



i For information

>lsc

Leading learning and skills

Better skills Better jobs Better lives

The Learning and Skills Council's
Annual Report and Accounts for 2006–07

2006–07

For people and organisations interested
in learning and skills

The Learning and Skills Council (LSC) helps people learn new skills so that businesses in England can become more competitive.

During 2006–07 it was our job to fund high-quality education and training for people over 16 in England, other than in higher education. Our budget for 2006–07 was £10.7 billion.

Our annual report covers the financial year up to 31 March 2007. It includes a review of the activities we carried out during the year and our accounts for the same period.

This report is one of three corporate reports that we publish. Our yearly 'Progress Report' and 'Our Statement of Priorities' are published each autumn. Our progress report sets out in detail what we have achieved and how we have managed our investment in further education. Our statement of priorities is published after the progress report, and sets out our main policies and strategies for achieving them.

Throughout this report, we write financial years as 2006–07 and academic years as 2006/07.

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



Leading learning and skills

The Learning and Skills Council's Annual Report and Accounts for 2006–07

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 24 July 2007

HC 840

London: The Stationery Office

£18.00

Contents

Our Story	
The Future's Bright	02
Chairman's Statement	04
Chief Executive's Review	06
About Us	08
Our Achievements	10
Our Focus	14
Our Management Group	16
Delivery across the Regions	18

Leadership and Governance	
Management and Structure	24
National Council	24
How we are managed	25
How we are structured	25
Risk Management and	
Financial Controls	26
Our Councils and Committees	27
How We Take Care of...	28
Our people	28
Our environment	29
Our Working Practices	30
Stakeholder communications	30
Equality and diversity	30
Financial Commentary	32
Remuneration Report	34
Our Responsibilities	40
Internal Control	41

Finance	
Certificate and Report of the	
Comptroller and Auditor General	
to the Houses of Parliament	44
Net Expenditure Statement	45
Balance Sheet	46
Cash Flow Statement	47
Notes to the Accounts	48
Glossary	70
Further Information	71
List of Related Documents	72

© Learning and Skills Council 2007

The Future's Bright



Starting work as a telecommunications apprentice with Orange was the best thing that John Vickery has ever done. It changed his life.



"I'd got some good GCSEs, but I left school at 16, quickly dropped out of college, and was drifting from one temp job to another," John says. "I had no prospects and was worried about where the next job was coming from."

"I thought Apprenticeships were just for 16-year-olds. I had debts and rent to pay and I'd been out of full-time education for almost five years. I didn't think there was any way back in."

In 2005/06, the LSC funded around 257,000 Apprenticeships in learning, made up of:

- 160,000 Apprenticeships for people aged 16 to 18; and
- 97,000 Apprenticeships for people over 19.

John was 20 when he joined Orange, and is now 24. In the meantime he has achieved an NVQ Level 3 and an HNC in telecommunications from Reading College, and he was named 'Advanced Apprentice of the Year' at the 2006 Apprenticeship Awards.

John now works as a field engineer. He has a company car and is hoping to go into management. He is also mentor to two recent apprentices.

"The Apprenticeship has given me technical skills, life skills and the opportunity to build myself a life-changing career," he says.

Orange recruits an average of 12 apprentices a year, supporting them through full-time education.

"This is a fast-moving industry, and training equips apprentices to do the work that we need," says Capability Advisor Branson Jackson. "But we do our own training in soft skills as well, because if you can't work with other people or solve problems, it doesn't matter how good your technical skills are. The future is definitely growing your own talent."

Chairman's Statement



We are the part of the education sector that delivers the skills that the country needs to succeed economically.

I am pleased to report that the further education (FE) system is performing better than ever before.

- The number of learners under 19 increased by 2.3% between 2004/05 and 2005/06 from 727,000 to 744,000. The average number of people in learning on Apprenticeships in 2005/06 was 155,000 – an increase of 1% over 2004/05.
- The 2007 milestone of 1.5 million adults with improved skills was exceeded in July 2006, bringing the total to 1,759,000 achievements.
- Out of 23.7 million people currently in work, around 17.5 million now have a Level 2 qualification.
- We have beaten the Government's target of 175,000 young people starting Apprenticeships, and the number of young people who complete their Apprenticeships has increased every year since 2001 – from 24% to 60%. This figure compares well with other European countries.

Our investment in world-class facilities and buildings to learn in is having a very positive effect on employers and learners.

Our national 'Train to Gain' scheme gives employers a one-stop shop for training and has already helped 44,000 employers and 136,000 people to develop their businesses and skills. 85% of employers who have taken part so far have been satisfied with our service.

We could not have made this progress without the skill and commitment of our Chief Executive, Mark Haysom, his local, regional and national teams, and our councils and committees.

We have adapted to the changing political and economic environment and seen some major changes to how our executive is structured. The FE and Training Bill (going through Parliament in summer 2007), will introduce further changes, including making our councils and committees simpler and more efficient.

We are improving our performance and making our ways of working simpler to benefit employers and learners, but we know that this is not enough. Nowhere near enough.

If we are to keep competing successfully in the global economy, we need to keep changing the way the FE system works. We cannot rely only on methods that have worked in the past. Instead, we must build on the success we have already achieved and take it to the next level.

Challenges

As we move forward, we will need to involve more 'harder to reach' employers and learners. It was always going to be difficult for us to keep progressing at the rate we have achieved so far. But as Lord Leitch says in his final report on skills ('Prosperity for All in the Global Economy', published in December 2006), the rate of change needs to increase.

175,000
We have beaten the Government's target of 175,000 young people starting Apprenticeships

'Harder to reach' often means more expensive to reach, yet we cannot expect our budget to keep increasing. Last year, we spent £10.7 billion on education and training for people over 16. This is as well as the large amount of money that employers and learners already spend.

If we are going to raise the demand for learning and achieve the rate of growth we need, we are increasingly going to have to make tough choices about spending public money on those things that make the most difference to people's lives and to the nation's economy. We will also need to encourage employers and learners to invest more in their learning and training. To do this, it is important that we increase people's understanding of the benefits of learning, making it clear that training is a way of improving their businesses and their lives.

We also have to make sure that the learning and training that we fund is always high quality and that the qualifications on offer are useful and easy to understand. To help us achieve this we are developing a single qualification and credit framework along with our partners (including sector skills councils, the Qualifications and Curriculum Authority, awarding bodies and colleges).

The future

There is a full and exciting timetable for the year ahead, including setting up nine LSC regional councils (though this will depend on Parliament's decision about the FE and Training Bill), setting up the new Commission for Employment and Skills, and the Government's plans to make sure that everyone stays in some sort of formal learning until they are 18.

As a result of recent changes to government departments, funding for learners in the 14–19 programme will transfer from the LSC to local authorities. This could have a significant impact on the LSC and our partners, and as we work through the details of this change we will make sure that we continue to keep the interests of learners – both young people and adults – and employers at the heart of our work.

I have no doubt that we will continue to respond to the challenges ahead of us. People have more confidence in the education system than ever before to deliver what the country needs for economic and social success.



Christopher N Banks CBE
Chairman
Learning and Skills Council

→ Visit our website at
www.lsc.gov.uk
for more information
about us

Chief Executive's Review



This has been a very good year indeed. We have led the way by making our organisation more efficient and more effective locally, regionally and nationally.

As part of our *agenda for change* we said that we would change the way we are structured and the way we work. We have achieved what we said we would do.

agenda for change wanted to make the FE system simpler and better, moving resources away from administration and into services. We have achieved our target of reducing our total workforce by around 25% without having to make any compulsory redundancies. This will save £40 million a year in costs, and some of this money will go directly into increasing the number of Apprenticeships available for adults.

We are now more able to find local solutions for national priorities. In London, for example, we have helped to set up the employer-led London Employment and Skills Board, chaired by the Mayor. This board will help us to tackle the very complicated problems of a local economy that combines the unemployment rates of North East England with the high-level skills needed to compete in the global market.

Three main ideas are spread throughout our work:

- making things simpler;
- excellence; and
- economic success.

→ Visit our website at www.lsc.gov.uk for more information about our *agenda for change*

Simplification

We are committed to making our processes and systems simpler so we can give more funding to front-line education and training. This means employers and learners can find their way around the system more easily, and will help them to get access to the skills training they need.

Excellence

We want to create an FE system where high quality is normal and poor quality is not tolerated, and where employers and learners are prepared to invest in their learning because they trust the system to give them what they want.

Economic success

Our main aim is to help the country to become more successful. The FE system is well placed to give employers the skills they need to be competitive, and give people the opportunity to get, keep and develop in jobs with good salaries and potential.

Making our own staff structures simpler has helped us to improve our efficiency. But, we have also made considerable efforts to benefit the people who use our services by making what we do simpler. For example, we recently met with Sainsbury's (working with the National Employer Service) and reduced (by 70%) the amount of paperwork they faced.

We are making the process of how we collect information from schools, colleges and training providers easier – to help them and government departments. Currently, training providers are asked many times to supply information to many different organisations throughout the education sector. Under an initiative called 'Managing Information Across Partners' (MIAP) they will only need to be asked once.

MIAP is meant to make the FE system more efficient, but it will also mean that education providers will have access to information that they have not had access to before. This will allow them to compare information about each other and is part of our drive for excellence.

Our ambition is to create a world-class FE system by 2012 – partly by investing heavily in buildings and facilities. State-of-the-art buildings make a difference to education. They attract new learners, help to improve standards and create a focus for people to have pride in their community. Since the LSC was set up in 2001, we have renewed 55% of the buildings in the FE system (refurbishing existing buildings and building new ones) and invested over £1.9 billion in 661 projects that cost over £4.9 billion in total. Since 1 April 2006 we have approved 125 projects, giving them £1 billion worth of support.

2012

Our ambition is to create a world-class FE system by 2012

In 2001, around 20% of colleges were unsatisfactory. The figure is now 3%, and it is no coincidence that their performance has improved as financial investment has increased. This is important in giving our young people and adults the skills, attitudes and qualifications they need for productive employment.

As we put the recommendations of the FE White Paper, 'Further Education: Raising Skills, Improving Life Chances', in place, it has become clearer that our main purpose is to help people to gain the skills they will need in the world of work. The size of this task became greater because of Lord Leitch's report, which considered how people's skills would play a part in the country's economic success in the future.

The task of improving people's skills is huge, and will need enormous change in our attitudes and the way we work.

In recent years we have focused on increasing the number of people who achieve Level 2 qualifications. Lord Leitch's report predicts that by 2020, people will need skills at Level 3 in 65% of jobs – which is A-level standard. Over the same period, Lord Leitch predicts that the number of jobs where people don't need any skills will reduce from almost 4 million (at the moment) to fewer than half a million.

We have to take this very seriously because even though the country has made real progress over the past few years, the UK still has 5 million adults who don't have reading skills, 17 million adults who have difficulty with number skills, and more than one in six young people who leave school unable to read, write or add up properly. We also have to take into account that 70% of the people who will be working in 2020 are already working today.

If Lord Leitch's report is correct, by 2020 there will be no jobs for people without at least a basic level of skills – and almost no jobs for anyone without skills at Level 2. If we do not take action, there could be huge problems for society.

Although what Lord Leitch's report found has not yet become government policy, it is already very clear that the next part of our journey is not going to be the same as it has been so far.

Lord Leitch said: "Economically valuable skills must be delivered through a demand-led approach, facilitated by a new culture of learning, and an appetite for improved skills among individuals and employers."

This means that our role has to change. We have to work with partners to help people to want to learn new skills. We want the number of learners to grow significantly, with employers and individuals investing more and more in their own learning. We have to look for a wider range of high-quality suppliers of training, and we have to be able to respond to a greater number of people who want to learn.

Working more closely with our partners (such as local authorities and Jobcentre Plus), we need to make sure that there is a clear link between training people to learn new skills and helping them to get jobs. We need to invest public funds where they will have most effect.

This represents a huge challenge for us, but we have reinvented ourselves many times in the past, and I have no doubt at all that we and the FE system will continue to adapt and improve as our task and the needs of the country change.



Mark Haysom
Chief Executive
Learning and Skills Council

About Us

Who we are

We are a publicly-funded organisation working to build a world-class further education system for England.

What we do

We make sure that the right kind and quality of learning and training are available at the right time and place to meet the needs of learners and employers.

We promote the benefits of learning and developing skills to increase England's economic success.

How we work

England needs a competitive, world-class workforce. To achieve this we work with the further education (FE) system to meet the needs of employers and learners.

We invest in the fabric of this system – the buildings, the courses, the information technology – to help it to achieve excellence in the way it is run and in the learning it provides.

We make sure that people know why skills matter and understand the value that skills can bring to them and the businesses they work for. We provide information and advice so that people can find out what training is best for them and where they can find it.

We have teams working in every local community across the country to make sure we know what type of learning or training is needed in each area. We make sure everyone has a choice of courses available with high-quality training providers.

To get the best value from public funds, we work in partnership with government organisations, local authorities, employers and many other groups to make sure that our partners know what we are doing.

We focus on including everyone and creating a successful economy by targeting hard-to-reach learners and employers (those who would benefit most from new skills).

→ For more information about us visit our website at www.lsc.gov.uk

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 within and outside of 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, and the needs of employers and of people in education and training. We demonstrate 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, be responsive and work quickly.

Our priorities

The Government's 14–19 and Skills Strategies and the FE White Paper have provided the framework for what we do. Each year we have published 'Our Statement of Priorities', which set out our most important goals and how we aimed to achieve them.

Our priorities for this reporting period have been as follows.

Priority 1

Raise the quality and improve the choice of learning opportunities for all young people to equip them with the skills for employment, further or higher learning, and for wider social and community engagement.

Priority 2

Raise the skills of the nation, giving employers and individuals the skills they need to improve productivity, employability and social cohesion.

Priority 3

Raise the performance of a world-class system that is responsive, provides choice, and is recognised for excellence.

Priority 4

Raise our contribution to economic development locally and regionally through partnership working.

Our ambition is to unlock the potential of every employer and learner in England

→ Visit our website at www.lsc.gov.uk to see or download a copy of 'Our Statement of Priorities'

Our Achievements

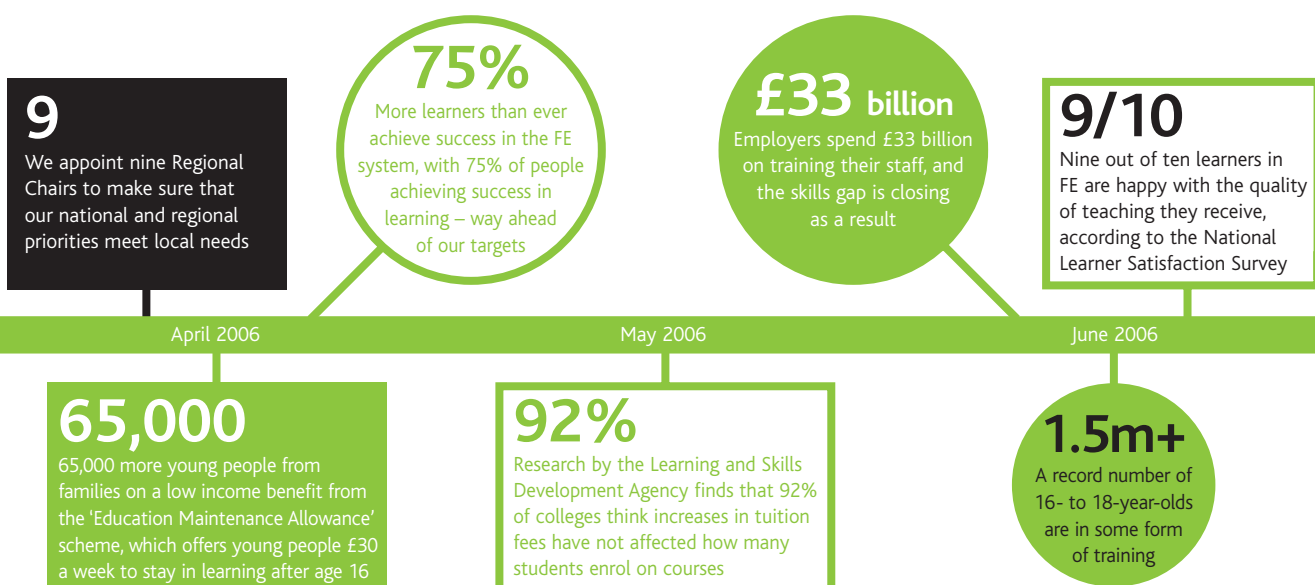
17.5 million
people have now achieved a Level 2 qualification

Last year we invested almost £11 billion of taxpayers' money in education and training. Every day, more than 5.5 million people benefited from the learning we funded. Together with the further education (FE) system, we promote economic success for all – as better-skilled people are better able to fulfil their potential.

