis of providers' actual delivery of training and services.

Adult safeguarded learning (ASL)

ASL programme expenditure is accounted for on the basis of the utilisation of funds paid to local authorities (LAs). The LSC recognises a debtor at each year-end representing amounts of unspent funds, based on use of funds statements submitted by LAs for the academic year that has ended in the financial year of account. The LSC has recovered any unspent funds or allowed LAs to utilise the unspent funds in the following year.

School sixth forms

School sixth form programme expenditure is accounted for on the basis of amounts that are due to LAs in order to pay school sixth forms in their locality. The amounts due are based on the LSC formula funding and the Government's Real Term Guarantee.

Education Maintenance Allowance

Education Maintenance Allowance (EMA) expenditure is recognised in the accounts when the administrator of the scheme has certified attendance by invoice. Costs associated with administering the scheme are charged to the accounts on the basis of activity completed by the end of the financial year. This was first applied in 2009–10.

1.17 Employee benefits

Pension and superannuation costs

The LSC's employees have been covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS and the LSC has been unable to identify its share of the underlying assets and liabilities. The cost of pension cover provided for the staff who were employed by the LSC has been met by payment of charges calculated on an accruing basis. The accruing cost of providing for future benefits for these employees has been charged to the Net Expenditure Statement so as to spread the total cost over the estimated remaining service lives of employees in each scheme. For unfunded schemes such as the PCSPS this is achieved by charging the actuarially calculated accruing superannuation liability charges paid by each individual body.

There is a separate scheme statement for the PCSPS as a whole.

Early retirement costs

Where the LSC was required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retired early, provision was made in full for this cost when the early retirement programme had been announced and was binding. In certain circumstances, settlement of

some or all of the liability may have been made in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The prepayment and provision are disclosed separately.

Other employee benefits

This includes the value of untaken holiday leave at the financial year-end, which has been recognised on an accrual basis.

1.18 VAT

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.19 Other income: European Social Fund (ESF)

Funding for certain projects was received from the European Commission. This income has been matched to the expenditure profile for each project concerned and any balance at the end of the financial year transferred to deferred income (or income may be accrued where the expenditure exceeds income received for any particular financial year as appropriate). Other income principally comprises fees and charges for goods or services provided and is stated after deducting recoverable VAT.

1.20 Segmental reporting

Under HM Treasury guidance in the FReM, the LSC has been expected to meet the requirements of IFRS 8 to report information concerning operating segments where the criteria under IFRS 8 are met.

The LSC considers that its activities have contributed to an overall mission within the same business environment

and there have been no separable operating segments. The analysis of programme and administration expenditure and income in these financial statements reflects the presentation of financial information in the LSC's management accounts, which have been reviewed regularly by the LSC's chief operating decision-maker, the Chief Executive, and the senior management team.

Notwithstanding the division of assets and liabilities as part of the Machinery of Government changes at 31 March 2010, the LSC managed its assets and liabilities at the entity level during the year, and therefore the distribution of assets and liabilities to those programmes and administration has not been disclosed.

1.21 Accounting judgments and estimates

Other than for the determination of provisions for liabilities and charges, and financial guarantees, no material accounting estimates or judgements were made by the LSC in preparing these accounts.

1.22 Accounting developments

Accounting standards: issued but not effective

At the end of the reporting period, the accounting standards and interpretations detailed in Table 2 opposite were in issue but were not yet effective and these have not been applied to these accounts by the LSC.

Table 2: Accounting standards

Standard	Issued date	Future effective date	Impact on LSC/Skills Funding Agency/Young People's Learning Agency
Revised IAS 24: Related party disclosures	November 2009	1 January 2011	<p>The LSC could apply the exemption that relates to transactions between state-controlled entities but would need to disclose the following:</p> <ul style="list-style-type: none"> • Name of state or state-related entity and nature of relationship • Types of significant transaction with them and quantitative and qualitative indication of their extent (e.g. 50% of its sales of goods) <p>Impact may be additional disclosures for transactions with the Department for Work and Pensions (DWP) (ESF).</p>
IFRIC 19: Extinguishing financial liabilities with equity instruments	November 2009	1 July 2010	The LSC did not have equity instruments so this does not apply.
Amendment to IFRIC 14 of IAS 19: The limit on a defined benefit asset, minimum funding requirements and their interactions	November 2009	1 January 2011	The LSC pension benefits were provided by a multi-employer scheme, and it has been unable to identify its share of the underlying assets and liabilities. Therefore this standard does not directly apply to the LSC.
IFRS 9: Financial instruments	November 2009	1 January 2013	<p>Covers the classifications and measurements of financial assets.</p> <p>(Intended to replace IAS 39.)</p> <p>No significant impact.</p>
IFRS 1 amendment: exemption from comparative IFRS 7 disclosures for first-time adopters	January 2010	1 July 2010	The LSC only had one financial instrument, and that did not require fair value disclosures, so the exemption is irrelevant.
Various minor amendments to IFRS and IFRICs in the 'Annual Improvements Process'		Ongoing, effective date of 1 January each year	No significant impact.

Note

The organisations that take forward LSC activity will determine the impact of new accounting and reporting standards in preparing their future accounts.

2 First-time adoption of IFRS

£'000

Taxpayers' equity at 31 March 2008 under UK generally accepted accounting principles (GAAP)	(220,245)
Reclassification: IAS 38 Intangible Assets – IT systems (from tangible assets)	(37,617)
Reclassification: IAS 38 Intangible Assets – IT systems to intangible assets	37,617
Adjustments: IAS 19 Employee Benefits – compensated holiday absences	(854)
Cost of capital	(15)
Cost of capital (reversed through reserves)	15

Taxpayers' equity at 1 April 2008 under IFRS (221,099)

Net expenditure for 2007–08 under UK GAAP	11,080,691
Adjustments: IAS 19 Employee Benefits – compensated holiday absences	854
Adjustments: cost of capital	(15)

Net expenditure for 2007–08 under IFRS 11,081,530

Taxpayers' equity at 31 March 2009 under UK GAAP	(164,269)
Reclassification: IAS 38 Intangible Assets – IT systems from tangible assets	(67,176)
Reclassification: IAS 38 Intangible Assets – IT systems to intangible assets	67,176

Taxpayers' equity at 31 March 2009 under IFRS (164,269)

Net expenditure for 2008–09 under UK GAAP	11,828,504
Adjustments: IAS 19 Employee Benefits – compensated holiday absences	(854)
Cost of capital	(15)

Net expenditure for 2008–09 under IFRS 11,827,635

Notes

The date of the transition to IFRS was 1 April 2008.

The adoption of IAS 38 Intangible Assets meant that all IT systems developed and owned by the LSC were reclassified from tangible assets under UK GAAP to intangible assets under IFRS. This change had no impact on the overall financial position of the LSC.

The adoption of IAS 19 Employee Benefits required the LSC to account for the value of paid holiday leave that was unused at the year-end.

The adoption of IFRS had no impact on the cash position of the LSC.

