

For information

>lsc

Leading learning and skills

Leading Change

The Learning and Skills Council's
Annual Report and Accounts for 2005-06

2005-06

For individuals and organisations interested
in learning and skills

Leading Change

The Learning and Skills Council's
Annual Report and Accounts for 2005-06

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2005-06

For individuals 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.

Our job is to plan and fund high-quality education and training for people over 16 in England, other than in higher education. Our 2005-06 budget was £10.2 billion.

This report covers the financial year to 31 March 2006. It mainly covers our own activities. A review published in the autumn will report on the broader learning and skills sector for the academic year from August 2005 to July 2006.

Throughout this report, financial years are shown in the style 2005-06 and academic years in the style 2005/06.

Front cover image: Michelle Jones, Advanced Apprentice, BAE Systems Plc.

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1

1.4m

Our main task is to make sure that the nation's 1.4 million employers have the skilled workforces they need to compete effectively at home and abroad.



More about our role:
pages 4–5

1.5m

Last year, there were a record 1.5 million young people in learning.



More on performance:
page 8



About us

What is the LSC?



Who, what, where, when...

New role

The Department for Education and Skills transfers the Learner Support Directorate to us.

April 2005

150 000

The Employer Training Pilots now involve over 30,000 employers and 274,314 employees of whom 148,884 have already gained a qualification.

300,000

The means-tested Education Maintenance Allowance encourages 300,000 young people to stay on in education.

May 2005

Growing confidence

LSC staff survey finds growing confidence in the organisation and its management.

 More on communication and consultation: page 24

Who we are


We were set up in 2001 to plan and fund high-quality education and training for everyone over 16 in England, other than in higher education. Our goal is to improve the nation's skills to match the best in the world.

How we work

By 2010, we want the nation to have a truly competitive, world-class workforce. To achieve this, we work with further education (FE) colleges, school sixth forms, sixth-form colleges, higher education institutes and other training organisations. We help them to plan their work, we provide their public funding, and we help them to achieve excellence in the way they are run and the learning they deliver.

Our work is driven by the needs of the country's employers. We work closely with them to identify existing skills gaps, understand what skills they will need in future, and make sure that the right education and training resources are in place. We also take account of the needs and wishes of individual learners, and encourage their appetite for further education and training.

We work at national, regional and local level from a network of offices across the country. We cannot do our job alone, and we work with many other organisations, as well as employers and learning and skills providers.

 More on partnerships: *Chief Executive's review*, page 14.

To help us do our job successfully, we have identified four values that govern the way we work.

Trust

If we are to be world class at working in partnership, trust must be at the heart of everything we do.

Ambition

We are ambitious for ourselves in the goals and aims we set. More importantly, we are ambitious for the communities we serve, for employers and for individuals in education and training.

Expertise

We show expertise and true leadership in every aspect of our work. We fully understand the needs of the communities we serve, of employers and of individuals in education and training.

Urgency

We want to bring urgency to the learning and skills sector, to tackle long-standing issues quickly and professionally, and to be responsive and fast moving.

More on our role and strategies, visit our website at:

 www.lsc.gov.uk

Faster change

At a learning and skills sector conference, LSC Chief Executive Mark Haysom calls for faster change to meet a tougher funding environment.

June 2005

89%

Our learner satisfaction survey finds high satisfaction among learners – 89% are in FE colleges, 90% are in work-based learning, and 91% are in adult and community learning.

Top Apprentices

The second annual Apprenticeship awards take place at London's Hilton Hotel.

July 2005

New finance Director

We appoint Richard Healey as our new Finance Director.

Skills Summit

We host a national event for employers and our partners who are interested in skills and developing their workforce.

What we do

We have been given a clear framework for action by the Government's 14–19 and Skills Strategies, the Youth Green Paper and the new FE White Paper. Our plans for achieving the Government's vision are set out in our Annual Statement of Priorities.

Our strategy for action

The challenges and opportunities we face are set out in the next two pages. Each year we publish an update on our most important goals and how we aim to achieve them, in our Annual Statement of Priorities. Our priorities are outlined on the right.

Our goals are ambitious. Neither the learning and skills sector, nor the LSC, can achieve them unless we all act together to change ourselves and the way we work. So, working closely with the sector, we have developed our *agenda for change* programme. This sets out the changes that are needed to achieve world-class delivery of learning and skills and make sure that every penny possible is directed to the front line.

 More on *agenda for change*: page 16.

Priority 1

Make learning truly demand-led so that it meets the needs of employers, young people and adults more effectively.