The Government set us ambitious targets, and we measure our progress by the number of adults who achieve a Level 2 qualification (the same as five GCSEs at grades A* to C) or a Level 3 qualification (the same as two A levels).

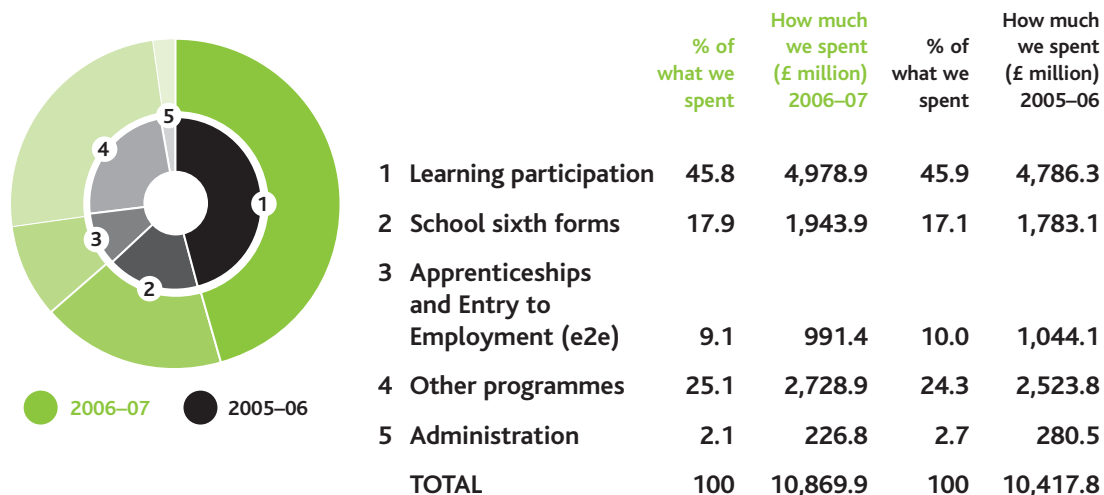
Our system has an excellent record of meeting and beating its targets.

For example, by the end of 2006, 74% of adults who work (17.5 million people) had achieved a Level 2 qualification and 52% had achieved a Level 3 qualification. This is an increase of 1,141,000 people since 2002, and means that we have gone beyond our Level 2 target by 141,000 people. This is the same as the population of Poole!

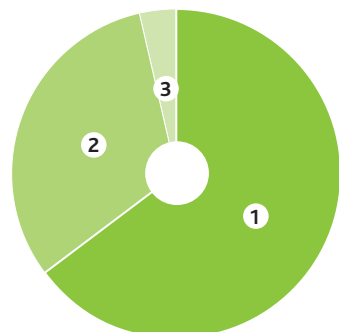


Investing in success

What we spent in total in 2006–07 compared with 2005–06

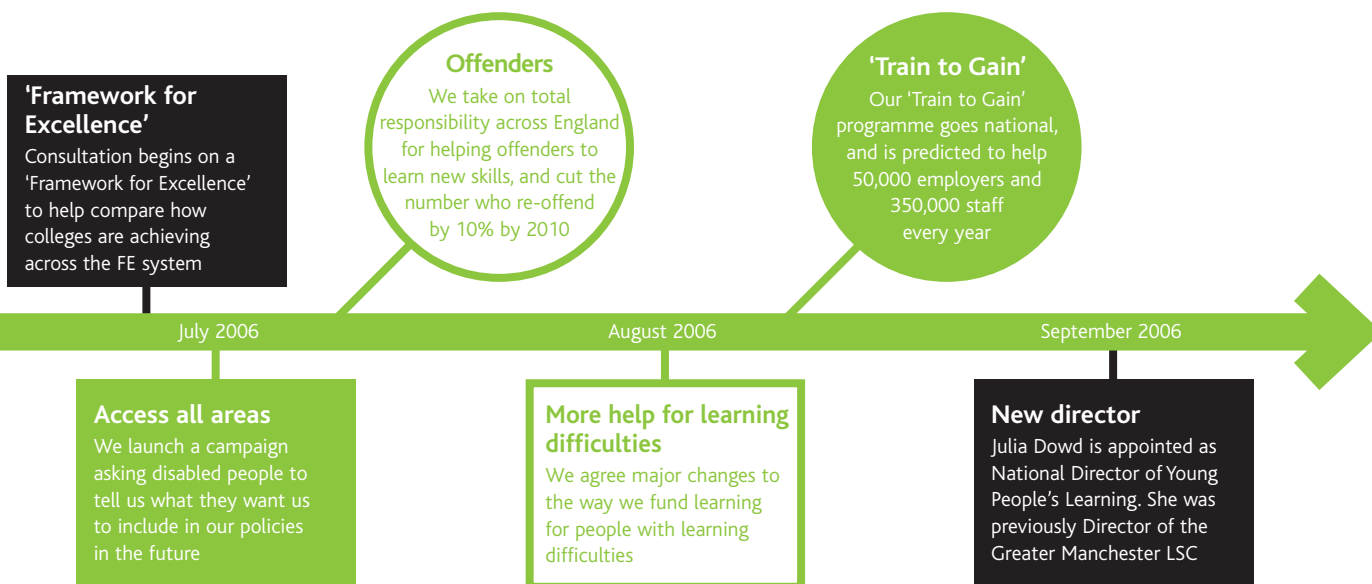


Where we invested our money in 2006–07



In 2006–07 we invested the following.

- 1 **£6.8 billion to enable more than 1.3 million young people in school, college or work-based learning to achieve qualifications.**
- 2 **£3.3 billion in adult learning, helping 3.5 million adults to improve their skills.**
- 3 **£367.5 million in FE and training facilities.**



The number of young people in learning in England is now at its highest-ever level – 1.5 million – and in 2006 71.4% achieved a Level 2 qualification. This means that we and the education system beat our target by over 2% (the target for 2006 was 69.3%). This represents an increase of 5.1% of young people achieving Level 2 compared with 2004.

Also, 46.8% of 19-year-olds achieved a Level 3 qualification – an increase of 4.3% compared with 2004.

Over 1.5 million people in England have gained important basic skills qualifications through the Government's 'Skills for Life' strategy. Since the strategy was launched in 2001, 1,759,000 learners achieved their first qualification in literacy, language or numeracy, going beyond the targets we were set for basic skills for 2007 by 259,000 people.

Since August 2006, 44,000 employers in total in England have worked with skills brokers (local skills experts) through our 'Train to Gain' service, with 85% of employers satisfied with the service.

By the end of 2005–06, we had helped 98,700 people in England achieve an Apprenticeship. This goes beyond our target of 75,500 people

1.5 million

Over 1.5 million people in England have gained basic skills qualifications through 'Skills for Life'

achieving Apprenticeships in 2007–08, which means that we achieved our target two years early. At the end of December 2006, our achievement figure had reached 59%.

Between 2001 (when we were set up) and the end of 2004/05, success rates for young people in FE in England increased by 14%. The quality of education and training for adults has also improved, with a 16% increase in achievement – to 75%.

→ Visit our website at www.lsc.gov.uk for more information about our targets

National Skills Academies

Tony Blair says the National Skills Academy programme can make sure that British industry remains competitive in the long term

Bill

The FE and Training Bill puts the FE White Paper into practice

Disability Equality Scheme

A new scheme involving disabled learners will promote equal opportunities throughout the FE system

'Progress Report'

We publish our first yearly 'Progress Report', setting out what the FE system has achieved over the previous year

October 2006

November 2006

December 2006

£11.2 billion

'Our Statement of Priorities' sets out plans to invest £11.2 billion to help learners and employers in 2007/08

Design prize

North Manchester Sixth Form College wins the Royal Institute of British Architects' award for 'Design Excellence in Further Education'

VCS

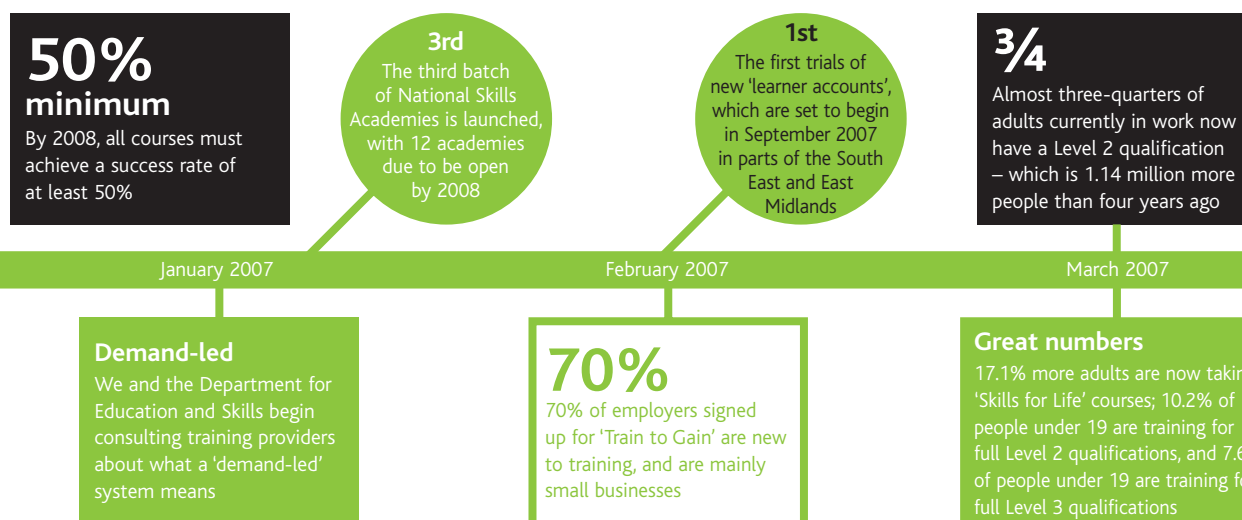
We set up an advisory group to guide our work within the voluntary and community sectors

Targets and achievements

Area	Target	Achievement
Age 19 – Level 2 attainment*	Increase the number of 19-year-olds who achieve a Level 2 qualification from 66.3% (in 2004) to 69.3% (in 2006)	69.3% in 2005 and 71.4% by 2006
Number of Apprenticeship frameworks completed	Increase the number of people who complete their Apprenticeships by 75% by 2007/08 (bringing the total to 75,500)	In 2005/06, 98,700 people completed their Apprenticeships
Adults – Level 2 attainment*	Reduce the number of adults without a Level 2 qualification by at least 40% by 2010. 1 million adults who are in work to achieve a Level 2 qualification by 2006	By autumn 2006, 1,141,000 adults in work had achieved a Level 2 qualification
'Skills for Life'*	Improve the basic skills of 2.25 million adults between 2001 and 2010, with targets of improving the basic skills of 750,000 adults by 2004 and 1.5 million by 2007	By the end of 2006, 1,759,000 adults had improved their basic skills

*Public Service Agreement target

This is a target set by the Government. Level 2 qualifications are the same as five GCSEs at grades A* to C. Level 3 qualifications are the same as two A levels or one vocational A level.



Our Focus

We have worked with the following four groups, who have very different challenges and opportunities.

Employers

Overview The main aim of the LSC and the wider further education (FE) system has been to help to make sure England succeeds economically. To achieve this, we need to raise England's position among the other economies in the world by providing the skilled workforce that employers need. We have been successful in reducing the skills gaps and have increased the number of people who have qualifications, but Lord Leitch's report left no doubt that we need to do much more. Meeting its recommendations is our biggest challenge. We will need to create a demand-led system with help from sector skills councils, which will identify which qualifications employers want their staff to have. We will adapt the way we fund training to make those qualifications a priority, and help employers to find out which training providers will best meet their needs.

Key risks Our funding is limited and we cannot pay for all the training that is needed, so we must persuade employers to contribute more from their own funds.

Strategies and actions 'Train to Gain' will continue to be our main service for employers. Since 'Train to Gain' was introduced in August 2006, 44,000 employers have taken part. The National Employer Service provides similar support for large employers (employers with over 5,000 staff).

Four National Skills Academies, led by employers, have been set up, and a further eight academies will be set up by September 2008. All of them will lead networks of specialist training providers.

From summer 2007, we will be introducing a new standard that will allow employers to assess the quality of the training available to them. We will grade training providers in line with how they respond to employers' needs and how they improve the skills of the people they train. The standard will cover all providers, not just those we fund.

Young people

Overview Our main aim has been to increase the number of people aged 16–18 who have at least a Level 2 qualification, and to help more than half of them to enter higher education.

The percentage of 16- to 18-year-olds in education or training who achieve a Level 2 qualification is at a record level. But the number of 16- to 18-year-olds is going to fall slightly over the coming years. This fall in population could create skills gaps in the future, unless we keep increasing the percentage of this age group who are learning relevant skills.

Key risks There are increasingly fewer employment opportunities for 16-year-olds who have no qualifications. Even though more 16-year-olds are in some form of learning, the number 'not in education, employment or training' (NEET) also grew last year from 10% to 11%. This represents 220,000 individuals, and if we cannot encourage more of them into FE or training, they risk becoming socially and economically isolated.

Strategies and actions The Education Maintenance Allowance for 16- to 19-year-olds is proving effective in encouraging young people to go to their classes. Those who go to their classes regularly are much more likely to complete their course and get their qualification than those who don't.

The 'Care to Learn' programme pays a childcare allowance to young parents to help them to study, and is a powerful way of encouraging the NEET group – 20% of people in the NEET group are parents. Almost 6,000 people now take part in the programme, and we intend to double this number over the next three to four years.

Our local partnership teams are also working with training providers preparing to introduce the new specialist diplomas for qualifications at Levels 1, 2 and 3, which we believe will offer young people better opportunities.

→ Visit our website at www.lsc.gov.uk for more information about us

44,000

Since it was introduced in August 2006, 44,000 employers have taken part in 'Train to Gain'

Adults

Overview Adult education and training contribute to providing a skilled workforce and a better quality of life. One of the main challenges we face is the number of adults who still do not have the basic skills to get a job. 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, the level people must reach to be able to get a job will increasingly rise from Level 2 towards Level 3 qualifications.

As training becomes more expensive we will have to reduce the number of short, non-priority learning opportunities we plan to fund – but we are keeping £210 million a year for personal and social learning, such as evening classes.