3a Programme expenditure

	Funding department	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000	
3.01	School sixth forms			
	School sixth forms	DCSF	2,125,821	2,039,156
	Teachers' pay grant and significant growth	DCSF	75,073	74,124
	Total school sixth forms		2,200,894	2,113,280
3.02	16–18 further education			
	FE 16–18 Participation	DCSF	3,350,647	3,090,690
	FE 16–18 Additional Learner Support	DCSF	222,071	206,808
	FE 16–18 International Bacculaureate	DCSF	0	1,040
	Total 16–18 further education		3,572,718	3,298,538
3.03	Family Learning Impact Funding			
	Family Learning Impact Funding	DCSF	9,125	8,240
	Total Family Learning Impact Funding		9,125	8,240
3.04	Young People Apprenticeships			
	16–18 Apprenticeships	DCSF	687,815	629,561
	Entry to Employment	DCSF	221,112	169,361
	Total Young People Apprenticeships and Entry to Employment		908,927	798,922
3.05	Learners with learning difficulties and/or disabilities (LLDD)			
	LLDD specialist colleges	DCSF	216,701	207,925
	Learning for Living and Work (LFLW) Development Fund	DCSF	11,122	13,657
	LLDD forensic units	DCSF	6,212	2,956
	Total LLDD		234,035	224,538
3.06	Learner Support			
	16–18 Helpline Assessment and Payment Body (HAPB) administration costs	DCSF	100	710
	16–18 school sixth form hardship	DCSF	3,188	3,301
	16–18 FE hardship	DCSF	20,583	22,385
	Local education authority (LEA) transport partnership	DCSF	10,552	12,078
	16–18 residential bursaries	DCSF	4,891	4,961
	Care to Learn	DCSF	38,259	33,913
	Childcare for Training and Learning at Work	DCSF	11,565	8,009
	Dance and Drama Awards	DCSF	13,753	14,416
	Education Maintenance Allowance (EMA) student payments	DCSF	553,614	490,203
	EMA sector administration	DCSF	31,101	34,972
	EMA marketing	DCSF	3,038	5,853
	EMA programme maintenance	DCSF	149	684
	Total Learner Support		690,793	631,485

	Funding department	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000	
3.07	14–19 reform			
	Education business links	DCSF	25,095	24,723
	Learning Agreement pilots	DCSF	2,708	16,429
	Young people not in education, employment or training	DCSF	0	4,969
	Increasing flexibility for 14–16-year-olds	DCSF	0	(45)
	Young Apprenticeships	DCSF	27,872	28,249
	14–19 fighting funds	DCSF	14,297	28,532
	16–18 structural support	DCSF	7,945	5,430
	National Apprenticeship Service – DCSF	DCSF	17,386	4,708
	Parents-to-be scheme	DCSF	3,672	3,498
	14–19 Apprenticeship Improvements	DCSF	1,566	1,762
	Key Stage 4 engagement programme	DCSF	811	2,347
	Area inspections/LA buyout	DCSF	0	371
	Entry to Employment Community Service Capacity	DCSF	1,115	0
	Framework for Excellence school sixth form pilot	DCSF	287	0
	Total 14–19 reform		102,754	120,973
3.08	Joint capital fund			
	16–19 joint capital fund	DCSF	212,782	196,822
	Total joint capital fund		212,782	196,822
3.09	19+ further education			
	Participation	BIS	1,323,377	1,272,317
	Additional Learner Support	BIS	153,521	147,197
	Structural support	BIS	28,887	3,816
	First Steps provision (via ASL providers)	BIS	34,873	34,629
	Capital loan support	BIS	6,971	3,067
	Isles of Scilly and adult bursaries	BIS	2,624	2,554
	Access to Music	BIS	2,332	5,358
	Response to redundancy – six-month offer	BIS	25,505	0
	Young Persons Guarantee	BIS	6,189	0
	Total 19+ further education		1,584,279	1,468,938
3.10	Other adult responsive			
	Employability Skills programme	BIS	49,677	30,310
	University for Industry programme	BIS	143,316	158,305
	Total other adult responsive		192,993	188,615
3.11	Adult Apprenticeships			
	19+ Apprenticeships	BIS	267,738	252,851
	25+ Apprenticeships	BIS	116,482	94,437
	Total Adult Apprenticeships		384,220	347,288

	Funding department	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000	
3.12	Train to Gain			
	Delivery (includes wage compensation)	BIS	822,663	769,932
	Brokerage	BIS	(222)	44,497
	Infrastructure	BIS	5,908	39,679
	Compacts	BIS	4,555	0
	Level 3 pilots	BIS	0	7,849
	Higher skills for women	BIS	0	4,335
	Marketing	BIS	1,998	8,441
	Evaluation	BIS	190	1,531
	19+ FE employer-based NVQs	BIS	0	0
	Response to redundancy	BIS	20,303	0
	Leadership and management	BIS	25,643	10,594
	Total Train to Gain		881,038	886,858
3.13	Adult safeguarded learning			
	Personal and community development learning (PCDL) safeguarded (ASL providers)	BIS	123,307	123,618
	Neighbourhood learning in deprived communities	BIS	20,449	20,776
	Family language, literacy and numeracy	BIS	24,469	25,300
	Family learning	BIS	11,753	12,455
	PCDL safeguarded (FE providers)	BIS	30,893	31,938
	Total adult safeguarded learning		210,871	214,087
3.14	Offender learning			
	Offender learning	BIS	140,535	139,045
	Total offender learning		140,535	139,045
3.15	Learner Support 19+			
	HAPB administration costs	BIS	0	1,183
	Hardship	BIS	41,554	43,541
	Discretionary Learner Support for English for speakers of other languages (ESOL)	BIS	4,401	4,342
	FE students in higher education institutions	BIS	869	792
	Residential bursaries	BIS	2,322	2,385
	Residential pilots	BIS	2,274	1,241
	Childcare	BIS	31,766	32,923
	Sixth Form Childcare scheme	BIS	2,530	1,946
	Adult Learning Grant	BIS	30,403	29,953
	Career Development Loans (interest costs)	BIS	5,013	10,252
	Total Learner Support 19+		121,132	128,558

	Funding department	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000	
3.16	Adult skills reform			
	Careers Advice Service	BIS	22,424	11,647
	Adult Advancement and Careers Service	BIS	3,629	2,186
	Level 3 pilot: Removing barriers to training	BIS	1,599	4,000
	Adult information, advice and guidance	BIS	38,938	31,970
	Skills for Jobs	BIS	10,186	16,091
	Learner Accounts – trials	BIS	3,643	3,548
	Centres of Vocational Excellence (CoVE) revenue	BIS	(284)	1,931
	New Standard	BIS	1,488	4,281
	Skills for Life marketing	BIS	2,294	5,041
	New Entrepreneur scholarships	BIS	0	(447)
	UK Online	BIS	5,442	0
	Skills Accounts – carers and tax credits	BIS	64	0
	Total adult skills reform		89,423	80,248
3.17	Quality reform			
	Vocational learning improvement fund	BIS	925	1,089
	Local initiatives fund	BIS	261	1,169
	Raising disability access	BIS	4,188	5,017
	Marketing and communications	BIS	5,656	18,256
	Frontline delivery – Health & Safety	BIS	2,626	2,754
	ESF match funding	BIS	(1,204)	(59)
	Research	BIS	2,474	5,418
	'Golden hellos'	BIS	8,135	7,836
	Framework for Excellence	BIS	6,581	7,177
	Learning and Development Fund	BIS	2,687	3,913
	Mathematics in Education and Industry	BIS	0	2,198
	Initial teacher training	BIS	0	(112)
	World Skills	BIS	0	2,800
	National Apprenticeship Service – BIS	BIS	12,574	7,777
	Managing Information across Partners	BIS	6,869	13,632
	Qualifications and Credit Framework	BIS	9,147	1,901
	Community learning champion	BIS	109	0
	Other quality reform	BIS	4,798	3,006
	Total quality reform		65,826	83,772

