

i For information

>lsc

Leading learning and skills

Learning and Skills: Changing Lives, Improving Work

The Learning and Skills Council's
Annual Report and Accounts for 2007–08

2007–08

Of interest to people and organisations
interested in learning and skills



The Learning and Skills Council (LSC) invests in people to give them the skills they need for success in work and life.

It is our job to build a dynamic and successful further education system for England.

By funding high-quality education and training for young people, adults and employers, we are contributing to economic and social success.

Our budget for 2007–08 was £11.4 billion.

Our annual report covers the financial year up to 31 March 2008. It includes a review of the activities we carried out during the year and our accounts for the same period.

Throughout this report, we write financial years as 2007–08 and academic years as 2007/08.

On 28 June 2007 the Department for Education and Skills ceased to exist. The LSC is now sponsored by the Department for Innovation, Universities and Skills (DIUS).

Front cover image: Rachel Pickering, Entry to Employment programme, Rathbone (photographer: Ken Kay)



Leading learning and skills

The Learning and Skills Council's Annual Report and Accounts for 2007–08

Report presented to Parliament by the Secretary of State for Innovation, Universities and Skills,
in accordance with Section 28 of the Learning and Skills Act 2000.

Accounts prepared under Schedule 1 to the Learning and Skills Act 2000
and presented by the Comptroller and Auditor General.

Ordered by the House of Commons to be printed on 21 July 2008

HC 783

London: The Stationery Office

£18.55

Contents

Our Story	
The Skills Campaign	02
Chairman's Statement	04
Chief Executive's Review	06
About Us	08
Our Achievements	10
Our Focus	14
Delivery Across the Regions	17

Leadership and Governance	
Management and Structure	26
Our Responsibilities	30
How We Take Care of...	31
Our Working Practices	34
Internal Control	36
Risk Management and	
Financial Controls	40
Reporting of Personal	
Data-related Incidents	41
Remuneration Report	42
Financial Commentary	48

Finance	
Certificate and Report of the	
Comptroller and Auditor General	
to the Houses of Parliament	50
Net Expenditure Statement	51
Balance Sheet	52
Cash Flow Statement	53
Notes to the Accounts	54
Glossary and Further Information	77
List of Related Documents	80

© Learning and Skills Council 2008

The Skills Campaign

In July 2007, we launched the nationwide skills campaign, the Learning and Skills Council's (LSC's) most ambitious communications initiative ever, to raise the ambitions of millions of people.

Driven by the LSC, our partners and the newly formed Department for Innovation, Universities and Skills (DIUS), the five-year marketing and communications campaign is designed to inspire people to take control of their future through learning.

A compelling case

In 2004, Department for Education and Skills (DfES) figures showed that there were 6.8 million adults in the UK without a Level 2 qualification who needed skills in numeracy, literacy and IT (Level 2 qualifications are equivalent to five GCSEs at grades A* to C. Level 3 qualifications are equivalent to two A-levels or one vocational A-level). Lord Leitch's review of the UK's long-term skills needs, *Prosperity for all in the global economy – world class skills*, doesn't pull any punches either: 'Without increased skills, we would condemn ourselves to a lingering decline in competitiveness, diminishing economic growth and a bleaker future for all,' he said. 'The case for action is compelling and urgent.'

The number of jobs in low-skilled occupations will continue to fall rapidly. For the UK to become a world leader in skills by 2020, there will need to be a dramatic increase each year in the number of adults who improve their skills and achieve qualifications – both at the basic literacy and numeracy level, but also at the higher education level (and everywhere in between).

Our progress so far

We have made significant progress over the past five years. The LSC has put into practice a wide range of plans focusing on skills to help employers and learners.

These include:

- Train to Gain, the service that helps employers to find the training they need for their staff;
- the network of National Skills Academies (NSA);
- the Adult Learning Grant (ALG);
- the Education Maintenance Allowance (EMA); and
- the review of the Apprenticeships programme.

Speaking at the launch of the skills campaign, Shaun Anderson – who has gained an electrotechnical Advanced Apprenticeship and who reached the finals of the 2007 Apprenticeship Awards – said: 'My training has given me so many opportunities and I hope that this exciting new campaign will encourage others to do the same.'

It's in our hands

The skills campaign (whose strapline is 'Our future. It's in our hands') acts as an umbrella for everything that further education (FE) can provide for employers, adults and young people. It aims to transform the way people think, feel and act.

Over time, we need to improve demand for and investment (in terms of both time and money) in learning and skills – from the basic skills level right through to Levels 2, 3, 4 and beyond.

There has never been a better time for people to develop their skills, and improve their career and life opportunities.



'The ad is definitely one of the better ones out there – it's clever, it's eye-catching and the message is getting through. We have had to turn people away.'

Darlington College

Chairman's Statement



I am pleased to report that, once again, the LSC and the FE system have either met or bettered the targets they have been set, and have made huge strides towards improving the skills of the nation.

Our progress so far

Record numbers of young people continue to take part in learning. In the first year of the September guarantee (which means that all young people leaving compulsory education in July have an offer of an appropriate course by the end of the September of the same year), 91 per cent of learners completing compulsory education in 2006/07 received an offer to start post-16 learning.

We are continuing to work with the Department for Children, Schools and Families (DCSF) to make the Guarantee even more effective for young people in September 2008 and to extend it to 17 year-olds. This will give young people on a short course, or those who have dropped out in Year 12, a chance to re-engage.

Apprenticeships continue to be a success story. In the past year, over 184,000 people have started an Apprenticeship, and success rates are now over 60 per cent – roughly an 11 per cent increase on the previous year.

There has been good progress among adults as well, with another big increase in involvement in Skills for Life programmes: over 350,000 adults took part in one of these during 2006/07 – an increase of 16 per cent on the previous year. We have also delivered 256,000 full Level 2 achievements. This means that 74.7 per cent of economically active adults are now qualified to at least Level 2.

Train to Gain, our flagship service for employers, is growing substantially year on year and 88,000 businesses have already signed up to benefit from the skills support it provides.

I am also pleased that we are starting to see the effect of our skills campaign, which is helping to create a culture in which learning and skills are increasingly seen as a way for people to take control of their lives.

Opening up access to learning opportunities

We have also seen real progress in joining up the employment and skills systems, which provide people with the skills they need to get into sustainable employment. We have been working closely with Jobcentre Plus and its partners across the country to come up with new and creative ways of reaching out to the people who need our help the most.

One way of doing this has been through Local Employment Partnerships (LEPs), which aim to give 250,000 people the skills that local employers need. They will also give people from local communities genuine opportunities to come off benefits and really change their lives.

Over the course of the past year we have built on the way in which we communicate with the third sector. It is now able to play a much more active role in delivering our programmes and services. This means that individuals – whatever their background – have the opportunity to succeed in work and in life. The third sector plays a vital role in helping the LSC to get involved with those individuals who cannot be reached through mainstream programmes.

256,000

full Level 2 achievements:
74.7 per cent of economically active adults
are now qualified to at least Level 2

So there is much success on which to build, but there is also a lot more to do. We must rapidly build on the steps set out above if we are to stay competitive in the global economy and build a cohesive society. And we must do all of this at the same time as moving towards the changes described in the Government's consultation paper and summarised below.

Changes to the landscape

The Government's consultation paper, *Raising Expectations: enabling the system to deliver*, sets out proposals to change how learning and skills are provided by 2010. This follows the Government's decision in June 2007 to move funding for 16- to 19-year-olds to local authorities.

The consultation paper recognises the progress we have made. However, we know that there are huge challenges ahead in terms of increasing levels of participation and success rates among both young people and adults.

The challenges ahead

We need to raise the participation age for young people remaining in education and training, to improve achievement levels, and to deliver the 14–19 reforms and the September guarantee. Local authorities were already responsible for meeting the needs of children and young people, but transferring to them responsibility

for funding education and training provision for those aged 16 to 19 extends this responsibility. A new national Young People's Learning Agency will be responsible for controlling the budget and for helping all responsible authorities to reach agreement if this cannot be done locally.

For adults, the consultation builds on the ambitions of Lord Leitch's report, reflecting the move towards most funding being led by demand – through Train to Gain and skills accounts. The consultation paper recognises the increased importance of creating better links between employment and skills activities, and also reflects the need for an FE system that regulates itself.

The Government will create a streamlined and focused Skills Funding Agency to respond to all of these issues – it will replace us as an organisation. It will be a funding rather than a planning organisation, will be close to Government and able to respond to demand. The Skills Funding Agency will include the new National Apprenticeship Service (to come into effect in April 2009), the LSC's National Employer Service and a new Adult Advancement and Careers Service. It is intended that the Skills Funding Agency will come into operation in 2010.

The aim is to move towards these new structures as soon as possible, and before any new legislations are put in place. The moves are likely to be completed by autumn 2010, but the LSC has a huge job to do before then. We will invest £11.6 billion in 2008–

09, £12 billion in 2009–10 and £12.6 billion in 2010–11 for the benefit of young people, adults and employers.

The future

There is still an enormous amount to achieve, and that is why I have agreed to be reappointed as Chairman of the LSC. The role of the National Council will be more important than ever, providing strong leadership to the organisation at a time of great change.

It is also why we are setting up nine new regional councils under the Further Education and Training Act. These replace the 47 local councils and will build on their good work, providing a streamlined and robust governance structure at a regional level as we move into the next phase.

Finally, I would like to pay tribute to the work of our staff, and all National Council and committee members (including members of the former Adult Learning Committee and Young People's Learning Committee). The dedication and commitment of all those involved with the LSC and the FE system continue to be outstanding. We are all determined to improve on the progress made already, and to create a legacy that will allow improvements to continue to happen well into the future, delivering what the country needs for social and economic success.



Christopher N Banks CBE
Chairman
Learning and Skills Council

Chief Executive's Review



We are determined to support young people, adults and employers to develop their talent, improve their skills and realise their ambitions.

Extraordinary change

The last few years have been a period of restless, relentless and extraordinary change across the Further Education system. The LSC has been instrumental in driving forward a fundamental shift across the whole sector to create a more demand-led system.

Across England, there are now world class buildings providing world class learning facilities; there are record numbers of young people participating in learning and enjoying unprecedented success; there are more adults than ever before with the skills and qualifications they need to improve their life chances; there are thousands of employers being helped to upskill their workforce and improve their competitiveness; there is an apprenticeship system delivering results that increasingly match the best in the world.

The LSC has focused its funding on the specific targets set out in Our Statement of Priorities and has sought to make funding more responsive to local needs.

Over the past year, the FE system has continued to reach out to disadvantaged communities; reduce the number of young people not in education, employment or training; help offenders into the world of work; and improve access and opportunities for those with disabilities and learning difficulties.

But the world does not stand still. In summer 2007 the Government introduced two new departments (DIUS and DCSF) and the publication of the Machinery of Government (MoG) consultation document in March 2008 outlined proposals for a very different configuration of the post-16 landscape from 2010. There will be two new bodies that will continue to drive ahead the huge agenda that we have been charged with since 2001.

In 2010 the LSC will enter its tenth year and this represents considerable longevity in an era of constant change. At that point we will have been in existence longer than any of our predecessor bodies

The LSC is a remarkable success story and I am proud of what it has achieved.

Under its leadership, Further Education has been transformed and importantly we have shown that you can achieve success while driving down costs. Our annual running costs are now some £100m less than our predecessor bodies.

Huge capacity

These changes along with the ongoing focus on FE indicate that expectations of the system have never been higher – FE is seen as vital in delivering greater economic prosperity and supporting wider social inclusion.

The resilience and professionalism of people working across the system – in particular, the staff of the LSC who responded magnificently as we came through our own major reorganisation last year – is extraordinary.

The wider system has shown that it has a huge capacity for absorbing change and effectively managing its way through it, at the same time as delivering significant improvements in the services being delivered.

No other part of the public sector can boast such a track record of delivery and improvement. Together the FE system has met or exceeded every Public Service Agreement (PSA) target it has been set. As a result:

- rates of participation among 16 to 18 year-olds are the highest ever, at 78.7 per cent – this means 1.59 million 16 to 18 year olds in education and training
- we have record success rates for FE (78 per cent) and Apprenticeships (63 per cent), showing significant growth in the quality of this provision over a number of years
- more than 2.3 million people have gained the basic skills they need for success in life and work, meeting the 2010 PSA target 18 months early; and
- since Train to Gain was launched in 2006, almost 420,000 people have commenced a training programme that will lead to a nationally recognised qualification

All of this has been delivered through an enormous effort from everyone involved in the FE system. I believe in years to come that people will look back at this time as an important period for FE, a time of investment, of improvement, of progress and innovation.

We want to build on this record of achievement and help to support the FE system to do what it does best – change people's lives – through the delivery of high-quality education, learning and skills.

Employment and skills

Over the next 3 years, we are investing over £35 billion for the benefit of millions of learners. This investment is focused on:

- creating demand for skills from young people, adults and employers;
- making sure that the system responds to that demand; and
- bringing the skills and employment systems together to give people the chance to gain the right skills and qualifications – to help them not just to get a job, but to get a good job with prospects.

For the first time, a new joint PSA target has been set between DWP and DIUS to move more people into sustainable employment. This is a further incentive for the LSC and Jobcentre Plus to work closely together, through initiatives such as LEPs, and to successfully join up our employment and skills services to support people as they enter employment. Our research shows that nearly two-fifths of learners who were unemployed at the start of their FE course went on to find work. We want to support more people to come off benefits and really change their lives. The flexibility of programmes such as the Foundation Learning Tier and learning funded through the European Social Fund is essential to getting to those who are most excluded.

Demand-led

Through our new demand-led funding approach we are putting power and choice into the hands of learners and employers.

This is crucial if we are to increase the demand for skills and, at the same time, get more employers and people to invest in improving their own skills. Our latest survey of employers shows that the number of employers providing training has increased from around 901,000 establishments in 2005 to 978,000 in 2007. Investment by business in training has increased from £33 billion in 2005 to £38 billion in 2007.

Our ambitions for Train to Gain, set out in *A Plan for Growth*, highlight the need to expand and improve the service further. The Plan describes a number of new flexibilities to enhance the service and respond to feedback from employers. As well as a major expansion of the successful leadership and management programme, volunteers and the self employed are now eligible for support through Train to Gain.

The Plan also describes our partnership with Sector Skills Councils and the ongoing tailoring of Train to Gain so that it is better able to respond to the specific sectoral skills needs of employers. These changes represent significant opportunities for growth for colleges and training providers. The budget for Train to Gain will be over £1 billion by 2010.

Young people

We still have more to do to drive up participation, particularly with those young people who have not traditionally remained in learning after the age of 16.

The raising of the participation age, which is not about raising the school leaving age, extends the range of options for young people up to the age of 18. It means using new and personalised approaches, and a wide-ranging curriculum, such as that offered by

Apprenticeships – a growing success story – and Diplomas. The challenge now is to increase the number of young people involved in learning and improve success rates, not one or the other.

Exciting opportunities

These are clearly challenging times for the LSC and the FE system – and undoubtedly there will be further changes – but there will also be new and exciting opportunities.

Throughout the transition period we will work with and support all our staff as we move to the new arrangements. We want to ensure that the knowledge, expertise and experience they have is fully utilised in the development of the new models.

The LSC wants to leave an outstanding legacy of achievement. We will work with the wider FE system to make sure that we continue to identify new and creative ways to meet the needs of young people, adults and employers.

The next few years allow us to work with our partners and continue to build on what has been achieved so far. There are more great buildings to be completed as we drive ahead with the renewal of the FE estate; there are new and stretching goals to be achieved in Train to Gain and Apprenticeships, as well as in driving yet further participation and achievement for 14-19 year olds.

Our ambition for FE is to continue to develop a system which increasingly governs itself – is responsive and ambitious – and is recognised and valued by both individuals and employers.

Our future. It's in our hands.



Mark Haysom CBE
Chief Executive
Learning and Skills Council

About Us

Who we are

The Learning and Skills Council (LSC) is a publicly-funded organisation with responsibility for building a dynamic and successful FE system for England. Our aim is to give young people, adults and employers the high-quality learning and skills they need for economic and social success.

What do we do?

We invest in people to give them the skills they need for success in work and in life.

We make sure that all 16- to 19-year-olds have a full range of high-quality courses to choose from, so that they gain the skills and qualifications they need to move on to further learning, including higher education, or to employment.

We encourage people from all backgrounds to take part in learning that will help them to achieve their full potential.

Why do we do it?

We know that if young people stay in some form of learning beyond the age of 16, they are far more likely to make the most of their talents and potential.

We know that improved skills lead to better jobs and a better quality of life.

We know that increasing investment in training and skills helps our country to compete more successfully in the global economy.

We also know that gaining skills is the best route out of poverty and the best way for people to provide economic security for themselves and their families.

What do we deliver?

Economic success

We want the FE system to deliver the skills that are needed by a successful economy and society.

We want all young people to move into further learning, training or employment that recognises their talents and rewards their ambitions.

We want adults to progress too, with more of them updating their skills to help them to get work and to make good progress in their chosen careers.

We want employers to fully recognise that developing the skills of their workforce will have a positive effect on boosting the productivity and competitiveness of their business.

And we want everyone to recognise the value of skills, and so invest more in gaining them.

Making the system simpler

We recognise how complicated the FE system is. We are committed to making it simpler for individuals and employers to gain the learning and training that they need – in the way that suits them best. We want to streamline our processes and bring them together so that people can find their way around more easily.

And we want to simplify our own processes for working with schools, colleges and providers. We will continue to increase our efficiency and to reduce any bureaucracy as far as possible so that we can spend more and more on delivering learning and skills. We are committed to working with the sector to identify practical ways to simplify our processes.

Expertise

We are uniquely placed to draw together information on skills and employment trends to help us with our investment in learning and skills, and to influence the activities of others.

We understand skills – we know where the demand is and where the gaps are. We know where excellent learning and training takes place, and we also know where there are weaknesses that need to be tackled. We use our expertise to give advice and influence others' activities so that we are all responding to the challenges that face us.

We listen to what local communities and employers tell us they want and need in terms of skills, and we feed that through to the Government, on whose behalf we work. We are responsible for securing excellent value for money from the public funds we invest in skills.

One of our strengths is our ability to work closely with our partners at all levels – connecting local, regional and national organisations to create a truly flexible and dynamic partnership. We recognise that we are part of a wider system: our relationships with schools, colleges and providers are critical to us, and we are convinced that we can deliver more for individuals and employers by working together.

Our values

We need values to do our job successfully, and below are the four that lead the way we work.

Trust

We need strong relationships and partnerships – both within and outside our organisation – to succeed in managing large amounts of public money, and to create a world-class FE system. Trust is at the heart of everything we do.

Ambition

Our ambition is to unlock the potential of every employer and learner in every community that we serve.

Expertise

We understand the roles of our stakeholders, the needs of the communities that we serve, the needs of employers, and the needs of individuals in education and training. We prove our knowledge and leadership in every part of our work.

Urgency

England's economic success affects us all, so we need to tackle long-standing issues quickly and professionally, and be responsive.