Key risks What we spend on training now will not be enough to pay for training in the future. The major challenge we face is persuading learners and employers to help towards the costs of their education and training.

Strategies and actions So we can meet the recommendations of Lord Leitch's report, we are planning to expand the Apprenticeship programme.

One of our priorities is to reach adults who need to learn basic skills, do not have a Level 2 qualification and are not currently working. We are also focusing on providing information, advice and guidance for these people.

We work closely with Jobcentre Plus and have taken over its basic skills programme to improve the skills of people who need a job. In the future, not as many people in adult education will receive public funding. But those who do will be studying for more useful qualifications.

Further education system

Overview An increasing number of training providers are providing good or excellent training – but not all of them. We are committed to funding good-quality training that responds to young people's, adults' and employers' needs, and we recognise that in some areas we have more to do to increase choice. We will have to keep investing in buildings and facilities and improving what people think about the FE system. While many communities think their local colleges provide high-quality training, this is not the case for the FE system as a whole.

Key risks If we close down training providers who are not up to our standards in a specific local area or sector, we may not have enough high-quality replacements.

Strategies and actions By putting the recommendations from the FE White Paper into practice, we are working with the FE system to improve its standards and what people think of it.

In 2006–07 we introduced minimum levels of performance for training providers, and during 2007–08 we will not fund courses, sectors or training providers that have not improved enough.

We are also developing the 'Framework for Excellence', which will assess training providers in how responsive and effective they are, and look at how they manage their money. This framework will provide learners and employers with the information they need to compare between providers.

Our Management Group

Over the past 12 months we have restructured the LSC and radically changed the way we work at local, regional and national levels.

The National Council has given our Chief Executive responsibility for managing us day to day, and he is supported by a group of senior managers. We have also increased the power of the LSC at regional level, and how effective our local organisations are.

Why have we changed the way we are structured?

We needed to change our own organisation to make the way we work simpler, and to focus on improving learning.

We have made our regional offices bigger to work more effectively with our partners (such as regional development agencies, sector skills councils and Government Offices). We have made our local partnership teams more focused, and given them more power to make decisions locally.

Who is now responsible for what?

Our national teams develop policies and work with our regional teams to agree strategies for the further education (FE) system. Our regional teams plan and prioritise how we provide training and encourage people to learn and improve their skills.

Our area teams match skills training to local people's needs. Our partnership teams cover broadly the same areas as the 150 local authorities in England.

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

What are the benefits of this new structure?

Our new structure means that we can share information and work more effectively to respond more quickly to our partners and stakeholders.

Creating local partnership teams means we can work well at a local level, working closely with local authorities, children's trusts and local strategic partnerships. We will also plan to set up nine regional councils, led by employers, once the FE and Training Bill has gone through Parliament. These will link us to businesses and challenge us to deliver new solutions to regional skills issues.



Mark Haysom
Chief Executive



Christopher N
Banks, CBE
Chairman



Rob Wye
National Director,
Strategy and
Communications,
and Learning*



David Russell
National Director,
Resources



David Way
National Director,
Skills

*The previous National Director of Learning was Melanie Hunt

Regional directors



1 East of England
Caroline Neville

Total spend:
£1,004.9 million



3 London
David Hughes

Total spend:
£1,785.6 million



6 South East
Henry Ball

Total spend:
£1,541.8 million



2 East Midlands
Verity Bullough

Total spend:
£861.6 million



4 North East
Chris Roberts

Total spend:
£640.7 million



7 South West
Malcolm Gillespie

Total spend:
£1,028.7 million



5 North West
John Korzeniewski

Total spend:
£1,481.5 million



8 West Midlands
David Cragg

Total spend:
£1,254.4 million



9 Yorkshire and the Humber
Margaret Coleman

Total spend:
£1,044.0 million



Key to regions

- 1 East of England
- 2 East Midlands
- 3 London
- 4 North East
- 5 North West
- 6 South East
- 7 South West
- 8 West Midlands
- 9 Yorkshire and the Humber

Delivery across the Regions

We understand that skills needs vary from one region to another. By applying what we know at a local level, we can have a significant effect on a region.

Our national and regional teams work together on developing our priorities and putting them into practice to provide national programmes at a regional level.

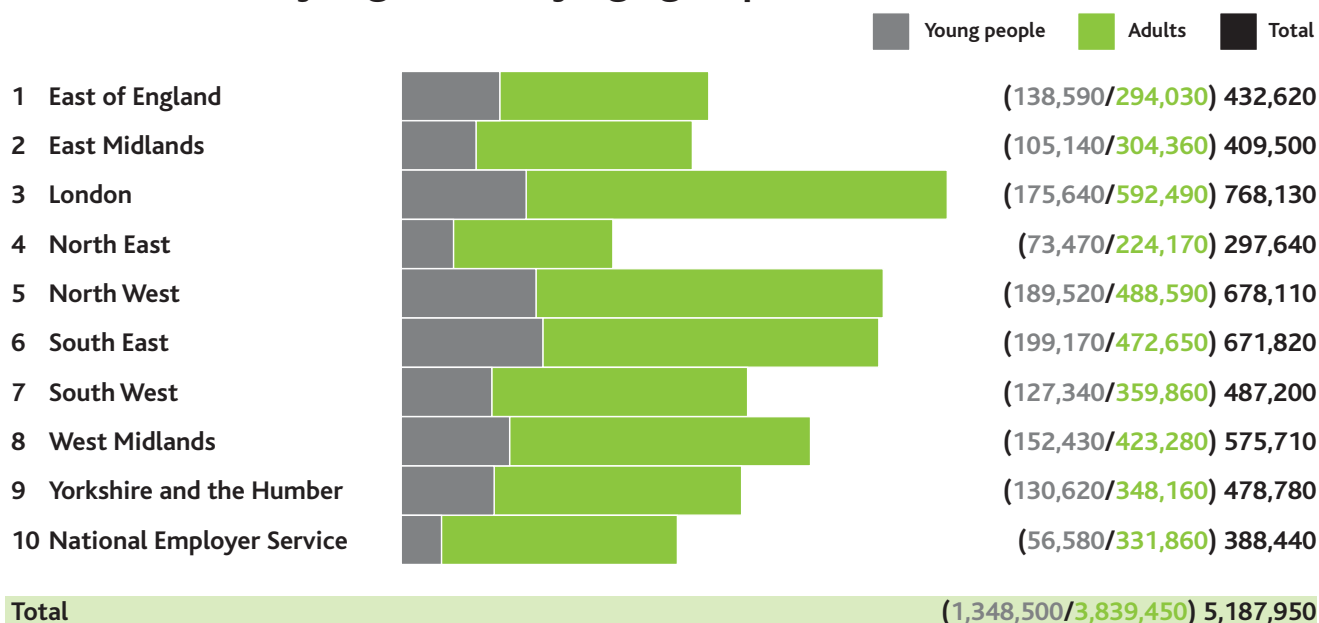
Everything we need to do as an organisation is set out in 'Our Statement of Priorities'. We set out how we will work in each region and include our priorities for buying in training in each region. These help our local partnership teams work with their local partners – such as Jobcentre Plus and local authorities.

We work closely with our partners at all levels, and regional development agencies and sector skills councils help us to work out our regional priorities and how we buy training for each region.

Our aim is to keep the way we buy training simple, and give employers and learners more buying power

Our aim is to keep the way we buy training simple, and give employers and learners more buying power. We want to be clear about our national priorities and what action we will take locally, to give colleges and training providers the power to do what they are best at.

Total learners, by region and by age group – 2005/06



Note: this includes further education, work-based learning (WBL), 'Entry to Employment', adult and community learning (ACL), 'Employer Training Pilots', 'Train to Gain' (TtG), school sixth forms and Ufi. ACL learners included in both age groups. In some other places (for example the delivery plan), all ACL is shown as adult. National Employer Service includes Ufi and national WBL/TtG contracts.

Source: LSC Individual Learner Record and schools data

'Train to Gain'

We introduced 'Train to Gain' in August 2006. Each of our regions now works with local skills experts (known as brokers) who work with employers to identify their training needs and how to meet those needs. This helps employers to find the best skills development programmes for their staff and to improve how they work. The number of brokers and what they do varies from region to region.

Nightingale sings the praises of 'Train to Gain'

Brothers Markus and Maurice Micklewright set up Nightingale Roofing & Building Services in 2003 with two members of staff, a van and a desire to be 'the first-choice roofing solutions provider in the South West'.

But Markus knew that training staff in as wide a range of skills as possible was the best way to succeed.

"Our team needed to be multi-skilled and versatile," he says. "Rather than simply being slaters or tilers, we wanted everyone to be able to do things like lead work and cladding as well."

Markus contacted our staff at 'Train to Gain' for advice and we put him in touch with skills broker Janet Powell, based in Plymouth.

"Nothing was too much trouble for her," Markus says. "She found suitable NVQ courses in nearby Exmouth and also tracked down supervisory skills training courses for our team leaders."

The brothers are delighted with the results – one course even helped them to win a £400,000 order that they would not have had otherwise.

"'Train to Gain' has been invaluable," says Markus.

"Our clients know that they can get the complete roofing package from one supplier, and our employees

appreciate that we are investing in them. Training has given them more skills, greater earning power, job security and job diversity. As a result they are committed, motivated and very loyal."

Nightingale, which is based near Newton Abbot in Devon, now employs nine people and had a turnover of £1 million last year.

"We would not have the level of business we have now if we hadn't put training first," Markus says.



Offender Learning and Skills Service (OLASS)

We took on total responsibility across England for offender learning and skills in July 2006, and are now responsible for planning, funding and delivering the new service across all nine English regions. Offenders need access to learning – both in prison and under supervision – to gain the skills they will need to get a job. OLASS contributes to the Government's overall aim to reduce the number of people who re-offend by 10% by 2010.

Learning gives offenders a new lease of life

Prisoners at HMP Acklington near Amble in Northumberland have been taking part in the first training programme of its kind in the country, which gives them skills that are in demand and the chance to work when they leave prison. This will provide employers with men who can start work as soon as they are released.

In the North East we worked with Energy and Utility Skills (the sector skills council for the utility industry) to set up the programme, after they discovered a national shortage of cable jointers.

The course, which was run by Newcastle College, was adapted to meet local employers' needs – and Enterprise Plc offered the prisoners work experience when they were released from prison.

The course involved 14 weeks of full-time study and covered all areas of working on the BT cable network. The prisoners achieved NVQ Level 2 and Level 3 qualifications, and the course was so popular that one of the prisoners asked if he could stay in prison to complete his qualification, rather than leave on his release date!



National Employer Service

The National Employer Service (NES) provides a single point of contact for large, national employers whose businesses are in many different places and who want a single contract for skills and training development. The NES works with these employers to find out what their staff development needs are, and represents their views on funding and skills development across Apprenticeships and Advanced Apprenticeships, first NVQ Levels 2/3 for adults, and 'Skills for Life'.

Bus drivers set off on lifelong journeys

The LSC's National Employer Service has been working with First UK Bus for over three years and, together with the Transport and General Workers' Union, has helped to develop 40 learning resource centres throughout the country.

First UK Bus is the UK's largest bus operator. A significant number of its 20,000 drivers are over 40 and left full-time education at age 15 or 16. The company's Learning and Development Director Clare Hannah says "It is vital that we develop our workforce to meet the future needs of our business." 'Skills for Life' and S/NVQ Level 2 would help her staff to achieve these aims.

So far, 2,500 drivers have achieved Level 2 qualifications, and others have gained thousands of 'Skills for Life' through the learning centres, helping them with their literacy, language and numeracy skills.

An independent customer satisfaction survey showed that First UK Bus provision of NVQs and 'Skills for Life' helped to boost customer satisfaction. The company has also saved at least £2.8 million in recruitment costs for drivers since they introduced their learning strategy, by keeping the staff they already have.

"Our vision," says Clare Hannah, "is to help our employees reach their full potential. We encourage them to embrace lifelong learning and recognise it as an investment in their future."

→ Visit our website at www.lsc.gov.uk for more information about our skills programmes



Tackling worklessness

We work with Jobcentre Plus and regional development agencies to help people to get the skills they need to get worthwhile jobs. We commission education and training in line with the Regional Economic Strategy priorities, working closely with partners to create a balanced economy and on restructuring (such as large-scale redundancies). Our research shows that cities in the north and west face bigger challenges than those in the south and east, with higher rates of people out of work and more people with no qualifications.

Getting Rover's workers back on the road

When MG Rover's Longbridge plant closed in April 2005, it was the UK's largest single redundancy for a generation. Over 6,100 people lost their jobs, which increased unemployment in the local Jobcentre Plus district by nearly 50%.

We immediately offered these people a single point of contact for training and support. We set up a manufacturing and engineering centre with Jobcentre Plus to keep the workers' skills within the West Midlands. We provided training in further education (FE) colleges and with private training providers across the region on a scale which has never been tried before.

A number of new programmes made sure we trained people to be able to get another job – often within a new sector.

By January 2006, we and Jobcentre Plus were providing tailor-made packages of support from Bournville College to the 1,800 people who were still unemployed. We were also providing support from the European Social Fund for other local unemployed people.

By March 2007 – two years after the plant closed – over 5,300 people were back in work and no longer claiming benefits. More than 3,300 people had received training and 40% of them said that their new skills had given them the help they needed to get a new job. A further 28% of these people felt that the training they had received had been the main reason they were able to get a new job.



Investing in buildings

Inspiring buildings can bring out the best in learners. We are committed to improving FE facilities across England, working with colleges and schools to develop efficient, flexible buildings that can meet the teaching needs of today and those of the future.

Our aim is for learners – and their different communities – to benefit from modern, ‘fit-for-purpose’ learning environments. Recent projects have included new buildings in Truro, Birmingham and London.

London’s learners get a lift

City Lit moved a step closer to fulfilling their vision of being ‘London’s best adult lifelong learning provider’ when they moved to their new, purpose-built building in the heart of London.

We provided 40% of the £21 million funding needed to build this state-of-the-art education centre, which was designed with students in mind and increased the number of students who enrolled on courses. The college has received very positive feedback on the new building and facilities – the 23,000 students are delighted with the centre and their results prove the benefits of an improved working environment, with a remarkable 87% of students passing their exams and completing their courses.

The building is fully accessible for people with disabilities, increasing the number of learners who have some form of disability or additional learning support need by 36% over two years.

Specialist facilities have been built to match City Lit’s range of 3,000 courses. Drama students now benefit from a theatre for teaching and performance, while music students now have soundproofed rooms. Large, inviting student lounges, a popular café, and a rooftop sculpture court and herb garden outside all give students plenty of space to relax.

“City Lit is renowned for its first-class teaching and we are delighted that students will now enjoy facilities to match,” says the Principal, Peter Davies CB, CBE.

→ Visit our website at www.lsc.gov.uk for more information about us

Management and Structure

We are organised to be sensitive to needs and opportunities at the local, regional and national level. We have strengthened our ability to find the right local responses to national priorities. Expert committees advised us on equality and diversity, adult learning, and young people's learning. And council and committee members kept us plugged in to real-life issues – locally, regionally and nationally.

National Council

The National Council and three strategic committees oversee policy- and decision-making at the LSC. Day-to-day management of the LSC rests with the Chief Executive and the Management Group.

The National Council is our top tier of policy- and decision-making. The National Council is supported by the Adult Learning Committee, the Young People's Learning Committee and the Equality and Diversity Committee. Its members are listed below.