	Funding department	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000	
3.18	Capacity and infrastructure			
	National Employer Service delivery	BIS	2,479	2,149
	Skills Pledge	BIS	23	2,635
	Sector skills pilots	BIS	0	2,353
	National Skills Academies	BIS	14,553	14,328
	Skills coaching	BIS	0	596
	Information and learning technology (ILT) – Joint Information Systems Committee revenue	BIS	25,079	24,414
	ILT revenue costs	BIS	0	560
	External financial assurance	BIS	2,905	3,814
	Aimhigher	BIS	9,338	9,338
	Data services	BIS	2,967	2,612
	Other capacity and infrastructure	BIS	9,875	2,099
	Total capacity and infrastructure		67,219	64,898
3.19	BIS capital programmes			
	FE capital buildings	BIS	861,409	543,475
	FE CoVE capital	BIS	0	212
	ASL capital buildings	BIS	13,111	4,908
	FE/ASL DDA	BIS	0	664
	Neighbourhood learning in deprived communities	BIS	1,878	9,306
	Systems development	BIS	17,395	18,165
	FE Capital – ILT	BIS	20,493	23,087
	Colleges in difficulty	BIS	1,481	3,031
	LEA loan liabilities	BIS	3,876	4,045
	Regional Skills Capital Development	BIS	1,512	0
	National Skills Academies – capital	BIS	580	0
	PCDL defaults	BIS	24,969	39,450
	PCDL receipts	BIS	(2,325)	(2,589)
	Total BIS capital programmes		944,379	643,754
3.20	Non-departmental programmes			
	ESF 2003/06	–	3,885	67,384
	ESF 2007/13	–	234,022	93,442
	ESF response to redundancy	–	29,199	0
	Other non-departmental programmes	–	62,463	72,260
	Total non-departmental programmes		329,569	233,086
	Total programme expenditure		12,943,512	11,871,945

Notes

The descriptions and classification of some programmes have been changed in 2009–10 to reflect the Grant Letter and reporting requirements of BIS and DCSF for the same year. Comparatives for 2008–09 have been amended so as to ensure consistency. There is no financial impact as the change represents a re-analysis of the same programmes.

Grants to the private sector totalling £2,205,291 (2008–09: £2,019,471) are included in the values above.

3b Programme expenditure by regional office

Region	Year ended	Year ended
	31 March 2010	31 March 2009
	£'000	£'000
East of England	1,238,653	1,142,084
East Midlands	1,060,105	982,607
Greater London	2,121,258	1,966,508
North East	765,033	710,177
North West	1,834,347	1,685,784
South East	1,869,765	1,789,005
South West	1,183,523	1,073,507
West Midlands	1,609,854	1,382,545
Yorkshire and the Humber	1,260,974	1,139,728
Total programme expenditure by region	12,943,512	11,871,945

4 Assurances on entitlement to, and the proper use of, LSC funds

In order to gain assurance over the proper use of public funds by learning providers, the LSC established regional and national office audit teams within the Provider Financial Management function. As set out in the Accounting Officer's Statement on Internal Control, the national and regional audit teams were responsible for planning, co-ordinating and delivering a programme of work to secure this assurance. The outcomes of audit work were scrutinised by regional and national LSC audit committees.

The approaches used to obtain assurance depended on the risks associated with providers and funding streams, and were designed to minimise bureaucracy on providers. In broad terms, where grant funding is provided to other public bodies such as FE colleges, the LSC relied on audit work carried out by the public bodies' auditors, working to an audit code of practice and standards set by the LSC. For private sector and other training providers funded under contract, the LSC's national and regional audit teams carried out their own audit work to ensure that funds were properly applied in the delivery of those contracts.

Assurance on grants

Included in these financial statements are grants to further education (FE) learning providers that the LSC has paid for the academic years ending 31 July 2009 (four months) and 31 July 2010 (eight months).

The mis-match between the accounting periods means that certain formal assurances on entitlement and the proper use of the funds will only be received from these providers in line with their own annual accounts-reporting timetables, which extend beyond that for these financial statements. Alternative arrangements have therefore been put in place to provide interim assurance as at 31 March 2010. The overall picture is described below.

4a FE colleges and other FE providers

During the financial year 2009–10, the LSC paid grants of £6,050 million (2008–09: £5,379 million) to colleges and other providers of FE. With the arrival of demand-led funding in 2008–09, the LSC reintroduced a programme of funding audits at colleges based on the approach that had been in place before the implementation of plan-led funding in 2004–05. The funding audits replaced the cyclical reviews of learner eligibility and existence. All colleges were risk

assessed, and the 75 highest-risk colleges had a funding audit that was completed by outsourced audit firms in accordance with a standard funding audit programme. As a result of the audit work, four colleges received qualified opinions, and agreed improvement plans have been put in place to address the underlying control weaknesses at these colleges. All colleges are required to return a year-end funding claim certified by the principal.

For the majority of colleges the primary sources of assurance for the LSC's 2009–10 financial statements are the audit opinion on their own financial statements for the academic year ended 31 July 2009 and the regularity audit opinion. The regularity audit at colleges took place alongside the financial statements audit. Colleges provided the LSC with an audited statement on regularity, propriety and compliance, signed by the chair and principal on behalf of the governing body. As a result of the regularity audit work, three colleges received qualified opinions, but both cases related to isolated incidents, and there are no underlying concerns.

The position in respect of the 2008–09 academic year is shown in Table 3.

Table 3: Position of FE colleges in 2008–09 academic year (£5,835 million grant funding) (2007–08 academic year: £5,656 million)

	Due	Received	Outstanding
Audited final funding claims	75	75	–
Financial statements	359	358	1
Final regularity opinions	359	358	1

Notes

One college has both its financial statements and regularity opinion outstanding. This college is being and will continue to be pursued by the Skills Funding Agency.

Funding audits for 2008–09 were carried out at three other FE providers, all of which resulted in clean opinions, together with seven follow-up visits of the 2007–08 funding audits. The follow-up visits were carried out to ensure that these providers had taken appropriate action to address weaknesses identified during their 2007–08 funding audits. A total of £228 million (2008–09: £249 million) was received by the other FE providers.

Ufi Ltd

Throughout 2009–10 the responsibility for the audit of learndirect activity rested with Ufi Ltd. Ufi Ltd had established an adequate assurance framework on which the LSC placed reliance. The National Office Provider Financial Assurance (NOPFA) audit team monitored and quality assured the outcomes of Ufi Ltd’s assurance work in respect of Adult Responsive funding. The Yorkshire and Humberside Regional Provider Financial Assurance team carried out direct assurance work on Ufi Ltd’s Employer Responsive provision. Ufi Ltd was also subject to regularity auditing in conjunction with their financial statements auditing in the same manner as at FE colleges.

For the year ending 31 July 2009, 147 LAs that received funding in the period have submitted their self-certified use of ASL funding statements to the LSC.

4c School sixth forms

The LSC paid LAs £2,201 million (2008–09: £2,113 million) for school sixth forms in the financial year 2009–10. Four months of this relates to the 12-month period ending 31 July 2009. Eight months relates to the academic year ending 31 July 2010.

During 2009–10 all schools were required to make two returns to DCSF through LAs, in November and May. The LSC calculated funding for each school sixth form in the year ending 31 July 2010 using data from the autumn 2008 return and pupil numbers per the autumn 2008 census learner numbers count. Autumn 2008 pupil census data was audited in summer 2009 at a sample of 301 schools.

4d Education Maintenance Allowance (EMA)

EMA expenditure was £588 million in the financial year 2009–10 (2008–09: £532 million). The LSC undertook a rolling programme of work to provide assurance on the EMA expenditure it had incurred over the course of the financial year.

Assurance was obtained through direct audit work carried out by the NOPFA team on the contractor responsible for processing and paying EMA applications. Further direct assurance work took place at colleges and learning providers by the nine regional audit teams, or by placing reliance on the work of externally contracted auditors. The results of the assurance work completed in the financial year 2009–10 raised no concerns over the use of funds in that year.