Priority 3

Transform FE so that it attracts and encourages more business investment in development, training and skills.

Priority 5

Strengthen our ability to work effectively at a regional level – particularly with Regional Development Agencies and Regional Skills Partnerships.

Priority 2

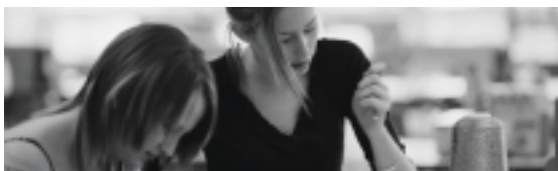
Make sure that all 14-to 19-year-olds have access to high-quality, relevant learning opportunities.

Priority 4

Strengthen our role in economic development so that we provide the skills needed to help everyone find work.

Priority 6

Improve the skills of the workers who are delivering public services.



To view or download our Annual Statement of Priorities, visit our website at: www.lsc.gov.uk

Challenges and opportunities


Marking Mark

As part of the Black Leadership Initiative, two college deputy principals work-shadow our Chief Executive Mark Haysom.

August 2005


All change

The *agenda for change* prospectus sets out the programme of change for the learning and skills sector.

 [More on page 16](#)

LSC streamlining

Theme 7 of *agenda for change* begins the LSC's transformation into a more streamlined and dynamic organisation.

 [More on agenda for change: page 16](#)

September 2005

Skills gaps closing

The national Employer Skills Survey shows skills gaps are closing and employers are increasing training budgets.

We work with four groups who we see as our main 'markets' – employers, young people, adults, and the colleges and other education and training providers that we fund. Each of these groups presents particular challenges and opportunities.

Employers

Our main aim is to make sure that the country's employers have the skilled workforces they need to compete effectively at home and abroad.

Challenges and opportunities

Our challenge is to help raise the nation's position among the world's most productive and competitive industrial economies. We have the opportunity to do this by filling skills gaps and helping to build a workforce with world-class skills. We have increased the number of people with qualifications available to employers – a real measure of competitiveness – and we will continue this trend.

Main risks: Failing to convince enough employers of the long-term benefits of training. Our funding is limited, and we cannot pay for all the training that is needed, so we must persuade employers to contribute from their own funds.

Strategies and actions

Small and medium-sized companies valued our Employer Training Pilots, which helped them to provide staff training, and the Government responded with extra funding. The result is an important new service, Train to Gain.

A key factor in the success of this programme is that brokers visit employers, free of charge, to explain the benefits of training and develop tailor-made solutions – giving employers a one-stop shop for training.

Our National Employer Service provides a similar service for large companies. And Apprenticeships provide a popular option for on-the-job training.

We continue to increase our involvement with employers, and to get them more involved with local colleges and training providers. Our National Employer Skills Survey found that 82 per cent of employers using FE colleges were satisfied with the service. Of those, 43 per cent were very satisfied.

Young people

For young people aged 16 to 18, our main goal is to increase the numbers qualifying to at least Level 2, the minimum qualification to get a job, and give more than half of them the skills, knowledge and ability to enter higher education. For the 14 to 19 age group, we are working with partners such as local authorities to provide consistent standards of service at a local level.

Challenges and opportunities

The percentage of young people aged 16 to 18 in education or training – and reaching Level 2 – has hit record levels. Total numbers have risen even faster, because the number of young people aged 16 to 18 has increased. This growth has levelled off, and the 16 to 18 age group is predicted to fall slightly in the future – possibly creating future skills gaps unless we keep increasing the percentage of people learning relevant skills.

The big challenge is to attract more people from the difficult 'not in employment, education or training' (NEET) group.

Main risks: Failing to attract more young people in the NEET group and failing to deliver a curriculum that is broad and diverse enough in all areas. By law, we have to fund education for everyone in this group who wants it and, as we attract more people, costs are rising faster than funding. So, increased participation and success will mean having to refocus spending away from other groups.

Strategies and actions

We are increasing the availability of Level 1 and 2 vocational courses, which is the most effective way of involving the NEET group.

To attract more young people into learning, we have had some success with the Education Maintenance Allowance, which provides means-tested funds. The Entry to Employment programme has also proved popular and successful in involving young people. And we are working with partners such as local authorities, Connexions and other agencies, to tackle the main causes such as drugs and homelessness that trap young people in the NEET group.

70 000

Almost 70,000 more people have access to training thanks to £3 million in new contracts awarded through the Union Learning Fund.

October 2005

Train to Gain

Ministers agree that the national Employer Training Programme that will be launched between April and August 2006 will be called Train to Gain.