Chairman

Christopher N Banks CBE

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

Members

Dame Alexandra Burslem

Deputy Chair, Learning and Skills Council, and former Vice Chancellor, Manchester Metropolitan University (stood down from National Council December 2006)

Sir Digby Jones

Director General, Confederation of British Industry (stood down from National Council April 2006)

Giles Clarke

Chair and Chief Executive, ATL Telecom

Jane Drabble OBE

Former Director of Education, BBC (stood down from National Council October 2006)

Ruth Harker

Headteacher, Bournville School and Sixth Form Centre (stood down from National Council February 2007)

Shirley Cramer

Chief Executive, Dyslexia Action (formerly the Dyslexia Institute)

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

Former Finance Director, Broadband, BT Group

John Taylor

Chief Executive, Sheffield College

Dame Mary Marsh

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

Special Advisor

Sir George Sweeney

Principal, Knowsley Community College

→ For more information about the LSC, visit www.lsc.gov.uk

Management Group

Mark Haysom, Chief Executive
Melanie Hunt, Director of Learning
 (left the LSC in May 2007)
David Russell, Director of Resources
David Way, Director of Skills
Rob Wye, Director of Strategy and
 Communications
Caroline Neville (East of England)
Verity Bullough (East Midlands)
David Hughes (London)
Chris Roberts (North East)
John Korzeniewski (North West)
Henry Ball (South East)
Malcolm Gillespie (South West)
David Cragg (West Midlands)
Margaret Coleman (Yorkshire
 and the Humber)

How we are managed

The job we've been given

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

The specific tasks we've been given by the Government are to:

- raise participation and achievement by young people;
- increase adults' demand for learning;
- raise skill levels for national competitiveness;
- improve the quality of education and training delivery;
- equalise opportunities through better access to learning; and
- improve the FE system's effectiveness and efficiency.

The following pages outline our job and how we do it. You'll find more details in the financial statements, starting on page 44, and on our website.

Who takes responsibility

The LSC has been led and guided by council and committee members at the local, regional and national level, who have brought us independent views and a great wealth of knowledge and experience.

How we are structured

National Office

From the LSC National Office in Coventry, we work with the Government and a range of national stakeholders to make sure that we develop policies that support the delivery of our strategies and meet the local and regional needs of the different people and employers that we reach.

Nine regions

Our nine regional directors work at a regional level with organisations such as the regional development agencies to provide a framework for the work of our local partnership and area teams.

Local LSCs

Our network at a local level works closely with colleges, schools and other organisations delivering training. They also work with a range of local stakeholders, including employers and local authorities, to transform the way education and training are delivered.

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.

We take a rigorous approach to managing risks. Our Risk Management Board, a sub-group of the Management Group, is chaired by Rob Wye, Director of Strategy and Communications. It reports to the Chief Executive and the Management Group. Our National Audit Committee is made up of three members of the National Council, two chairs of local audit committees 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. 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 regional LSC has an audit committee. Together, these are responsible for monitoring and challenging our approach to risk management

Our approach to managing risk is to identify, assess and appropriately control all risks to achieving our aims

→ For more information about the LSC, visit www.lsc.gov.uk

Our Councils and Committees

Committees

The National Council is advised by three expert committees: the Adult Learning Committee, the Equality and Diversity Committee and the Young People's Learning Committee.

Adult Learning Committee

This committee promotes and advises on adult learning and skills, ensuring that the LSC keeps them at the forefront of our work. The membership, which includes representatives from business, the trades union movement and further education, uses its collective expertise to support key priority areas for the LSC.

Committee members

Frances O'Grady (Chair)

Deputy General Secretary,
Trades Union Congress

Dame Alexandra Burslem

Former Vice Chancellor, Manchester
Metropolitan University
(left committee December 2006)

Giles Clarke

Chair and Chief Executive, ATL Telecom

Anthony Chandler

Head of Learning and Organising
Services, UNISON

Deborah Fern

Chairman, Fern Training
and Development Ltd
(left committee October 2006)

Chris Humphries

Director General, City and Guilds

Patrick Passley

Managing Director, Paralegal Charity

Alexander Pratt

Managing Director, Sunalex Ltd

Alan Tuckett

Director, National Institute of Adult
Continuing Education

Graham Taylor

Principal, New College, Swindon

Richard Atkins

Principal, Exeter College

Pat McMullan

National Strategy Manager of the
British Gas Engineering Academy

Anthony Massouras

Founder and Managing Director
of Mimosa Healthcare Group

Equality and Diversity Committee

In its third year, the committee has continued to work closely with the Adult Learning and Young People's Learning Committees. It advised us on and has been actively involved in the development of both our three-year disability equality scheme and our three-year single equality scheme.

Committee members

Shirley Cramer (Chair)

Chief Executive, Dyslexia Action

Hilary Wiseman

Chief Executive, Wiseman Consulting
and former Head of Diversity, HSBC
Bank (left committee October 2006)

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

Yvonne Thompson

Managing Director, ASAP
Communications (left committee
March 2007)

Members from Equality Commissions

Caroline Slocock, Chief Executive,
Equal Opportunities Commission

Mike Adams, Director of Education,
Disability Rights Commission

Marc Verlot, Head of Public Policy,
Commission for Racial Equality
(left committee November 2006)

Young People's Learning Committee

This committee advises us on achieving national targets for young people aged 16–21, including strategies for increasing participation and achievement levels.

Committee members

Ian Ferguson CBE (Chair)

Chairman, Data Connection Ltd

Saifuddin Ahmad

Chief Executive, Muslim Aid

Bob Bischof

Chairman, Vitalize Health Products

Kath Boullen

Chief Executive, St Helen's Chamber
of Commerce

Maggie Galliers

Principal, Leicester College

Ian Gartshore

Principal, Ely Community College

Christine Gaskell

Human Resources Director, Bentley
Motors

Ruth Harker

Headteacher, Bournville School and
Sixth Form Centre

David McGahey

Managing Director (Education),
HBS Business Services Group Ltd

Dr Lynne Morris

Principal, Joseph Chamberlain Sixth
Form College

Sue Peacock

Former Policy Advisor,
National Training Organisation for
Engineering Manufacture

John Rourke CBE

Former Principal, St Charles' Catholic
Sixth Form College

Mark Sanders

Chief Executive, Bury Metropolitan
Borough Council

How We Take Care of...

Our people

Development and training

Given our role in building the nation's skills base, it is important to practise what we preach and make sure that we have the skills and ability to deliver our plans.

As we have now concluded the restructuring of the organisation under *agenda for change*, many of our staff need to continue to learn new skills. We have been running a major development and training programme to support them in their new roles.

Since November 2006, we have upskilled our regional learning and development managers and have developed a corporate learning and development programme, which is aimed at continuously driving up the performance of our people. This includes new initiatives in leadership, management development (linked to accreditation), relationship management, personal effectiveness and business knowledge. All of our learning and development activity is aligned with our business priorities and our competency framework. We believe in continuous improvement and have introduced a robust evaluation and review framework so that we can ourselves measure success and demonstrate progress.

In 2006–07 we ran 604 events and workshops, ranging from career development sessions to a programme of workshops called 'managing people through change'. In total, 5,993 people attended these events.

Looking forward, our range of learning initiatives will 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.

We plan to run at least two groups of these events during the coming year.

- Enhance is a series of four 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 standalone modules will be delivered.

A minimum of 40 programmes will be rolled out during 2007–08. Our aim is to provide a flexible approach to development. In addition to workshops and courses across the country, we offer over 300 online courses in association with Ashridge Business School. These allow staff to learn at work or at home and to progress at their own pace, using computer software and the internet. Our approach is to offer blended learning – courses that combine face-to-face with online techniques, self-learning workbooks and 'pick and mix' bite-sized courses delivered at the source.

We are currently working to achieve Investors in People Corporate accreditation in 2007.

We work closely with our business partners to drive up the performance of our people through a robust performance management and review process.

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 54 per cent of our employees, and we are committed to building a positive partnership approach with the PCS at both national and local level. We have recently launched the Open Forum, operating across the regions (including the National Office) and at corporate level. 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 all-staff bulletin, management cascade briefing notes, and face-to-face briefings delivered through our heads of human resources (HR), HR business partners, and learning and development managers. 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. We have also recently launched HR toolkits in key policy areas and set up mechanisms to seek feedback and demonstrate our ongoing commitment to continuous improvement.

We will run our biennial employee perception survey in autumn 2007 and will link this to our Employee Engagement Strategy in terms of learning outcomes and requisite actions. Our aim is to be transparent and open in all 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. Learners are entitled to education and training that takes place in a safe, healthy and supportive environment. The health and safety policy was updated and reissued in July 2006, and new standards for health and safety were published to raise awareness of the LSC's requirements in respect of learners and their learning environments.

The LSC has established collaborative partnerships to support effective practice in the promotion of 'the safe learner'. These partnerships have developed nationwide arrangements to ensure consistency, thereby reducing duplication and unnecessary red tape. Among those we have been working closely with over the last year are government departmental bodies, training and education associations, and health and safety professional bodies. The health, safety and welfare team has been developing an approach for safeguarding vulnerable groups as part of the LSC's overall risk management strategy. The findings of the Institute for Employment Studies project on under-reporting of accidents were published in 2006, and were disseminated to providers to promote the recommendations. As a consequence of the report, the LSC is revising the Learner Incident Management System.

Our work-related road safety policy sets out the LSC's policy on driving for work, and the procedures that managers and staff should follow. The online driver risk assessment and training package has been opened up to all staff who drive on LSC business.

We introduced a health and safety awareness training package, which is currently being trialled.

We are on course to have in place by 1 July 2007 measures to ensure that we meet all the requirements of the new legislation relating to smoking in public places. To help our staff to adjust to these changes, we will be offering a support programme for those who wish to take this as an opportunity to give up smoking completely.

Our environment

The LSC has a strategy for sustainable development, *From Here to Sustainability*, published in September 2005 (www.lsc.gov.uk/whatwedo/sustainable-development.htm).

Over the next 10 years, 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 ourselves and will provide a lead for the FE system, which has huge potential to deliver on the sustainable development challenge. In fact it is already delivering: there are many examples of good practice.

In 2006–07 we have made progress in a number of ways.

- We sponsored the colleges and course content (vocational) categories in the annual Green Gown awards, which recognise excellence in sustainable practice. We saw the first FE winner this year, when Pershore Group of Colleges won the colleges award and North Devon College's student green group was highly commended in the student initiative category.
- In autumn 2007 we will have the results of a survey of LSC staff measuring their awareness of sustainable development issues. This will inform the development of a capacity-building programme.
- We have commissioned a set of online resources to support providers and others in the FE system to work with us in delivering our strategy. This will be launched in autumn 2007.
- We are developing indicators to enable us to demonstrate progress in becoming an exemplar organisation for sustainable development.
- We are exploring how we can align our strategic plans and actions with local authorities and regional development agencies to support the development of sustainable communities and a sustainable economy.
- We continue to put sustainability at the heart of our capital programme through individual projects and in the recent *Building for Skills* prospectus (January 2007).

Teams and individuals across the LSC continue to act as champions for sustainable development, often driven by their own enthusiasm. The challenge over the next few years will be to capture all of this, build on it and make sustainability part of our everyday way of working.

→ For more information about our health and safety policy, visit www.lsc.gov.uk

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

Throughout the year, we have worked alongside all LSC-funded providers to ensure that they are informed about, and involved in, our programmes. We have communicated through direct correspondence, conferences and workshops, our website and one-to-one consultation on pilot projects. In specific circumstances, such as with Lord Leitch's report, we have communicated and listened along with our key partners such as the Department for Education and Skills (DfES).

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 employers. We have regular meetings with groups such as the Confederation of British Industry (CBI), the Institute of Directors (IoD) and the British Chambers of Commerce (BCC), and attend and speak at relevant employer conferences.

→ For more information about equality and diversity at the LSC, visit www.lsc.gov.uk

Government

We have had continuous communication at many levels with various government departments, including the former DfES (our sponsoring department), the Treasury, the former Department of Trade and Industry, the Department for Communities and Local Government, and the Home Office (on our responsibility for teaching offenders). We have also been in contact with MPs at local, regional and national level, ensuring that they are kept up to date with information about the developments in post-16 education and skills as well as key issues and events in their local constituencies.

Opinion leaders

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 work to give them all relevant documents, keep them up to date with our ideas and views, and listen to their opinions.

Learners

The LSC is advised by the National Learner Panel, established in November 2006, which acts as the voice of the learner. It is made up of independent volunteers (aged from 16 to 75) who have just left school, returned to learning later in life to boost their career prospects, or who have retired and are learning for pleasure. This group looks at how proposed changes in further education will affect learners and helps to ensure the learner's perspective informs policies, proposals and initiatives.

Colleges and providers are currently developing learner involvement strategies designed to ensure that more learners have the opportunity to express their views and have a degree of influence over their learning experience, and will consider setting up regional learner panels to seek feedback on experiences and future course content.

Other partners

We work continuously with a range of other partners, including Business Link, Connexions, the Higher Education Funding Council for England, Investors in People, Jobcentre Plus, the Qualifications and Curriculum Authority, the Quality Improvement Agency, regional development agencies, Skills for Business (the Sector Skills Development Agency) and sector skills councils, trade unions, and many voluntary and community sector organisations. We give details of our relationships with these partners 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.

During the year, we launched our first three-year disability equality scheme to promote disability equality throughout the organisation. Our staff and external disabled learners were involved with the production of the scheme.

The LSC has been working with the Learning and Skills Network to design and deliver a support programme for the FE system. The programme provided information workshops and research-themed projects of good practice to share with the FE system, in order to embed the disability equality duty into the provision that we fund. The workshops included tools for reviewing current schemes, identifying next steps and establishing a continuous review process. The project has also established a virtual learning environment to provide resources for colleges to access and use.

We reconfirmed our commitment to good practice in employing disabled people by achieving recognition from the Jobcentre Plus 'Two ticks' disability scheme.

In the past year, we published the *Learning for Living and Work* strategy, which states how we will take forward the recommendations made in *Through Inclusion to Excellence*, a strategic review to develop and manage provision for post-16 learners with learning difficulties and/or disabilities.

We have commissioned the Learning and Skills Network to research with the FE system current good practice and guidance materials in the area of gender equality. The result of this work was a series of conferences that disseminated the findings, and delivered information and discussion workshops on addressing the gender equality duty to representatives from the FE system.

We relaunched the Race Equality in Employment Standard, which was developed to assist providers in addressing issues of race equality in employment. We have been running various support programmes across the country, taking forward some of the important recommendations of the Commission for Black Staff in Further Education.

We are developing national equality and diversity impact measures (EDIMs), which will enable us to judge the overall direction and distance of travel. EDIMs for learning and skills will be linked to our public service agreement targets, and there will be diversity targets for the composition of our workforce. National EDIMs will be set during 2007, and we will develop a framework to improve the way in which they are set at regional and sub-regional levels, as part of the implementation of our Single Equality Scheme – our strategy for equality and diversity.

Over the past year, we have made progress towards the following workforce goals.

Women in a senior role (band 3 and above): target 51 per cent (baseline was 43.8 per cent)

- We achieved 51.4 per cent as at March 2007. We are now revising the goal to extend our achievement to bands 4 and 5. Current performance stands at 45 per cent.

Black and minority ethnic staff in senior roles (band 3 and above): target 7.6 per cent (baseline was 3.8 per cent)

- We achieved 4.6 per cent as at March 2007.