The NOPFA team was also responsible for delivering and managing the assurance work on other Learner Support funds, e.g. Adult Learning Grants. The NOPFA team carried out some of this assurance work directly, and further work was undertaken by other auditors.

Assurance on contracts

Note 3a of these financial statements includes payments made in respect of programmes such as Apprenticeships, Train to Gain and ESF. The LSC’s regional audit teams delivered assurance over learning providers’ use of funds based on audit plans which had been approved by the LSC’s Regional Audit Committees. Coverage of providers and funding streams was dependent on a detailed risk assessment, and audits took place on a cyclical basis. Where audit teams identified funds at risk, the LSC had taken action to recover funding.

4b Adult safeguarded learning

The LSC paid £195 million (2008–09: £249 million) for ASL to LAs in England in the financial year 2009–10. Four months of this relates to the academic year ending 31 July 2009 and eight months relates to the academic year ending 31 July 2010.

The LA funding and expenditure statements over the use of ASL were self-certified by LA finance directors, and then these were submitted to the regional PFA teams of the LSC, who carried out a 100 per cent review of them. The results of these reviews were communicated to partnership directors at the LSC’s area offices, for follow-up and action, as appropriate.

5a Staff costs

Information in respect of board members' and senior employees' emoluments and pension entitlements is provided in the Remuneration Report on pages 21 to 31.

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
The aggregate payroll costs for the LSC were as follows:		
Salaries*	130,048	122,325
Social security*	11,452	10,817
Pension costs	24,120	24,179
Redundancies and payment in lieu of notice*	1,363	(14)
	166,983	157,307
Other staff (includes agency/contract/seconded staff)	3,750	4,693
	170,733	162,000
Staff costs related to programmes	(35,834)	(34,801)
Total staff costs	134,899	127,199

* Includes £3.9 million relating to the buy-out of staff benefits of staff transferring to local authorities, and £0.9 million of severance costs as a consequence of Machinery of Government changes. These costs were separately funded by BIS (£0.5 million) and DCSF (£4.3 million). See also note 23a.

5b Pension costs – Principal Civil Service Pension Scheme employer contributions

Pension benefits were provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. The LSC has been unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2009. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (civilservice-pensions.gov.uk).

For 2009–10, employers' contributions of £22,973,163 were paid to the PCSPS by 31 March 2010 (2008–09: £23,419,088) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay (2008–09: 17.1 per cent to 25.5 per cent), based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates were set to meet the cost of the benefits accruing during 2009–10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £171,363 (2008–09: £171,009) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age related and ranged from 3 per cent to 12.5 per cent of pensionable pay. Employers also matched employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £13,377 (2008–09: £12,844) representing 0.8 per cent of pensionable pay were payable to PCSPS to cover the cost of future provision of lump-sum benefits on death in service and ill-health retirement.

No contributions were outstanding to the partnership pension providers at the balance sheet dates of 31 March 2010 and 31 March 2009.

5c Average number of staff employed

(i) Year ended 31 March 2010

	Senior management staff number	Payroll staff number	Inward seconded staff number	Agency/temporary staff number	Total staff number
The average number of staff employed during the year, including the Chief Executive, was:					
Adults Learning, Skills and Employment	0	138	0	14	152
Young People's Learning and Skills	1	62	0	7	70
Finance and Resources	3	207	2	21	233
Funding, Planning and Performance	1	113	2	16	132
Human Resources	1	62	1	4	68
Sector Shared Services	0	67	1	8	76
National Apprenticeship Service	1	327	2	4	334
Regional and local LSCs	10	2,052	6	34	2,102
Total	17	3,028	14	108	3,167

(ii) Year ended 31 March 2009

	Senior management staff number	Payroll staff number	Inward seconded staff number	Agency/temporary staff number	Total staff number
The average number of staff employed during the year, including the Chief Executive, was:					
Adults Learning, Skills and Employment	1	135	0	17	153
Young People's Learning and Skills	1	66	0	4	71
Finance and Resources	1	212	0	17	230
Funding, Planning and Performance	2	130	3	8	143
Human Resources	1	64	1	2	68
Sector Shared Services	0	36	0	6	42
National Apprenticeship Service	0	11	1	2	14
Regional and local LSCs	12	2,446	12	38	2,508
Total	18	3,100	17	94	3,229

6a Administration (other costs)

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
National and regional council members' emoluments*	1,069	692
National and regional council members' associated travel and subsistence costs*	48	186
Travel and subsistence – staff	10,193	10,189
Recruitment and training	3,548	3,943
Furniture and office equipment	144	119
IT and computer maintenance	12,390	11,279
Telecommunications and postage	3,601	3,461
Publications, printing and publicity	1,497	2,140
General administration expenditure	2,394	3,129
Premises	55,828**	25,149
External audit fee	257***	230†
Legal fees and other audit fees	16,392	18,332
	107,361	78,849
Non pay costs related to programmes	(24,416)	(25,215)
Total	82,945	53,634

*During 2009–10 the LSC introduced payment for chairs and members of regional councils. This explains the apparent increase in national and regional council members' emoluments. Members' travel and subsistence costs fell accordingly as remunerated members were not eligible for travel costs to council meetings.

**Includes £36.9 million provision for one-off property disposal costs arising from Machinery of Government changes.

***£242,000 of the 2009–10 value relates to the statutory audit of the LSC's financial statements, and the balance relates to audit fee work in support of the conversion to IFRS in 2009–10.

†£220,000 of the 2008–09 value relates to the statutory audit of the LSC's financial statements, and the balance relates to audit fee work in support of the conversion to IFRS in 2009–10.

6b Depreciation, impairment and losses on disposal

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Property, Plant and Equipment (note 9)		
Depreciation charge for period	3,252	3,283
Loss on disposal	3,785	349
Loss on impairment	0	51
Intangible Fixed Assets (note 10)		
Amortisation charge for period	19,925	12,362
Loss on disposal	2,086	130
Loss on impairment	0	1,955
Total charged for period	29,048	18,130

7 Other income

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Other funding for activities		
ESF 2003/06	3,914	65,509
ESF 2007/13	235,806	93,442
Other programme income	89,886	72,464
	329,606	231,415
Income from activities		
Sub-letting of part of premises	1,571	1,408
Other activities income	27	49
	1,598	1,457
Total other income	331,204	232,872

8 Cost of capital

Guidance given by HM Treasury in the Financial Reporting Manual (FRM) requires non-departmental public bodies (NDPBs) to disclose the full cost of their activities in their accounts. The LSC has therefore included in its accounts charges for the cost of capital.

The cost of capital has been arrived at by calculating a rate of 3.5 per cent to the average capital employed.