November 2005

Priorities

We launch our second Annual Statement of Priorities.

 More on our strategic priorities: page 5

Disability

A review we order to be carried out calls for a major reform of the learning provided for people with disabilities or learning difficulties (or both).

Adults

For adults aged 19 and over, we provide learning for a wide range of abilities and needs – from basic reading, writing and number skills to complicated technical skills, retraining in new trades and non-vocational evening classes.

Challenges and opportunities

Adult education and training contributes to a skilled workforce. It supports equal opportunities and gets people involved in the community.

One big challenge is pressure on funding caused by our expanding work with young people. Another is the number of people who lack the basic skills to get a job, with four million people still having no qualifications at all.

Another challenge is the increasing cost of providing more full Level 2 qualifications to meet the economic needs of this country. More expensive learning means that we have to reduce the number of short, non-priority learning opportunities that we fund.

Main risks: Failing to persuade individuals and employers to contribute to costs – our own funding will not be enough.

Strategies and actions

To attract the people who are most in need, we've promised everyone free learning to achieve their first Level 2 and are running trials of means-tested Adult Learning Grants. We work closely with Jobcentre Plus and have taken over its basic-skills programme to improve people's chances of finding a job. Limited funding means we can't do everything we've done in the past on top of everything that we want to do now. We are focusing support on high-priority vocational skills. In 2006/07 we are providing the same amount of personal and community learning as we delivered in 2005/06.

Colleges and other providers

We currently fund some 2,600 Further Education training providers.

Challenges and opportunities

The new FE White Paper confirms the Government's commitment to our vision of world-class teaching in world-class facilities. The challenge is to help the sector consistently achieve excellence and build a reputation that attracts more support from individuals and employers.

Our research shows that learners and employers are becoming more satisfied with the teaching that is provided. The main risk is that the best individual providers will earn good local reputations but uneven standards will mean the FE sector will still lack status and appeal nationally.

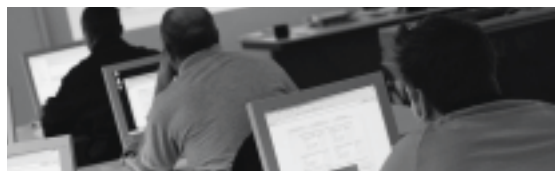
Strategies and actions

agenda for change is our programme for working with the sector to improve its performance and reputation.

 More on *agenda for change*: page 16.

More funding from the Government and relatively low interest rates have allowed us to promote bigger, bolder investment projects to improve facilities.

And through our national employer training service, Train to Gain, we are opening up the market to bring in more training providers – benefiting learners and employers, but possibly increasing risks to colleges and training providers that do not meet our standards.



What we're aiming for

175,000

We beat the Apprenticeships target, with over 175,000 young people starting Apprenticeships for the first time in the 2004/05 academic year.

Reforming education for 14- to 19-year-olds
Government sets out plans for reforming secondary education so that participation in education and training

increases, achievement by age 19 rises and young people are better prepared to succeed in further learning, in work and in life.

Planning changes

We announce a simpler, more responsive planning and funding process to benefit providers and help make improvements across the sector.

Head of Learning

We appoint Melanie Hunt as Director of Learning. She was previously Director of Young People's Learning.

Good progress

Government figures show excellent progress towards our main targets on Level 2 achievement for both adults and young people.

December 2005

January 2006

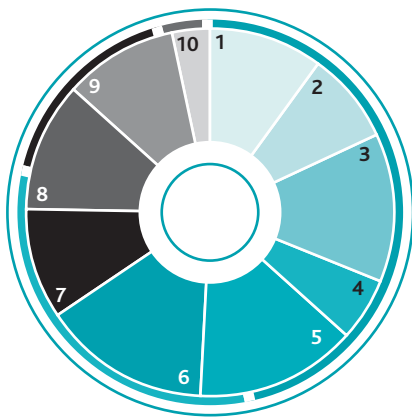
February 2006

Performance against targets

We aim to raise the skills of England's young people and adults to world-class standards. Our main targets, some set by the Government, are shown on the right with our progress so far.