Black and minority ethnic staff share of all jobs: target 9.1 per cent

- We achieved 7.5 per cent as at March 2007.

Staff with limiting illness or disabilities: target 6.7 per cent

- We achieved 2.9 per cent. This is a reverse of the previous figure of 3.5 per cent.

We have in place a coherent equality and diversity learning programme for all new staff starting jobs in the organisation. All current employees will complete this programme as part of our commitment to increase levels of knowledge – 25 per cent of employees have completed the programme to date.

Impact of Theme 7

Following the implementation of Theme 7 of our *agenda for change* – an internal programme of change and simplification – we have monitored the impact on our workforce. We continue to take a proactive approach to recruitment and development.

We are leading a project to professionalise equality and diversity practice across the public, private, voluntary and education sectors, with funding from the European Social Fund (ESF) 'Equal' initiative. The LSC project aims to agree a national set

of competences and standards, and to develop an association for all practitioners whose roles are partly or wholly dedicated to equality and diversity.

We have designed and delivered a series of impact assessment workshops, which will be part of a rolling programme of learning for staff involved in policy design, review and development – as part of our support for meeting our responsibilities under the equality duties. We have measured our performance against recognised standards – including Opportunity Now, Race for Opportunity and the Employers' Forum on Disability – and have used the results to guide our planning.

Our Single Equality Scheme, published in April 2007, describes how we will meet our statutory requirements to promote equality of opportunity within the LSC and promote best practice throughout the learning and skills sector. The actions contained within the scheme will be closely linked to the agreed national priorities and will fit into the annual business cycle.

During the coming year, we will be putting in place a support programme to move the FE system beyond compliance, and to make sure that it has the tools to embed the equality duties and consider the implications of having a single equality scheme in place.

We are in the process of establishing employee networks, following consultation with employees within our workforce. This will lead to a Diversity Steering Group supported by key sub-groups, representing the views of specific groups within the organisation. This will complement the wider employee engagement programme.

Financial Commentary

These accounts have been prepared under an accounts direction issued by the former Department for Education and Skills (DfES) on 3 July 2002 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.

Development and performance

1. The accounts cover the period from 1 April 2006 to 31 March 2007 and were prepared on a going-concern basis. They reflect the new requirement to treat grant-in-aid from the then DfES as funding. Previously, such funding was presented as income.
 2. The majority of the LSC's funding is grant-in-aid from government. In 2006–07, this amounted to £10,328.2 million (2005–06, £9,818.2 million).
 3. The largest source of income was the European Social Fund (ESF), which contributed £294.8 million (2005–06, £257.6 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 a non-departmental public body (NDPB), almost wholly funded by the then DfES (and now the Department for Innovation, Universities and Skills) 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. As an NDPB funded annually by government, the use of more complex financial instruments would not be appropriate.
 6. The balance sheet at 31 March 2007 shows net liabilities of £296 million (2005–06, £81 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.
 7. Grant-in-aid for 2007–08, taking into account the amount required to meet the LSC's liabilities falling due in that 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.
 8. 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.
- income of £8.8 million (2005–06, £2.5 million) for the cost of capital in our accounts. This is based on a rate of 3.5 per cent (2005–06, 3.5 per cent). See also 'Cost of capital' – note 11 to the financial statements – on page 61.
3. The results for 2006–07 show net expenditure of £10,543 million (2005–06, £10,122.6 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 2006–07 the total expenditure was within the resource budget set by the DfES of £10.7 billion. Total reserves in the same period decreased by £215 million.
 4. Capital expenditure in the year (mainly on computer systems) totalled £21.4 million (2005–06, £12.4 million). The net book value of fixed assets at 31 March 2007 increased from £40 million to £46.4 million – due mainly to increased systems development expenditure.
 5. At 31 March 2007, the LSC had debtors of £249 million (31 March 2006, £296.1 million). The decrease reflects a reduction in the recovery of school sixth form funding following an improvement in the method of calculating allocations. There was also a reduction in debtors due to advances of FE funding.
 6. At 31 March 2007, the LSC held cash balances of £50.2 million (31 March 2006, £74.7 million) including funds drawn from the ESF as well as grant-in-aid. The DfES authorises a working balance of 1 per cent of the annual resource budget throughout each financial year. At 31 March 2007, the balance of DfES funds amounted to £29.7 million or 0.3 per cent (31 March 2006, 0.5 per cent).

➔ For more information about the LSC, visit www.lsc.gov.uk

Year-end position

1. Research and development expenditure during the year amounted to £4.1 million (2005–06, £2.4 million).
2. The Treasury requires NDPBs to disclose the full costs of their activities in their accounts. We have therefore included notional

7. At 31 March 2007, the LSC had creditors of £607 million (31 March 2006, £435.6 million). The rise in creditors reflects increased accruals on demand-led programmes, an increase in deferred ESF income relating to advances on an increased number of new projects, and a growth in FE college creditors relating to Learner Support and Local Intervention and Development Fund.
8. 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 2006–07 the LSC paid 93.3 per cent (2005–06, 90.9 per cent) of its invoices within 30 days. The LSC incurred no interest charges in respect of late payments for 2006–07 (2005–06, £70).
9. The accounts are audited by the Comptroller and Auditor General, who is appointed by statute and whose Certificate and Report appears on page 44. The audit fee was £200,000 (2005–06, £150,000). No other services were provided by external audit during the year.

Main trends and factors underlying the development and performance

1. In 2006–07 the LSC's programme expenditure increased by 5 per cent to £10.6 billion and the funding mix is increasingly focused on priority provision, as described in *Our Statement of Priorities*. This increased focus on priority provision means that we have exceeded key government targets for Skills for Life achievements and Level 2 attainment by young people and adults, and have increased the number of young people in learning to its highest-ever figure.

2. Success rates also continued to improve. In FE colleges in 2005/06, 77 learners out of every 100 starting a course successfully gained a qualification, meaning that we have achieved our 2007/08 target two years early. For Apprenticeships, the proportion of learners achieving the full framework increased by 13 percentage points in 2005/06 to reach 53 per cent.
3. The roll-out of the employer training programme Train to Gain has continued gathering pace. Expenditure on Train to Gain and Train to Gain infrastructure has increased by £56.8 million and £36.6 million respectively, representing overall growth of 66 per cent against the previous year.
4. We are continuing to work through our *agenda for change* programme – aimed at transforming the post-16 sector and the way we work with partners and stakeholders. Excluding in-year additions of £5.9 million, £26.5 million remains of the £55.7 million provision established last year to cover the one-off costs of reorganisation.

Main trends and factors likely to affect future development and performance

1. Lord Leitch's report outlined a vision of increased prosperity as our nation gains the skills to compete globally. World-class skills will be gained through the further education system. The LSC recognises the need to seize this opportunity by continuing to accelerate changes that will enable Lord Leitch's vision to become a reality.
2. The LSC is committed to driving forward the reforms contained in the FE White Paper that will simplify the further education system, ensuring high-quality provision that is led by the

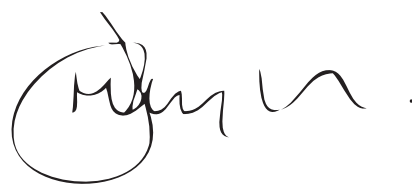
demands of employers and individual learners. The contribution of demand-led programmes, such as Train to Gain, will continue to grow and improve.

3. The second Comprehensive Spending Review (CSR) will be taking place in 2007. It will align government expenditure with the key reforms needed to meet the global challenges of the decade ahead. As it will inform departmental allocations from 2008–11, there could be a significant impact on the funding of the LSC.
4. On 28 June 2007 the sponsoring department for the Learning and Skills Council moved from the former Department for Education and Skills to the Department for Innovation, Universities and Skills.

Statement on disclosure to auditors

As Accounting Officer I confirm that:

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



Mark Haysom
Chief Executive and Accounting Officer
Learning and Skills Council
12 July 2007

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 a non-departmental public body, the existence of the Remuneration Committee allows us greater freedom from our sponsoring department (then DfES, now the Department for Innovation, Universities and Skills) on reward policy and practice.

Chairman

Christopher N Banks CBE

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

Members

Gareth Cadwallader

Director, Airas Intersoft Ltd

Frances O'Grady

Deputy General Secretary, Trades Union Congress

The Chief Executive and Human Resources Director 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 2006 to March 2007.

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 regional directors) receive a total reward package made up of base salary, annual bonus, flexible benefits and a defined benefit ('final salary') 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.

The *agenda for change* Champion was employed on a one-year fixed-term contract that started on 27 March 2006 and finished on 26 March 2007.

Since April 2006, the LSC bonus plan has been structured to focus on encouraging and rewarding team-based achievement, as assessed against public service agreement targets, at both national and regional level, as set by the former DfES. For the first time, for senior staff, there is a discretionary element that recognises outstanding individual contribution.

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 be made to bring it to that minimum level. In *agenda for change*, these benchmark levels were reviewed to reflect the new organisational structure.

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 2006/07, the salary increase was 3.4 per cent and the bonus for the year to June 2006 was £35,820.

From 2005–06, the bonus cap has been removed, enabling the Remuneration Committee to take a more discriminating approach in determining the level of reward. 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 2006–07

Base pay for national and regional directors rose by 3.4 per cent or 5 per cent depending on the originating salary position in relation to the spot rate for the role. Base pay bands for other senior directors appointed or confirmed in post were effective from 1 July 2006, so salaries on appointment were valid until July 2007.

Duration of contracts, notice periods and termination arrangements

Members of the National Council

Members of the National Council do not have service contracts and were appointed by the Secretary of State for Education and Skills.

Appointment is for a fixed term, usually four years, and on a part-time basis. Over the course of a year they are expected to devote 12–15 days to work for the LSC, mainly in 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 2007 was £51,400. Salary is reviewed in accordance with guidance provided by the Cabinet Office, covering pay of statutory office holders, whose 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 that 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.

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 Education and Skills (now by 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 2007 £'000	Year ended 31 March 2006 £'000
The emoluments of the Chairman (Christopher N Banks CBE, age 47) for the period:		
Salary	51	51
Taxable benefit	0	0
	51	51

The emoluments of the Chief Executive (Mark Haysom, age 54) for the period:		
Basic salary and other emoluments	206	204
Taxable benefit in kind	0	0
Pension contribution (opted to join premium pension scheme)	27	26
Bonus*	36	18
	269	248

*The Chief Executive's bonus payment is disclosed and accounted for in the financial year it is approved.

The other members of the National Council are appointed by the Secretary of State.

	Date commenced/ reappointed or extended	Current term (years)	Emoluments year ended 31 March 2007 £'000	Emoluments year ended 31 March 2006 £'000
National Council members				
Christopher N Banks CBE (non-executive until June 2004)	15/06/04	4	0.0	0.0
Councillor John Merry	30/10/06	1	4.0	4.0
Giles Clarke	01/12/06	1	4.0	4.0
Shirley Cramer	01/12/06	1	4.0	4.0
Bryan Gray	01/01/04	Indeterminate	4.0	4.0
Gareth Cadwallader	01/06/04	4	4.0	4.0
Frances O'Grady	01/06/04	4	8.0	8.0
Ian Ferguson CBE	01/06/04	4	4.0	8.0
Dame Mary Marsh	01/03/05	4	4.0	4.0
Claire Ighodaro	01/03/05	4	4.0	4.0
John Taylor	01/03/05	4	4.0	4.0
Retired as members				
	Date of retirement			
Jane Drabble OBE	30/10/06		2.3	4.0
Sir Digby Jones	30/04/06		0.3	4.0
Ruth Harker	01/02/07		3.3	4.0
Dame Alexandra Burslem	31/12/06		3.0	4.0

Senior employees

Salary and benefits in kind

	Year ended 31 March 2007 Salary £'000	Year ended 31 March 2007 Benefits in kind (to nearest £100)	Year ended 31 March 2006 Salary £'000	Year ended 31 March 2006 Benefits in kind (to nearest £100)
National directors				
Rob Wye				
Director of Strategy and Communications	120–125	0	105–110	0
Melanie Hunt				
Director of Learning (from 04/01/06)	110–115	0	20–25	0
David Way				
Director of Skills	120–125	0	110–115	0
David Russell				
Director of Resources	135–140	3,700	120–125	3,000
Ray Dowd				
<i>agenda for change</i> Champion (from 27/03/06 to 26/03/07)	105–110	0	0–5	0
Regional directors				
Caroline Neville				
East of England	120–125	4,000	110–115	4,000
Verity Bullough				
East Midlands	125–130	0	105–110	0
David Hughes				
London	135–140	3,300	110–115	3,700
Chris Roberts				
North East	120–125	3,300	105–110	3,300
John Korzeniewski				
North West	120–125	3,100	110–115	3,100
Henry Ball				
South East	125–130	0	115–120	0
Malcolm Gillespie				
South West	120–125	3,400	110–115	3,400
David Cragg				
West Midlands	125–130	0	115–120	0
Margaret Coleman				
Yorkshire and the Humber	115–120	0	105–110	0
Mary Conneely				
Regeneration	115–120	4,800	80–85	3,600

Senior employees (continued)

Pension entitlements

	Accrued pension and related lump sum at age 60 as at 31/03/07 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31/03/07 £'000	CETV at 31/03/06 £'000	Real increase in CETV £'000
National directors					
Mark Haysom*	5–10	0–2.5	105	73	26
Chief Executive	0	0			
Melanie Hunt	20–25	2.5–5	386	298	81
Director of Learning	and lump sum 65–70	and lump sum 10–15			
Rob Wye	35–40	0–2.5	701	665	20
Director of Strategy and Communications	and lump sum 115–120	and lump sum 2.5–5			
David Way	40–45	0–2.5	832	773	32
Director of Skills	and lump sum 120–125	and lump sum 5–7.5			
David Russell	50–55	0–2.5	1,192	1,123	28
Director of Resources	and lump sum 160–165	and lump sum 2.5–5			
Ray Dowd*	50–55	50–52.5	902	0	890
<i>agenda for change</i> Champion (from 27/03/06 to 26/03/07)	0	0			
Regional directors					
Caroline Neville*	7.5–10	0–2.5	122	92	25
East of England	0	0			
Verity Bullough	5–10	0–2.5	102	83	17
East Midlands	and lump sum 20–25	and lump sum 2.5–5			
David Hughes*	10–15	0–2.5	129	106	18
London	0	0			
Chris Roberts	35–40	0–2.5	799	738	33
North East	and lump sum 110–115	and lump sum 2.5–5			
John Korzeniewski	40–45	0–2.5	947	878	36
North West	and lump sum 125–130	and lump sum 5–7.5			
Henry Ball*	45–50	0–2.5	1,154	1,071	28
South East	and lump sum 120–125	0			
Malcolm Gillespie	15–20	0–2.5	422	371	37
South West	and lump sum 50–55	and lump sum 2.5–5			
David Cragg	20–25	0–2.5	575	519	37
West Midlands	and lump sum 65–70	and lump sum 2.5–5			
Margaret Coleman	35–40	0–2.5	873	808	34
Yorkshire and the Humber	and lump sum 115–120	and lump sum 2.5–5			
Mary Conneely*	10–15	0–2.5	168	136	25
Regeneration	0	0			

*Opted to join premium

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.

Pensions

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 on the website (www.civilservice-pensions.gov.uk).

Cash equivalent transfer values

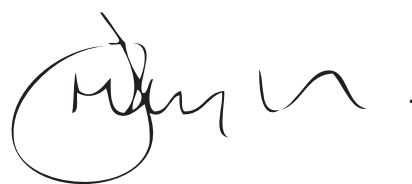
A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment 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.