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Capital employed as at 1 April	(275,092)	(319,265)
Capital employed as at 31 March	(237,331)	(275,092)
Average capital employed	(256,212)	(297,179)
Interest on capital at 3.5 per cent per annum	(8,967)	(10,401)

9 Property, Plant and Equipment

(i) As at 31 March 2010

	Furniture and fittings £'000	Plant and machinery £'000	Computers and other IT £'000	Total purchased £'000
Cost or valuation				
At 1 April 2009	23,621	694	6,746	31,061
Additions	240	0	7	247
Disposals	(7,802)	(76)	(2,081)	(9,959)
At 31 March 2010	16,059	618	4,672	21,349
Depreciation				
At 1 April 2009	(12,236)	(640)	(5,660)	(18,536)
Disposals	4,109	73	1,992	6,174
Charge for period	(2,745)	(30)	(477)	(3,252)
At 31 March 2010	(10,872)	(597)	(4,145)	(15,614)
Net book value (NBV)				
At 1 April 2009	11,385	54	1,086	12,525
Total NBV tangible fixed assets at 31 March 2010	5,187	21	527	5,735

(ii) As at 31 March 2009

	Vehicles £'000	Furniture and fittings £'000	Plant and machinery £'000	Computers and other IT £'000	Total purchased £'000
Cost or valuation					
At 1 April 2008	7	24,411	743	9,091	34,252
Additions	0	(17)	28	142	153
Disposals	(7)	(773)	(77)	(2,369)	(3,226)
Impairment	0	0	0	(118)	(118)
At 31 March 2009	0	23,621	694	6,746	31,061
Depreciation					
At 1 April 2008	(7)	(10,118)	(675)	(7,389)	(18,189)
Disposals	7	466	77	2,319	2,869
Charge for period	0	(2,584)	(42)	(657)	(3,283)
Impairment	0	0	0	67	67
At 31 March 2009	0	(12,236)	(640)	(5,660)	(18,536)
Net book value (NBV)					
At 1 April 2008	0	14,293	68	1,702	16,063
Total NBV tangible fixed assets at 31 March 2009	0	11,385	54	1,086	12,525

All impairment included above is charged to the Net Expenditure Account.

10 Intangible Fixed Assets

(i) As at 31 March 2010

	IT assets under construction £'000	IT systems £'000	IT software £'000	Total purchased £'000
Cost or valuation				
At 1 April 2009	7,710	95,446	2,391	105,547
Reclassifications	(10,816)	10,816	0	0
Additions*	12,864	27,646	73	40,583
Disposals	0	(12,615)	(583)	(13,198)
At 31 March 2010	9,758	121,293	1,881	132,932
Amortisation				
At 1 April 2009	0	(35,980)	(2,010)	(37,990)
Disposals	0	10,500	554	11,054
Charge for period	0	(19,601)	(324)	(19,925)
At 31 March 2010	0	(45,081)	(1,780)	(46,861)
Net book value (NBV)				
At 1 April 2009	7,710	59,466	381	67,557
Total NBV Intangible Fixed Assets at 31 March 2010	9,758	76,212	101	86,071

(ii) As at 31 March 2009

	IT assets under construction £'000	IT systems £'000	IT software £'000	Total purchased £'000
Cost or valuation				
At 1 April 2008	7,000	56,104	2,404	65,508
Reclassifications	(26,320)	26,320	0	0
Additions	27,030	16,503	80	43,613
Disposals	0	(713)	(93)	(806)
Impairment	0	(2,768)	0	(2,768)
At 31 March 2009	7,710	95,446	2,391	105,547
Amortisation				
At 1 April 2008	0	(25,487)	(1,630)	(27,117)
Disposals	0	590	86	676
Charge for period	0	(11,896)	(466)	(12,362)
Impairment	0	813	0	813
At 31 March 2009	0	(35,980)	(2,010)	(37,990)
Net book value (NBV)				
At 1 April 2008	7,000	30,617	774	38,391
Total NBV Intangible Fixed Assets at 31 March 2009	7,710	59,466	381	67,557

All impairment shown above is charged to the Net Expenditure Account.

*The LSC continued to invest in IT systems in its final year so as to pass on systems that were fit for purpose to the bodies taking on its functions.

11a Trade receivables and other current assets

	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 1 April 2008 £'000
Amounts falling due within one year			
Trade and other receivables			
Advances and other FE college receivables	28,786	42,444	5,284
Work-based learning receivables	5,230	7,943	6,109
School sixth form receivables	59	0	55
Trade receivables	1,070	536	1,089
ESF and other receivables	27,794	37,913	61,491
	62,939	88,836	74,028
Prepayment and accrued income			
ESF and other accrued income	133,775	108,677	89,476
FE college prepayments	32,876	36,712	41,706
Work-based learning prepayments	0	82	0
Administration cost prepayments	4,670	6,665	5,500
Other prepayments	6,204	7,944	8,357
	177,525	160,080	145,039
Capital receivables (sale proceeds of non-current assets)	43	0	2
Total receivables and other current assets	240,507	248,916	219,069

Receivables include a provision for doubtful debts of £14.4 million at 31 March 2010 (2008–09: £12.6 million).

11b Trade receivables and other current assets analysed by type of organisation

The following note provides an analysis of the receivables, accrued income and prepayments detailed above by type of organisation.

	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 1 April 2008 £'000
Current receivables			
Local authorities	12,597	15,989	17,174
NHS trusts	64	166	28
Public corporations and trading funds	708	785	978
Other central government bodies	151,525	124,713	87,993
Balances with other government bodies	164,894	141,653	106,173
Balances with non-governmental bodies	75,613	107,263	112,896
Sub-total current receivables	240,507	248,916	219,069
Non-current receivables			
Balances with non-governmental bodies	0	0	0
Total receivables by organisation type	240,507	248,916	219,069

12 Cash and cash equivalents

	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 1 April 2008 £'000
Cash held at the Office of Paymaster General	150,821	110,823	98,166
Cash held at other banks and in hand	166	464	180
Total	150,987	111,287	98,346

BIS authorises a working balance at 31 March of 1 per cent of the total resource budget agreed for the financial year. This working balance excludes funding for ESF which is also included in the cash held at the Office of Paymaster General above.

The LSC does not hold any cash equivalents.

The performance against the BIS working balance target is detailed below:

	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 1 April 2008 £'000
Total resource budget	12,955,066	11,885,371	11,279,319
1 per cent thereof	129,551	118,854	112,793
Paymaster General account balance for BIS funding within the above	7,279	47,671	29,894

13a Trade payables and other current liabilities

	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 1 April 2008 £'000
Amounts falling due within one year			
Trade payables	4,223	4,276	8,604
FE college payables	2,497	36,239	13,706
Work-based learning payables	143,154	189,592	133,539
School sixth form payables	28	306	611
Tax and social security	53	54	25
ESF and other payables	11,395	18,190	37,837
	161,350	248,657	194,322
ESF and other deferred income	26,500	26,265	64,635
Work-based learning accruals	56,213	22,791	11,082
Other accruals	233,681	253,988	296,128
	316,394	303,044	371,845
Sub-total payables, deferred income and accruals	477,744	551,701	566,167
Capital payables	14,092	9,511	2,902
Total payables and other current liabilities	491,836	561,212	569,069

13b Trade payables and other current liabilities analysed by type of organisation

The following note provides an analysis of the payables, deferred income and accruals detailed above by type of organisation.

	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 1 April 2008 £'000
Local authorities	5,088	19,935	37,483
NHS trusts	151	386	436
Public corporations and trading funds	2,016	3,092	11,694
Other central government bodies	35,623	43,716	129,378
Balances with other government bodies	42,878	67,129	178,991
Balances with non-government bodies	448,958	494,083	390,078
Total payables by organisation type	491,836	561,212	569,069

14 Provisions for liabilities and charges

	Early retirement £'000	<i>agenda for change</i> Theme 7 £'000	Funding claims £'000	Project Connect £'000	Career Development Loans £'000	Property £'000	Machinery of Government £'000	Total £'000
Provision balance at 1 April 2008	294	18,692	1,530	3,383	0	0	0	23,899
Additional charge in year	0	3,044	0	0	3,411	0	0	6,455
Provision utilised in year	(97)	(3,403)	0	(561)	0	0	0	(4,061)
Provision unused and reversed in year	0	(2,613)	(500)	(1,771)	0	0	0	(4,884)
Provision balance at 31 March 2009	197	15,720	1,030	1,051	3,411	0	0	21,409
Provision balance at 1 April 2009	197	15,720	1,030	1,051	3,411	0	0	21,409
Additional charge in year	0	0	0	0	2,321	2,165	36,900	41,386
Provision utilised in year	(75)	(3,542)	0	0	(2,406)	0	0	(6,023)
Provision unused and reversed in year	0	(7,547)	(1,030)	(1,051)	(578)	0	0	(10,206)
Balance of provision at 31 March 2010	122	4,631	0	0	2,748	2,165	36,900	46,566
Indicative timing of outflows required to settle obligation								
Within one year	61	1,268	0	0	1,938	1,434	6,604	11,305
Between two and five years	61	3,041	0	0	810	731	19,090	23,733
Greater than five years	0	322	0	0	0	0	11,206	11,528
Balance of provision at 31 March 2010	122	4,631	0	0	2,748	2,165	36,900	46,566