Our priorities

The Government's 14–19 agenda, the Skills Strategy and the FE White Paper *Further Education: Raising Skills, Improving Life Chances* have given us the framework for what we do. And every year we publish *Our Statement of Priorities*, which sets out our most important goals and how we aim to achieve them.

LSC planned programme investment for 2008–09 (£ million)

Participation among young people:	£6,373
Participation among adults:	£3,215
Learner support and development:	£1,093
Capital grants:	£694
Total investment:	£11,375

Our priorities for this reporting period were:

Priority 1:
Creating demand for learning and skills

Priority 2:
Transforming the FE system to meet demand

Priority 3:
Delivering better skills, better jobs and better lives

Our Achievements

We have invested over £11 billion of taxpayers' money in education and training, and over 4 million people benefited from the learning we funded. Together with the FE system, we promote economic success for all – as better-skilled people are better able to fulfil their potential.

The Government sets us ambitious targets, and we measure our progress by the number of adults who achieve a Level 2 qualification, a Level 3 qualification or a Skills for Life qualification.

The FE system has an excellent record of meeting and beating its targets.

For example, by the end of 2007, 74.7 per cent of adults who work (18.2 million people) had achieved a Level 2 qualification and 53.7 per cent had achieved a Level 3 qualification. This is an increase of 2,130,000 adults since the end of 2001. The PSA target is for 3.6 million more adults in the workforce to have a Level 2 qualification or higher by 2010.

The PSA target is for

3.6 million
more adults in the workforce to have a Level 2 qualification or higher by 2010



April 2007

Regional roadshows

LSC Chief Executive concludes nine regional roadshows highlighting the implications of the FE reform agenda and Lord Leitch's report



May 2007

NSA

New National Skills Academy for Financial Services launched in Yorkshire and the Humber, bringing the nationwide total to 4



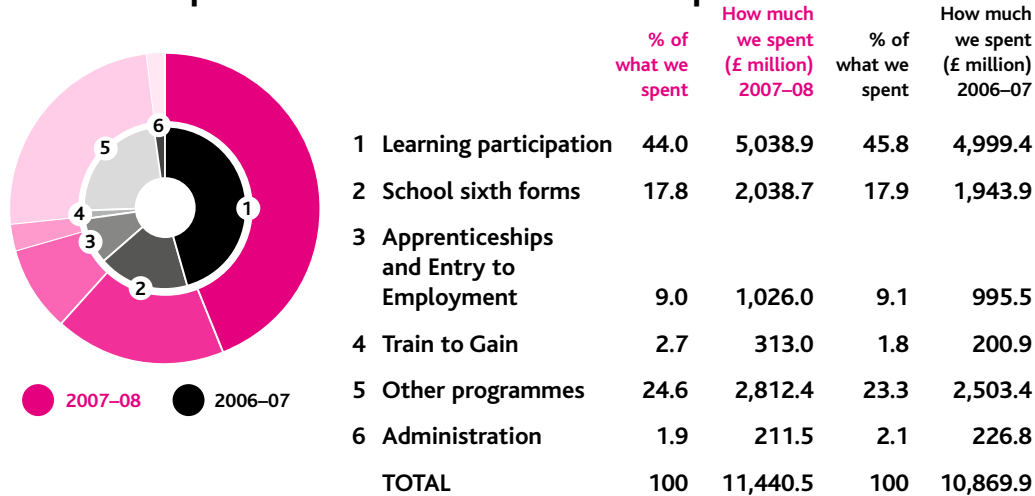
June 2007

Apprenticeship Awards

More than 500 people attended the ceremony at the London Hilton, to celebrate the success of Apprenticeships and to recognise those involved

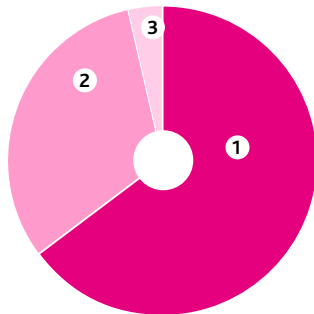
Investing in success

What we spent in total in 2007–08 compared with 2006–07



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

Where we invested our money in 2007–08



In 2007–08 we invested the following:

- 1 £7.1 billion to allow 1.3 million young people in school, college or work-based learning to achieve qualifications.
- 2 £3.4 billion in adult learning, helping 3.3 million adults to improve their skills. Much of this investment went towards the key priority areas of Level 2 (790,000 adult learners), Level 3 (610,000) and Skills for Life (680,000) qualifications.
- 3 £436.7 million in FE and training facilities.

Skills Campaign

The Skills Campaign is launched nationally with the strapline 'Our future. It's in our hands', with the aim of bringing about a major shift in our attitudes to learning

July 2007

Leitch

The Leitch implementation plan, World Class Skills: Implementing the Leitch Review of Skills in England, is published a significant step towards making us a world leader in skills by 2020

Adult Apprenticeships

Apprenticeships for those aged 25 or over introduced

August 2007

Adult Learner Accounts

Trials of Adult Learner Accounts kick off in selected areas across the East Midlands and South East

1st

Train to Gain celebrates its first birthday, having exceeded its target of engaging with 33,000 employers

September 2007

Learning for offenders

Proposals published for developing learning and skills for offenders, with the aim of emphasising employability and reducing re-offending

◀ The number of young people in learning in England has increased further to its highest-ever level – 1.59 million. By 2007, 73.9 per cent of 19-year-olds had achieved a Level 2 qualification. This figure is above our target for 2008 (73.4 per cent).

Also, 48 per cent of 19-year-olds achieved a Level 3 qualification – an increase of 1.2 percentage points compared with 2006.

We have bettered the government Skills for Life target three years early. Since the strategy was launched in 2001, 2.3 million people in England have achieved their first qualification in literacy, language or numeracy. The target was for 2.25 million learners by 2010.

Since April 2006, over 88,000 employers in England have worked with skills brokers (local skills experts) through our Train to Gain service, with 80 per cent of employers satisfied with the service.

In 2006/07, we had helped 111,800 people in England achieve an Apprenticeship. As in 2005-06, this is well beyond our target of 75,500 people achieving Apprenticeships in 2007–08. Completion rates for Apprenticeships have reached their highest levels so far (up to 63 per cent).

In its first full year of operation, provisional success rates for Train to Gain were 59 per cent.

Between 2001 (when we were set up) and the end of 2006/07, success rates in FE in England have increased by 18 percentage points. Success rates now stand at their highest level so far (78 per cent). ▶

2.3 million
people in England have achieved their first qualification in literacy, language or numeracy

597,000

The LSC takes on responsibility for the Skills for Life campaign: its aim is for 597,000 people to achieve at least Level 1 literacy and 390,000 people to achieve Entry Level 3 numeracy by 2010/11

Statement of Priorities

We publish Our Statement of Priorities, setting out what we will be focusing on over the next three years

Promoting FE

New FE Reputation Strategy Group, chaired by Dr Alison Birkinshaw, Principal of York College, continues its work to build the reputation of the FE system

October 2007

November 2007

December 2007

Migrant labour

The economic impact of migrant workers in the West Midlands report published the first of its kind

Plan for Growth

Train to Gain: A Plan for Growth is launched, setting out how the service is expected to have expanded and developed by 2011

WorldSkills

The UK team struck gold in the WorldSkills event in Japan the world's biggest skills-based competition winning four medals and nine medallions of excellence

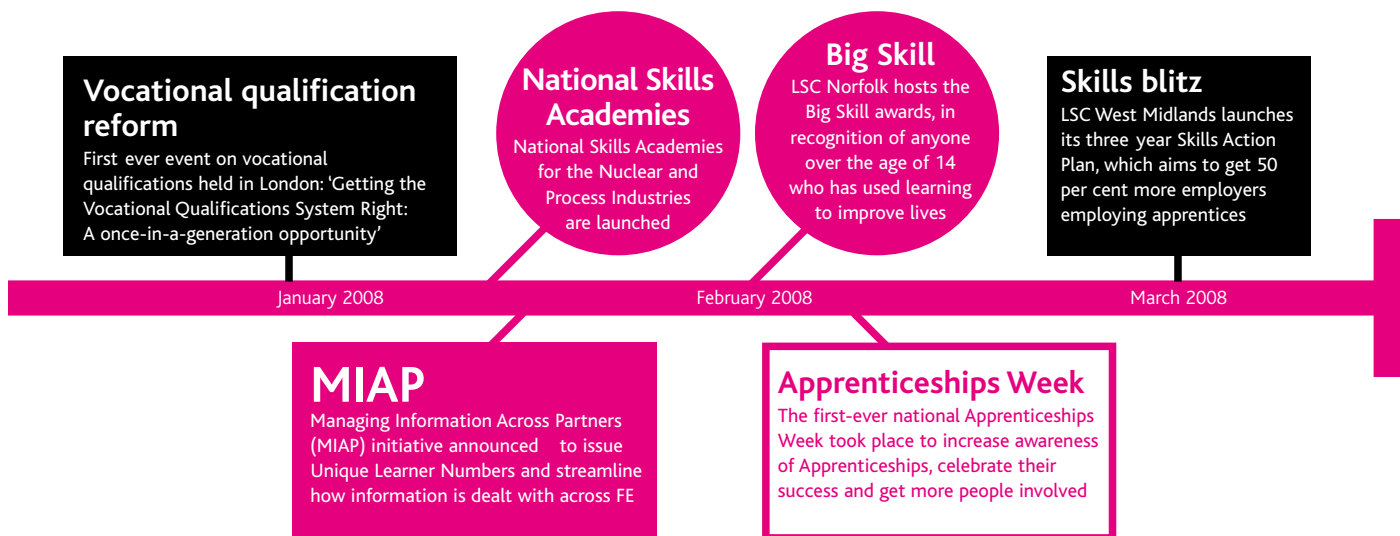
100,000

30 employers now members of the West Midlands Public Service Compact – covering a workforce of over 100,000 staff

Targets and achievements

Area	Target	Achievement
Age 19 – Level 2 achievement*	Increase the percentage of 19-year-olds who achieve a Level 2 qualification from 71.4 per cent (in 2006) to 73.4 per cent (in 2008)	71.4 per cent in 2006 and 73.9 per cent in 2007
Age 19 – Level 3 achievement*	Increase the percentage of 19-year-olds who achieve a Level 3 qualification	46.6 per cent in 2006 and 48 per cent in 2007
Number of Apprenticeship frameworks completed	Increase the number of people who complete their Apprenticeship by 75 per cent by 2007/08 (bringing the total number to 75,500)	In 2006/07, 111,800 people completed their Apprenticeship
Adults – Level 2 achievement*	Reduce the number of adults without a Level 2 qualification by at least 40 per cent by 2010. This is equal to an increase of 3.6 million more adults	By the end of 2007, 2,100,000 adults in work had achieved a Level 2 qualification
FE college success rates	FE college success rates to be 76 per cent in 2007/08	In 2006/07, FE college success rates were 78 per cent – over the 2007/08 target
Skills for Life*	Improve the basic skills of 2.25 million adults between 2001 and 2010, with a target of improving the basic skills of 1.5 million adults by 2007	By the end of 2007, 2,276,000 adults had improved their basic skills

*PSA target set by the Government



Our Focus

We have worked with the following four groups, who have very different needs.

88,000
employers
and **420,000**
employees have
been involved
with the Train to
Gain service

Employers

Overview The main aim of the LSC and the FE system has been to make sure that England succeeds economically. To achieve this, we need to raise England's position among the other world economies by providing the skilled workforce that employers need.

World Class Skills: Implementing the Leitch Review of Skills in England, written in response to Lord Leitch's report, backed this view up. It made the case for increased investment – by employers, individuals and the state – in skills to build the country's economic competitiveness.

Improving skills boosts competitiveness, productivity and profitability, but it also greatly improves people's career and salary prospects. We want to help everyone – from the low-skilled to the highly-skilled – to improve their skills and their ability to get a job and to move forward in their lives and careers.

Key risks We need to increase demand from employers for the skills support that is available through Train to Gain.

Strategies and actions The Train to Gain service has expanded rapidly since it was launched nationally in 2006. So far we have supported more than 88,000 employers and 420,000 employees.

We plan to expand the Apprenticeship programme and increase the budget that is available to respond to employers' training needs.

Nine National Skills Academies (NSA), led by employers, have been set up, and a further three prospective NSAs remain in business planning which are

likely to be considered for approval over the coming months.

From summer 2007, we began introducing the new Training Quality Standard (TQS) that allows employers to assess the quality of the training available to them. We grade training providers in line with how they respond to employers' needs and how they improve the skills of the people they train. The TQS is open to all providers not just those we fund.

Young people

Overview Our main aim has been to increase the number of people aged 16 to 18 who achieve at least a Level 2 qualification.

The percentage of 16- to 18-year-olds in learning who achieve a Level 2 qualification is higher than ever, at 73.9 per cent. And since last year, the number of young people who are classed as 'not in education, employment or training' (NEET) has started to reduce.

Key risks We expect the 16- to 18-year-old population to fall slightly over the coming years, so unless we keep increasing the percentage of them who are gaining relevant skills, there could be a skills gap in the future. In addition, fewer and fewer employment opportunities are available for people who do not have the basic level of qualifications (Level 2).

Even though the number of young people classed as NEET is starting to fall, we must continue to encourage more of them into FE or training so that they do not risk becoming socially or economically isolated.

Strategies and actions The EMA for 16- to 19-year-olds is proving effective in encouraging young people to continue in learning. In the past year, over 540,000 learners benefited from the EMA, and in November 2007 we extended it (on a trial basis) to include more courses. The aim was to attract those young people who are most likely to be or become classed as NEET.

The Care to Learn programme is another powerful way of encouraging young people who are classed as NEET to learn (over 20 per cent of young women who are clasified as NEET do not participate because of pregnancy or parenthood). The programme pays childcare costs on their behalf while they are in learning. Over 7,000 young people are now receiving this funding, and over the next three years we plan for this figure to increase.

Our local partnership teams have worked closely with local authorities, Connexions services, and providers of education and training to achieve the Government's September guarantee. Following its introduction last year, the September guarantee has been very successful in engaging young people in education and training. We are continuing to work with our colleagues at DCSF to make it even more effective for young people in September 2008.

Our local partnership teams have also continued to work closely with providers to prepare for the introduction of the new diplomas – the first five of which will start to be taught in September 2008. The new qualifications will become a major part of the wide-ranging choice of qualifications that is available to inspire young people and to get them involved in learning.

Adults

Overview Adult learning and training not only contributes to building a skilled workforce, but also brings the wider economic benefits associated with health, well-being and stronger communities.

One of our main challenges is the number of adults who do not have the basic skills to get a job, and a further challenge is the increasing cost of training more people to achieve a full Level 2 qualification (to meet our targets and the economic needs of this country). And, as Lord Leitch's report predicts, people will increasingly need to reach Level 3 qualifications if they are to move forward in their jobs.

We have focused our funding on nationally accredited provision that tackles what is needed in terms of learning and skills according to Lord Leitch's report. This provision involves longer learning times and is more expensive to deliver than shorter courses outside these main priorities. As a result, as we increase investment in our priority learning opportunities, we will continue to reduce the number of shorter learning opportunities that we fund that fall outside our main priorities.

We recognise the wider benefits attached to learning, so we will protect at least £210 million a year until 2010/11 for personal and community development learning and wider family learning.

21,000
adult learners
have benefited
from the Adult
Learning Grant

We have worked with our partners to develop a more flexible curriculum below Level 2, as well as a framework to organise qualifications at these levels (progression pathways) to support both young people and adults in further learning and/or employment.

Key risks What we spend on training now will not be enough to pay for future training needs. The major challenge we face is persuading learners and employers to invest more in their own learning and training.

Strategies and actions We will align funding and performance measures with the Qualifications and Credit Framework, and work with Sector Skills Councils to focus funding on skills and qualifications that are economically valuable.

We will work with key partners, Qualifications and Curriculum Authority (QCA), Ofqual, the UK Commission for Employment and Skills, and the Alliance of Sector Skills Councils to put the Qualifications and Credit Framework into practice. This will make sure that our qualifications system for adults is as inclusive, responsive and flexible as possible. It should be driven by the needs of employers and be able to respond to the needs of all individuals, allowing them to take small steps towards learning and to build up their achievements.

One of our priorities is to reach adults who need to learn basic skills, do not have a Level 2 or Level 3 qualification and are not currently working. We are focusing on providing information, advice and guidance for these people, as well as for those who are already in work but are aiming to progress in their jobs.

We work closely with Jobcentre Plus and have taken responsibility for its basic skills programme, designed to improve the skills of people who need a job. In the future, we expect that public funds will pay for courses that bring wider economic benefits. Those adults who are supported by public funds will follow courses that lead to nationally recognised qualifications designed to give individuals the skills they need to gain employment and to move forward in work.

The ALG gives adult learners from low-income households financial support to help them to achieve their first full Level 2 or full Level 3 qualifications. The ALG was available nationally for the first time in 2007/08, and over 21,000 adult learners have benefited, far more than the expected take-up of 17,500 for the whole of 2007/08.

FE system

Overview We work with our partners to improve standards and change qualifications, including developing the Qualifications and Credit Framework and progression pathways as part of the Foundation Learning Tier.

Key risks We need to push forward on raising performance at the same time as introducing more changes and increasing our expectations of the FE system.

Strategies and actions We use our commissioning decisions to raise standards, and have put in place the requirements set out in the Further Education and Training Act 2007.

Building on the introduction of minimum levels of performance in 2007–08, we raised the benchmarks required for the 2008–09 business cycle to reflect national performance.

We also extended the scope of minimum levels of performance to include general FE short qualifications, and set indicative minimum levels for commissioning Train to Gain provision. This meant that our discussions with providers focused on their performance. It has given those delivering Train to Gain time to become familiar with the approach before it is fully put into practice in 2009/10.

In January 2008 we published our *Proposed Statutory Intervention Policy: Consultation Document*. We will publish the final policy in July 2008 and we will, in future Annual Reports, set out how we have used the powers given to us under the Further Education and Training Act 2007. We will record the numbers of Notices to Improve issued to those not reaching the minimum levels of performance during the reporting period in question.

Delivery Across the Regions

We know that skills needs vary from one region to another – by working with our regional and local partners we can make a real difference to skills levels.

This year our national and regional teams have worked together to ensure that as policy is developed it draws on the local evidence of what is needed and what works. Regional teams have a key role to play to ensure that policy is implemented effectively and consistently across the country.