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

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
Chief Executive and Accounting Officer
Learning and Skills Council
12 July 2007

Our Responsibilities

Our council and committee members play a key role at a national, regional and local 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 and expenditure and cash flows for the financial year.
2. In preparing the accounts, the LSC is required to:
 - observe the accounts direction issued on 3 July 2002 by the Secretary of State for Education and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards have been followed, and disclose and explain any material 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 the former Department for Education and Skills 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 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 *Government Accounting* by The Stationery Office.

→ For more information about the LSC, visit www.lsc.gov.uk

Internal Control

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

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the LSC's policies, aims and objectives. This achievement safeguards the public funds and LSC assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.
2. The LSC is a non-departmental public body established by the Learning and Skills Act 2000 (the Act). The Council can only do those things that the Act provides for it to do. The Act provides that the 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 to be established, subject to the successful passage of the Further Education and Training Bill, and will replace the current 47 local LSC councils, which were set up as part of the Learning and Skills Act 2000.
4. This Bill is currently progressing through Parliament, and we hope to receive Royal Assent in due course, with the new regional councils functioning by the end of 2007. (This is subject to the parliamentary process.)

5. The National Council itself consists of between 12 and 16 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, local councils and myself.
6. The Department for Education and Skills sponsored the LSC, and appropriate communication channels were put in place to ensure that the Department was informed of the business of the LSC and that we in turn were informed of the Department's requirements for the LSC.
7. The National Council is informed through its Audit Committee of the risks facing the LSC and of the LSC's processes for dealing with risk.


The purpose of the system of internal control

8. The system of internal control is designed to manage risk to a reasonable level – rather than eliminate all risk of failure – to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance 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 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

9. The LSC has an established risk management policy, which is regularly reviewed. A Risk Management Board consisting of a sub-set of the Management Group, chaired by the Director of Strategy and Communications, has been in place throughout 2006–07.
10. A national risk manager has been appointed to support and facilitate the effective 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.
11. All staff have been alerted to the need to consider risks as a part of their everyday business. National and local audit committees have, as part of their responsibilities, a 'challenge' role with regard to the effective management of risks.

The risk control framework

12. The LSC does not operate a risk-averse culture; it accepts that risks need to be taken in order to deliver its challenging agenda. I do, however, require risks to be properly evaluated and managed. 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.
13. Risks are identified routinely at an operational level. High-level risks are subject to regular scrutiny and are reported on. 

◀ 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, as well as by comments made by the external auditors in their other reports. I have been informed of the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, Management Group, Internal Audit and a risk management sub-group of the Management Group.

Audit Committee

15. A duly constituted Audit Committee has operated through the year and its terms of reference reflect best practice. The Audit Committee has met regularly and has considered reports from Internal Audit on the system of internal control, risk management and governance; from the Provider Financial Assurance (PFA) team on providers' systems of internal control; and from the National Audit Office. It has also taken evidence from senior managers as and when it was deemed appropriate.

Management Group

16. The Management Group consists of nine regional directors and four national group directors (for resources, learning, skills, and strategy and communications). This Management Group allows me to take a focused approach to control. I have also maintained a requirement on group 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 for 2006–07. I meet regularly with the Chief Internal Auditor and receive quarterly reports on the team'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 2006–07 the Chief Internal Auditor has given a substantial assurance over the operation of the LSC's systems of control, risk management and governance. A substantial assurance indicates that we have operated basically sound systems, but that there were some weaknesses that prevented giving a full assurance.

18. 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 local 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 in each group, region and local LSC, 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.

Risk Management Board

19. As stated above, the Risk Management Board exists and operates to agreed terms of reference.

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 PFA team, 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 the PFA team, or by others on which the PFA team relies, is commensurate with the level of associated risks. I receive from each of my executive directors their 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).

➔ For more information about the LSC, visit www.lsc.gov.uk

Significant internal control issues

21. As Accounting Officer, I am satisfied that the LSC's governance, risk management and internal control are compliant with Treasury requirements, and that the following issues do not represent a material threat to the LSC's operational effectiveness.
- a. We have nearly implemented our **staffing changes**, but while we fill the remaining posts, I recognise that we must strengthen our risk and control systems to cover the outstanding issues.
 - b. **Procurement of provision and contract management** remains an area in which the LSC needs to improve its performance. Actions to mitigate this risk are being taken forward nationally, and I am confident that the risk will be mitigated at an acceptable level.
 - c. A number of **financial and data errors** were reported to me for the year ending 2006–07. However I am assured that specific action is being taken both regionally and locally to recover any losses to the LSC. **Financial probity training** has been undertaken by many staff already, and those who have not yet attended have been identified to attend during 2007–08.
 - d. Significant action is required throughout the LSC to properly embed **risk management**. The National Risk Manager will provide further advice and guidance to the Risk Management Board, regions and National Office groups in this regard. There was an area of concern in relation to the number of regional and group **continuity plans** that were not in place, but I am assured that action to resolve this is being undertaken – although we realise that there is some way still to go. Similarly, we are ensuring that **declarations of interest** for staff within the LSC are adequately managed.
 - e. Few formal processes are currently in place for **budget delegation**. Work is now in hand to produce a formal budget delegation process, and reminders of the correct process to follow are to be issued to staff and budget managers.
 - f. Future arrangements for the **management of Group Statements of Internal Control** will include peer reviews by the Management Group, to ensure that the statements receive independent review and challenge.
 - g. The existing supplier in respect of **LSC software development** has not been successful at the first stage of re-tendering. A transition team is being put in place to identify and manage the associated risks in 2007–08.
 - h. **Train to Gain** remains a flagship programme for the LSC. The audit of the progress of Train to Gain governance – at the LSC, at the former Department for Education and Skills, and now at the Department for Innovation, Universities and Skills – will inform both the future development of the programme and the development and governance of new demand-led funding programmes.



Mark Haysom
Chief Executive and Accounting Officer
 Learning and Skills Council
 12 July 2007

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 2007 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, the 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 there under by the Secretary of State for Education and Skills, and also for ensuring the regularity of financial transactions. These responsibilities are set out in the 'Statement of the LSC's and Chief Executive's responsibilities' section.

My responsibility is to audit the financial statements and the part of the Remuneration Report that is to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (for the 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 that is to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and directions made there under by the Secretary of State for Education and Skills. I report to you whether, in my opinion certain information given in the Annual Report – which comprises the 'Our Story' and 'Leadership and Governance' sections, and the information in the Remuneration Report that is described in that report as being unaudited – 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 whether the financial transactions conform to the authorities that 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 that 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 to 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 opinion

I conducted my audit in accordance with International Standards on Auditing (for the UK and Ireland) issued by the Auditing Practices Board. My audit includes the 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 that is to be audited. It also includes an assessment of the significant estimates and judgements made by the LSC and the Chief Executive 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 that 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 that was 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 that 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 that was to be audited.

Opinions

Audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Learning and Skills Act 2000 and directions made thereunder by the Secretary of State for Education and Skills, of the state of the LSC's affairs as at 31 March 2007 and of its net expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report that was 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 Education and Skills; and
- information given within the Annual Report – which comprises the 'Our Story' and 'Leadership and Governance' sections, and the information in the Remuneration Report that is described in that report as being unaudited – is consistent with the financial statements.

Audit 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 that govern them.

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

16 July 2007
National Audit Office
157–197 Buckingham Palace Road London
SW1W 9SP

The maintenance and integrity of the Learning and Skills Council's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Net Expenditure Statement

for the year to 31 March 2007

	Note	Year ended 31 March 2007 £'000	(Restated) Year ended 31 March 2006 £'000
Income			
Other income	3	326,879	295,204
Total income		326,879	295,204
Expenditure			
Programme expenditure			
Learning Participation	4a	4,978,928	4,786,302
Ufi	4a	170,618	209,821
Work-based Learning (WBL)	4a	991,431	1,044,100
Learners with Learning Difficulties and/or Disabilities	4a	170,477	146,272
Train to Gain	4a	194,060	137,256
School Sixth Forms	4a	1,943,872	1,783,093
Adult learning	4a	222,004	228,577
Learner Support	4a	195,071	175,363
14–19 Reform	4a	135,504	128,225
Adult Skills Reform	4a	199,102	129,572
Quality Reform	4a	134,611	143,422
Capacity and infrastructure	4a	67,365	148,482
Programme capital	4a	412,225	376,902
Education Maintenance Allowance (EMA)	4a	502,923	406,613
European Social Fund (ESF) and other non-DfES funded	4a	324,916	293,218
Administration costs			
Staff costs	6a	137,482	172,409
Other costs	7a	74,276	88,256
Depreciation, impairment and losses on disposal	7b	15,043	19,881
Total expenditure		10,869,908	10,417,764
Net expenditure before interest		(10,543,029)	(10,122,560)
Cost of capital – notional income	11	8,762	2,498
Net expenditure after interest		(10,534,267)	(10,120,062)
Reversal of cost of capital		(8,762)	(2,498)
Net expenditure for the year		(10,543,029)	(10,122,560)

All activities are continuing.

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

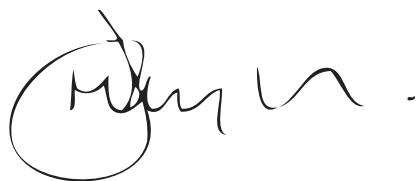
The notes on pages 48 to 69 form part of these accounts.

Balance Sheet

as at 31 March 2007

	Note	As at 31 March 2007 £'000	(Restated) As at 31 March 2006 £'000
Fixed assets			
Intangible assets	9	709	727
Tangible assets	10	45,639	39,307
Total fixed assets		46,348	40,034
Current assets			
Debtors	12a	248,977	296,082
Cash at bank and in hand	13	50,156	74,734
		299,133	370,816
Creditors			
Amounts falling due within one year	14a	(607,018)	(435,599)
Net current assets		(307,885)	(64,783)
Total assets less current liabilities		(261,537)	(24,749)
Provisions for liabilities and charges	15	(34,334)	(56,270)
Total net assets/(liabilities)		(295,871)	(81,019)
Represented by			
Capital and reserves			
General reserve	20	(295,871)	(81,019)
Total reserves		(295,871)	(81,019)

The notes on pages 48 to 69 form part of these accounts.



Mark Haysom
Chief Executive and Accounting Officer
Learning and Skills Council
12 July 2007

Cash Flow Statement

for the year to 31 March 2007

	Note	Year ended 31 March 2007 £'000	(Restated) Year ended 31 March 2006 £'000
Net cash outflow from operating activities	21	(10,333,292)	(9,935,575)
Capital expenditure			
Payment for the purchase of fixed assets		(19,547)	(14,935)
Proceeds from sale of fixed assets		84	18
Net cash outflow from capital expenditure		(19,463)	(14,917)
Financing			
Grant-in-aid (GIA) funding from the DfES	20	10,328,177	9,818,239
Net cash outflow	22	(24,578)	(132,253)

The notes on pages 48 to 69 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 Education and Skills, with approval of the Treasury, in accordance with the Learning and Skills Act 2000. This requires the LSC to comply with the 2006–07 Government Financial Reporting Manual (FRoM) 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 Principles) 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; hence there is no reason to believe this future funding will not be forthcoming. On this basis the accounts have been prepared on a going-concern basis.

1.2 Accounting convention

These accounts are prepared under the historical cost convention, as modified for the revaluation of computers and other IT assets, on the basis that revaluation of other assets would not have a material effect on the financial statements.

1.3 Intangible fixed assets

Intangible fixed assets mainly comprise licences to use software developed by third parties. However, computer software which 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, individually or as a group, equal to or greater than £5,000
- amortised on a straight-line basis over the specified life of the software licence or 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 to computers and other IT assets only (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:

- a) tangible assets that are capable of being used for more than one year, and have a cost equal to or greater than £5,000; and
- b) groups of tangible assets, which 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:
 - i) the items are functionally interdependent;
 - ii) the items are acquired at about the same date and are planned for disposal at about the same date;
 - iii) the items are under single managerial control; and
 - iv) 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 rationally 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 (GIA) 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.

The LSC sometimes pays advances of funding to colleges that experience cash flow difficulties that have not been recovered by the year end. These are repayable, usually over a short term, through profiled deductions from future payments. Balances are included within Advances and FE College debtors.

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

School sixth forms

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

1.12 Early departure 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 (i.e. the reshaping of the LSC) 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.

Notes to the Accounts

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.

1.14 Estimation techniques

a) Learning participation programme expenditure

Youth and Adult analysis

For the academic year ending 31 July 2006, allocations to FE institutions were in the main assigned between Youth and Adult. Only a small element of the allocations required apportionment into Youth and Adult

and this was based on the allocations already detailed into the age bands.

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 is shown in FE College Prepayments.

b) Administration expenditure provision for agenda for change Theme 7

The majority of the remaining provision relates to the premises element and is the best available

estimate based on independent professional property advice. The balance of provision relates to the additional early retirement cost and costs relating to the number of posts in the structure still to be reviewed.

2 Prior period adjustment

The 2006–07 FReM contained changes relating to accounting for grants and GIA. Prior period adjustments are required to reflect these changes in accounting policy. The 2005–06 figures have been restated on a comparable basis.

Prior to 2006–07, revenue GIA was treated as income and GIA used to purchase assets was taken to the Government Capital Reserve (GCR). An amount equal to depreciation and revaluation of fixed assets was transferred out of the GCR into the Net Expenditure Statement. All GIA is now treated as financing and is credited directly to the general reserve (see notes 20 and 21). A GCR is no longer required.

While the 2005–06 deficit is now much higher than shown last year, there is no net financial impact from these changes. The value of GIA funding provided to the LSC in 2005–06 is unchanged.