Early retirement

This covers the LSC's additional pension contributions that are charged against administration expenditure. These are defined by and made to the scheme administrator for the period up to normal retirement age for individuals who retired early under the LSC's Reshaping programme.

agenda for change: Theme 7

This relates to the costs chargeable against administration of reorganising the LSC under the *agenda for change* programme. The balance covers the LSC's additional pension contributions to the scheme administrator in relation to individuals who retired early as part of *agenda for change*.

Career Development Loans

The liability to cover interest payments that occur under this programme while the students are in learning has transferred to the Skills Funding Agency. This provision reflects the probable outflow of funds in relation to the cost of covering interest-driven liabilities while the recipients of the loans complete their course.

Property

The LSC has some property that either has vacant space or will be disposed of in the near future. This provision reflects the probable cost of retaining the space or disposing of the property. The value of the provision is assessed as all of the first year's estimated costs and 80 per cent of the subsequent years' costs.

Machinery of Government

The Machinery of Government changes have resulted in the closure of the LSC and the transfer of functions to new organisations. This provision covers the costs of disposing of unneeded properties as a consequence of these changes.

15 Financial guarantee: Career Development Loans (defaults)

	Career Development Loans (defaults) £'000
Opening balance at 1 April 2008	0
Increase in the year	21,933
Balance at 31 March 2009	21,933
Opening balance at 1 April 2009	21,933
Increase in the year	19,722
Expenditure in the year	(10,247)
Unwinding of discount	0
Decrease in the year	0
Balance at 31 March 2010	31,408

Exposure to risk

The Professional and Career Development Loans (PCDL) programme operates by providing loans to students to enable them to complete a course of study. High street banks provide the loans to students at a rate of interest below what might ordinarily be offered to them in such circumstances. The LSC had a liability for the cost of default on such loans and for the interest costs of the loans while the students are in learning. The majority of the liability is for the default on the loans that, per IAS 39, is classified as a financial guarantee.

Credit risk: exposure at end of period

The majority of the liability arises from the credit risk that students will not repay the loans, and the values above show the expected value of this liability at the end of the reporting period. The values have been estimated as 15 per cent of the total forecast value of loans outstanding at the end of the reporting period.

The maximum possible value of the guarantee to cover the cost of defaults is capped at 15 per cent of the total loan portfolio advanced since the beginning of the programme and is estimated to be £37 million.

Liquidity risk

As an NDPB funded mostly by BIS and DCSF, it is unlikely that the LSC would have encountered any difficulty meeting its obligations under this financial guarantee. The rate of interest on the loans is fixed (currently at 9.9 per cent), so it is unlikely that the future cash flows to settle the obligation will change as a result of changes in the market interest rate.

Market risk

The rate of interest on the loans is fixed (currently at 9.9 per cent), so it is unlikely that the future cash flows to settle the obligation will change as a result of changes in the market interest rate. Changes in the general level of market prices or changes in foreign exchange rates are unlikely to impact on the value of the outstanding liability.

16 LSC closure and Machinery of Government changes

As a consequence of Machinery of Government changes, the LSC closed on 31 March 2010, but its functions and responsibilities have subsequently transferred to other organisations. The Young People's Learning Agency (YPLA) is a new non-departmental public body that is sponsored by the Department for Education (formerly DCSF) and will work with LAs to support and commission 14–19 provision. The Skills Funding Agency is a new agency of BIS, responsible for adult provision, including Apprenticeships and Train to Gain. In addition, BIS has taken on certain assets and liabilities, including the property provision for onerous leases.

The table below details how the assets, liabilities and reserves of the closing LSC Statement of Financial Position transferred to those bodies responsible on the basis of a property transfer order.

	LSC balances	Skills Funding Agency element	YPLA element	BIS element
	As at 31 March 2010 £'000	As at 1 April 2010 £'000	As at 1 April 2010 £'000	As at 1 April 2010 £'000
Non-current assets				
Property, Plant and Equipment	5,735	5,735	0	0
Intangible Fixed Assets	86,071	86,071	0	0
Total non-current assets	91,806	91,806	0	0
Current assets				
Trade and other receivables	240,507	220,206	18,862	1,439
Cash and cash equivalents	150,987	150,987	0	0
Total current assets	391,494	371,193	18,862	1,439
Total assets	483,300	462,999	18,862	1,439
Current liabilities				
Trade and other payables	(491,836)	(453,642)	(37,831)	(363)
Total assets less current liabilities	(8,536)	9,357	(18,969)	1,076
Non-current liabilities				
Provisions	(46,566)	(9,666)	0	(36,900)
Financial guarantee	(31,408)	(31,408)	0	0
Assets less liabilities	(86,510)	(31,717)	(18,969)	(35,824)
Represented by				
Taxpayers' equity				
General reserve	(86,510)	(31,717)	(18,969)	(35,824)
Total reserves	(86,510)	(31,717)	(18,969)	(35,824)

17 Operating lease commitments

Total future minimum lease payments due under operating leases are given in the table below within each of the following periods.

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Obligations under operating leases at 31 March comprise:		
a) Land and buildings		
Not later than one year	12,464	13,684
Later than one year and not later than five years	41,234	44,685
Later than five years	33,780	43,867
Total	87,478	102,236
b) Others		
Not later than one year	105	325
Later than one year and not later than five years	84	134
Later than five years	0	0
Total	189	459

Leases for those properties continuing in use will transfer to the Skills Funding Agency. Leases for those properties which become surplus to requirements on the closure of the LSC will transfer to BIS.

18 Capital commitments

Commitments for capital expenditure administered by the LSC at the end of the period were as follows:

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Payable within one year		
Authorised and contracted for	0	0
	0	0
Payable between two to five years		
Authorised and contracted for	0	0
	0	0

19 Commitments to make grants to colleges and schools

Commitments to make grants to colleges and schools at 31 March 2010 for FE participation and school sixth form funding related to the remaining period of the academic year April to July, together with capital commitments, were as follows:

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Payable within one year		
FE participation	2,137,126	2,052,921
School sixth forms	733,934	682,727
FE capital project support	363,264	835,979
Other capital grants (accessibility and Centres of Vocational Excellence)	0	31,084
	3,234,324	3,602,711
Payable between two to five years		
FE capital project support	648,457	770,201
	648,457	770,201

These funding commitments going forward become the responsibility of the Skills Funding Agency and the YPLA.

Through its normal financial intervention process, the LSC ensured that no college was unable to meet its financial obligations as a result of decisions on capital projects. These responsibilities transfer to the Skills Funding Agency.

20 Contingent liabilities

The LSC had no material contingent liabilities at 31 March 2010 (at 31 March 2009 and 1 April 2008: £nil).

Capital programme

In 2008–09 the LSC reported that in addition to the commitments outlined in the note above the LSC had an obligation, subject to a needs-based prioritisation assessment, to fund some of the FE capital projects that were in development before the review of the capital programme by Sir Andrew Foster was announced.