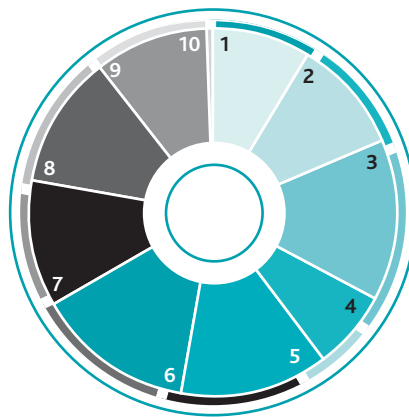
- Highest-ever number of young people in learning – 1.5 million
- A record number of people starting Apprenticeships – 176,900
- Adults with Level 2 up from 69 per cent in 2001 to 73.2 per cent in autumn 2005
- Over the last two years, more than 200 projects to the value of £1.1 billion have been approved. More than half the country's FE estate has now been renewed
- Quality is up – FE college success rates have risen to 75 per cent after reaching the 72 per cent target two years early in 2003/04. And last year only 3 per cent of FE colleges were rated inadequate (in 2001 this figure was 20 per cent)

Learner numbers 2004/05



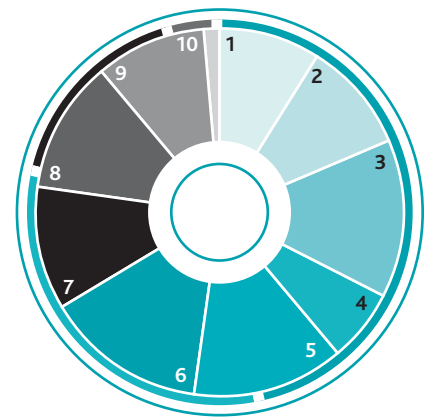
Young people

1 East of England	128,100
2 East Midlands	103,600
3 London	165,900
4 North East	71,300
5 North West	180,300
6 South East	189,800
7 South West	122,700
8 West Midlands	144,200
9 Yorkshire and the Humber	127,100
10 National Employer Service	41,400



Adults

1 East of England	352,300
2 East Midlands	401,500
3 London	568,000
4 North East	273,000
5 North West	526,700
6 South East	556,900
7 South West	446,200
8 West Midlands	465,800
9 Yorkshire and the Humber	395,800
10 National Employer Service	22,200



Total

1 East of England	480,400
2 East Midlands	505,100
3 London	733,800
4 North East	344,200
5 North West	707,100
6 South East	746,700
7 South West	569,000
8 West Midlands	610,100
9 Yorkshire and the Humber	522,900
10 National Employer Service	63,700

Design for FE

We and the Royal Institute of British Architects host a conference on innovation and progress in building design for the FE sector.

£41m

We announce a £41 million rise in the Apprenticeships budget.

Regions

We appoint nine Regional Chairs to help strengthen relationships with partners in the regions.

FE White Paper

We welcome the Government's White Paper on FE, responding to recommendations in November's Foster Review.

Change Champion

Ray Dowd, previously the Principal and Chief Executive of Wirral Metropolitan College, starts work as our *agenda for change* Champion.

March 2006

Targets

Target area	Target	Latest progress
19-year-olds achieving Level 2 (see note below)	Increase the number of 19-year-olds from 66.8% in autumn 2004 to 69.8% in autumn 2006	69.8% in autumn 2005
Apprenticeship framework completions	A 75% increase in the number of full frameworks completed by 2007/08 (bringing the total to 75,500)	68,000 full framework achievements in 2004/05
Adults achieving Level 2 (see note below)	Reduce by at least 40% the number of adults without Level 2 by 2010. One million working adults to achieve Level 2 by 2006	841,000 working adults had achieved Level 2 by autumn 2005
Skills for Life	Improve the basic skills of 2.25 million adults between 2001 and 2010, with targets of 750,000 by 2004 and 1.5million by 2007	1.275 million adults had improved their basic skills by the end of 2005

Note: Our targets are our Public Service Agreement targets which are set by the Government. Level 2 is equal to five GCSEs at grades A* to C.

Equality targets within the LSC

Target area	Target	Latest progress
Women in senior roles	Increase the percentage to 51% by 2010	March 2006: 47.08% (June 2005: 47.71%)
Black and minority ethnic (BME) staff in senior roles	Double the percentage from 3.8% in 2002 to 7.6% in 2010	March 2006: 3.6% (June 2005: 3.4%)
BME share of all jobs	Increase to 9.1% by 2010	March 2006: 7.38%. (June 2005: 7.12%)
Staff with disabilities or limiting illnesses	Double the percentage from 3.37% in 2002 to 6.74% in 2010	March 2006: 3.53% (June 2005: 3.5%)



2

175 000

We have beaten our target of 175,000 young people starting Apprenticeships, and more people than ever are completing their Apprenticeship successfully.

6%

In our regular surveys, the percentage of employers reporting skills gaps has improved by six points, from 22 per cent to 16 per cent, in the past two years alone.