Deficit as stated in 2005–06 published accounts	£'000 (296,707)
Net GIA adjustments	(9,825,853)
Net expenditure restated	(10,122,560)

3 Other income

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Other funding for activities		
European Social Fund (ESF) funding	294,823	257,572
Single Regeneration Budget funding	6,711	10,034
Other programme income	23,582	25,382
	325,116	292,988
Income from activities		
Sub-letting of part of premises	1,472	1,806
Training/conferences	20	153
Other activities income	271	257
	1,763	2,216
Total other income	326,879	295,204

4a Programme expenditure

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Programmes		
4.1 Learning participation		
FE participation 16–18	3,033,511	2,715,599
FE participation 19+	1,898,703	1,959,188
Less PCDL by FE providers	(3,480)	0
FE funded	50,194	44,712
Other learning participation	0	66,803
Total learning participation	4,978,928	4,786,302
4.2 Ufi		
Ufi – programme	129,049	189,834
Ufi – administration	41,569	19,987
Total Ufi	170,618	209,821
4.3 WBL		
WBL – young people	587,732	589,556
WBL – adults	216,884	232,157
Entry to Employment (e2e)	186,815	222,387
Total WBL	991,431	1,044,100
4.4 Learners with learning difficulties and/or disabilities (LLDD)	170,477	146,272
Total LLDD	170,477	146,272
4.5 Train to Gain		
Employer Training Pilots	20,785	137,256
Train to Gain	172,609	0
Adult Apprenticeships (Level 3 Pilots)	576	0
Train to Gain: Higher Skills for Women	90	0
Total Train to Gain	194,060	137,256

Notes to the Accounts

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Programmes		
4.6 School sixth forms	1,943,872	1,783,093
Total school sixth forms	1,943,872	1,783,093
4.7 Adult learning		
Personal and Community Development Learning (PCDL) (adult and community learning (ACL) providers)	139,610	175,192
Family Learning	12,369	11,567
Neighbourhood Learning in deprived communities (DCs)	19,508	19,596
Family Literacy and Numeracy	26,154	22,222
First Steps provision	20,826	0
PCDL (FE providers)	3,537	0
Total adult learning	222,004	228,577
4.8 Learner Support		
School Sixth Form Hardship	3,914	4,752
16–18 Hardship	17,800	23,765
16–18 Residential Bursaries	6,006	4,071
Care to Learn	23,873	14,712
19+ Hardship	48,058	43,758
19+ FE students in higher education institutions	1,024	762
19+ Residential Bursaries	3,850	4,930
19+ Childcare	31,681	31,167
19+ Childcare Pilot	2,382	1,395
LEA Transport Partnership	12,000	8,015
Dance and Drama Awards	13,830	13,810
Adult Learning Grant	10,674	6,942
Career Development Loans	19,979	17,284
Total Learner Support	195,071	175,363
4.9 14–19 Reform		
Education Business Links	25,668	31,076
NEET and NET Learning Agreements	0	43
Increasing Flexibility for 14–16-year-olds	35,210	34,579
Young Apprenticeships	15,278	8,504
Learner Agreement Pilots	12,668	436
14–19 Agenda	6,868	2,542
Enterprise Advisors	2,537	7,856
Area Inspections	33,900	43,189
Key Stage 4 Engagement	3,375	0
Total 14–19 Reform	135,504	128,225
4.10 Adult Skills Reform		
Adult Information Advice and Guidance	33,227	34,405
Workforce Development	4,949	41,550
Train to Gain infrastructure	41,038	4,441
Offender Learning	100,748	34,781
New Entrepreneur Scholarships	7,308	5,135
Centres of Vocational Excellence (CoVE) revenue	10,119	9,260
Adult Basic Skills	1,713	0
Total Adult Skills Reform	199,102	129,572

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Programmes		
4.11 Quality Reform		
Local Initiatives Fund	85,435	102,370
Raising Disability Access	3,950	4,039
Marketing	6,395	6,398
Front-line Service Delivery (FSD) – Health and Safety Recharge	2,329	2,847
Golden Hellos	5,613	6,359
Research	4,393	1,528
Learning Group Development Fund	2,613	1,496
Learning and Skills Development Agency	0	6,971
Communications	3,770	1,112
New Measures for Success	3,156	2,177
Mathematics in Education and Industry	2,161	1,661
Managing Information Across Partners (MIAP)	9,883	722
Learner Accounts set-up costs	520	0
Other Quality Reform	4,393	5,742
Total Quality Reform	134,611	143,422
4.12 Capacity and Infrastructure		
Sector Skills Pilots	7,431	21,338
Retail Academy	1,877	2,845
National Skills Academies	6,389	1,424
Leadership and Management	5,876	22,508
Basic Skills via WBL providers	2,396	1,380
Skills Coaching	3,709	1,977
Training and Enterprise Council (TEC) Legacy	6,158	23,467
Union Learning	12,610	13,695
External Financial Assurance	4,892	7,633
Aim Higher	11,413	7,263
Quality Initiative Fund	36	11,089
National Employer Service (NES) Employer Pilots	0	16,671
NES Delivery	2,753	2,555
Learner Involvement Strategies	89	0
Other Capacity and Infrastructure	1,736	14,637
Total Capacity and Infrastructure	67,365	148,482
4.13 Programme Capital		
FE Capital Buildings	224,678	179,336
FE CoVE capital	18,516	31,420
ACL Capital Buildings	5,442	15,564
FE/ACL Disability Discrimination Act (DDA)	37,463	47,142
Neighbourhood Learning in DCs	9,207	9,502
FE 16–18 Sector Rationalisation	29,801	993
Colleges in Difficulty	26,271	29,429
Systems Development	14,005	16,248
Capital – Information and Learning Technology	42,352	42,519
LEA Loan Liabilities	4,490	4,749
Total Programme Capital	412,225	376,902

Notes to the Accounts

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Programmes		
4.14 Education Maintenance Allowance (EMA)		
Student payments	468,708	379,258
Sector administration	25,675	22,751
Local co-ordinators	2,251	2,075
Marketing	6,289	2,529
Total EMA	502,923	406,613
4.15 European Social Fund (ESF) and other non-DfES funded		
ESF – expenditure	294,675	257,943
Local initiatives – single regeneration	6,703	10,049
Local initiatives – non-DfES	16,117	23,081
Other initiatives – DfES	222	0
Other initiatives – Youth Justice Board	7,199	2,145
Total ESF and other non-DfES funded	324,916	293,218
Total programme expenditure	10,643,107	10,137,218

Note – The descriptions and classification of some programmes have been changed in 2006–07 to reflect the Grant Letter and reporting requirements of DfES for the same year. Comparatives for 2005–06 have been amended so as to ensure consistency. There is no financial impact as the change represents a re-analysis of the same programmes.

During the year the LSC took on total responsibility for the Offender Learning and Skills Service and Adult Basic Skills. The estimated costs for a full year's operation are £0.112 million and £0.02 million respectively.

Grants to the private sector totalling £1,626,980 (2005–06: £1,530,835) are included in the above expenditure.

4b Programme expenditure by regional office

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Region		
East of England	1,004,944	933,436
East Midlands	861,557	835,676
London	1,785,551	1,694,907
North East	640,735	610,762
North West	1,481,475	1,444,965
South East	1,541,786	1,440,787
South West	1,028,717	959,883
West Midlands	1,254,357	1,194,559
Yorkshire and the Humber	1,043,985	1,022,243
Total programme expenditure by region	10,643,107	10,137,218

5 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 a Provider Financial Assurance (PFA) function. As set out in the Accounting Officer's Statement on Internal Control (see pages 41–43), the national and regional PFA teams are responsible for planning, co-ordinating and delivering a programme of work to secure this assurance. The outcomes of PFA 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 the bureaucratic burden on 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 PFA teams undertake their own audit work to ensure that funds have been properly applied in the delivery of those contracts.

Assurance on grants: placing reliance on other auditors' work

Included in these financial statements are grants to FE learning providers that the LSC has paid for the academic years ending 31 July 2006 (four months) and 31 July 2007 (eight months). The mis-match between the accounting periods means that certain formal assurances on entitlement and the proper use of funds will only be received from these providers in line with their own annual accounts reporting timetables, which extend beyond those for these financial statements. Alternative arrangements have therefore been put in place to provide interim assurance as at 31 March 2007. The overall picture is described below.

5a FE colleges and institutions

During the financial year 2006–07, the LSC paid grants of £5,359 million (2005–06, £5,118 million restated) to colleges and other institutions for the provision of FE on the basis of agreed Development Plans and other grants for specific purposes. The LSC implemented plan-led funding for 2004–05 and, under this initiative, the majority of colleges and many other institutions were no longer subject to 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 (LEE). Therefore, for the majority of colleges, the primary sources of assurance for the LSC's 2006–07 financial statements are audit opinions on their accounts for the academic year ended 31 July 2006. Final funding claims for the 23 colleges not eligible for plan-led funding in 2005/06 were also required to be audited.

To provide assurance in respect of funds paid to FE colleges for the period 1 August 2006 to 31 March 2007, 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 31 May 2007, 381 colleges have submitted the required statement.

The position in respect of the 2005/06 academic year is shown in Tables 2 and 3.

Table 2: 2005/06 position of FE colleges (£4,950 million) (2004/05, £4,774 million)

	Due	Received	Outstanding
Audited final funding claims	23	23	–
Financial statements	382	381	1
Final regularity opinions	382	381	1

(There is one college that has both its financial statements and regularity opinion outstanding. The college is being pursued by the LSC.)

Table 3: 2005/06 position for other educational institutions (£254 million) (2004/05, £254 million)

	Due	Received	Outstanding
Audited final funding claims	179	179	–

Notes to the Accounts

Ufi and learndirect

Throughout 2006–07, 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 PFA team monitors the outcomes of Ufi Ltd assurance work and also undertakes its own programme of work.

5b Adult and Community Learning/ Adult Safeguarded Learning

The LSC paid £237 million (2005–06, £254 million restated) for Adult Safeguarded Learning (previously known as Adult and Community Learning (ACL)) to LAs in England in the financial year 2006–07. Four months of this relate to the academic year ending 31 July 2006 and eight months relate to the academic year ending 31 July 2007.

For the year ending 31 July 2006, each LA was required to submit an externally audited statement on the use of ACL funding. Of the 144 LAs that received ACL funding in this period, eight audited statements are still outstanding.

A similar assurance process will operate for the year ending 31 July 2007, with audited use of funds statements due to be received by December 2007.

5c School sixth forms

The LSC paid LAs £1,944 million (2005–06, £1,783 million) for school sixth forms in the financial year 2006–07. Four months of this relate to the 12-month period ending 31 July 2006. Eight months relate to the academic year ending 31 July 2007.

All schools have been required to make returns to the DfES through LAs in September and January each year. The LSC calculated funding for each school sixth form in the year ending 31 July 2007 using data from the September 2005 return, pupil numbers using the September 2005 census count and the January 2006 pupil level annual school census (PLASC). September 2005 pupil census data was audited in summer 2006 at a sample of 320 schools.

Assurance on contracts: direct assurance work

Note 4a of these financial statements includes payments made in respect of programmes including WBL, ESF and Train to Gain. The LSC's Provider Financial Assurance (PFA) teams deliver assurance over learning providers' use of funds based on audit plans that 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 PFA teams identify funds at risk, the LSC takes action to recover funding.

6a Staff costs

Information in respect of board members' and senior employees' emoluments and pension entitlements is provided in the Remuneration Report on pages 34 to 39.

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
The aggregate payroll costs for the LSC were as follows:		
Salaries	115,884	125,679
Social security	10,317	10,643
Pension costs	22,540	22,697
Redundancies and payment in lieu of notice	4,454	35,436
	153,195	194,455
Other staff (includes agency/contract/seconded staff)	7,122	9,890
	160,317	204,345
Staff costs related to programmes	(22,835)	(31,936)
Total staff costs	137,482	172,409

Note – Redundancy and outplacement support costs relating to the reorganisation of the LSC under theme 7 of *agenda for change* were mainly recognised in 2005–06 by way of provision.

6b Pension costs – Principal Civil Service Pension Scheme employer contributions

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS), 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 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006–07, employers' contributions of £21,647,840 were paid to the PCSPS by 31 March 2007 (2005–06, £22,134,303) at one of four rates in the range 17.1 per cent and 25.5 per cent of pensionable pay (2005–06, 16.2 per cent and 24.6 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 2005–06 to be paid when the member retires, 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 £143,840 (2005–06, £146,734) were paid to one or more of a panel of three appointed stakeholder pension providers. Employers' 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, employers' contributions of £12,782 (2005–06, £10,718) 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 2007 and 31 March 2006.

Notes to the Accounts

6c Average number of staff employed

(i) 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 (HR)		104		38	142
Regional and local LSCs	10	2,779	2	168	2,959
Total	15	3,466	3	257	3,741

(ii) Year ended March 2006

	Senior management staff number	Payroll staff number	Inward seconded staff number	Agency/temporary staff number	Year ended 31 March 2006 total staff number
The average number of staff employed during the year, including the Chief Executive, was:					
Group					
Learning	1	169	1	7	178
Skills	1	111	2	10	124
Resources	1	449	1	80	531
Strategy and Communications	2	53	1	1	57
HR		106		4	110
Regional and local LSCs	10	3,238	7	196	3,451
Total	15	4,126	12	298	4,451

7a Administration (other costs)

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
National and local council members' emoluments	53	50
National and local council members' associated travel and subsistence costs	85	96
Travel and subsistence – staff	8,403	7,999
Recruitment and training	5,533	7,417
Furniture and office equipment	636	505
IT and computer maintenance	10,075	13,523
Telecommunications and postage	6,020	6,433
Publications, printing and publicity	2,135	3,853
General administration expenditure	2,867	4,813
Premises	32,203	44,104
External audit fee	200	150
Legal fees and other audit fees	9,842	871
Consultancy fees	224	3,467
	78,276	93,281
Non-pay costs related to programmes	(4,000)	(5,025)
Total	74,276	88,256

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

7b Depreciation, impairment and losses on disposal

	Note	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Intangible fixed assets	9		
Depreciation charge for period		421	1,642
Loss on disposal		160	927
Tangible fixed assets	10		
Depreciation charge for period		12,247	12,737
Loss on disposal		808	3,657
Loss on impairment		1,407	918
Total charged for period		15,043	19,881

8 Operating lease commitments

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'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	2,319	1,300
between two and five years	2,530	2,655
more than five years	11,599	12,143
Total	16,448	16,098
b) Others		
Leases expiring:		
within one year	3,038	402
between two and five years	3,945	3,456
more than five years	0	1,905
Total	6,983	5,763
The annual charge for the above leases is included in note 7a and consists of the following amounts:		
Land and buildings (rents and service charges)	17,191	16,053
Other leases (includes telecommunications and lease cars)	6,058	7,256
Total operating lease commitments	23,249	23,309

Notes to the Accounts

9 Intangible fixed assets

	IT Software £'000	Total £'000
Cost or valuation		
At 1 April 2006	2,983	2,983
Additions	563	563
Disposals	(1,614)	(1,614)
At 31 March 2007	1,932	1,932
Depreciation		
At 1 April 2006	(2,256)	(2,256)
Charge for period	(421)	(421)
Disposals	1,454	1,454
At 31 March 2007	(1,223)	(1,223)
Net book value (NBV)		
At 1 April 2006	727	727
Total NBV intangible fixed assets at 31 March 2007	709	709

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 2006	1,119	47	19,630	740	44,947	66,483
Reclassification of assets under construction	(7,215)	0	0	0	7,215	0
Additions	16,148	0	1,848	10	2,808	20,814
Disposals	0	(36)	(575)	(8)	(3,207)	(3,826)
Impairment	0	0	0	0	(2,831)	(2,831)
At 31 March 2007	10,052	11	20,903	742	48,932	80,640
Depreciation						
At 1 April 2006	0	(28)	(6,846)	(404)	(19,898)	(27,176)
Charge for period	0	(11)	(2,200)	(211)	(9,825)	(12,247)
Disposals	0	29	219	8	2,742	2,998
Impairment	0	0	0	0	1,424	1,424
At 31 March 2007	0	(10)	(8,827)	(607)	(25,557)	(35,001)
Net book value (NBV)						
At 1 April 2006	1,119	19	12,784	336	25,049	39,307
Total NBV tangible fixed assets at 31 March 2007	10,052	1	12,076	135	23,375	45,639

11 Cost of capital

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

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

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Capital employed as at 1 April	(155,565)	12,806
Capital employed as at 31 March	(345,142)	(155,565)
Average capital employed	(250,354)	(71,380)
Interest on capital at 3.50 per cent per annum	(8,762)	(2,498)

Notes to the Accounts

12a Debtors

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Due in one year		
Advances and other FE college debtors	9,134	24,769
WBL debtors	2,570	1,338
School Sixth Forms debtors	173	29,362
Trade debtors	1,246	2,107
ESF and other debtors	53,931	56,224
Sub-total debtors	67,054	113,800
ESF and other accrued income	110,441	97,347
FE college prepayments	46,210	62,477
Administration cost prepayments	6,664	5,831
Other prepayments	17,849	15,304
Sub-total accrued income and prepayments	181,164	180,959
Sub-total debtors, accrued income and prepayments	248,218	294,759
Capital debtors (sale proceeds of fixed assets)	9	73
Sub-total due in one year	248,227	294,832
Due in more than one year		
Advances and other FE college debtors	750	1,250
Total debtors	248,977	296,082

Note – Debtors include a provision for doubtful debts of £9.1 million at 31 March 2007 (2005–06: £8.6 million).