The review of the capital programme has been completed, and the LSC has determined which colleges will receive funding. The full extent of this funding is recorded in the commitments note above, so there is no contingent liability to disclose this year.

21 Financial instruments

IFRS 7 requires the LSC to disclose information on the significance of financial instruments to its financial position and performance.

In addition to the risks associated with the financial guarantee relating to the PCDL programme (note 15), the LSC was exposed to credit risk resulting from the non-payment of debts relating to private sector provision of training services most usually attributable to insolvency. Private sector training providers are subject to quality and financial status reviews prior to being awarded contracts. Provision of funding is reconciled to earned values on a monthly basis with future payments adjusted to ensure that the risk of building up debt is minimised. The overall financial impact of such instances is not material, as shown in notes 11 and 23.

As an NDPB almost wholly funded by BIS and DCSF and with no borrowings, the LSC has not been exposed to any market or liquidity risk.

The LSC had no material deposits in interest bearing accounts, and as all material assets and liabilities are denominated in sterling, it was not exposed to any significant interest rate or currency risk.

22 Related party transactions

During 2009–10 the LSC was an NDPB sponsored by BIS and DCSF, both of whom are regarded as related parties.

During this period the LSC had various material transactions with BIS, DCSF, DWP and the Higher Education Funding Council for England.

The LSC also entered into transactions with organisations that can be considered as related because of the nature of the involvement of LSC National Council members and Management Group directors, or their close family members. The table below details the most material transactions and the relationship of the organisations to the LSC. All transactions were in the normal course of business and were conducted at arm's length.

LSC Council member/ director/ close family member	LSC role/ relationship	Related organisation role/ relationship	Related organisation	Transaction(s)	Value (£'000)	Amounts owed to related party (£'000)	Amounts owed by related party (£'000)	Bad debts (£'000)
Dame Mary Marsh	National Council member	Non-executive director	HSBC plc	LSC provided funding allocations	389	0	0	0
Dame Mary Marsh	National Council member	Trustee/ member	The Young Enterprise	LSC provided funding allocations	212	0	0	0
Margaret Galliers CBE	National Council member	Principal	Leicester College	LSC provided funding allocations	46,518	189	0	0
Margaret Galliers CBE	National Council member	Board member	National Institute of Adult Continuing Education	LSC provided funding allocations	4,383	47	0	0
Margaret Galliers CBE	National Council member	Committee member	Higher Education Funding Council	LSC provided funding allocations	38,148	0	0	0
Jill Youds	National Council member	Director of Talent and Learning	Virgin Media	LSC provided funding allocations	267	14	0	0
Robert Hough	National Council member	Board member	Business in the Community North West	LSC provided funding allocations	144	3	0	0
Robert Hough	National Council member	Chairman (from 17 August 2009)	North West Regional Development Agency	LSC made payments for services	3,310	719	0	0
Robert Hough	National Council member	Board member	Northwest Business Link	LSC provided funding allocations	15,946	303	0	0
Mark Sanders	National Council member	Chief Executive	Bury Metropolitan Borough Council	LSC provided funding allocations	3,642	25	166	0

LSC Council member/ director/ close family member	LSC role/ relationship	Related organisation role/ relationship	Related organisation	Transaction(s)	Value (£'000)	Amounts owed to related party (£'000)	Amounts owed by related party (£'000)	Bad debts (£'000)
Mark Sanders	National Council member	Board adviser	Manchester Solutions	LSC provided funding allocations	10,325	204	0	0
Ian Ferguson CBE	National Council member	Chairman	Rathbone	LSC provided funding allocations	19,324	615	0	0
Professor Sir Deian Hopkin	National Council member (until 30 June 2009)	Vice Chancellor	London South Bank University	LSC provided funding allocations	215	0	0	0
Professor Sir Deian Hopkin	National Council member (until 30 June 2009)	Trustee	Campaign for Learning	LSC provided funding allocations	85	0	0	0
Frances O'Grady CBE	National Council member	Deputy General Secretary	Trades Union Congress	LSC provided funding allocations	3,162	0	0	0
Les Walton OBE	National Council member	Council member	North East Chamber of Commerce	LSC received credits for funding allocations	53	17	0	0
Mary Heslop, partner of Rob Wye	Related to National Director	Vice-Principal	Warwickshire College	LSC provided funding allocations	39,220	347	0	0
Paul Holme	National Director	Co-opted Board of Governors	Liverpool John Moores University	LSC provided funding allocations	216	0	219	14
Viv Gillespie, spouse of Malcolm Gillespie	Related to Regional Director	Principal	City College Plymouth	LSC provided funding allocations	25,354	264	0	0
Gareth Cadwallader	National Council member	Board of Governors/ Chair of Student Liaison Committee	Thames Valley University	LSC provided funding allocations	20,360	382	0	0
Bryan Gray CBE	National Council member (until 6 August 2009)	Chairman (until 16 August 2009)	North West Regional Development Agency	LSC made payments for services	3,310	719	0	0

23 Losses statement

The LSC incurred the following material losses in the period to 31 March 2010. Where a charge has been incurred in 2009–10, the programme losses have been charged to the relevant programme in note 3a, and the administration losses have been charged to administration in note 6a.

Description	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Work-based learning and Train to Gain provision (WBL and TTG)		
2009–10 – Cases above £250,000 individually	4,303	
2008–09 – Cases above £250,000 individually		339
2009–10 – Cases below £250,000 individually	1,003	
2008–09 – Cases below £250,000 individually		748
	5,306	1,087
ESF		
2009–10 – Cases above £250,000 individually	1,220	
2008–09 – Cases above £250,000 individually		1,034
2009–10 – Cases below £250,000 individually	1,175	
2008–09 – Cases below £250,000 individually		1,320
	2,395	2,354
Other programme provision		
2009–10 – Cases above £250,000 individually	340	
2008–09 – Cases above £250,000 individually		375
2009–10 – Cases below £250,000 individually	1,015	
2008–09 – Cases below £250,000 individually		37
	1,335	412
Administration expenditure		
2009–10 – Cases above £250,000 individually	3,731	
2008–09 – Cases above £250,000 individually		0
2009–10 – Cases below £250,000 individually	179	
2008–09 – Cases below £250,000 individually		0
	3,910	0
Total cash losses	12,966	3,853

At 31 March 2010 there were 288 cases (54 WBL and TTG, 29 ESF providers, 39 other programmes and 166 administration related), of which nine cases were above the reporting threshold of £250,000 individually.

The majority of funding from the LSC was paid on profile rather than actual invoiced amounts, which could result in overpayment to some providers. Most of the cases above relate to where the LSC had been unable to recover this funding, usually because the provider had gone into liquidation.

£3.7 million of the administration-related losses relate to fixtures and fittings written off as a consequence of the Machinery of Government changes that saw the closure of the LSC. In addition a provision of £36.9 million for onerous leases has been established (see note 14).

23 Losses statement (continued)

The Chief Executive of the LSC had delegated authority to approve write-off of cash losses with an item value of up to £10,000 and subject to a limit of £250,000 in any one year. The LSC requested BIS and HM Treasury approval to write off the cases above, within their respective delegated authorities as summarised below:

Authority	Item value	31 March 2010 Number of cases	31 March 2010 Loss £'000
LSC	Up to £10,000	210	238
BIS	£10,000 to £2,000,000	76	6,960
HM Treasury	Over £2,000,000	2	5,768
Total losses		288	12,966

23a Special payments

Payments totalling £3.9 million relating to the buy-out of staff benefits of those staff transferring to local authorities were made in March 2010 at the request of the DCSF (see note 5a). Subsequently, 745 LSC staff transferred to local authority employment.