Overview

The benefits of change

2



Chairman's statement

"We are making real progress in meeting the learning and skills needs of young people and adults, and of employers."

There are more 16-to 18-year-olds in learning than ever before – 1.5 million. And they are achieving more than ever. We expect to meet our target for the number of 19-year-olds achieving a Level 2 qualification a year early. We have also beaten our target of 175,000 young people starting Apprenticeships, and more of them than ever are successfully completing the full Apprenticeship.

For adults, we also have a good story to tell. We have beaten our Skills for Life target, improving the basic skills of 1.25 million people. More adults are achieving Level 2 and Level 3 qualifications than ever before.

Our latest survey of 70,000 companies found that the percentage of employers reporting skills gaps has fallen from 22 per cent to 16 per cent in the past two years. Of those employers who did report a skills gap, almost three-quarters had increased the training they gave to their workforce.

Capital investment continues to rise, increasing the capacity and quality of FE and training facilities. Last year's £1.1 billion brought our total investment over five years to over £3 billion. Over half of all FE estates have now been renewed, and we have clear proof that state-of-the-art new facilities bring more people into learning and increase achievement levels.

Last year we launched the first Skills Academy, and we are developing four more. These academies are directly involved with the sectors they serve, delivering consistently high-quality training to meet employers' needs.

Still more to do

These are very encouraging results for individuals, for businesses and for the economic success of the country. They give us a strong platform on which to build Train to Gain, our new service for employers.

Train to Gain, based on the pilot employer training schemes, will play a major part in increasing the number of adults gaining a Level 2 qualification – another important priority for us. In the first year alone, we are expecting to help over 40,000 learners to do this.

Of course, we still face a series of huge challenges. We cannot afford to be complacent.

Despite record levels of young people in learning, Britain still has one of the OECD's lowest rates of young people over 16 staying on in education, and 10 per cent of young people are not in education, employment or training at all.

There are still 12 million adults in this country who lack basic number skills. The interim Leitch report clearly sets out the serious skills challenges we face in the longer term. We need ambitious programmes to make sure that we have enough individuals with intermediate and higher level skills, both now and in the future, and also to help the most disadvantaged groups. Everyone, whatever their background, must have the chance to succeed. Access to skills is an important part of equal opportunities.

Although our funding continues to rise, we cannot fund everything that we would like. We must prioritise funding for the skills that increase productivity and competitiveness. We must also improve the status of vocational skills. People in Britain undervalue them – unlike the UK's competitors – and this is damaging to our economy and society.

Working better

The FE White Paper published in March 2006 confirmed our leadership role in achieving the skills regeneration the country needs.

To do this job well, we must continue to refine the way we work. *agenda for change* is transforming the sector and also the LSC itself. This has been a challenging year for people working in the LSC. It is not easy to reinvent the organisation to achieve higher performance, while still doing the day job. I would like to thank the leadership team and all the staff for their professionalism, commitment and determination to make a difference.

Members of our councils and committees have also made a valuable contribution to achieving our aims – locally, regionally and nationally. We are looking at how we can strengthen our links with employers to increase our effectiveness.

We have made encouraging progress over the past year. We still have a lot to do, but the good news is that we have a strong foundation to build on.

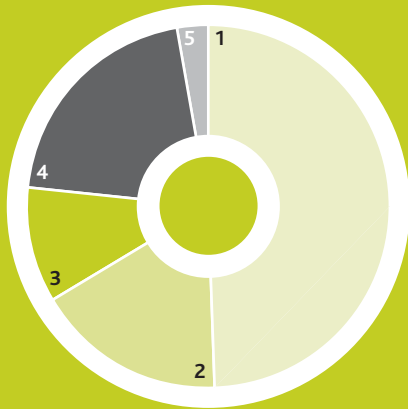
Christopher N Banks CBE
Chairman
Learning and Skills Council



Christopher N Banks

Christopher N Banks CBE

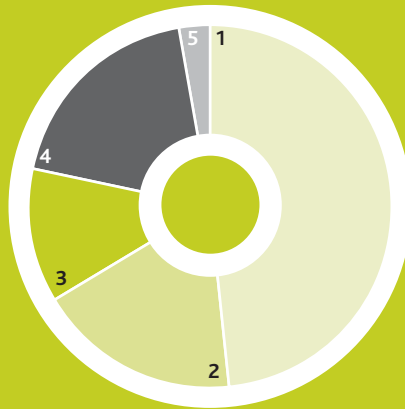
How we spent our money



How we spent our money – total
£10.4 billion 2005-06

- 1 Further Education £5,160 million (49.5%)
- 2 School Sixth Forms £1,783 million (17.1%)
- 3 Apprenticeships and e2e £1,047 million (10.1%)
- 4 Other programmes £2,147 million (20.6%)
- 5 Administration £281 million (2.7%)