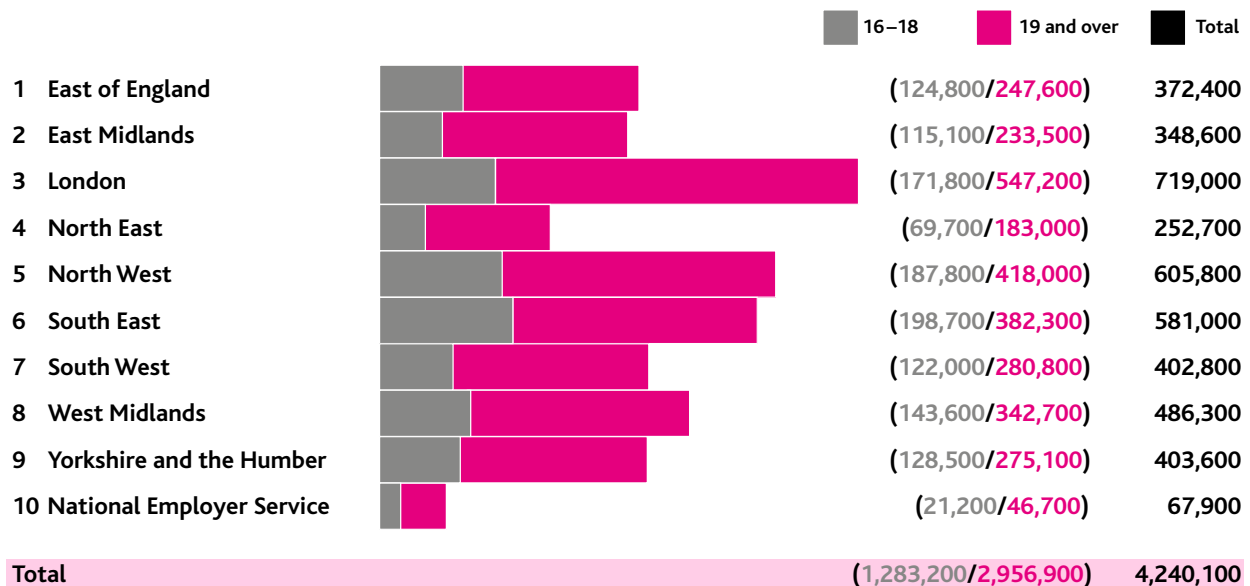
Everything we do is described in *Our Statement of Priorities*. We set out how we will work in each region and include our priorities for investing in learning in each region.

Our aim is to ensure that what we deliver meets the specific needs of young people, adults and employers in the local area.

We work closely with our partners at all levels. A key partner are the Regional Development Agencies with whom we work closely to agree how we will invest in skills to make sure that we address regional priorities.

Jobcentre Plus is a major partner in each local area and in the previous 12 months we have worked together to develop a more integrated approach to the delivery of employment and skills support to individuals and employers. In particular we have supported the creation of LEPs which help unemployed people secure sustainable employment.

Total learners, by region and by age group – 2006/07



Source: LSC individualised learner record and DCSF schools data

Note: these figures include FE, work-based learning, Entry to Employment, adult safeguarded learning, schools sixth forms and Train to Gain. They exclude Ufi data, which cannot be allocated to a region. This means that overall totals will differ from those that appear elsewhere in this document.



Working with the third sector

In January 2008, the Office of the Third Sector, DIUS and the LSC celebrated the fact that funding contracts worth a total £7.6 million had been awarded to third sector organisations (including charities, social enterprise organisations, mutuals, organisations from the voluntary and community sector, and co-operatives).

These organisations are all vitally important to the LSC in terms of its work to build involvement in learning and skills in communities that are traditionally hard to reach. Some learners prefer to begin learning through a third sector organisation.

In December 2006, the Working Together Advisory Group was set up. It brings together experts from across the third sector to advise us on policy and to strengthen our links with our partners. Its work focuses on:

- making the application process for LSC contracts simpler;
- updating tendering conditions; and
- supporting third sector organisations through the procurement process, making it easier for them.

Rachel is the pick of the bunch

Rachel left school shy, lacking in self-belief, too nervous to travel alone on public transport and not sure of what she wanted to do. It was after joining a training programme that involved a series of creative and interactive workshops, taught by local artists at Middlesbrough's TS1 Gallery, that her confidence grew.

This first taste of education – aimed at getting young people into work-based learning – started a journey for Rachel, who was born with cerebral palsy. She has blossomed and bloomed, just like the plants she has been tending to on an overgrown allotment in Middlesbrough.

At the gallery Rachel discovered a love of art, photography and jewellery-making, and found that she could relax around other people. It was not long before her newfound confidence meant that she was recommended for a work placement at a charity shop, which she completed to rave reviews from her colleagues.

Her next challenge was joining a dozen other young people to look after an allotment. The group were encouraged to work with local businesses and fellow gardeners to get hold of the tools, gloves and wellington boots needed, and then cleared the plot up and gated it off. They even built garden furniture, bird boxes and a vegetable patch.

Rachel thoroughly enjoyed working with the other young people, and learning about how food is produced and the importance of healthy eating. When the group raised its first beetroot, Rachel was there to tell the local media all about it – she had come a long way from being the nervous girl frightened of travelling on the bus.

'I wanted to prove to everyone (including myself) that I could be a success'

Rachel's newfound sense of self-belief meant that it was not long before she landed her dream four-week work placement at Debenhams. 'I wanted to prove to everyone (including myself) that I could be a success,' says Rachel.

Now she is looking forward to going to college to complete a Level 2 Apprenticeship, and knows that the sky's the limit when it comes to her career. Rachel has an appreciation of her own potential and capabilities, is able to contribute to the community and would be an asset to any employer.

What is Rathbone?

Rachel attended the Rathbone centre in Middlesbrough as part of the Entry to Employment programme. Funded by the LSC, this scheme is open to 16- to 18-year-olds in England who are unemployed or not involved in any form of learning. The programme gives young people the skills they need to move into FE, training or work.

Entry to Employment asks those involved to carry out learning in three important areas: basic and key skills, vocational development, and personal and social development. Aside from the time they spend at Rathbone centres, learners can take advantage of work placement opportunities.

Rathbone is a charity that helps people whose needs have not been met by education or who need support to overcome barriers to learning, training or employment. It helps more than 10,000 people every year to prepare for life and work, offering them choices in education and training at centres and residential projects across England, Scotland and Wales.



184,000
people have
started an
Apprenticeship
in the past year

Raising the profile of Apprenticeships

Apprenticeships Week, which took place in February 2008, was the first of its kind. Its aims were to:

- increase awareness of the Apprenticeships programme and celebrate its success;
- stimulate discussion about the business benefits of taking on apprentices; and
- get more employers and potential apprentices involved.

The week was a great success, with 300 employers taking part in school visits, practical workshops, roadshows and a recruitment fair, and 40 stakeholders taking part in activities. Organisations including the British Chambers of Commerce, the Confederation of British Industry and the Trades Union Council expressed interest in holding future events.

An Apprenticeships Summit was held during the week to debate the effect of the review. It was attended by David Lammy, the Minister for Skills (by video link), and David Way, National Director, LSC – as well as more than 350 partners.

A new Advanced Apprenticeship in Sporting Excellence, for athletics, was also launched during Apprenticeships Week. The event took place at Twickenham Stadium and was attended by David Lammy and Olympic medallist Steve Cram, as well as representatives from many national sporting organisations and around 100 current Sporting Excellence apprentices.

A boost for Apprenticeship Awards 2008

One of the main aims of Apprenticeships Week was to encourage apprentices and employers to enter the Apprenticeship Awards 2008. These recognise the employers that are using Apprenticeships to build their future workforce and to tackle skills shortages, and reward the apprentices who have made a real difference.

Vic Reeves' big day out to mark Apprenticeships Week

Comedian and TV personality Vic Reeves, who was brought up in County Durham, did a mechanical engineering Apprenticeship with South West Durham Training (SWDT) in the mid-1970s. As part of Apprenticeships Week in February, he went back to his roots, spending a day visiting employers across the North East to see how they are benefiting from the programme.

Vic's day began at the National Railway Museum at Shildon, where he met up with one of his trainers from 1975. Towards the end of the morning he moved on to the Travelling Man pub at West Boldon, where he helped apprentice Dan Sullivan to cook lunch. From there he travelled to Beamish to the Aston Workshop, which lovingly restores Aston Martins. He was able to help 19-year-old apprentice Nic Clark to file down the wing of one of the stripped-down cars before his final stop of the day – a cut-throat shave at the Middlesbrough men's salon Rude Grooming, whose two owners are former hairdressing apprentices.

Vic thoroughly enjoyed the day: 'I have had a great time seeing the wide variety of careers that young people can forge ahead with under modern-day Apprenticeships.' He was amazed by the wide variety of skills that are now covered by Apprenticeships: 'Top-class training is available to cover a huge spectrum

of young people's ambitions. It isn't restricted to industries like engineering any more – it now takes in hairdressing, beauty therapy, and the hospitality and catering trades.'

Vic's successful Apprenticeship with SWDT at the age of 17 was the beginning of bigger and better things. He had a job in a factory in London and then spent some time working as a shop assistant before beginning a part-time course at art college. Today he is recognised as an accomplished artist as well as a comedian.

The number of people completing Apprenticeships in the North East increased dramatically between 2003/04 and 2006/07, and Chris Roberts, LSC Regional Director, is keen to highlight this. But he also emphasises that there is much room for growth: 'Our ambition is to encourage more employers to take on apprentices, and more young people to consider this career route.'

Innovation by design in Birmingham



When the leaders of Matthew Boulton College in Birmingham decided that they wanted to move the college to the city's new 'learning quarter' in the Eastside Regeneration Area, they were setting themselves a significant challenge. Their ambition was to make the college 'an excellent, dynamic place for individuals and businesses to find the learning and skills they need in the most up-to-date purpose built accommodation in the city'.

LSC and Royal Institute of British Architects (RIBA) FE Design Excellence Awards 2008

This year, Matthew Boulton College was the joint winner of the prestigious FE Design Excellence Awards, for which entries are judged on their innovation, excellence, sustainability, adaptability and 'feel-good factor'. The judges praised Matthew Boulton College for creating an inspiring learning environment and for its excellent use of space.

Christopher N Banks CBE, LSC Chairman, said: 'I am hugely impressed. The winning colleges have created state-of-the-art, inspiring places that enable world-class learning and teaching. High-quality facilities like these will increase participation and attainment, and raise standards across the FE system.'

Andy Wilson, Chair of the RIBA–LSC Forum, said: 'Such intelligently designed facilities will enable students to enjoy a high quality of learning, and leave an excellent legacy for generations to come.'

The awards followed closely on the heels of the LSC's national capital strategy, *Building Colleges for the Future*, published in March 2008. In it, John Denham, Secretary of State for Innovation, Universities and Skills announced a £2.3 billion programme to renew and modernise the FE estate. The aim is that world-class education and facilities are available for everyone. Over 150 colleges throughout England are set to benefit from the investment.

Matthew Boulton College's new home is a landmark nine-storey building on the site where the city's first college was established a hundred years ago. It acts as an impressive beacon and a challenge to the traditional view of FE, with the sloping site allowing access from two separate levels, and the upper levels boasting excellent views in all directions. A dramatic timber-panelled drum has been created to house the main performance space and there is a landscaped roof terrace on the third floor.

The emphasis of the new building is on openness: the facilities are all fully accessible, and there are level entrances and lifts.

Careful design and the use of natural ventilation have been used to limit the building's effect on the environment. All of the materials were chosen with sound ecological principles in mind.

The design needed to put the learner first, and to be able to allow for potential advances in technology. But, above all, it needed to represent the college's reputation for 'blended learning' – a combination of information and communications technology (ICT) and a range of innovative solutions which breaks the divide between learning and social environments. Each level provides a combination of different areas where students can pick up the learning they need, and wireless ports and ICT are in place throughout.

Matthew Boulton College has been delighted to see a huge increase in student numbers since the new building was opened, and a more positive approach among its learners. The college's vision to 'inspire learning and achieve excellence' is now represented by its groundbreaking new building.



Staff on a roll at sandwich chain Subway

Building the skills of staff through Train to Gain has brought huge business benefits to Subway.

Surinder Gupta holds franchises for 16 Subway sandwich shops, employing more than 100 staff. When skills broker Alison Cowling visited Surinder to talk through his needs, he explained that flawless food preparation and excellent customer service were his two main priorities.

'We were able to match Mr Gupta with providers very quickly. Courses were up and running within a matter of weeks of our initial meeting.'

Alison Cowling, Train to Gain skills broker

Alison very quickly identified that both English for Speakers of Other Languages (ESOL) courses and NVQ Level 2 qualifications in food preparation would be helpful to staff at Subway. She says: 'We were able to match Mr Gupta with providers very quickly. Courses were up and running within a matter of weeks of our initial meeting.'

Surinder was delighted: 'I was impressed with how Train to Gain dealt so well with my requirements and put them into action. They understood what I wanted and very quickly found the training providers.'



City Strategy consortium winning the drive to get people into work

The West Midlands City Strategy consortium joins up the work of the local LSC with that of Jobcentre Plus, eight local authorities, the private sector, the voluntary sector and the community sector.

The consortium's aims are to:

- build levels of skills in the area, making sure that the local workforce is well equipped to compete;
- use vocational training to build involvement, improve progression into work and then make sure that more people stay in work;
- encourage employers to appreciate the benefits of the area's diverse population, and to recruit more people from disadvantaged areas and groups; and
- remove barriers to employment, helping those who are economically inactive.

The results of the LSC West Midlands' efforts to implement an integrated approach to the delivery of employment and skills over the last year is impressive. As a member of the Birmingham, Coventry and Black Country City Strategy consortium, the LSC is responsible for leading the campaign to increase the numbers of unemployed people getting back to work.

Nearly 5,000 people are no longer claiming benefits, 41,000 people have achieved Level 2 qualifications, and 32,000 people are involved in the Skills for Life programme.

Local skills for local employers

The City Strategy initiative is based on the belief that local organisations can be more successful if they base their efforts on shared priorities, are given more freedom to try out new ideas and

can tailor services to respond to local needs. This means that learning and skills provision is more in tune with the needs of local employers, and the skills needed by an employer are available among people living in the local area.

The initiative is also focused on making it less complicated for the most disadvantaged to get help and guidance on how to get back to work.

Challenges ahead

The leader of Birmingham City Council, Mike Whitby, is delighted with what has been achieved so far: 'This is a remarkable achievement and proves how valuable the City Region has been in helping to co-ordinate campaigns across the West Midlands. However, we do not underestimate the scale of the challenges we face: the economy is facing a serious skills deficit – both nationally and locally.'

A survey among Birmingham Chamber of Commerce and Industry members found that (after employment legislation) the availability of trained, skilled staff is the second most important issue facing business today.

41,000 people have achieved Level 2 qualifications and 32,000 people are involved in the Skills for Life programme

Management and Structure



We are organised to be sensitive to needs and opportunities at the local, regional and national level.

How we are managed

The Learning and Skills Council (LSC) has been led and guided by the National Council and its committees. They offer independent views and a wealth of knowledge and experience, keeping us plugged into the real-life issues affecting people, communities and employers.

The job we've been given

The LSC was established by the Learning and Skills Act 2000 to fund education and training for over-16s, except for higher education. We are 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 and
- improving the further education (FE) system's effectiveness and efficiency.

Management Group (L-R)

Sally Stewart, National Director, Human Resources

Rob Wye, National Director, Young People's Learning and Skills

David Russell, National Director, Finance and Resources

Tom Crompton (East Midlands)
Total spend: £930.3 million

Verity Bullough, National Director, Funding, Planning and Performance

Chris Roberts (North East)
Total spend: £667.0 million

Mark Haysom CBE Chief Executive

Caroline Neville (East of England)
Total spend: £1,068.6 million

David Hughes (London)
Total spend: £1,857.9 million

John Korzeniewski (North West)
Total spend: £1,577.5 million

David Way, National Director, Adult Learning, Skills and Employment

Marinos Paphitis (South East)
Total spend: £1,660.1 million

Malcolm Gillespie (South West)
Total spend: £1,038.5 million

David Cragg OBE (West Midlands)
Total spend: £1,331.9 million

Margaret Coleman (Yorkshire and the Humber)
Total spend: £1,097.2 million

Henry Ball (South East)
Retired July 2008



National Council

The National Council oversees policy and decision making at the LSC, while day to day management of the LSC rests with the Chief Executive and the Management Group. The members of the National Council are listed here:

Chairman

Christopher N Banks CBE

Chairman, Learning and Skills Council and Founder, Big Thoughts Ltd

Members

Giles Clarke

Chair and Chief Executive, ATL Telecom (stepped down from National Council end of 2007)

Shirley Cramer

Chief Executive, Dyslexia Action

Frances O'Grady

Deputy General Secretary, Trades Union Congress

Gareth Cadwallader

Executive Director, Airas Intersoft Ltd

Ian Ferguson CBE

Chairman, Data Connection Ltd

Bryan Gray

Chairman, Northwest Regional Development Agency

Claire Ighodaro CBE

Former Finance Director, Broadband, BT Group

John Taylor

Principal and Chief Executive, Sheffield College

Dame Mary Marsh

Director and Chief Executive, National Society for the Prevention of Cruelty to Children

Deian Hopkin

Vice Chancellor, London South Bank University

Malcolm Trobe

Headteacher, Malmesbury School

John Cridland CBE

Deputy Director-General, Confederation of British Industry

Special Advisors

Sir George Sweeney

Former Principal, Knowsley Community College

John Merry

Leader, Salford City Council



Equality and Diversity Committee

The National Council is supported by an expert Equality and Diversity Committee, which is responsible for ensuring that equality and diversity is a thread running through all of the LSC's work. The launch of the LSC's first *Single Equality Scheme* in April 2007 has been a landmark in terms of the LSC's commitment to equality and diversity.

Members

Shirley Cramer (Chair)

Chief Executive, Dyslexia Action

David Barker

Director of Adult Services, Percy Hedley Foundation

Jeremy Crook

Director, Black Training and Enterprise Group

Nicola Dandridge

Chief Executive, Equality Challenge Unit

Patrick Grattan

Chief Executive, Third Age Employment Network

Amir Kabal

Chief Executive, East Staffordshire Race Equality Council

Peter Lavender

Director of Research, National Institute of Adult Continuing Education

Alyson Malach

Director, Equality and Diversity UK

Sally McEnhill

Principal, Merton College

Judith Norrington

Head of National Policy Development, City and Guilds

Dame Mary Marsh

Director and Chief Executive, National Society for the Prevention of Cruelty to Children

Steven Lowden

Formerly Chief Executive, Commission for Patient and Public Involvement in Health

Other committees

The Young People's Learning Committee and Adult Learning Committee were both abolished in February 2008 by the Further Education and Training Act 2007, but the following committees remain:

- Appointments Committee
- Audit Committee
- Capital Committee
- Remuneration Committee and
- Reorganisation Committee.

Machinery of Government

From 2010, two new bodies will drive the extensive agenda that the LSC has been charged with since 2001.

The Machinery of Government (MoG) consultation *Raising Expectations: enabling the system to deliver*, which paves the way for a very different configuration of the post-16 landscape, ended in June 2008 (it will report to Ministers in 2008).