24 Events after the reporting period

As a consequence of Machinery of Government changes, the LSC closed on 31 March 2010, but its functions and responsibilities transferred to other organisations on 1 April 2010 (see note 16).

The accounts were authorised for issue by the Accounting Officer on 22 July 2010. Events after that date have not been considered.

Glossary and Further Information

This is a brief guide to the main strategies, initiatives, partners and programmes which are mentioned in this report.

Adult Learning Grant

An allowance of up to £30 per week given to adults on low incomes studying full time for their first full NVQ Level 2 qualification and to young adults on low incomes studying full time for their first full Level 3 qualification.

Adult safeguarded learning (ASL)

The LSC maintained a national programme of leisure and occupational courses for adults through local FE colleges. We also provided extra funding for other projects such as family and neighbourhood learning.

Apprenticeships

An Apprenticeship is a work-based training programme, designed around the needs of employers, which leads to nationally recognised qualifications. There are almost 200 Apprenticeship frameworks, suitable for hundreds of job roles. The day-to-day job that the apprentice undertakes is backed up with training in relevant competencies and skills, transferable skills and employment rights and responsibilities. The Government helps fund the training elements of the Apprenticeship and the frameworks are designed and developed by SSCs to ensure that the training is industry relevant. Apprenticeships bring considerable value to organisations, employers, individuals and the economy. Businesses across the country are now increasingly realising the enormous benefits that Apprenticeships create, not only in terms of a highly skilled workforce but also by boosting productivity and staff retention.
apprenticeships.org.uk

Career Development Loan (CDL)

A CDL is a bank loan designed to help people pay for work-related learning. It can help people gain the experience, training and qualifications needed to improve their job skills or even launch a new career. It can be used to fund a variety of vocational (work-related) courses with a wide range of organisations, and is available to people who are employed, self-employed or unemployed.

Demand-led funding

This is a move towards more funding being driven directly by employer and learner choice and making sure the FE system is as responsive as possible to their needs. Lord Leitch's report (December 2006) endorsed this direction of travel. The LSC introduced three funding models for adult skills, employer skills and 14–19 learning, all of which aim to put purchasing power into the hands of the customer – whether employer or individual learner.

Department for Business, Innovation and Skills (BIS) bis.gov.uk

Department for Children, Schools and Families (DCSF) education.gov.uk

This is now the Department for Education.

Department for Work and Pensions (DWP) dwp.gov.uk

Education Maintenance Allowance (EMA)

EMA is a form of financial help for young people aged 16 to 18 who are currently NEET. It helps them to move into an Apprenticeship, education at NVQ Level 2 or a job.

Further education (FE)

There are two streams of education for people over 16: further education and higher education. Further education covers learning opportunities up to A-level and NVQ Level 3 standard.

Higher education

Higher education includes courses above A-level or NVQ Level 3 standard. Examples include degree courses, postgraduate courses and Higher National Diplomas (HNDs). The Higher Education Funding Council for England distributes public money for teaching and research to universities and colleges and aims to promote high-quality education and research that meets the needs of students, the economy and society.

January Guarantee

Guarantees a place on an Entry to Employment programme to all 16- and 17-year-olds who were NEET in January 2010. Some £6 million has been made available to local authorities in 2010–11 through the Area Based Grant for this purpose.

Jobcentre Plus

A government agency supporting people of working age from welfare into work, and helping employers to fill their vacancies.

Learning and Skills Improvement Service (LSIS)

The LSIS is a new sector-owned body formed from the Quality Improvement Agency and the Centre for Excellence in Leadership. Focusing on learners, it aims to develop excellent and sustainable FE provision across the sector, implementing the Government's reforms for learning and skills.

lsis.org.uk/Pages/default.aspx

Local authorities

Local authorities are responsible for meeting the learning needs of all young people up to the age of 18. They develop strategic commissioning plans for their area, working with neighbouring authorities, assessing demand for and required supply of 16–18 provision, including the academic route, Diplomas, Apprenticeships and the Foundation Learning Tier.

Local Employment Partnerships (LEPs)

LEPs aim to give 250,000 people the skills that local employers need by the end of 2010. They will also give people from local communities genuine opportunities to come off benefits and really change their lives. The LEPs that exist between Jobcentre Plus and employers have been supported by DWP, BIS and the LSC.

Managing Information Across Partners (MIAP)

MIAP aims to streamline how information on learning and achievement is collected, handled and shared across the education sector so that excellent services are made available to individuals, employers and communities. MIAP will introduce an internet-based Learning Registration Service and a unique learner number for every person in education and training – allowing individuals to build a lifelong record of their learning participation and achievements.

National Apprenticeship Service (NAS)

The NAS focuses on increasing the number of apprentices in England. They work with employers to help them introduce apprentices into their businesses, help those looking to start their careers find an Apprenticeship job opportunity, and contribute towards the costs of the training and qualifications within an Apprenticeship. The NAS engages with a wide range of partners to help design the frameworks for apprentices, and they implement all government policies aimed at improving the quality and quantity of Apprenticeships.

In the first year of operation the NAS developed a full service for employers with focused marketing, an active field force, advice for employers, and an online system to match potential apprentices into their posts. The focus on employers is strong, and there is a dedicated service team in each region, providing personal and practical support to employers of all sizes and sectors. Matching together vacancies with applicants online has been a major success, and at any one time there are around 8,000 live vacancies on the site – with this figure rising all the time.

apprenticeships.org.uk

Not in education, employment or training (NEET)

The Government has set a PSA target for reducing the number of young people who are NEET by 8 per cent by the end of 2010. The LSC had an important role and contribution to make – along with local authorities – in ensuring that suitable provision is available, accessible, well understood by young people and of high quality.

Public Service Agreement (PSA)

PSAs are a series of cross-government goals. Each government organisation is set a number of key indicators during each Comprehensive Spending Review period that contribute to achieving the bigger goals. These are known as PSA targets.

Qualifications and Curriculum Development Agency (QCDA)

The QCDA is responsible for developing the national curriculum, which defines the knowledge, understanding and skills to which children and young people are entitled. It reviews the curriculum and evaluates its appropriateness and relevance to the changing needs of learners and society.

qcda.gov.uk

Regional Development Agencies (RDAs)

These bodies are responsible for economic development and regeneration in the nine regions of England.

Sector Skills Councils (SSCs)

Independent UK-wide organisations representing groups of employers, SSCs exist to improve skills and productivity in their sector.

Skills for Life

The Government's strategy to help adults who have missed out on educational achievement. It aims to improve the literacy, language and numeracy skills of 1.5 million adults.

Skills Funding Agency

This agency oversees the distribution of funds to the sector and manages the performance of FE colleges. It houses the NAS, the National Employer Service and the Adult and Careers Advancement Service.
skillsfundingagency.bis.gov.uk

Skills Pledge

The Skills Pledge is a public commitment by businesses to train their employees. The Skills Pledge is voluntary and is supported by impartial advice from the Train to Gain service.

businesslink.gov.uk/bdotg/action/layer?topicId=1084719426

Skills Strategy

The Government launched its Skills Strategy in July 2003, promising to improve support for businesses that develop their workforces.

Train to Gain

Train to Gain helps employers to find the training they need for their staff. A dedicated skills broker analyses individual business needs and works with each employer to help them plan a tailored training programme. Train to Gain skills brokers do not work for any training organisation, so the advice they give to employers is impartial.
traintogain.gov.uk

Young People's Learning Agency (YPLA)

A national non-departmental public body with responsibility for championing education and training for young people in England. It does this by providing financial support to young learners, by funding Academies for all their provision and by supporting local authorities to commission suitable education and training opportunities for all 16–19-year-olds.
ypla.gov.uk



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