Total spend £10,418 (100%)



How we spent our money – total
£9.2 billion 2004-05

- 1 Further Education £4,498 million (48.6%)
- 2 School Sixth Forms £1,655 million (17.9%)
- 3 Apprenticeships and e2e £1,105 million (12%)
- 4 Other programmes £1,759 million (19%)
- 5 Administration £233 million (2.5%)

Total spend £9,245 (100%)

Our total spending in the year to March 2006 was £10.4 billion.

2

63%

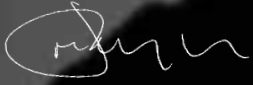
Between 2001-02 and 2007-08, our funding for post-16 education and training will have risen by 63 per cent.

£10.4b

In 2006/07 we will invest £10.4 billion in learning. £8.6 billion will go directly into what happens in the classroom or training room.



Chief Executive's review



Mark Haysom

Now we are making good progress towards our original targets, it is increasingly clear that we need to do more. And urgently. That is the purpose of our *agenda for change* – to improve the whole learning and skills sector – FE colleges, training providers, schools and the LSC itself.

The Foster Review that was published last year said the sector is too complicated and needs a clear sense of purpose. Our job is to simplify the system and transform it into a well-designed service, bringing clear benefits to individuals and employers, the economy and the communities we serve. A large part of that task is getting our own organisation into the right shape.

We need to get the skills and resources in place to build partnerships. Because the challenge is so immense, we cannot handle it on our own. We need to bring the whole sector together.

Why we need partnerships

That is not an easy task, because the list of organisations involved in our work is huge. There are our delivery partners – the colleges and training providers that we fund. There are employers, who are both partners and customers, and the many organisations that represent them – trade associations, sector skills councils and so on. And we have partners in the political arena, at national, regional and local level – government departments, ministers and MPs, Regional Development Agencies, local authorities, regeneration organisations, and agencies such as Jobcentre Plus and the Quality Improvement Agency.

Better partnerships could work wonders at every level. We recently found that public funding for skills in one northern city totals £100 million a year, channelled through 80 different organisations and schemes. Our own contribution accounts for only a few of these. If we can bring together all the people involved, and help them invest all this money with a shared sense of direction and purpose, it could be spent much more effectively.

But not everyone wants to be our partner. The response varies around the country. In many places we are still seen, unfairly, as a centrally driven, meddling bureaucracy. We need to win hearts and minds, and in the past we haven't had enough high-level resources to do this. So we're trying to create a more responsive and flexible organisation that talks in clear, straightforward language.

Becoming a better partner

We are here to serve what you might call the 'learning and skills economy' – students, employers, colleges and providers, schools and teachers.

This economy is supported by a complicated framework of organisations, all putting huge effort into giving communities, regions and, ultimately, the country the skills they need.

We are at the heart of this. Our role is to make sense of it all for employers, learners and communities. We want to help all these supporting organisations to encourage and challenge one another, looking beyond their own direct concerns to the broader needs of our society and economy. We want to lead and support partnerships for learning and skills, and manage them with authority.

To do that, we must work effectively at local, regional and national levels.

£3b

Over the past five years, we have invested in 516 new facilities for colleges and training providers – supporting projects worth over £3 billion.

1.275m

By the end of 2005, we had helped 1.275 million adults to improve their basic reading, writing and number skills.

“Because the challenge is so immense, we cannot handle it on our own. We need to bring the whole sector together.”

A better organisation

We need to learn from our **local teams**. These are our eyes and ears at local level, giving us an accurate idea of what works and what doesn't. We are creating 148 local partnership teams, supported by economic development teams. They will be our point of contact with local organisations and the learning and skills providers who are responsible for transforming the range and quality of learning available locally.

They will be experts on their area, understanding the needs of learners, employers and communities. They will speak up for their area. And they will have the power to define solutions, make things happen, and influence change in the LSC and with partners, colleges and providers. These teams will come together into wider area teams led by our local councils.

Between national and local levels we also have **regional teams**. They give us a point of contact with other regional organisations such as Regional Development Agencies. But we are also finding that they help us strike the balance between strategy and operations, policy and delivery, national framework and local variation. We are strengthening them to give more support to local teams and work better with regional partners – especially in tackling the skills issues that stand in the way of economic competitiveness.