It proposes a new national non-departmental public body (NDPB), the Young People's Learning Agency, which will have some regional capacity and will support local authorities in their new responsibilities for commissioning and funding 14–19 provision. For adults, a Skills Funding Agency (also with some regional capacity) will oversee the distribution of funds to the sector and will manage the performance of providers of further education. It will house the new National Apprenticeship Service, the LSC's National Employer Service and a new Adult Advancement and Careers Service.

We have reviewed our management structure to make sure it reflects the MoG changes, so that we can work effectively with the two new Departments: Innovation, Universities and Skills (DIUS); and Children, Schools and Families (DCSF). We are core members of the DIUS/DCSF Programme Board that will oversee the transition to the new arrangements. Our structure also enables us to share information effectively with new and existing partners and stakeholders.

How we work

Our national teams work with DIUS, other Government departments and a range of partners and stakeholders, including Sector Skills Councils to make sure that we develop policies that support the delivery of our strategies and meet the local and regional needs of young people, adults and employers.

The national team works with nine regional offices to support the implementation of these policies.

Our nine regional directors work with organisations such as the Regional Development Agencies, local authorities and Government Offices to provide a framework for the work of our local partnership and area teams.

Our regional teams plan and prioritise how we provide education, learning and training to encourage more people to learn and improve their skills.

Meanwhile, our local partnership teams (covering the same areas as the 150 local authorities in England) remain focused on making decisions locally – matching provision to local people's needs.

Each national and regional director is personally responsible for internal control, risk management and governance within their area. Each year, they provide a personal statement on internal control to the Chief Executive of the LSC, confirming that they have met these responsibilities.

Local councils

Until February 2008, 47 local LSC councils exercised functions within their local areas. But they were abolished by the Further Education and Training Act 2007. Nine regional councils will come into effect in September 2008.

Regional boards

In the interim period, nine regional boards have been established to agree priorities in the regions, provide challenge and support to the regional director. They will also build links with key external partners and monitor and evaluate the LSC's performance on a regional basis.

In addition, the regional boards have taken on some of the functions previously exercised by local LSCs (such as endorsing capital proposals, and making and publishing proposals for the creation or dissolution of FE Corporations).

Regional councils

As a result of the Further Education and Training Act, which received Royal Assent in Parliament in October 2007, we have set up nine regional councils that are led by employers. These will link us to businesses and challenge us to deliver new solutions to regional skills issues.

The regional councils will replace the regional boards, and chairs and members are currently being recruited.

The regional councils will take on some of the National Council's functions, will inform the LSC's decision-making at a regional level and will ensure that public money is spent in the right way. They will guide our progress, making sure that our strategy works on the ground.

Our Responsibilities

Our National Council and committee members play a key role at both the national and regional level. At each level, they support and challenge what we do, provide leadership to the LSC and the FE system, and act as ambassadors.

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

1. Under Section 14(1) of Schedule 1 to the Learning and Skills Act 2000, the governing body of the Learning and Skills Council for England (the National Council) 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 the Treasury. The accounts are 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 is required to:
 - observe the accounts direction issued by the Secretary of State for Innovation, Universities and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
 - prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the body will continue in operation.
3. The Accounting Officer for DIUS designated the Chief Executive of the LSC as the Accounting Officer for the LSC. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by the Treasury and published in *Managing Public Money* by The Stationery Office.

How We Take Care of...

Our people

Development and training

Given our role in building the nation's skills base, it is important to demonstrate our commitment to our staff and make sure that they have the skills and abilities to help us deliver our ambitious plans.

In 2007–08 we continued to run a major training and development programme, including a series of accredited programmes. We also developed processes and materials in preparation for the implementation of our new Oracle HR system, which provides staff and managers with direct access to the information they need.

We developed and delivered a corporate learning and development programme that aims to drive up performance. It includes leadership, management development, relationship management, business knowledge, IT and personal effectiveness initiatives.

An equality and diversity e-workbook has been introduced to enhance awareness of equality and diversity issues among staff at all levels across the organisation.

In 2007–08 we ran over 600 events and workshops on a variety of business-focused topics that had been identified by our staff and managers, and were delighted to exceed our key performance indicator which stipulates that events need to be, on average, 75 per cent effective overall.

Our range of learning initiatives include programmes entitled Proactive, Introduction to Management and Enhance.

- Proactive is a diploma in management and involves people taking part in 240 guided learning hours.
- Introduction to Management is a Certificate in Management and involves people taking part in 120 guided learning hours.

Delegates from our initial 2007–08 cohorts are already starting to be accredited, and we plan to run further cohorts for these two learning initiatives over the coming year.

- Enhance is a series of five development events to build and enhance partnership working skills. These are aimed at anyone in the LSC who needs to develop their skills in managing relationships in a more strategic and influential way. Four stand-alone modules are delivered, with a fifth focusing on emotional intelligence.

We will continue to roll out programmes during 2008–09, reflecting any changes in MoG. In addition, we will use our programmes to assist with and embed succession planning and talent development across the organisation.

Our aim is to provide a flexible approach to development. In addition to workshops and courses across the country, we offer a range of over 200 online materials and courses in association with Ashridge Business School and SkillSoft. These allow staff to learn at work or at home and to progress at their own pace, using computer software and the internet.

In 2007–08 we demonstrated our commitment to upskilling our staff by making the Skills Pledge, and we were recognised as having achieved Investors in People corporate accreditation in March 2008.

HR business partners work 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 have introduced an evaluation and review framework so that we can measure our success and demonstrate our progress.

Communication and consultation

Employee communications are planned and managed as part of the wider business-planning process. We aim for clear and consistent messages, and make sure that communications are properly targeted, relevant and fit for purpose. We listen to feedback and act on it. We also work closely with the Public and Commercial Services Union (PCS), which represents 47 per cent of our employees, and we are committed to building a positive partnership approach with the PCS at both the national and the local level.

The Open Forum, an employee information and consultative group, is now operating across all regions and the National Office. It is designed to complement the existing channels of communication that we have with the PCS.

We use a range of communication tools including inserts to the weekly staff bulletin, management cascade briefing notes, and face to face briefings. We have a dedicated intranet site that contains all key information on HR policies and procedures, as well as a regularly updated question and answer section. Online toolkits provide invaluable information on key HR policy areas for managers and employees.

We carried out our biennial employee perception survey in November 2007, with a very satisfactory return rate of 73 per cent. The results have been disseminated to all functions and regions, and appropriate action plans have been developed.

Our aim is to be transparent and open in all of our communications, and to respond positively to queries.

Health and safety

We are committed to the health, safety and welfare of all of our staff, contractors, agency workers and the learners we fund.

Following the introduction of a driver risk management package in 2005–06 for all staff who drive on LSC business, 1,428 have completed the individual driver risk assessment (IDRA), 358 have completed the e-learner training and 128 have had on-road training.

National Office and East Midlands regional office were successful in gaining OHSAS18001 accreditation. The auditor commented: 'Excellent standards of housekeeping, an extremely well maintained working environment, employee involvement and provision of adequate resources were evident during the review and a genuine management focus on occupational health and safety issues was apparent'.

There were 30 work-related accidents last year, of which one was reportable. The overall number of accidents equates to 0.80 per cent of staff sustaining a minor injury and 0.03 per cent a reportable one (a reduction of 50 per cent on 2006–07).

Equipment costing £28,800 was purchased centrally for 29 colleagues needing workstation adjustments of which £17,500 was reclaimed through the Access to Work team, part of Jobcentre Plus.

Our learner health and safety policy states that learners are entitled to learning and training that takes place in a safe, healthy and supportive environment. This is integral to the quality of provision delivered and is essential to ensuring that learners have a positive learning experience.

We published *Learner Health, Safety and Welfare: Safe Learner Blueprint* in September 2007 to help the organisations that we fund to develop and deliver safe learning and safe learners.

We have commissioned the Institute for Employment Studies (IES) to research the extent to which learners adopt safe behaviours as a result of differing environments and levels of supervision. The report will be published in autumn 2008, with final research data available in 2009.

In the light of previous IES studies on the under-reporting of learner incidents, we have revised, simplified and improved the Learner Incident Management System to reduce duplication of information and to improve reporting from providers.

Finally, we have continued to work with the Health and Safety Executive on specific requirements for younger learners in high-risk sectors such as construction, and on raising awareness of occupational health as part of health and safety in the workplace.

Our quality of life – now and in the future

In September 2005 the LSC published its strategy for sustainable development, *From Here to Sustainability*.

Our vision is that the learning and skills sector will proactively commit and contribute to sustainable development through its management of resources, the learning opportunities it delivers, and its engagement with employers and communities. We will become an exemplar of sustainable development and will provide a lead for the FE system, which has huge potential to deliver on the sustainable development challenge.

Increasing numbers of examples of good practice prove that, in 2007–08, we have already made significant progress in this area:

- We launched free online resources to support providers to move towards sustainability. Sustainability Online Resource and Toolkit for Education (SORTED) is available on the Environmental Association for Universities and Colleges' (EAUC's) website. We are now working with EAUC to further develop SORTED to meet the changing needs of providers.

- We have continued to build sustainable development into our capital programme, allocating £20 million to FE colleges for projects that reduce energy consumption and carbon emissions; supporting the development of the new Building Research Establishment Environmental Assessment Method (BREEAM) standard for FE colleges to achieve 'excellent' BREEAM ratings; and announcing in our new national capital strategy *Building Colleges for the Future* our ambition that all new college buildings will be zero carbon by 2016.
 - We sponsored the Green Gown Awards, which recognise excellence in sustainable practice in both higher education and FE. This year saw the highest-ever level of participation by FE providers and also the highest-ever number of FE winners: Bedford College, Lancaster and Morecambe College, and Somerset College of Arts and Technology.
 - We asked LSC staff what they thought about sustainable development, and the outcome was that they think it very important. This view has been taken forward into work to identify communications and capacity-building options to embed sustainable development across the LSC.
 - We have developed a set of indicators that are designed to reduce the LSC's carbon footprint and to support other areas in which sustainable development is relevant. We hope to measure ourselves against these indicators and to start working towards specific targets during 2008–09.
 - The LSC regions have supported the strategies, action plans and initiatives of partners and providers, as well as commissioning initiatives themselves and changing their way of working. Much of this work is led by individuals or teams who act as champions for sustainable development, often fired by their own enthusiasm.
- In the coming year, our challenges in terms of sustainable development include:
- working more collaboratively with partners across the whole FE system to drive change
 - placing sustainable development at the heart of skills provision
 - aligning the specific actions that we can take through capital policy with broader sustainable development aims
 - introducing a new grant scheme for the FE system to further encourage energy efficiency and reductions in carbon emissions
 - developing a plan for achieving the zero-carbon target for new college developments by 2016
 - establishing targets for reducing carbon emissions in the existing FE estate and
 - making progress towards our organisational targets and ensuring that the principles of sustainable development are embedded in the transition planning for the bodies that will succeed the LSC from 2010–11.

Our Working Practices

Stakeholder communications

To achieve our goals, we depend on effective teamwork with many stakeholders and partners. We aim to facilitate two-way communication and act in an open and transparent manner with them all.

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: for example, the reforms needed for a demand-led system to work and funding arrangements that would be put in place as a result.

We have been pleased to introduce a number of new providers (including a number of third-sector organisations delivering learning and skills to our most disadvantaged learners) to the LSC through our open and competitive tendering process.

Employers

We take our relationships with employers seriously. We work with large employers through our dedicated National Employer Service, and with other employers through the Train to Gain service. Our staff work with employers at a national, regional and local level, and maintain one-to-one relationships with key employers and organisations that represent them. We have regular meetings with groups such as the CBI, the Institute of Directors, the British Chambers of Commerce, and the Federation of Small Businesses, and attend and speak at relevant employer conferences.

Government

The past year has seen the announcement of MoG changes to the way in which learning and skills will be delivered. The LSC has been involved in related discussions with MPs at the local, regional and Ministerial level to ensure that any decisions take into account the expertise of LSC staff. The LSC is a member of the Programme Board that has been established to oversee the transition to the new arrangements.

Opinion formers

We have identified the business and education leaders, politicians and representative groups that are particularly interested in our work or influence the environment in which we work. We maintain regular contact with them, and ensure that they are privy to our thinking and ideas as well as to our research findings and policy initiatives. This is done through small discussion forums and events, an email distribution list and a specialist newsletter detailing our research.

Learners

The LSC is advised by the National Learner Panel, which acts as the voice of the learner. It is made up of independent volunteers (aged between 16 and 75) who have just left school, who have returned to learning later in life to boost their career prospects, or who have retired and are learning for pleasure. The National Learner Panel looks at how proposed changes in FE will affect learners and helps to ensure that the learner's perspective informs policies, proposals and initiatives.

This year we have undertaken an evaluation (results to be published in summer 2008) of our work at the local and regional level to ensure that providers are listening to learners. We also used the evaluation to talk to learners about their experiences.

Other partners

We work with a range of other partners, and give details of our relationships with them in *Our Statement of Priorities*.

Equality and diversity

Promoting equal opportunities is one of the responsibilities that the Government has given us. This applies as much to the way we treat our own staff as it does to the standards that we apply to the learning and skills sector. (We have a statutory duty to report annually on equality and diversity in accordance with Section 42 of the Learning and Skills Act 2000 – our contribution here discharges that duty.)

In April 2007 we published our first three-year Single Equality Scheme, which is our strategy to place equality and diversity at the heart of everything we do – in relation to both the learning we fund and our workforce. We have since commissioned and published our first annual review of the scheme.

We have made substantial progress towards assessing all of our policies for their impact on equality, including training over 100 members of staff on how to use our equality impact assessment framework.

Learners and providers

As part of the Single Equality Scheme, we developed equality and diversity impact measures to ensure more equal outcomes for the learners whom we fund. To build the capacity of the sector in relation to equality, we commissioned a support programme that is open to all our funded providers across our nine regions.

Our Single Equality Scheme committed us to going beyond the requirements of legislation where practicable. In the last year, we have worked closely with the new, cross-

sector Forum on Sexual Orientation and Gender Identity in Post-School Education (established in April 2007) to deliver workshops and develop training materials for staff and learners.

We have also published research on engaging young Muslim learners in FE, and have commissioned a regional programme of activity to come up with practical ways for providers to engage Muslim learners more effectively. And in recognition of our work to challenge gender and ethnic stereotyping in work-based learning through Train to Gain, the LSC was a finalist for Opportunity Now's Diverse Women Award.

We have reviewed our procurement and commissioning processes to ensure that we only fund providers who share our commitment to equality and diversity.

The LSC workforce

We are making substantial progress towards achieving our workforce equality goals, including surpassing two of our targets for 2010: the proportion of women in middle and senior roles (the figure is now at 52 per cent) and the proportion of staff from black and minority ethnic backgrounds (the figure is now at 12 per cent – up from 7.2 per cent in 2002).

We have now made the first of these goals more stretching by focusing on the most senior roles, 48 per cent of which are now filled by women. We are close to achieving our goal of 7.6 per cent of middle and senior roles being filled by staff from black and minority ethnic backgrounds, and are making progress on the proportion of entry-level roles filled by men (the current figure is 20 per cent).

We remain committed to increasing the proportion of staff declaring a disability or limiting illness (the figure remains disappointingly low, at 2.6 per cent). To this end, we are raising awareness among our staff of the need to support and make reasonable adjustments for staff with disabilities, and we are working with our Workforce Equality and Diversity Steering Group and the Employers' Forum on Disability to influence change.

According to benchmarking tools from both the Employers' Forum on Disability and Opportunity Now, we have already achieved substantial improvements: our ratings have moved from Bronze to Silver and Silver to Gold respectively. Our Chief Executive has also signed the Mindful Employer Charter, which commits us to supporting the mental health and well-being of our employees.

We have completed an equal pay audit and have promised to undertake this exercise annually from now onwards. We have also strengthened our employee monitoring mechanisms and reporting methods, so that we will be able to better monitor our workforce profile at both the regional and national level.

We have established a Workforce Equality and Diversity Steering Group, which is made up of staff from across the organisation. Its aim is to ensure that our workforce practices are fair.

In November 2007, the Network for Black Professionals gave our Chief Executive an award for leadership in race equality.

Internal Control

The Learning and Skills Council's Accounting Officer's Statement on Internal Control 2007–08

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Learning and Skills Council's policies, aims and objectives. This achievement safeguards the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.
2. The LSC is an NDPB established by the Learning and Skills Act 2000 (the Act). The National Council can only do those things that the Act provides it can do. The Act provides that the National Council must establish a committee, called a local Learning and Skills Council, for each of the 47 areas of England specified by the Secretary of State.
3. However, nine regional councils for England are being established under the Further Education and Training Act. They will take effect from 10 September 2008 and will replace the current 47 local LSC councils that were set up as part of the Learning and Skills Act 2000.
4. The Bill has been passed and we are in the process of recruiting for regional councils which will be functioning by end of 2008. Meanwhile regional boards are operating as sub-committees of the National Council.
5. The National Council itself consists of between 12 and 16 non-executive members, one of whom is appointed as the Chairman. They meet regularly with me and my senior managers, to provide strategic guidance to the executive. As Chief Executive, I am a member of the National Council. Schemes of delegation exist between the National Council and myself.
6. DIUS sponsors the LSC, working closely with the DCSF. Appropriate communication channels have been put in place to ensure that the departments are informed of the business of the LSC and that we in turn are informed of the departments' requirements for the LSC.
7. The National Council, through its Audit Committee, is informed of the risks facing the LSC and the LSC's processes for dealing with risk.
8. The Prime Minister announced in June 2007 that the DfES would be split into DIUS and the DCSF, and that, subject to legislation, the responsibility for funding learning provision for 16- to 18-year-olds would pass from the LSC to local authorities. The LSC has been working closely with the two departments on the consequences of this, culminating in the White Paper, *Raising Expectations: enabling the system to deliver*, in March 2008, which sets out the processes by which the changes will be put into effect by 2010. The

LSC has taken action over the year to ensure the effective delivery of current business, while absorbing the impact of this prospective change.

The purpose of the system of internal control

9. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure, and to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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. The system of internal control has been in place in the LSC for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk

10. The LSC has an established risk management policy. A Risk Management Board consisting of a subset of my Management Group has been chaired by the Director of Strategy and Communications for 11 months of 2007–08 and by the Director of Funding, Planning and Performance from March 2008 onwards.
11. A National Risk Manager has been appointed to support and facilitate the management of risks across the LSC network. Each group and local LSC has an appointed senior manager to act as risk champion; these managers do not own the risks but act as stewards of the processes.

12. Internal Audit performed a review of risk management during the year which gave a restricted assurance and has resulted in a qualification to the Internal Audit Annual Report. In the last quarter of 2007–08 the failure to properly embed corporate risk management was recognised at the highest level within the LSC as the National Audit Committee reported the matter to the National Council. This is covered in more detail in the Internal Audit section of this Statement.

The risk control framework

13. The LSC does not encourage a risk-averse culture; it accepts that risks need to be taken and managed in order to deliver its challenging agenda. I do, however, require risks to be properly evaluated and managed appropriately. In doing so I expect a balanced response to be made to risks, whereby the cost of control is weighed against the likely impact of a risk becoming a reality.