12b 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 2007 £'000	As at 31 March 2006 £'000
Due in one year		
LAs	35,180	47,370
NHS Trusts	28	487
Public corporations and trading funds	1,968	24
Other central government bodies	42,936	92,069
Balances with other government bodies	80,112	139,950
Balances with non-governmental bodies	168,115	154,882
Sub-total due in one year	248,227	294,832
Due in more than one year		
Balances with other non-governmental bodies	750	1,250
Total debtors by organisation type	248,977	296,082

13 Cash at bank and in hand

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Cash held at the Office of Paymaster General	49,277	74,546
Cash held at other banks and in hand	879	188
Total	50,156	74,734

The DfES authorised a working balance at 31 March of 1 per cent of the total resource budget agreed for the financial year. This working balance excluded funding for European Social Funds, which is also included in the cash held at the Office of Paymaster General above.

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

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Total resource budget	10,690,386	10,182,820
1% thereof	106,904	101,828
Paymaster General account balance for DfES funding within the above	29,682	51,940

Notes to the Accounts

14a Creditors: amounts falling due within one year

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Trade creditors	10,139	3,952
FE college creditors	43,800	14,106
WBL creditors	117,826	111,461
School Sixth Forms creditors	1,125	0
Tax and social security	4,046	103
ESF and other creditors	44,945	22,375
Sub-total creditors	221,881	151,997
ESF and other deferred income	121,853	78,112
FE college accruals	0	7,679
WBL accruals	11,467	12,958
School Sixth Forms accruals	0	16
Other accruals	249,251	184,101
Sub-total deferred income and accruals	382,571	282,866
Sub-total creditors, deferred income and accruals	604,452	434,863
Capital creditors	2,566	736
Total creditors	607,018	435,599

14b 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 2007 £'000	As at 31 March 2006 £'000
LAs	44,330	32,883
NHS Trusts	1,430	146
Public corporations and trading funds	17,190	10,107
Other central government bodies	83,104	91,482
Balances with other government bodies	146,054	134,618
Balances with non-governmental bodies	460,964	300,981
Total creditors by organisation type	607,018	435,599

15 Provisions for liabilities and charges

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Balance of provision at 1 April	56,270	1,626
Additional charge in year	7,475	56,022
Provision utilised in year	(29,411)	(818)
Provision unused and reversed during the year	0	(560)
Total provisions	34,334	56,270

The above includes a provision in respect of the following items at 31 March:

Provision for early retirement costs for former employees to age 60	391	570
Provision for <i>agenda for change</i> Theme 7	32,413	55,700
Provision for funding claims	1,530	0
Total provisions	34,334	56,270

Most of the current provision balance is expected to be utilised in the coming year and it is not likely that material adjustments to the estimate will arise.

16 Capital commitments

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

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Payable within one year		
Authorised and contracted for	9,922	17,669
Total capital commitments	9,922	17,669

Payable between two to five years

Authorised and contracted for	0	14,495
Total capital commitments	0	14,495

17 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 April to July, together with capital commitments, were as follows:

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Payable within one year		
FE Participation	1,790,792	1,896,606
School Sixth Forms	647,815	620,578
FE capital project support	274,759	188,971
Other capital grants (Accessibility and CoVE)	40,745	78,809
	2,754,111	2,784,964
Payable between two to five years		
FE capital project support	213,913	118,062
Other capital grants (Accessibility and CoVE)	0	4,022
	213,913	122,084

Notes to the Accounts

18 Contingent liabilities

	As at 31 March 2007 £'000	As at 31 March 2006 £'000
The LSC had no material contingent liabilities as at 31 March 2007	0	0

19 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 the former DfES (and now by the Department for Innovation, Universities and Skills), 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.

20 General reserve reconciliation

	As at 31 March 2007 £'000	(Restated) As at 31 March 2006 £'000
Balance reported in previous year	(121,057)	175,650
Government grant reserve brought forward	40,038	43,858
Donated asset reserve brought forward	0	378
Donated asset addition	0	6
Balance at 1 April	(81,019)	219,892
Net expenditure before interest	(10,543,029)	(10,122,560)
Grant-in-aid funding	10,328,177	9,818,239
Asset revaluations	0	3,410
Balance at 31 March	(295,871)	(81,019)

21 Reconciliation of net expenditure to net cash flow from operating activities

	Note	Year ended 31 March 2007 £'000	(Restated) Year ended 31 March 2006 £'000
Net expenditure before interest		(10,543,029)	(10,122,560)
Depreciation charges	7b	12,668	14,379
Loss on disposal of fixed assets	7b	968	4,584
Loss on impairment	7b	1,407	918
Decrease in debtors – excludes capital debtors	12a	47,041	56,206
Increase in creditors – excludes capital creditors	14a	169,589	56,254
(Decrease)/increase in provisions for liabilities and charges	15	(21,936)	54,644
Net cash outflow from operating activities		10,333,292	9,935,575

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

	Note	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Cash at bank and in hand at 1 April		74,734	206,987
Decrease in cash for the year – per cash flow statement		(24,578)	(132,253)
Cash at bank and in hand at 31 March	13	50,156	74,734

Notes to the Accounts

23 Related party transactions

During 2006–07 the LSC was an NDPB sponsored by the DfES. The DfES was regarded as a related party. During this period the LSC has had various material transactions with the DfES, the DWP, the Higher Education Funding Council for England, the Ministry of Defence and the Learning and Skills Network.

During the year the LSC entered into material transactions with the following bodies, to which the National Council members and Management Group Directors stated below are related parties. The transactions were in the normal course of business and conducted at arm's length.

- Services of £1.2 million provided for the National Employment Panel, for which National Council member Christopher N Banks is Deputy Chair.
- Services of £2.8 million provided by the North West Regional Development Agency, for which National Council member Bryan Gray is Chair.
- Funding allocations of £41.5 million to Sheffield College, for which National Council member John Taylor is Chief Executive.
- Funding allocations of £21.4 million to and services of £0.04 million provided by City College Plymouth, for which Regional Director Malcolm Gillespie's wife is Principal.
- Services of £2.8 million provided by the North West Regional Development Agency, for which Regional Director John Korzeniewski is a board member.
- Funding allocations of £1 million to and services of £0.2 million provided by City College Manchester, for which National Council member Alexandra Burslem is a board member.
- Funding allocations of £15.7 million to the Higher Education Funding Council for England (HEFCE), for which National Council member Alexandra Burslem is Chair of the Quality Assurance Framework Review Group.
- Funding allocations of £1.7 million to Salford City Council, for which National Council member John Merry is Councillor.
- Services of £2.8 million provided by the North West Regional Development Agency, for which National Council member John Merry is a board member.

24 Losses and special payments

24a Losses statement

The LSC incurred the following material losses in the period to 31 March 2007. The losses have been charged to the relevant programme in note 4a.

Category	Description	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
A(i)	Cash losses		
	WBL providers		
	2006–07 – cases below £250,000 individually	756	
	2005–06 – cases below £250,000 individually		757
		756	757
	ESF providers		
	2006–07 – cases below £250,000 individually	791	
	2005–06 – cases below £250,000 individually		781
	Other programme providers		
	2006–07 – cases below £250,000 individually	50	
	2005–06 – cases below £250,000 individually		81
	Total cash losses	1,597	1,619

At 31 March 2007 there were 55 cases (33 WBL provision, 18 ESF provision and 4 other programme provision), none 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 the DfES and HM Treasury approval to write off the cases above, within their respective delegated authorities as summarised below:

Authority	Item value	Number of cases	Loss £'000
LSC	Up to £10,000	22	98
DfES	£10,000 to £100,000	29	908
HM Treasury	Over £100,000	4	591
	Total losses	55	1,597

24b Special payments

The LSC incurred no special payments in the period to 31 March 2007 (2005–06, nil).

25 Events after the Balance Sheet date

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

It is however relevant to note that on 28 June 2007 the Department for Education and Skills ceased to exist, and the LSC sponsorship function moved to the Department for Innovation, Universities and Skills.

The financial statements were authorised for issue on 24 July 2007.

Glossary

We have a huge job to do. As a result, we're involved in an extremely wide range of strategies, initiatives and programmes with many partner organisations. This is a brief guide to the main ones mentioned in this report.

14–19 education and skills

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 basic skills

The ability to read, write and speak in English, and to use mathematics at a level necessary to function at work and in society in general. Five million adults in the UK have no qualifications at all (see Lord Leitch's report of December 2005, *Skills in the UK: The long-term challenge*).

Adult Learning Grants

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 14–16-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.

Centres of Vocational Excellence (CoVEs)

CoVEs are training centres that provide vocational training in specialist areas needed by the local economy. They are created in existing colleges or training organisations. They build on existing strengths and specialisms, and have strong links with local employers and other training providers.

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.

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.

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).

Higher Education Funding Council for England (HEFCE)

HEFCE distributes public money for teaching and research to universities and colleges. It aims to promote high-quality education and research that meets the diverse needs of

students, the economy and society. The organisation also plays a key role in ensuring accountability and promoting good practice.

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.

Jobcentre Plus

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

Level 2 entitlement

Free training is available to people studying for their first full NVQ Level 2 qualification. The scheme was successfully trialled in the north east and south east before national roll-out in September 2005.

Local authorities

Legislative organisations that deliver essential services to residents in a defined geographical area.

National Vocational Qualifications (NVQs)

NVQs are work-related qualifications.

- Level 1 is equal to five GCSEs at grades D to G.
- Level 2 is equal to five GCSEs at grades A* to C.
- Level 3 is equal to two A levels or one vocational A level.
- Level 4/5 is equal to Higher National Certificate, Higher National Diploma or degree level.

Qualifications and Curriculum Authority (QCA)

The body that regulates standards in education and training.

Quality Improvement Agency (QIA)

QIA is the successor to the Learning and Skills Development Agency (LSDA). Its role is to work across the learning and skills sector to improve performance.

Regional development agencies

Responsible for economic development and regeneration in the nine regions of England.

Sector skills councils

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

Sixth forms

We became responsible for funding school sixth forms in April 2002. We fund 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.

Skills for Business

The Skills for Business network is made up of 25 sector skills councils. The network aims to boost the productivity and profitability of the UK by identifying and tackling skills gaps and shortages on a sector-by-sector basis.

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 by 2007.

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 skills brokerage service, managed and funded by the LSC, that helps employers to find the training that 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.

Years

The academic year runs from August to July and is written in the style '2006/07' in this report. The financial year runs from April to March and is written in the style '2006–07'.

Further Information

Visit the LSC website at www.lsc.gov.uk for up-to-date news on the LSC and on education and training in England. There's a great deal about our policies and activities, and you can also access online versions of LSC publications.

You can call 0870 900 6800 for information about your local LSC office.

Other useful websites

Apprenticeships:
www.apprenticeships.org.uk

Centres of Vocational Excellence:
www.cove.lsc.gov.uk

Connexions:
www.connexions.gov.uk

Department for Children, Schools and Families:
www.dcsf.gov.uk

Department for Innovation, Universities and Skills:
www.dius.gov.uk

Investors in People:
www.investorsinpeople.co.uk

Quality Improvement Agency:
www.qia.org.uk

Sector Skills Development Agency:
www.ssda.org.uk

Skills Campaign:
www.lsc.gov.uk/inourhands

Trades Union Congress:
www.tuc.org.uk

Train to Gain:
www.traintogain.gov.uk

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

List of Related Documents

14–19 Education and Skills

(White Paper published February 2005):

www.dfes.gov.uk/publications/14-19educationandskills/index.shtml

agenda for change prospectus (published August 2005):

<http://readingroom.lsc.gov.uk/lsc/2005/quality/reshaping/agenda-for-change-prospectus.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.htm>

From Here to Sustainability: The LSC's Strategy for Sustainable Development (published September 2005):

<http://readingroom.lsc.gov.uk/lsc/2005/ourbusiness/strategy/from-here-to-sustainability-lsc-strategy-for-sustainable-development.pdf>

Learning for Living and Work (published December 2006):

http://readingroom.lsc.gov.uk/lsc/National/learning_for_living_and_work_complete_2.pdf

LSC Equality and Diversity Strategy 2004/07 (published November 2004):

<http://readingroom.lsc.gov.uk/pre2005/learningopportunities/promotion/equality-and-diversity-strategy-04-07.pdf>

LSC grant letter 2006–07 (published September 2006):

www.lsc.gov.uk/publications/recommended/LSC-grant-letter-2006-07.htm

LSC grant letters:

www.lsc.gov.uk/aboutus/grantletters

National Employers Skills Survey 2005: Key Findings (published June 2006):

<http://readingroom.lsc.gov.uk/Lsc/2006/research/commissioned/nat-nationalemployersskillssurvey2005keyfindings-re-june2006.pdf>

National Learner Satisfaction Survey: Highlights from 2004/05 (published July 2006):

<http://readingroom.lsc.gov.uk/lsc/2006/research/consultation/nat-nationallearnersatisfactionsurveyhighlights200405-re-june2006.pdf>

Other LSC equality and diversity documents:

www.lsc.gov.uk/aboutus/equality-diversity

Planning for Success: A Framework for Planning and Quality (published December 2005):

<http://readingroom.lsc.gov.uk/lsc/2005/quality/goodpractice/planning-for-success-framework-for-planning-and-quality.pdf>

Priorities for Success 2006–08: Funding for Learning and Skills (published October 2005):

<http://readingroom.lsc.gov.uk/lsc/2005/funding/streams/priorities-for-success-2006-08.pdf>

Priorities for Success 2006–08: School Sixth Form Funding (published October 2005):

<http://readingroom.lsc.gov.uk/lsc/2005/funding/streams/priorities-for-success-2006-08-sixth-form.pdf>

Prosperity for all in the global economy: world class skills (the Leitch Review of Skills, published December 2006):

www.hm-treasury.gov.uk/independent_reviews/leitch_review/review_leitch_index.cfm

Raising our Game: Our Annual Statement of Priorities (published October 2006):

www.lsc.gov.uk/publications/recommended/raising-our-game-our-annual-statement-of-priorities.htm

Raising Skills, Improving Life Chances (White Paper published March 2006):

www.dfes.gov.uk/furthereducation/index.cfm?fuseaction=content.view&CategoryId=21&ContentID=25

Realising the Potential: A review of the future role of further education colleges, by Sir Andrew Foster (published November 2005):

www.dfes.gov.uk/skillsstrategy/uploads/documents/Foster%20Review%20PDF.pdf

Skills: Getting on in business, getting on at work (White Paper published March 2005):

www.dfes.gov.uk/publications/skillsgettingon

Skills in England (latest version published July 2006):

<http://research.lsc.gov.uk/LSC+research/published/skills-in-england>

Working Together: A Strategy for the Voluntary and Community Sector and the Learning and Skills Council (published May 2004):

<http://readingroom.lsc.gov.uk/pre2005/research/consultation/working-together-strategy-for-the-voluntary-and-community-sector-and-the-lsc.pdf>





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



Designed and written by COI Publications.

**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

©LSC July 2007

Published by the Learning and Skills Council

Extracts from this publication may be reproduced for non-commercial educational or training purposes on 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