Because we work within a national framework, we will continue to have a **National Office** building relationships with national partners and developing policy with Whitehall and Westminster. To support our regional and local teams, it will now focus on what it makes sense to do nationally. The regions will take responsibility for most of our day-to-day activity. The National Office will be smaller, but with expertise that adds real value to the whole of the LSC.

Alongside these three layers we have the council members or 'non-executives'. They both challenge and contribute to our work, and help us build and improve our partnerships. They also speak for the young people and adults we serve, and the businesses who look to us to help develop the skills they need.

Better ways of working

agenda for change is about simplification and moving resources to the front line. Changing the shape of the organisation is only part of the story.

We also have to change the way we work by:

- removing barriers to cooperation
- promoting partnership
- making the system genuinely demand led
- achieving excellence, and
- running colleges and training providers as businesses.

We've made progress in all these areas. But when you're facing opportunities and challenges on this scale, steady progress isn't enough. We need to see the radical improvements that *agenda for change* is designed to achieve. In March 2006 we welcomed Ray Dowd as our *agenda for change* Champion. He has an excellent track record of leading major improvements in learning and skills providers. On the following pages he gives his first *agenda for change* report.


This year I expect the pace of change to increase considerably. The progress we've made so far has sharpened people's appetite for more – inside the LSC, across the learning and skills sector, in government and, most importantly, employers and individuals. The momentum behind us promises an exciting year ahead.

Mark Haysom
Chief Executive
Learning and Skills Council

2



agenda for change review



Ray Dowd

There is nothing modest about *agenda for change*. It aims to create a learning and skills sector that's valued, proud responsive, confident and trusted.

It wants the FE sector to be famous for delivering cost-effective, good-quality learning that delights learners, encourages regeneration, encourages investment, meets employers' long-term needs and secures the country's economic future.

Change on this scale is uncomfortable. For the LSC itself, it has meant organisational upheaval and considerable downsizing, which will continue this year. But it has been welcomed by every one of our partners.

Last year we developed the initial *agenda for change* proposals in discussion with the principals of FE colleges. We refined and published our proposals, and broadened them to cover the whole post-16 learning and skills sector. *agenda for change* is a long-term programme. Initially the focus is on colleges and work-based learning providers, but it will eventually cover school sixth forms too.

I took this job because I believe passionately in these reforms. They are not about handing down changes from on high. I rely heavily on working with partners and other organisations, listening to what they say and taking account of what I hear. We cannot achieve change on this scale unless we get everyone involved and enthusiastic. That's happening more and more, but there are still people who need to be persuaded.

agenda for change has seven themes. Here's what we have achieved so far.

Theme 1: Skills for employers

We want employers to see the sector as their preferred partner in helping them develop and train their workforces. To help them make informed choices, we are developing a nationwide network of 'quality-marked' colleges and training providers. Employers tell us they like the idea, and we have worked with 26 providers to test and refine the way it will work. This year we are introducing the scheme nationally and telling employers about the benefits of working with quality-marked colleges. We have also launched the Train to Gain service, which makes it easier for companies to release staff for training.

Theme 2: Quality

If we want all colleges and providers to deliver high-quality training and education, we must help them to improve quality and put learners' and employers' needs at the heart of the way they measure their performance. We want to support successful colleges and other delivery partners. Ideally, self-regulation based on providers reviewing their own and their colleagues' performance would become the normal way of working. After consulting the sector, in January 2006 we published *Planning for Success*, which explains how we will make quality assurance part of the planning and funding process. And our New Measures for Success programme will allow us to publish a yearly review of performance. We have also made it clear that we will not fund providers who don't make the grade after September 2008.

Theme 3: Funding

We want to simplify the way we fund colleges and providers, to reduce their administrative workload and help them plan more effectively. We published our ideas in August 2005, including various options, and held consultations until November. Earlier this year we ran practical trials with 30 colleges and work-based learning providers. We're now looking at the results and holding further discussions across the sector before deciding in September what system to adopt in 2007/08. In October 2005 we outlined our funding priorities in *Priorities for Success*. We will also be discussing a common funding system for schools.

3%

The quality of further education is rising. Last year, only 3 per cent of colleges were rated inadequate – compared with 20 per cent in 2001.

£40m

Transforming our own organisation will free up as much as £40 million a year for investment in teaching and training.