Review of effectiveness

14. As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the LSC who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, Management Group and Internal Audit.

Audit Committee

15. A duly constituted Audit Committee has operated through the year and its terms of reference reflect best practice. It consists of National Council members, local audit committee chairs and co-opted members required for their expertise; all are non-executives. The Audit Committee has met regularly and it has 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 and its contractor. The team has also taken evidence from senior managers as and when it was deemed appropriate. Each region of the LSC has a duly constituted regional audit committee that provides a scrutiny and challenge role with respect to the regional operations. A particular strength of these arrangements is that all regional audit committees are required to review and advise on the individual regional director's personal statement of internal control.

Management Group

16. The Management Group consisted of nine regional directors and five national group directors (Resources; Learning; Skills; Human Resources; and Strategy and Communications) for 11 months of 2007–08. For one month (March 2008) it consisted of nine regional directors and six national directors (Finance and Resources; Human Resources; Funding, Planning and Performance; Adult Learning, Skills and Employment; Young People's Learning and Skills; and National Apprenticeship Service).

The Management Group allows me to have a focused approach to control. I have also maintained a requirement upon national and regional directors to provide a chain of personal assurance as to the adequacy of internal control in their areas of responsibility.

Internal audit

17. A professional and independent Internal Audit service was maintained throughout the year. On the advice of the National Audit Committee, I agreed the Internal Audit team's strategy and plans. I meet regularly with the Chief Internal Auditor and receive quarterly reports on Internal Audit's findings, which I discuss with the Management Group. I receive from the Chief Internal Auditor an annual report on the findings of Internal Audit, which includes his professional opinion as to the level of assurance that is applicable to the LSC. For 2007–08 the Chief Internal Auditor has, with the exception of corporate risk management, given a substantial assurance over the operation of the LSC's systems of control, risk management and governance. A substantial assurance indicates that the LSC has operated basically sound systems, but there were some weaknesses that prevented giving a full assurance.

18. The assurance provided by Internal Audit has been qualified in regard to risk management. In the 2006–07 Annual Report identified significant action was required across the LSC to properly embed risk management. This has not occurred. In part this lack of action was due to fundamental changes in risk following the MoG announcements. In the last quarter

of 2007–08 this failure to properly embed corporate risk management was recognised at the highest level within the LSC as the National Audit Committee reported the matter to the National Council. A new chair (Director of Funding, Planning and Performance) of the Risk Management Board has been appointed but remedial action is at an early stage. The National Risk Manager will support the work of the Risk Management Board in fully embedding risk management. The Internal Audit service will also provide additional support and advice where necessary or requested. I am determined that these weaknesses will be remedied in 2008–09.

19. Through his reports the Chief Internal Auditor has alerted me to where improvements are necessary and I take a personal interest in the implementation of such plans. In addition, each group director receives an annual report on his or her operations as does each regional director. An Internal Audit 'control health check' is carried out annually, both in each region and National Office group, and this informs each of the personal statements of internal control received from my directors. A spirit of co-operation exists between the LSC staff and Internal Audit and they work together to maintain a culture of continuous improvement.

Other assurance mechanisms

20. As Accounting Officer I am required to be satisfied that those organisations that the LSC funds also operate in an appropriately controlled environment. The LSC has established 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 providers' application of LSC funds. The level of assurance work carried out by PFA teams or by others, on which PFA teams rely, is commensurate with the level of associated risks. I receive from each of my regional directors his or her personal assurance that providers maintain and operate adequate controls. They base this assurance on a number of things, foremost of which are:

- PFA reports
- receipt and examination of FE college accounts
- contract managers' reports
- performance reviews
- Audit Committee scrutiny and
- third party assurance (Adult Learning Inspectorate, Ofsted).

Internal control issues

21. As Accounting Officer I am satisfied, with the exception of risk management (as identified within the Internal Audit section above), that the LSC's governance and internal control are compliant with Treasury requirements and that the following issues identified as potential risks do not represent a material threat to the LSC's operational effectiveness.

Key issues

a. Corporate ownership of contract management as a discipline has been unclear, and the function remained an area for the LSC to improve during 2007–08. Ownership has now been assigned to the Director of Funding, Planning and Performance and I am satisfied that the risks associated with this function will be mitigated to an acceptable level.

- b. Train to Gain remains a flagship programme for the LSC. A joint audit between DIUS/DCSF and LSC identified some issues in 2007–08 and management has made good progress in addressing these. Rapid expansion means that this programme continues to be a key risk and will be kept under review.
- c. Ownership of corporate business continuity planning has been placed with the Director of Funding, Planning and Performance to ensure that improvements will be made to enhance management and co-ordination during 2008–09.
- d. In March 2008 a major provider to the LSC, Carter and Carter plc, went into administration. This followed lengthy discussions between the company and its bankers in an attempt to secure a future for the company. The administrators of the company were able to secure sales of substantial parts of the business to Newcastle College and the Retail Motor Industry Federation. The LSC has worked with the administrators to transfer learners to other providers and to ensure that learners who have completed their studies receive their certificates from awarding bodies. I have commissioned an independent review of the circumstances leading to the collapse of this provider in order that the LSC can learn and apply the key lessons.

- e. There has been a significant increase in the number of allegations of irregularity. The increase has placed intense pressure on the ability of the Internal Audit investigations unit to deal with the allegations and subsequent investigations in a timely manner. I am taking a personal interest in this issue and receive a monthly report. The ongoing internal investigation which took up significant resources in 2006–07 remains in the hands of the police and the Serious Fraud Office. We understand that the case will come to court in 2008–09. The outcome of the investigation represents a reputational risk to the LSC and this remains to be managed.
- f. In late 2007 and early 2008, the LSC's information security arrangements were the subject of a review by the DIUS departmental security officer (supported by KPMG) as part of a wider cross-government review of departments and their delivery bodies. The outcome of the review was a set of general recommendations applicable to many of DIUS' delivery bodies and some specific recommendations for the LSC. As requested by the DIUS Permanent Secretary, the LSC has set out a plan of action for addressing the issues identified in the review.
- g. The LSC is fully aware of the requirements set out in the letter of 6 March 2008 from the Secretary of the Cabinet and Head of the Home Civil Service on data handling procedures in government. An initial analysis of the

accompanying cross-government mandatory standards for data handling has been undertaken by the LSC's information governance and security manager. This analysis has concluded that the LSC already meets many of the requirements. Those which are not in place, or are not already being addressed, will be included as a priority in the programme of work on information assurance.

Significant issues

- h. The MoG announcements and the subsequent White Paper, *Raising expectations: enabling the system to deliver*, have signalled the dissolution of the LSC in 2010–11 and the transfer of its functions to its successor bodies. The uncertainty arising from this has provided a considerable diversion from LSC 'business as usual'. In 2008–09, as moves towards transition continue further, substantial diversion is inevitable; this may weaken the LSC's ability to meet its objectives in the year and may also affect systems of internal control. These changes will occur at the same time as significant reductions in the administration budget. The LSC has responded to MoG changes by making significant changes to its governance and National Office management structures. Regions have also begun to realign themselves to reflect departmental change and impending structural change.

I am confident that senior management will continue to consider and manage the risks that machinery of government changes present.

- i. A number of issues concerning basic staff financial systems, including travel and subsistence and Government Procurement Cards, have arisen during 2007–08. I am assured that guidance is being enhanced in this area and financial probity training has already been undertaken by many staff. Efforts will be made to ensure that those who have not yet attended do so during 2008–09.



Mark Haysom CBE
Chief Executive and Accounting Officer
 Learning and Skills Council
 27 June 2008

Risk Management and Financial Controls

Our system of internal controls is designed to identify and manage the risks to achieving our policies and aims, in line with guidance from the Treasury.

Our Risk Management Board, a sub-group of the Management Group, is chaired by Verity Bullough, National Director of Funding, Planning and Performance. It reports to the Chief Executive and the Management Group. Our National Audit Committee is made up of two members of the National Council, a former local audit committee chair, a regional board member (from September 2008) and an independent member with a financial background.

Each regional LSC has an audit committee. Together, these are responsible for monitoring and challenging our approach to risk management, governance and systems of internal control.

Our approach to managing risk is to identify, assess and appropriately control all risks to achieving our aims. To do this, we give responsibility for each identified risk to a specific individual. Each identified risk is also sponsored or owned by one of our governance boards, and we closely monitor top corporate risks by producing stewardship reports.

A national risk manager provides advice and guidance to colleagues, helping them to take account of risk management in day-to-day business and to spread best practice.

Each identified risk is sponsored by one of our governance boards

Reporting of Personal Data-related Incidents

The tables that follow have been prepared in response to Cabinet Office guidance (issued to the LSC (via 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 2007–08

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
N/A	nil	nil	nil	nil
Further information on information risk	The LSC will continue to monitor and assess its information in order to identify and address any weaknesses and to ensure continuous improvement of its systems.			

Incidents deemed by the data controller not to fall within the criteria for needing to be reported to the Information Commissioner's Office – but recorded centrally by the LSC – are set out in Table 2. (Note that 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 2007–08

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	3 laptops prior to encryption
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	2 laptops prior to encryption
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	nil
IV	Unauthorised disclosure	nil
V	Other	nil

Note: laptops have been declared as they contain copies of emails sent and received by the individuals who used them.

Table 3: Year-on-year total numbers of protected personal data-related incidents prior to 2007–08

Total number of protected personal data-related incidents formally reported to the Information Commissioner's Office, by category							Total number of other protected personal data-related incidents, by category						
	I	II	III	IV	V	Total		I	II	III	IV	V	Total
2006–07	–	–	–	–	–	nil	2006–07	7	4	–	–	–	11
2005–06	–	–	–	–	–	nil	2005–06	5	7	–	–	–	12
2004–05	–	–	–	–	–	nil	2004–05	–	–	–	–	–	nil

Remuneration Report

The Remuneration Committee forms 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 allows us greater freedom from our sponsoring department (DIUS) on reward policy and practice.

Chairman

Christopher N Banks CBE

Chairman, Learning and Skills Council and Founder, Big Thoughts Ltd

Members

Gareth Cadwallader

Executive Director, Airas Intersoft Ltd

Frances O'Grady

Deputy General Secretary, Trades Union Congress

The Chief Executive and National Director of Human Resources are invited to attend and speak at meetings except when their own remuneration is being considered.

The committee met five times during the period April 2007 to March 2008.

The committee determines the reward for members of the Management Group and other key senior executives. Honorariums for National Council members are determined by the Secretary of State. The reward policy complies with relevant Treasury guidance and is based on the philosophy that remuneration arrangements should support the LSC in the achievement of its business objectives. The reward policy is 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 takes into account local market competitiveness, the views of major stakeholders and the UK regulatory framework. Reward levels are compared with those in organisations of similar size and focus in each of the LSC's regions.

The Remuneration Committee's terms of reference are 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 also chairs the Remuneration Committee) and members of the LSC National Council receive a salary (Chairman) or an honorarium. There is no bonus payment attached to any of these appointments.

The Chief Executive and members of the Management Group (the national and the regional directors) receive 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 be a job-need car (or, from September 2006, a job-need taxable but non-pensionable car allowance) provided by the LSC. Bonus payments are not guaranteed.

Since April 2006, the LSC bonus plan has been 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 DIUS. For senior staff, a discretionary element recognises outstanding individual contributions.

Relationship between base salary and variable reward

General

The LSC sets base salaries at the market median and recognises achievement through the bonus scheme.

Salaries for national, regional and other senior directors are 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 falls below 90 per cent of the pay benchmark, an adjustment should normally be made to bring it to that minimum level.

Chief Executive

The reward package for the Chief Executive involves two key elements (base salary and bonus), which are determined by the Secretary of State after considering proposals from the Chairman. The bonus is assessed on achievement against corporate and personal targets. During 2007/08, the salary increase was 2.75 per cent and the bonus for the year to June 2007 was £33,975.

The Chief Executive's bonus potential is now set in the same way as for members of the Management Group.

Achievement of threshold:

7.5 per cent of base salary

Achievement of target:

15 per cent of base salary

Achievement of maximum above target:

22.5 per cent of base salary

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

Base pay changes 2007–08

Base pay for national and regional directors rose by an average of 3.39 per cent. This included an amount set aside for raising the spot rates for each role by 2.75 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 3.25 per cent (including an increase in spot rates of 2 per cent).

Duration of contracts, notice periods and termination arrangements

Members of the National Council

Members of the National Council do not have service contracts and are appointed by the Secretary of State for Innovation, Universities and Skills.

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

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

Chair of the National Council

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

The salary for the year to March 2008 was £51,400. Salary is reviewed in accordance with guidance provided by the Cabinet Office covering pay of statutory office holders (their salaries are linked to movements in the Senior Civil Service pay bands). Travel, subsistence and other expenses are payable in line with the current terms for LSC executive staff. There are no bonus payments for this appointment.


Resignation can be at any time by notice in writing to the Secretary of State for Innovation, Universities and Skills. The Secretary of State may, by giving written notice, remove the chair from office:

- if she or he is satisfied that the member has not attended National Council meetings for more than six consecutive months; or
- if the member is 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 is by service contract, which can be ended by either party giving 12 weeks' written notice.

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

The remaining part of the Remuneration Report has been audited by the National Audit Office. 

◀ Board members' emoluments

The Chief Executive is appointed by the other members of the National Council with the approval of the Secretary of State for Innovation, Universities and Skills. The other members of the National Council are appointed by the Secretary of State. The amount of the Chief Executive's bonus is decided by the Remuneration Committee, which reviews performance against an annual personal responsibility plan agreed by the Chairman. The bonus is also approved by the Secretary of State. The LSC holds no contracts with a notice period greater than 12 months.

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
The emoluments of the Chairman (Christopher N Banks CBE, age 48) for the period:		
Salary	51	51
Taxable benefit	0	0
	51	51

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
The emoluments of the Chief Executive (Mark Haysom CBE, age 55) for the period:		
Basic salary and other emoluments	212	206
Taxable benefit in kind	9	0
Pension contribution (opted to join premium pension scheme)	29	27
Bonus*	34	36
	284	269

*The Chief Executive's bonus payment relates to the previous year. The current year's bonus has not yet been determined

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

	Date commenced/ reappointed or extended	Current term (years)	Emoluments year ended 31 March 2008 £'000	Emoluments year ended 31 March 2007 £'000
National Council members				
Christopher N Banks CBE	15/06/2004	4	0.0	0.0
Shirley Cramer	01/12/2007	1	4.0	4.0
Bryan Gray	01/01/2004	Indeterminate	4.0	4.0
Ian Ferguson CBE	01/06/2004	4	0.0	4.0
Gareth Cadwallader	01/06/2004	4	4.0	4.0
Frances O'Grady	01/06/2004	4	7.6	8.0
Dame Mary Marsh	01/03/2005	4	4.0	4.0
Claire Ighodaro CBE	01/03/2005	4	4.0	4.0
John Taylor	01/03/2005	4	4.0	4.0
Malcolm Trobe	01/09/2007	3	0.0	–
John Cridland CBE	01/09/2007	3	0.0	–
Deian Hopkin	01/09/2007	3	0.0	–
Former members				
	Date of cessation			
John Merry	31/10/2007	0	2.3	4.0
Giles Clarke	01/12/2007	0	2.7	4.0

Senior employees

Salary and benefits in kind

	Date Commenced	Year ended 31 March 2008 Salary £'000	Year ended 31 March 2008 Benefits in kind (to nearest £100)	Year ended 31 March 2007 Salary £'000	Year ended 31 March 2007 Benefits in kind (to nearest £100)
National directors					
Rob Wye					
National Director, Young People's Learning and Skills	01/01/04	125–130	0	120–125	0
David Russell					
National Director, Finance and Resources	02/10/00	140–145	3,700	135–140	3,700
David Way					
National Director, Adult Learning, Skills and Employment	16/03/04	125–130	0	120–125	0
Verity Bullough					
National Director, Funding, Planning and Performance (previously Regional Director, East Midlands)	01/03/08	140–145	0	125–130	0
Sally Stewart					
National Director, Human Resources	29/01/08	15–20	1,000	–	–
Melanie Hunt					
National Director, Learning Group (until 11/06/07)	03/01/06	35–40	0	110–115	0
Ray Dowd					
<i>agenda for change</i> Champion (until 26/03/07)	27/03/06	–	–	105–110	0
Regional directors					
Caroline Neville					
East of England	01/11/02	125–130	2,000	120–125	4,000
Verity Bullough (see above)					
East Midlands	01/01/04	–	–	–	–
David Hughes					
London	01/01/04	135–140	3,300	135–140	3,300
Chris Roberts					
North East	01/01/04	120–125	2,600	120–125	3,300
John Korzeniewski					
North West	01/01/04	125–130	1,500	120–125	3,100
Henry Ball					
South East	01/01/04	130–135	0	125–130	0
Malcolm Gillespie					
South West	01/01/04	130–135	0	120–125	3,400
David Cragg OBE					
West Midlands	01/01/04	130–135	0	125–130	0
Margaret Coleman					
Yorkshire and the Humber	01/01/04	120–125	0	115–120	0
Mary Conneely					
Regeneration	01/01/04	125–130	1,100	125–130	4,800

◀ Senior employees (continued)

Pension entitlements

	Accrued pension and related lump sum at age 60 as at 31/03/08 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31/03/08 £'000	CETV at 31/03/07** £'000	Real increase in CETV £'000
National directors					
Mark Haysom CBE* Chief Executive	5–10	0–2.5	154	105	30
Rob Wye National Director, Young People's Learning and Skills	40–45 and lump sum 120–125	0–2.5 and lump sum 2.5–5	822	701	17
David Russell National Director, Finance and Resources	55–60 and lump sum 165–170	0–2.5 and lump sum 2.5–5	1,367	1,190	22
David Way National Director, Adult Learning, Skills and Employment	40–45 and lump sum 130–135	0–2.5 and lump sum 2.5–5	973	826	28
Verity Bullough National Director, Funding, Planning and Performance (from 01/03/08, previously Regional Director, East Midlands)	5–10 and lump sum 25–30	0–2.5 and lump sum 2.5–5	142	102	20
Sally Stewart National Director, Human Resources (from 29/01/08)	20–25	0–2.5	309	296	3
Melanie Hunt National Director, Learning Group (until 11/06/07)	20–25 and lump sum 70–75	0–2.5 and lump sum 0–2.5	348	380	5
Ray Dowd* <i>agenda for change</i> Champion (until 26/03/07)	–	–	–	902	–
Regional directors					
Caroline Neville* East of England	5–10	0–2.5	174	124	28
Verity Bullough (see above) East Midlands					
David Hughes* London	10–15	0–2.5	176	129	20
Chris Roberts North East	40–45 and lump sum 120–125	0–2.5 and lump sum 2.5–5	938	798	37
John Korzeniewski North West	45–50 and lump sum 135–140	0–2.5 and lump sum 2.5–5	1,097	945	30
Henry Ball* South East	50–55 and lump sum 125–130	0–2.5	1,321	1,150	22
Malcolm Gillespie South West	15–20 and lump sum 55–60	0–2.5 and lump sum 2.5–5	474	422	29
David Cragg OBE West Midlands	25–30 and lump sum 75–80	0–2.5 and lump sum 2.5–5	640	575	28
Margaret Coleman Yorkshire and the Humber	40–45 and lump sum 125–130	0–2.5 and lump sum 5–7.5	1,023	872	40
Mary Conneely* Regeneration	10–15	0–2.5	228	168	31

*Opted to join premium

**Due to certain factors being incorrect in last year's CETV calculator, there may be slight differences between last year's reported closing figures and this year's opening figures

Senior employees (continued)

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 the Inland Revenue 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 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.

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 www.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 that may be due when pension benefits are drawn.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2007 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2008.

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.



Mark Haysom CBE
Chief Executive and Accounting Officer
Learning and Skills Council
27 June 2008

Financial Commentary

These accounts have been prepared under an accounts direction issued by DIUS in accordance with Schedule 1 of the Learning and Skills Act 2000 and the financial memorandum between the DfES and the LSC dated 8 May 2006, which is now under the authority of DIUS.

Development and performance

1. The accounts cover the period from 1 April 2007 to 31 March 2008 and were prepared on a going concern basis.
2. The majority of the LSC's funding is grant-in-aid from government. In 2007–08, this amounted to £11,167.9 million (2006–07: £10,328.2 million).
3. The largest source of income was the European Social Fund (ESF), which contributed £292.5 million (2006–07: £294.8 million).
4. Financial Reporting Standard (FRS) 13 requires organisations to disclose information on the possible impact of financial instruments on their risk profile and how these might affect the organisation's performance and financial condition. As an NDPB almost wholly funded by DIUS and the DCSF and with no borrowings, the LSC is not exposed to any liquidity or interest rate risks.
5. As it has no material deposits and all material assets and liabilities are denominated in sterling, it is not exposed to interest rate or currency risk.
6. As an NDPB funded annually by DIUS and the DCSF, the use of more complex financial instruments would not be appropriate.

Going concern

1. The balance sheet at 31 March 2008 shows net liabilities of £220.2 million (2006–07: £295.9 million). This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the LSC's other sources of income, may only be met by future grant-in-aid from the LSC's sponsoring department. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such grant-in-aid may not be issued in advance of need.
2. Grant-in-aid for 2008–09, taking into account the amount required to meet the LSC's liabilities falling due in the year, has already been included in the Department's estimates for that year. These estimates have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future Parliamentary approval will not be forthcoming.
3. Accordingly, despite the current balance sheet position of the LSC, it has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Year-end position

1. The Treasury requires NDPBs to disclose the full costs of their activities in their accounts. The LSC has net current liabilities and so has included notional income of £11.6 million (2006–07: £8.8 million) for the cost of capital in our accounts. This is based on a rate of 3.5 per cent (2006–07: 3.5 per cent). See also 'Cost of capital' – note 8 to the financial statement – on page 67.

2. The results for 2007–08 show net expenditure of £11,092.3 million (2006–07: £10,543 million). This is derived from the comparison of expenditure against income for the year, and income no longer contains grant-in aid. As an NDPB, the LSC is required to break even one year with another against the resource budget, and for 2007–08 the total expenditure was within the resource budget set by DIUS of £11,279.3 million. Total reserves in the same period decreased by £75.6 million.
3. Capital expenditure in the year (mainly on computer systems) totalled £23.3 million (2006–07: £21.4 million). The net book value of fixed assets at 31 March 2008 increased from £46.3 million to £54.5 million – driven by growth in the value of computers and other IT equipment. This reflects the fact that more LSC-specific systems were built and that the number of computers disposed of dropped as the organisational structure stabilised.
4. Research and development expenditure during the year amounted to £4.8 million (2006–07, £4.1 million).
5. At 31 March 2008, the LSC had debtors of £219.1 million (31 March 2007: £249 million). The decrease reflects a reduction in ESF debtors from the winding-up of the 2003–08 programme and a reduction in prepayments across a range of programmes.
6. At 31 March 2008, the LSC held cash balances of £98.3 million (31 March 2007: £50.2 million) including funds drawn from the ESF as well as grant-in-aid. DIUS authorises a working balance of 1 per cent of the annual resource budget throughout each

financial year. At 31 March 2008, the balance of DIUS and DCSF funds amounted to £29.9 million or 0.3 per cent (31 March 2007: 0.3 per cent).

7. At 31 March 2008, the LSC had creditors of £568.2 million (31 March 2007: £607 million). The main drivers behind this fall are a reduction in deferred ESF income that is partially offset by rises in work-based learning creditors and rises in a range of other programme accruals (including Train to Gain).
8. Of the £55.7 million established to cover the one-off costs of reorganisation under the *agenda for change* programme, £18.7 million remains to cover excess property costs and additional, ongoing pension liabilities.
9. The accounts are audited by the Comptroller and Auditor General, who is appointed by statute and whose Certificate and Report appears on page 50. The audit fee is expected to be £184,000 (2006–07: £176,000). No other services were provided by external audit during the year.

Main trends and factors underlying the development and performance

1. In 2007–08 the LSC’s programme expenditure increased by 5.5 per cent to £11.2 billion.
2. With staff costs falling by £5.1 million and other administration costs falling by £10.3 million, total administration costs were reduced by £15.4 million (or 7.4 per cent) relative to last year.
3. The employer training programme Train to Gain maintained its forward momentum. Although less than forecasted, total Train

to Gain expenditure (including infrastructure spending) increased by £112 million, representing growth of 55.7 per cent against the previous year.

4. The Late Payment of Commercial Debts (Interest) Act 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 2007–08, the LSC paid 95.3 per cent (2006–07, 93.3 per cent) of its invoices within 30 days. It incurred £18.36 in interest charges in respect of late payments for 2007–08 (2006–07, £nil).

Main trends and factors likely to affect future development and performance

1. The LSC is committed to increasing the sector’s focus on integrating skills with employment, so that more people get the training and qualifications that they need to come off benefits, enter work and progress.
2. The Prime Minister has announced a significant expansion of the Apprenticeship programme as part of a wider framework of welfare reforms. This will see the creation of a National Apprenticeship Service and investment in a vacancy matching system.
3. In the light of the publication of *Train to Gain: A Plan for Growth* last year, the LSC is committed to doing what needs to be done so that more employers and individuals get the skills they need.

4. From the 2008/09 academic year, the LSC will use a common funding methodology to fund all learners aged 16 to 19 in school sixth forms, colleges and private providers, which could lead to significant pressure on funding.
5. The Government is consulting on its proposals for revised arrangements to deliver the work currently undertaken by the LSC.

Statement on disclosure to auditors

As far as I am aware, 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 have taken to make myself aware of any relevant audit information, and to establish that the LSC’s auditors are aware of the information.



Mark Haysom CBE
Chief Executive and Accounting Officer
 Learning and Skills Council
 27 June 2008

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 2008 under the Learning and Skills Act 2000. These comprise the Net Expenditure Statement, the Balance Sheet, the Cash Flow Statement 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 National Council, Chief Executive and auditor

The National Council and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Learning and Skills Act 2000 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the LSC's and Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills. I report to you whether, in my opinion, the information, which comprises the "Our Story" and "Leadership and Governance" sections of the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure

and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the LSC has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the LSC's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the LSC's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the LSC and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the LSC's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements

and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Learning and Skills Act 2000 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills, of the state of the LSC's affairs as at 31 March 2008 and of its net expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills; and
- information, which comprises the "Our Story" and "Leadership and Governance" sections of the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements

T J Burr

Comptroller and Auditor General
9 July 2008

National Audit Office
151 Buckingham Palace Road
London SW1W 9SS

Net Expenditure Statement

for the year to 31 March 2008

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Income			
Other income	2	348,205	326,879
Total income		348,205	326,879
Expenditure			
Programme expenditure			
Learning participation	3	5,038,896	4,999,410
University for Industry (Ufi)	3	155,605	170,676
Work-based learning (WBL)	3	1,025,652	995,540
Learners with learning difficulties and/or disabilities	3	202,802	170,477
Train to Gain	3	312,959	200,937
School sixth forms	3	2,038,785	1,943,872
Personal and community development learning (PCDL)	3	223,378	201,178
Learner support	3	220,791	195,071
14–19 reform	3	177,253	135,504
Adult skills reform	3	217,690	190,510
Quality reform	3	171,498	134,611
Capacity and infrastructure	3	65,317	66,054
Programme capital	3	497,859	411,428
Education Maintenance Allowance (EMA)	3	532,900	502,923
European Social Fund (ESF) and other non-DCSF/DIUS-funded	3	347,623	324,916
Administration costs			
Staff costs	5a	132,378	137,482
Other costs	6a	63,968	74,276
Depreciation, impairment and losses on disposal	6b	15,154	15,043
Total expenditure		11,440,508	10,869,908
Net expenditure before interest		(11,092,303)	(10,543,029)
Cost of capital – notional income	8	11,612	8,762
Net expenditure after interest		(11,080,691)	(10,534,267)
Reversal of cost of capital		(11,612)	(8,762)
Net expenditure for the year		(11,092,303)	(10,543,029)

All activities are continuing.

There are no other gains or losses other than net expenditure for the year.

The notes on pages 54 to 76 form part of these accounts.

Balance Sheet

as at 31 March 2008

	Note	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Fixed assets			
Intangible assets	9	774	709
Tangible assets	10	53,680	45,639
Total assets		54,454	46,348
Current assets			
Debtors	11a	219,069	248,977
Cash at bank and in hand	12	98,346	50,156
		317,415	299,133
Creditors			
Amounts falling due within one year	13a	(568,215)	(607,018)
Net current assets		(250,800)	(307,885)
Total assets less current liabilities		(196,346)	(261,537)
Provisions for liabilities and charges	14	(23,899)	(34,334)
Total net assets/(liabilities)		(220,245)	(295,871)

Represented by

Capital and reserves

General reserve	19	(220,245)	(295,871)
Total reserves		(220,245)	(295,871)

The notes on pages 54 to 76 form part of these accounts.



Mark Haysom CBE
Chief Executive and Accounting Officer
Learning and Skills Council
27 June 2008

Cash Flow Statement

for the year to 31 March 2008

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Net cash outflow from operating activities	20	(11,096,822)	(10,333,292)
Capital expenditure			
Payment for the purchase of fixed assets		(22,927)	(19,547)
Proceeds from sale of fixed assets		10	84
Net cash outflow from capital expenditure		(22,917)	(19,463)
Financing			
Grant-in-aid funding from DIUS	19	11,167,929	10,328,177
Net current inflow (outflow)	21	48,190	(24,578)

The notes on pages 54 to 76 form part of these accounts.

Notes to the Accounts

Accounting policies

1 Statement of accounting policies

The financial statements have been prepared in line with the Accounts Direction given by the Secretary of State for Innovation, Universities and Skills, with approval of the Treasury, in accordance with the Learning and Skills Act 2000. This requires the LSC to comply with the Government Financial Reporting Manual (FReM) issued by the Treasury which, in turn, requires the LSC to comply with the accounting and disclosure requirements of the Companies Act and applicable accounting standards issued or adopted by companies (UK Generally Accepted Accounting Practices) to the extent that it is meaningful and appropriate to the public sector. The particular accounting policies adopted by the LSC are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Going concern

The sponsoring department's estimates and forward plans include provision for the continuation of the LSC's activities; there is no reason to believe this future funding will not be forthcoming. The accounts have therefore been prepared on a going concern basis.

1.2 Accounting convention

These accounts are prepared under the modified historical cost convention, whereby fixed assets, current asset investments and stocks (where material) are reflected at current values.

1.3 Intangible fixed assets

Intangible fixed assets mainly comprise licences to use software developed by third parties. However, computer software that has been developed exclusively for the LSC and accounted for as an asset is classified as tangible. Intangible fixed assets are valued at historical cost (or revalued to market value where this is readily ascertainable) and are accounted for as follows.

- Computer software licences are capitalised as intangible assets where they are capable of being used for more than one year and have a cost – either individually or as a group – equal to or greater than £5,000.
- These licences are amortised on a straight-line basis over the specified life of the software licence – or over three years where no life is given.

1.4 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Costs of acquisition comprising only those costs that are directly attributable to bringing the asset into working condition for its intended use are capitalised.

For the purposes of calculating the current value of tangible fixed assets, revaluation is applied (using indices prepared by the Office for National Statistics) to the closing carrying value of assets in use at 31 March. Tangible fixed assets are also subject to impairment reviews.

The minimum level for capitalisation of a tangible fixed asset is £5,000.

All assets falling into the following categories are capitalised:

- Tangible assets that are capable of being used for more than one year, and have a cost equal to or greater than £5,000.
- Groups of tangible assets that individually may be valued at less than £5,000, but which together form a single collective asset because the items fulfil all of the following criteria:
 - the items are functionally interdependent;
 - the items are acquired at about the same date and are planned for disposal at about the same date;
 - the items are under single managerial control; and
 - each individual asset thus grouped has a value of over £1,000.

Tangible fixed assets are depreciated on a straight-line basis in order to write off the value of the assets over their estimated useful economic lives. These are detailed for each category of asset in Table 1.

Table 1: Depreciation of tangible fixed assets.

Category	Asset	Life
IT	Desktop IT	3 years
	Other IT (for example, servers and computer software)	5 years or the life of the system – whichever is the lower
Plant and machinery	Plant and machinery	3 years
Furniture and fittings	Furniture	5 years
	Fitting out	10 years or the life of the building lease involved – whichever is the lower
Vehicles	Vehicles	4 years

1.5 Leases

Operating leases and the rentals are charged to the Net Expenditure Statement on a straight-line basis over the lease term, even if the payments are not made on such a basis.

1.6 Cost of capital

A charge reflecting the cost of capital is included in the Net Expenditure Statement. 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 the Paymaster General. When the average capital employed over the year is negative, the cost of capital becomes notional income.

1.7 Provisions

Provisions are recognised when it is probable that the LSC will be 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 balance sheet date or to transfer it to a third party at that time.

1.8 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 Cash Flow Statement and credited to the general reserve.

1.9 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 sometimes pays 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 further education (FE) college debtors.

Exceptional funding support

Exceptional funding support provided to colleges in difficulty is charged to expenditure over the life of the agreed recovery plan, which will typically cover 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 2007, allocations to FE institutions were mainly assigned between youth and adult. Only a small element of the allocations required apportionment into both 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.

Personal and community development learning

Personal and community development learning (PCDL) expenditure is accounted for on the basis of the utilisation of funds paid to local authorities. The LSC will recognise a debtor at each year-end representing amounts of unspent funds, based on use of funds statements submitted by local authorities for the academic year that has ended in the financial year of account. The LSC may recover any unspent funds or may allow local authorities 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 local authorities 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 Terms Guarantee.

Education Maintenance Allowance

Education Maintenance Allowance (EMA) expenditure is recognised in the accounts when the administrator

of the scheme is reimbursed by the LSC for allowance payments to learners. Costs associated with administering the scheme are charged to the accounts on the basis of activity completed by the end of the financial year.

1.10 Other income

European Social Fund

Funding for certain projects is received from the European Commission. This income is 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 Value Added Tax (VAT).

1.11 Pension and superannuation costs

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS and the LSC is unable to identify its share of the underlying assets and liabilities. The cost of pension cover provided for the staff employed by the LSC is met by payment of charges calculated on an accruing basis. The accruing cost of providing for future benefits for current employees is 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.

Notes to the Accounts

1.12 Early retirement costs

Where the LSC is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early, provision is made in full for this cost when the early retirement programme has been announced and is 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.

1.13 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.

2 Other income

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Other funding for activities		
European Social Fund (ESF) funding	292,469	294,823
Other programme income	55,139	30,293
	347,608	325,116
Income from activities		
Sub-letting of part of premises	469	1,472
Other activities income	128	291
	597	1,763
Total other income	348,205	326,879

3a Programme expenditure

	Funding department	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Programmes			
3.01 Learning participation			
FE participation 16–18	DCSF	2,932,221	2,815,729
FE participation 19+	DIUS	1,688,477	1,753,052
FE participation 16–18 (additional learning support (ALS))	DCSF	228,233	217,783
FE participation 19+ (ALS)	DIUS	133,256	141,826
Other learning participation	DCSF	754	0
Exceptional support and other learning participation	DIUS	24,584	50,194
First Steps provision	DIUS	31,371	20,826
Total learning participation		5,038,896	4,999,410
3.02 Ufi			
Ufi – programme	DIUS	100,154	129,232
Ufi – administration	DIUS	55,451	41,444
Total Ufi		155,605	170,676
3.03 Work-based learning			
Work-based learning (WBL) – young people	DCSF	603,524	587,732
WBL – adult	DIUS	223,175	216,884
Entry to Employment (e2e)	DCSF	174,853	186,815
Basic skills via WBL providers	DIUS	18,381	4,109
WBL 25+ Apprenticeships	DIUS	5,719	0
Total work-based learning		1,025,652	995,540
3.04 Learners with learning difficulties and/or disabilities			
	DCSF	202,802	170,477
Total learners with learning difficulties and/or disabilities		202,802	170,477
3.05 Train to Gain			
Train to Gain (delivery – includes wage compensation)	DIUS	256,034	164,927
Train to Gain (brokerage)	DIUS	38,630	28,465
Train to Gain (Level 3 pilots)	DIUS	5,574	576
Train to Gain (higher skills for women)	DIUS	2,416	90
Train to Gain (marketing)	DIUS	9,652	6,879
Train to Gain (evaluation)	DIUS	653	0
Total Train to Gain		312,959	200,937
3.06 School sixth forms			
School sixth forms	DCSF	1,967,341	1,875,830
School sixth forms (teachers' pay grant)	DCSF	71,444	68,042
Total school sixth forms		2,038,785	1,943,872
3.07 Personal and community development learning (PCDL)			
PCDL (adult and community learning (ACL) providers)	DIUS	127,085	139,610
Family learning	DIUS	12,221	12,369
Neighbourhood learning in deprived communities	DIUS	20,243	19,508
Family literacy, language and numeracy	DIUS	25,721	26,154
PCDL by FE providers	DIUS	38,108	3,537
Total personal and community development learning		223,378	201,178

Notes to the Accounts

	Funding department	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
3.08 Learner support			
School sixth form hardship	DCSF	3,856	3,914
16–18 hardship	DCSF	31,322	17,800
16–18 residential bursaries	DCSF	4,745	6,006
Care to Learn	DCSF	30,003	23,873
19+ hardship	DIUS	42,076	48,058
19+ FE students in higher education institutions	DIUS	949	1,024
19+ residential bursaries	DIUS	2,928	3,850
19+ childcare	DIUS	34,655	31,681
School sixth form childcare	DIUS	2,202	2,382
Local education authority (LEA) transport partnership	DCSF	12,000	12,000
Dance and Drama Awards	DCSF	14,178	13,830
Adult Learning Grant	DIUS	17,519	10,674
Career Development Loans	DIUS	19,432	19,979
Discretionary Fund	DIUS	4,926	0
Total learner support		220,791	195,071
3.09 14–19 reform			
Education business links	DCSF	24,597	25,668
NEET and NET learning agreements	DCSF	17,857	0
Increasing flexibility for 14- to 16-year-olds	DCSF	21,065	35,210
Young Apprenticeships	DCSF	29,918	15,278
Learner agreement pilots	DCSF	19,217	12,668
14–19 agenda	DCSF	33,556	6,868
Enterprise advisors	DCSF	20	2,537
Area inspections	DCSF	15,738	33,900
Key Stage 4 engagement	DCSF	7,828	3,375
Parents-to-be scheme	DCSF	3,445	0
14–19 Apprenticeship improvements	DCSF	420	0
Pre-Apprenticeships	DCSF	3,592	0
Total 14–19 reform		177,253	135,504
3.10 Adult skills reform			
Adult information, advice and guidance	DIUS	32,496	33,227
Train to Gain infrastructure	DIUS	42,829	39,108
Offender Learning	DIUS	115,551	100,748
New Entrepreneur scholarships	DIUS	6,135	7,308
Centre of vocational excellence (CoVE) revenue	DIUS	6,732	10,119
Adult Learner Account trials	DIUS	4,058	0
New Standard	DIUS	3,133	0
Skills for Jobs	DIUS	2,078	0
Skills for Life marketing	DIUS	4,678	0
Total adult skills reform		217,690	190,510

	Funding department	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
3.11 Quality reform			
Local initiatives fund	DIUS	71,302	85,435
Raising disability access	DIUS	2,468	3,950
Marketing	DIUS	19,988	6,395
Front-line service delivery – health and safety recharge	DIUS	2,319	2,329
'Golden hellos'	DIUS	6,926	5,613
Research	DIUS	4,787	4,393
Learning Group Development Fund	DIUS	4,914	2,613
Communications	DIUS	6,328	3,770
New Measures for Success	DIUS	4,705	3,156
Mathematics in Education and Industry	DIUS	2,191	2,161
Managing Information Across Partners	DIUS	11,061	9,883
Initial teacher training	DIUS	29,985	0
Other quality reform	DIUS	4,524	4,913
Total quality reform		171,498	134,611
3.12 Capacity and infrastructure			
Sector skills pilots	DIUS	13	7,431
National skills academies	DIUS	9,117	8,266
Leadership and management	DIUS	5,165	5,876
Information and learning technology (ILT) revenue	DIUS	26,586	0
Skills coaching	DIUS	4,444	3,997
Training and Enterprise Council legacy	DIUS	21	6,158
Union learning	DIUS	0	12,610
External financial assurance	DIUS	6,619	4,892
Aimhigher	DIUS	9,338	11,413
National Employer Service delivery	DIUS	1,112	2,753
Other capacity and infrastructure	DIUS	2,902	2,658
Total capacity and infrastructure		65,317	66,054
3.13 Programme capital			
FE capital buildings	DIUS	322,820	224,678
FE CoVE capital	DIUS	3,856	18,516
ACL capital buildings	DIUS	5,754	5,442
FE/ACL DDA	DIUS	11,090	37,463
Neighbourhood learning in deprived communities	DIUS	10,055	9,207
FE 16–18 sector rationalisation	DCSF	46,880	29,801
Colleges in difficulty	DIUS	35,306	26,271
Systems development	DIUS	21,778	13,208
Capital – ILT	DIUS	36,017	42,352
LEA loan liabilities	DIUS	4,303	4,490
Total programme capital		497,859	411,428
3.14 Education Maintenance Allowance			
Student payments	DCSF	489,174	468,708
Sector administration	DCSF	36,903	25,675
Local co-ordinators	DCSF	4	2,251
Marketing	DCSF	6,819	6,289
Total Education Maintenance Allowance		532,900	502,923

Notes to the Accounts

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
3.15 European Social Fund and other non-DCSF/DIUS funded		
ESF expenditure	292,786	294,675
Other initiatives	54,837	30,241
Total European Social Fund and other non-DCSF/DIUS funded	347,623	324,916
Total programme expenditure	11,229,008	10,643,107

Note: the descriptions and classifications of some programmes have been changed in 2007–08 to reflect the grant letter and reporting requirements of both DIUS and the DCSF. Comparatives for 2006–07 have been amended to ensure consistency. There is no financial impact, as the change represents a reanalysis of the same programmes. Grants to the private sector totalling £1,771,262 (2006–07: £1,626,980) are included in the values above.

3b Summary programme expenditure by funding department

Programmes	Funded by DCSF £'000	Funded by DIUS £'000	Non-DCSF/ DIUS-funded £'000	Year ended 31 March 2008 £'000
3.01 Learning participation				
Total learning participation	3,161,208	1,877,688		5,038,896
3.02 Ufi				
Total Ufi		155,605		155,605
3.03 Work-based learning				
Total work-based learning	778,377	247,275		1,025,652
3.04 Learners with learning difficulties and/or disabilities				
Total learners with learning difficulties and/or disabilities	202,802			202,802
3.05 Train to Gain				
Total Train to Gain		312,959		312,959
3.06 School sixth forms				
Total school sixth forms	2,038,785			2,038,785
3.07 Personal and community development learning				
Total personal and community development learning		223,378		223,378
3.08 Learner support				
Total learner support	96,104	124,687		220,791
3.09 14–19 reform				
Total 14–19 reform	177,253			177,253

	Funded by DCSF £'000	Funded by DIUS £'000	Non-DCSF/ DIUS-funded £'000	Year ended 31 March 2008 £'000
3.10 Adult skills reform				
Total adult skills reform		217,690		217,690
3.11 Quality reform				
Total quality reform		171,498		171,498
3.12 Capacity and infrastructure				
Total capacity and infrastructure		65,317		65,317
3.13 Programme capital				
Total programme capital	46,880	450,979		497,859
3.14 Education Maintenance Allowance				
Total Education Maintenance Allowance	532,900			532,900
3.15 European Social Fund and other non-DCSF/DIUS funded				
Total European Social Fund and other non-DCSF /DIUS funded			347,623	347,623
Total programme expenditure	7,034,309	3,847,076	347,623	11,229,008

3c Programme expenditure by regional office

Region	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
East of England	1,068,596	1,004,944
East Midlands	930,280	861,557
Greater London	1,857,877	1,785,551
North East	666,993	640,735
North West	1,577,542	1,481,475
South East	1,660,131	1,541,786
South West	1,038,498	1,028,717
West Midlands	1,331,930	1,254,357
Yorkshire and the Humber	1,097,161	1,043,985
Total programme expenditure by region	11,229,008	10,643,107

Notes to the Accounts

4 Assurances on entitlement to, and the proper use of, Learning and Skills Council funds

In order to gain assurance over the proper use of public funds by learning providers, the LSC has 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 are responsible for planning, co-ordinating and delivering a programme of work to secure this assurance. The outcomes of audit work are scrutinised by regional and national LSC audit committees.

The approaches used to obtain assurance depend on the risks associated with providers and funding streams, and are designed to minimise bureaucracy for providers. In broad terms, where grant funding is provided to other public bodies such as FE colleges, the LSC relies 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 undertake their own audit work to ensure that funds have been properly applied in the delivery of those contracts.

Assurance on grants

Included in these financial statements are grants to FE learning providers that the LSC has paid for the academic years ending 31 July 2007 (four months) and 31 July 2008 (eight months).

The mismatch 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 timetable, which extends beyond that for these financial statements. Alternative arrangements have therefore been put in place to provide interim assurance as at 31 March 2008. The overall picture is described below.

4a FE colleges and institutions

During the financial year 2007–08, the LSC paid grants of £5,495 million (2006–07: £5,359 million) to colleges and other institutions for the provision of FE on the basis of agreed development plans. The LSC implemented plan-led funding for 2004–05 and, under this initiative, the majority of colleges and other institutions were no longer subject to an annual funding audit. However, colleges are required to return a year-end funding claim certified by the principal. An enhanced regularity

audit has been established for all FE colleges, and these colleges and institutions are also now subject to cyclical reviews of learner existence and eligibility. Therefore, for the majority of colleges, the primary sources of assurance for the LSC's 2007–08 financial statements are audit opinions on their accounts for the academic year ended 31 July 2007. Final funding claims for the 17 colleges not eligible for plan-led funding in 2006–07 were also required to be audited.

To provide assurance in respect of funds paid to FE colleges for the period 1 August 2007 to 31 March 2008, colleges provided to the LSC a statement on regularity, propriety and compliance, signed by the chair and principal on behalf of the governing body. As at 14 May 2008, 373 colleges have submitted the required statement.

The position in respect of the 2006/07 academic year is shown in Tables 2 and 3.

Table 2: 2006/07 position of FE colleges (£5,213 million) (2005/06: £4,950 million)

	Due	Received	Outstanding
Audited final funding claims	17	17	–
Financial statements	376	373	3
Final regularity opinions	376	373	3

There are three colleges that have both their financial statements and regularity opinion outstanding.

Table 3: 2006/07 position of other educational institutions (£249 million) (2005/06: £254 million)

	Due	Received	Outstanding
Audited final funding claims	173	173	–

Ufi and learndirect

Throughout 2007–08, the responsibility for the audit of learndirect activity rested with Ufi Ltd. Ufi Ltd has established an adequate assurance framework that the LSC intends to place reliance on. The National Office audit team monitors the outcomes of Ufi Ltd assurance work and also undertakes its own programme of work.

4b Personal and community development learning

The LSC paid £240 million (2006–07: £237 million) for PCDL to local authorities in England in the financial year 2007–08. Four months of this relates to the academic year ending 31 July 2007 and eight months relates to the academic year ending 31 July 2008.

For the year ending 31 July 2007, each local authority was required to submit an externally audited statement on the use of ACL funding. Of the 149 local authorities that received ACL funding in this period, 21 audited statements are still outstanding.

A similar assurance process will operate for the year ending 31 July 2008, with audited use of funds statements due to be received by December 2008.

4c School sixth forms

The LSC paid local authorities £2,039 million (2006–07: £1,944 million) for school sixth forms in the financial year 2007–08. Four months of this relates to the 12-month period ending 31 July 2007. Eight months relates to the academic year ending 31 July 2008. During 2007–08 all schools were required to make two returns to DIUS

through local authorities in September and January. The LSC calculated funding for each school sixth form in the year ending 31 July 2008 using data from the September 2006 return, pupil numbers using the September 2006 census count and January 2007 pupil level annual school census (PLASC). September 2006 pupil census data was audited in summer 2007 at a sample of 319 schools.

Assurance on contracts

Note 3a of these financial statements includes payments made in respect of programmes including Apprenticeships and e2e, Train to Gain, local initiatives fund and ESF. The LSC's audit teams deliver assurance over learning providers' use of funds based on audit plans which are approved by the LSC's audit committees. Coverage of providers and funding streams is dependent on a detailed risk assessment, and audits take place on a cyclical basis. Where audit teams identify funds at risk, the LSC takes action to recover funding.

Notes to the Accounts

5a Staff costs

Information in respect of board members' and senior employees' emoluments and pension entitlements is provided in the Remuneration Report on pages 42 to 47.

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
The aggregate payroll costs for the LSC were as follows:		
Salaries	117,319	115,884
Social security	10,597	10,317
Pension costs	23,574	22,540
Redundancies and payments in lieu of notice	1,153	4,454
	152,643	153,195
Other staff (includes agency/contract/seconded staff)	4,882	7,122
	157,525	160,317
Staff costs related to programmes	(25,147)	(22,835)
Total staff costs	132,378	137,482

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

Pension benefits are provided through the PCSPS. The PCSPS is an unfunded multi-employer defined benefit scheme. The LSC is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007–08, employers' contributions of £22,681,830 were paid to the PCSPS by 31 March 2008 (2006–07: £21,647,840) at one of four rates in the range 17.1 per cent and 25.5 per cent of pensionable pay (2006–07: 17.1 per cent and 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 are set to meet the cost of the benefits accruing during 2007–08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account – a stakeholder pension with an employer contribution. Employers' contributions of £174,126 (2006–07: £143,840) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £13,998 (2006–07: £12,782) 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 2008 and 31 March 2007.

5c Average number of staff employed

(i) Year ended March 2008

	Senior management staff number	Payroll staff number	Inward seconded staff number	Agency/ temporary staff number	Year ended 31 March 2008 total staff number
The average number of staff employed during the year, including the Chief Executive, was:					
Group					
Learning		121		18	139
Skills	1	92	1	10	104
Resources	1	283	2	65	351
Strategy and communications	2	43		7	52
Human resources	1	70		14	85
Regional and local LSCs	10	2,553	2	155	2,720
Total	15	3,162	5	269	3,451

(ii) Year ended March 2007

	Senior management staff number	Payroll staff number	Inward seconded staff number	Agency/ temporary staff number	Year ended 31 March 2007 total staff number
The average number of staff employed during the year, including the Chief Executive, was:					
Group					
Learning	1	107		4	112
Skills	1	79		7	87
Resources	1	356	1	39	397
Strategy and communications	2	41		1	44
Human resources		104		38	142
Regional and local LSCs	10	2,779	2	168	2,959
Total	15	3,466	3	257	3,741

6a Administration (other costs)

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
National and local council members' emoluments	37	53
National and local council members' associated travel and subsistence costs	58	85
Travel and subsistence – staff	10,038	8,403
Recruitment and training	4,772	5,533
Furniture and office equipment	1,667	636
IT and computer maintenance	15,984	10,075
Telecommunications and postage	3,844	6,020
Publications, printing and publicity	2,097	2,135
General administration expenditure	3,275	3,091
Premises	22,053	32,203
External audit fee*	184	176
Legal fees and other audit fees	4,322	9,866
	68,331	78,276
Non-pay costs related to programmes	(4,363)	(4,000)
Total	63,968	74,276

* No other services were provided by external audit during the year.

Notes to the Accounts

6b Depreciation, impairment and losses on disposal

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Intangible fixed assets	9		
Depreciation charge for period		462	421
Loss on disposal		0	160
Tangible fixed assets	10		
Depreciation charge for period		12,467	12,247
Loss on disposal		923	808
Loss on impairment		1,302	1,407
Total charged for period		15,154	15,043

7 Operating lease commitments

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
The LSC had annual commitments under non-cancellable operating leases at 31 March as detailed below:		
a) Land and buildings		
Leases expiring:		
Within one year	178	2,319
Between two and five years	4,191	2,530
More than five years	11,437	11,599
Total	15,806	16,448
b) Others		
Leases expiring:		
Within one year	1,734	3,038
Between two and five years	9,277	3,945
More than five years	0	0
Total	11,011	6,983
The annual charge for the above leases is included in note 6a and consists of the following amounts:		
Land and buildings (rents and service charges)	13,685	17,191
Other leases (includes telecommunications and lease cars)	4,854	6,058
Total operating lease commitments	18,539	23,249

8 Cost of capital

Guidance given by the Treasury in the Financial Reporting Manual 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 of the average capital employed.

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Capital employed as at 1 April	(345,142)	(155,565)
Capital employed as at 31 March	(318,411)	(345,142)
Average capital employed	(331,777)	(250,354)
Interest on capital at 3.5 per cent per annum	(11,612)	(8,762)

Notes to the Accounts

9 Intangible fixed assets

	IT Software £'000	Total £'000
Cost or valuation		
At 1 April 2007	1,932	1,932
Additions	527	527
Disposals	(55)	(55)
At 31 March 2008	2,404	2,404
Depreciation		
At 1 April 2007	(1,223)	(1,223)
Disposals	55	55
Charge for period	(462)	(462)
At 31 March 2008	(1,630)	(1,630)
Net book value (NBV)		
At 1 April 2007	709	709
Total NBV intangible fixed assets at 31 March 2008	774	774

10 Tangible fixed assets

	IT assets under construction £'000	Vehicles £'000	Furniture and fittings £'000	Plant and machinery £'000	Computers and other IT £'000	Total £'000
Cost or valuation						
At 1 April 2007	10,052	11	20,903	742	48,932	80,640
Reclassification of assets under construction	(15,231)	0	0	0	15,231	0
Additions	12,179	0	5,270	54	5,233	22,736
Disposals	0	(4)	(1,762)	(53)	(2,114)	(3,933)
Impairment	0	0	0	0	(2,087)	(2,087)
At 31 March 2008	7,000	7	24,411	743	65,195	97,356
Depreciation						
At 1 April 2007	0	(10)	(8,827)	(607)	(25,557)	(35,001)
Disposals	0	3	1,080	51	1,873	3,007
Charge for period	0	0	(2,371)	(119)	(9,977)	(12,467)
Impairment	0	0	0	0	785	785
At 31 March 2008	0	(7)	(10,118)	(675)	(32,876)	(43,676)
Net book value (NBV)						
At 1 April 2007	10,052	1	12,076	135	23,375	45,639
Total NBV tangible fixed assets at 31 March 2008	7,000	0	14,293	68	32,319	53,680

11a Debtors

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Due in one year		
Advances and other FE college debtors	5,284	9,134
WBL debtors	6,109	2,570
School sixth form debtors	55	173
Trade debtors	1,089	1,246
ESF and other debtors	61,491	53,931
Sub-total debtors	74,028	67,054
ESF and other accrued income	89,476	110,441
FE college prepayments	41,706	46,210
Administration cost prepayments	5,500	6,664
Other prepayments	8,357	17,849
Sub-total accrued income and prepayments	145,039	181,164
Sub-total debtors, accrued income and prepayments	219,067	248,218
Capital debtors (sale proceeds of fixed assets)	2	9
Sub-total due in one year	219,069	248,227
Due in more than one year		
Advances and other FE college debtors	0	750
Total debtors	219,069	248,977

Note – Debtors include a provision for doubtful debts of £9.4 million at 31 March 2008 (2006–07: £9.1 million).

11b Debtors: analysed by type of organisation

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

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Due in one year		
Local authorities	17,174	35,180
NHS trusts	28	28
Public corporations and trading funds	978	1,968
Other central government bodies	87,993	42,936
Balances with other government bodies	106,173	80,112
Balances with non-governmental bodies	112,896	168,115
Sub-total due in one year	219,069	248,227
Due in more than one year		
Balances with non-governmental bodies	0	750
Total debtors by organisation type	219,069	248,977

Notes to the Accounts

12 Cash at bank and in hand

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Cash held at the Office of Paymaster General	98,166	49,277
Cash held at other banks and in hand	180	879
Total	98,346	50,156

DIUS 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 performance against the DIUS working balance target is detailed below:

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Total resource budget	11,279,319	10,690,386
1% thereof	112,793	106,904
Paymaster General account balance for DIUS funding within the above	29,894	29,682

13a Creditors: amounts falling due within one year

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Trade creditors	8,604	10,139
FE college creditors	13,706	43,800
WBL creditors	133,539	117,826
School sixth form creditors	611	1,125
Tax and social security	25	4,046
ESF and other creditors	37,837	44,945
Sub-total creditors	194,322	221,881
ESF and other deferred income	64,635	121,853
WBL accruals	11,082	11,467
Other accruals	295,274	249,251
Sub-total deferred income and accruals	370,991	382,571
Sub-total creditors, deferred income and accruals	565,313	604,452
Capital creditors	2,902	2,566
Total creditors	568,215	607,018

13b Creditors: analysed by type of organisation

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

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Local authorities	37,483	44,330
NHS trusts	436	1,430
Public corporations and trading funds	11,694	17,190
Other central government bodies	129,378	83,104
Balances with other government bodies	178,991	146,054
Balances with non-governmental bodies	389,224	460,964
Total creditors by organisation type	568,215	607,018

Notes to the Accounts

14 Provisions

	Early retirement £'000	agenda for change Theme 7 £'000	Funding claims £'000	Project Connect £'000	Total £'000
Provision balance at 1 April 2007	391	32,413	1,530	0	34,334
Additional charge in year	0	713	0	3,383	4,096
Provision utilised in year	(97)	(14,434)	0	0	(14,531)
Provision balance at 31 March 2008	294	18,692	1,530	3,383	23,899

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 of reorganising the LSC under the *agenda for change* programme that are charged against administration expenditure. The majority of the balance relates to the liabilities associated with aligning our property portfolio to match our ongoing needs and is based on assumptions from property professionals about the timing of lease reassignments. The remaining element covers the LSC's additional pension contributions to the scheme administrator in relation to individuals who retired early as part of *agenda for change*.

Funding claims

This relates to entitlement to Programme funding. No further disclosure is provided to avoid prejudice in future negotiations.

Project Connect

The LSC has recently consolidated the IT services provided to it into a single contract. A consequence of this is a probable outflow to cover the redundancy costs of some former LSC staff who have transferred into the new supplier organisation with TUPE rights. £1,908,120 of this provision is related to administration expenditure with the balance charged against programme expenditure.

15 Capital commitments

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

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Payable within one year		
Authorised and contracted for	0	9,922
Total capital commitments	0	9,922
Payable between two and five years		
Authorised and contracted for	0	0
Total capital commitments	0	0

16 Commitments to make grants to colleges and schools

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

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Payable within one year		
FE participation	1,835,310	1,790,792
School sixth forms	659,626	647,815
FE capital project support	582,206	274,759
Other capital grants (accessibility and CoVE)	15,880	40,745
	3,093,022	2,754,111
Payable between two and five years		
FE capital project support	399,097	213,913
	399,097	213,913

17 Contingent liabilities

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
The LSC had no material contingent liabilities as at 31 March 2008	0	0

18 Financial instruments

Financial Reporting Standard (FRS) 13 requires organisations to disclose information on the possible impact of financial instruments on its risk profile and how these might affect the organisation's performance and financial condition. As an NDPB, with no borrowings and almost wholly funded by DIUS and the DCSF, the LSC can confirm that it is not exposed to any liquidity or interest rate risks.

It also has no material deposits and all material assets and liabilities are denominated in sterling, hence it is not exposed to interest rate or currency risk.

The book value of the LSC's financial assets and financial liabilities are considered to be equivalent to their fair values at 31 March 2008.

Notes to the Accounts

19 General reserve

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Balance at 1 April	(295,871)	(81,019)
Deficit before interest	(11,092,303)	(10,543,029)
Grant-in-aid funding	11,167,929	10,328,177
Balance at 31 March	(220,245)	(295,871)

20 Reconciliation of net expenditure before interest to net cash flow from operating activities

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Net expenditure before interest		(11,092,303)	(10,543,029)
Depreciation charges	6b	12,929	12,668
Loss on disposal of fixed assets	6b	923	968
Loss on impairment	6b	1,302	1,407
Decrease in debtors – excludes capital debtors	11a	29,901	47,041
(Decrease)/increase in creditors – excludes capital creditors	13a	(39,139)	169,589
Decrease in provisions for liabilities and charges	14	(10,435)	(21,936)
Net cash outflow from operating activities		(11,096,822)	(10,333,292)

21 Reconciliation of net cash flow to movement in cash balance held

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Cash at bank and in hand at 1 April	12	50,156	74,734
Increase/(decrease) in cash for the year – per cash flow statement		48,190	(24,578)
Cash at bank and in hand at 31 March		98,346	50,156

22 Related party transactions

The LSC is a NDPB funded by DIUS and the DCSF, both of which are regarded as related parties.

During the year, the LSC 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 (£ million)
John Merry	National Council member	Councillor	Salford City Council	LSC provided funding allocations	1.2
Partner of Rob Wye	Partner of National Director	Director of Strategy (secondment) April to December 2007; Vice Principal from December 2007	Warwickshire College	LSC provided funding allocations	34.6
Partner of Rob Wye	Partner of National Director	Executive Director (secondment)	Stoke on Trent College (Self-Regulation Project)	LSC provided funding allocations	5.9
Spouse of Malcolm Gillespie	Spouse of Regional Director	Principal	City College Plymouth	LSC provided funding allocations	24.7
John Taylor	National Council member	Chief Executive	Sheffield College	LSC provided funding allocations	19.5

Notes to the Accounts

23 Losses and special payments

23a Losses statement

The LSC incurred the following material losses in the period to 31 March 2008. The losses have been charged to the relevant programme in Note 3a.

Description	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
WBL provision		
2007–08 – cases below £250,000 individually	906	
2006–07 – cases below £250,000 individually		756
	906	756
ESF provision		
2007–08 – cases above £250,000 individually	597	
2007–08 – cases below £250,000 individually	762	
2006–07 – cases below £250,000 individually		791
	1,359	791
Other programme provision		
2007–08 – cases below £250,000 individually	211	
2006–07 – cases below £250,000 individually		50
	211	50
Total cash losses	2,476	1,597

At 31 March 2008 there were 59 cases (29 WBL provision, 23 ESF provision and 7 other programme provision), one of which was above the reporting threshold of £250,000 individually. The majority of these losses relate to overpayments to providers who have gone into liquidation and are subject to approval from the relevant authority below.

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

Authority	Item value	Number of cases	31 March 2008 Loss £'000
LSC	Up to £10,000	28	111
DIUS	£10,000 to £100,000	26	1,139
HM Treasury	Over £100,000	5	1,226
Total losses		59	2,476

23b Special payments

The LSC incurred no special payments in the period to 31 March 2008 (2006–07: nil).

24 Post-balance sheet events

There have been no events after the balance sheet date that have had a material impact on the financial statements.

The financial statements were authorised for issue by Mark Haysom CBE, Accounting Officer on 9 July 2008.

Glossary and Further Information

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

There's a great deal about our policies and activities that can be accessed online – so please visit the LSC's website at www.lsc.gov.uk and <http://research.lsc.gov.uk/for-up-to-date-news-about-the-lsc-and-about-education-and-training-in-england>. Alternatively, call 0870 900 6800 for information about your nearest LSC office..

14–19 reforms

The 14–19 reforms will give all young people the opportunity to choose a mix of learning that motivates, interests and challenges them, and that gives them the knowledge, skills and attitude they need in order to succeed in education, work and life.

Adult and community learning (ACL)

We maintain a national programme of leisure and occupational courses for adults through local further education colleges. We also provide extra funding for other ACL such as family and neighbourhood projects.

Adult Learning Grant (ALG)

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

Apprenticeships

Apprenticeships offer training in the workplace. Young Apprenticeships allow 14- to 16-year-olds to spend two days a week learning a trade, while Apprenticeships (equivalent to GCSE level) give people aged 16 and over on-the-job training to NVQ Level 2 while they receive a wage. (Some may also gain a technical certificate.) Advanced Apprenticeships (equivalent to A-levels) give people aged 16 and over training to NVQ Level 3,

as well as a technical certificate. The LSC funds Apprenticeship training and assessment costs. www.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.

Care to Learn

Care to Learn offers support for childcare and travel costs to individuals under the age of 20 who want to return to learning. Learners can apply for and receive payments through the Learner Support Service.

Connexions

An information and advice service for young people aged between 13 and 19. It covers career and learning options as well as issues relating to health, housing, relationships with family and friends, and money. www.connexions.gov.uk

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 has introduced three new 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 Children, Schools and Families (DCSF)

<http://www.dcsf.gov.uk>

Department for Innovation, Universities and Skills (DIUS)

www.dius.gov.uk

Department for Work and Pensions (DWP)

www.dwp.gov.uk

Education Maintenance Allowance (EMA)

EMA offers up to £30 a week to people aged 16 to 18 who need financial help to carry on learning. <http://ema.direct.gov.uk/htmlLanding.html>

Entry to Employment (e2e)

A programme for people aged 16 to 18 who have become disillusioned with learning and are not in any sort of education, employment or training. It helps them to move into an Apprenticeship, education at NVQ Level 2, or a job.

Framework for Excellence (FFE)

FFE is an approach to managing performance. It is a single framework that will help increase the quality of FE provision and the way in which that provision meets the needs of users. It will also help employers and learners to choose the provider best suited to their needs.

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 (HE)

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 (HEFCE) 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.

Investors in People

The national standard of good practice for workplace training and development. The Small Firms Initiative helps small firms (with between five and 49 employees) in England to develop their workforces. So far, only 2 per cent of small firms have achieved the Investors in People standard, compared with 45 per cent of medium-sized and large organisations. www.investorsinpeople.co.uk

Jobcentre Plus

Gives advice on jobs and training for people who can work, and financial help for those who can't.

Local authorities

These are legislative organisations that deliver essential services to residents in a defined geographical area. 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 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 are supported by DWP, DIUS 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, delivered by the LSC, will introduce an internet-based Learner 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 Skills Academies (NSA)

A network of employer-led, world-class centres of excellence delivering the skills required by each sector of the economy. Employers take control of the design and delivery of learning in their industry, working in partnership with government and top training providers, from both the public and private sectors. It means higher standards of training delivery, as employers know the levels of performance they need from their people to keep ahead of the competition, whether at home or abroad. <http://www.nationalskillsacademy.gov.uk/>

National Vocational Qualifications (NVQs)

NVQs are work-related qualifications, at the following levels:
Level 1 – equal to five GCSEs at grades D to G
Level 2 – equal to five GCSEs at grades A* to C
Level 3 – equal to two A-levels or one vocational A-level
Level 4/5 – equal to Higher National Certificate, Higher National Diploma or degree level.

Not in Education and Employment (NEET)

The Government has set a PSA target for reducing the numbers of young people who are not in education, employment or training. The LSC has 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 is of high quality. The target requires that the percentage of young people who are not in education, employment or training is reduced to 8% by 2010.

Public Service Agreement (PSA)

Progress is measured by key indicators, agreed at Comprehensive Spending Review 2007, to be achieved by 2011 and 2014.

Indicators by 2011:

- 89 per cent of people of working age possessing functional literacy; 81 per cent possessing functional numeracy skills
- 79 per cent of working-age adults qualified to at least full Level 2
- 56 per cent of working-age adults qualified to at least full Level 3
- 130,000 apprentices to complete the full Apprenticeship framework in 2010/11.

Indicators by 2014:

- 36 per cent of working-age adults qualified to Level 4 and above by 2014, with an interim milestone of 34 per cent by 2011
- participation in HE increased towards 50% of those aged between 18 and 30 with growth of at least a percentage point every two years to the academic year 2010/11.

Qualifications and Curriculum Agency (QCA)

QCA is responsible for developing the national curriculum, which defines the knowledge, understanding and skills to which children and young people are entitled. They review it and evaluate its appropriateness and relevance to the changing needs of learners and society. www.qca.org.uk Ofqual - the new regulator of qualifications, exams and tests in England – began its interim work on April 8 2008. The government will be bringing in legislation to establish Ofqual as the regulator of qualifications. Until this legislation is passed, they will operate as part of the Qualifications and Curriculum Authority. <http://www.ofqual.gov.uk/>

Quality Improvement Agency (QIA)

The Quality Improvement Agency (QIA) is responsible for innovation and excellence in the Further Education and skills sector. They aim to challenge those involved in teaching, learning and training to lift their performance and implement the government's reforms for learning and skills. During

2008 QIA, together with the Centre for Excellence in Leadership (CEL), will transfer to a new sector-owned improvement body. www.qia.org.uk

Regional Development Agencies (RDAs)

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

School sixth forms

The LSC became responsible for funding school sixth forms in April 2002 and funds 1,760 school sixth forms in 138 local education authorities (LEAs). In the remaining 12 LEAs, the education of over-16s takes place mainly in FE colleges and sixth-form colleges.

Sector Skills Councils (SSCs)

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

September guarantee

The guarantee ensures that all young people have an opportunity to engage in learning for at least two more years after they leave compulsory education. In 2008, the guarantee applies to all 16-year-olds completing compulsory education and 17-year-olds who are enrolled on one-year or short courses or who have left the activity they chose on leaving school. The agreed start date can be after the end of September, but should be no later than the beginning of the January 2009 term.

Skills Campaign

The most ambitious skills communications initiative ever to raise the aspirations of millions of people was launched in July 2007. www.lsc.gov.uk/inourhands

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 (SFA)

This agency, with some regional capacity, will oversee the distribution of funds to the sector and manage the performance of FE colleges. It will also house the National Apprenticeship Service (NAS), the National Employer Service and the Adult Careers and Advancement Agency.

Skills Pledge

The Skills Pledge is a public commitment; a promise to drive your business forwards by training your employees. The Skills Pledge is voluntary – you fulfil it in your own time and your own way. And you're supported with impartial advice from the Government's Train to Gain service. When you make the Skills Pledge you make skills mean business. <http://inourhands.lsc.gov.uk/employersSkillsPledge.html>

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 is a service, managed and funded by the LSC, that 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 to plan a tailored training programme. Because Train to Gain skills brokers do not work for any training organisation, the advice that they give to employers is impartial. The aim is to make sure that employers are able to find the training that they need to increase productivity and to develop more competitive businesses. The Train to Gain brokerage service will transfer to the Regional Development Agencies in April 2009. www.traintogain.gov.uk

Training Quality Standard (TQS)

An assessment framework designed to recognise and celebrate the best organisations delivering training and development solutions to employers. <http://www.trainingqualitystandard.co.uk/page.php?p=75>

UK Commission for Employment and Skills (CFES)

Led by Sir Michael Rake (Chairman BT Group plc) and around 20 influential Commissioners, the CFES will ensure that employers have a pivotal role in ensuring the UK's employment and skills system responds well to the needs of business and the public services, as well as promoting increased investment in workforce skills by employers for a more highly skilled and productive economy. The CFES replaces the Skills Alliance in England.

Young People's Learning Agency (YPLA)

This new national non-departmental public body, with some regional capacity, will support local authorities in their new role in commissioning and funding 14–19 provision. Local capacity on 14–19 will therefore, as expected, be with local authorities.

List of Related Documents

14-19 Education and Skills White Paper (published February 2005) www.dfes.gov.uk/publications/14-19educationandskills/index.shtml

Building Colleges for the Future (published March 2008) <http://dius.gov.uk/publications/LSCLayout.pdf>

Delivering World-class Skills in a Demand-led System (published January 2007) <http://readingroom.lsc.gov.uk/lsc/national/nat-deliveringworldclassskills-jan07.pdf>

Framework for Excellence: How the Framework Will Work (published June 2007) <http://ffe.lsc.gov.uk/Framework+for+Excellence+How+the+Framework+will+work++June+2007.htm>

From Here to Sustainability (published September 2005) <http://readingroom.lsc.gov.uk/lsc/2005/ourbusiness/strategy/from-here-to-sustainabilitylsc-strategy-for-sustainabledevelopment.pdf>

Further Education: Raising Skills, Improving Life Chances (published March 2006) www.dfes.gov.uk/publications/furthereducation/docs/6514-FE%20White%20Paper.pdf

Learner Health, Safety and Welfare: Safe Learner Blueprint (published September 2007) www.safelearner.info/downloads/LSCHealthSafety%204-10-07.pdf

LSC Single Equality Scheme: Our strategy for Equality and Diversity (published April 2007) <http://readingroom.lsc.gov.uk/lsc/National/nat-singleequalityscheme-30apr07.pdf>

LSC Grant Letter 2007-08 <http://readingroom.lsc.gov.uk/lsc/National/nat-lscgrantletter0708-le-oct2006.pdf>

LSC Grant Letter 2008-09 <http://www.dius.gov.uk/publications/LSC-Grant-Letter-2008-09.pdf>

National Employer Skills Survey 2007 (published May 2008) <http://readingroom.lsc.gov.uk/lsc/National/nat-nessurvey2007mainreport-may08.pdf>

National Learner Satisfaction Survey 2007 (published July 2008) <http://research.lsc.gov.uk>

Our Statement of Priorities – Better skills, Better jobs, Better lives (published November 2007) <http://readingroom.lsc.gov.uk/lsc/National/nat-statementofpriorities-nov07.pdf>

The Learning and Skills Council's Proposed Statutory Intervention Policy: Consultation Document (published January 2008) <http://readingroom.lsc.gov.uk/Lsc/National/nat-LSCproposedinterventionpolicyjan2008.pdf>

Prosperity for all in the global economy – world class skills (published December 2006) www.hm-treasury.gov.uk/media/6/4/leitch_finalreport051206.pdf

Raising Expectations: enabling the system to deliver (published March 2008) www.dfes.gov.uk/consultations/downloadableDocs/Raising%20Expectations%20pdf.pdf

Skills in England 2007 (published September 2007) http://readingroom.lsc.gov.uk/lsc/National/SiE_Volume1final_12Sept07.pdf

Train to Gain: A Plan for Growth (published November 2007) www.dius.gov.uk/publications/Train-to-Gain-Executive-Summary.pdf

World Class Skills: Implementing the Leitch Review of Skills in England (published July 2007) www.dius.gov.uk/publications/worldclassskills.pdf

Figures in this report are based on the latest information available at the time of going to print.

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office
ID5850851
07/08

Printed on Paper containing 75% recycled fibre content minimum.



Published by TSO (The Stationery Office)
and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & Email

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline:

Lo-call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders/General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: www.bookshop.parliament.uk

TSO@Blackwell and other accredited agents

75% recycled

This Annual Report is printed
on 75% recycled paper



**Learning and Skills Council
National Office**

Cheylesmore House

Quinton Road

Coventry CV1 2WT

T 0845 019 4170

F 024 7682 3675

www.lsc.gov.uk

Learning and Skills: Changing Lives, Improving Work is the LSC's Annual Report and Accounts for 2007–08.

The LSC invests in people to give them the skills they need for success in work and life. It is our job to build a dynamic and successful further education system for England. Our budget for 2007-08 was £11.4 billion.

Extracts from this publication may be reproduced for non-commercial, educational or training purposes on the condition that the source is acknowledged and the findings are not misrepresented.

This publication is available in electronic form on the Learning and Skills Council website: www.lsc.gov.uk

If you require this publication in an alternative format or language, please contact the LSC Help Desk: 0870 900 6800

Publication reference number is:

LSC-P-NAT-080146

©LSC July 2008