Theme 4: Information

We and other organisations collect huge amounts of information from learning and skills providers. The way it's collected is complicated and expensive, and produces management information which is inconsistent and less useful than it should be. We want a consistent system for collecting information that everyone can use, that collects information only once and demands no more than is really needed. We've started with the basics, by asking exactly who we're collecting information about. We are now introducing a new system for giving every learner a unique number. And we've brought together 42 sector organisations to develop a Managing Information Across Partners (MIAP) programme. Between 2006 and 2008, this programme aims to create a streamlined system for collecting information that can be directly linked to our funding methods.

Theme 5: Business excellence

We want colleges and training providers to be well-run and efficient businesses. So we're developing a model to help them achieve excellence and value for money, encouraging group buying to cut costs, and speeding up capital investment to improve recruitment, reduce staff turnover and increase learner achievement. By March this year we had developed a basic framework for measuring performance, and from September 2006 we'll be testing a full framework including value-for-money measures.

Theme 6: Reputation

Our reputation is central to everything we are doing, and a measure of our success. Our initial research shows several priorities for us. We must improve the sector's reputation with employers and encourage them to value qualifications more highly. We must raise the profile of FE with students of all abilities. We must remove barriers to information and make sure that parents and others who influence young people recognise the importance of progressing from foundation stages to higher levels of achievement. There is a critical point where the system becomes credible enough to attract growing support, more and more people discover that it works for them, and success starts to create more success. The effect on morale and motivation is infectious, and it spills over to learners and employers too. The whole of *agenda for change* is geared to getting us to that point as soon as possible.

Theme 7: Transforming the LSC

If we are going to lead all this change effectively, we need to change ourselves and clear out the complicated procedures that have built up over the years. As Mark Haysom explains on the previous two pages, we will be working with providers in a more strategic, hands-off way. Working like this will need about 1,300 fewer staff, which will free as much as £40 million a year for investment at the front line.

In the past year we have set out the reorganisation and staff changes that we need, and these should be in place by late 2006. We will be appointing staff into their new roles and providing induction training in late summer and early autumn.

Further development

The White Paper on FE strongly backed *agenda for change* and the contribution it expects the programme to make to the future of the learning and skills sector. I'm delighted to have this backing for a programme which is open-ended and dynamic. It is a continuing 'to do' list that will go on developing as the needs of learners and employers develop. There could be no more worthwhile challenge.

Ray Dowd
agenda for change Champion
Learning and Skills Council

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For more information about our *agenda for change*, visit our website at:

 www.lsc.gov.uk

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£9.8b

Most of our income, £9,805.9 million, came from the UK Government. Our largest source of other income was the European Social Fund (ESF), which contributed £257.6 million.



More on page 34

420+

Between November 2005 and March 2006, we held over 420 training and development events to help staff prepare for their new roles under *agenda for change*.



More on page 24



Management commentary

Managing responsibly

3



How we manage the LSC

The job we've been given

The Learning and Skills Council for England was created under the Learning and Skills Act 2000 to 'modernise and simplify arrangements for planning, funding and delivering 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 sector'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 49, and on our website at www.lsc.gov.uk.

Who takes responsibility

The LSC is led and guided by over 750 non-executive members, at both national and local level, who bring us independent views and a great wealth of knowledge and experience.

National Council

The National Council is our top tier of policy and decision making, responsible for the organisation's overall strategy. It is supported by the Adult Learning Committee, the Young People's Learning Committee and the Equality and Diversity Committee. Its members are listed on the right.

Chairman

Christopher N Banks CBE
Chairman of the Learning and Skills Council, and Director of Big Thoughts Ltd

Members

Dame Alexandra Burslem
Deputy Chair of the Learning and Skills Council, and the former Vice Chancellor of Manchester Metropolitan University

Sir Digby Jones
Director General, Confederation of British Industry

Giles Clarke
Chair and Chief Executive, ATL Telecom

Jane Drabble OBE
Former Director of Education, BBC

Councillor John Merry
Leader, Salford City Council

Ruth Harker
Headteacher, Bournville School and Sixth Form Centre

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
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

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

Management Group

The National Council has passed responsibility for the day-to-day management of the LSC to the Chief Executive. He is supported by a group of senior managers known as the Management Group. For the past financial year, it had the following members.

Mark Haysom, Chief Executive

Melanie Hunt, Director of Learning (from January 2006)

David Russell, Director of Resources

David Way, Director of Skills

Rob Wye, Director of Strategy and Communications

Ray Dowd, *agenda for change* Champion (from March 2006)

The regional Directors are as follows.

Henry Ball (South East)

Margaret Coleman (Yorkshire and the Humber)

Mary Conneely (East of England – April to December 2005)

Caroline Neville (East of England from January 2006, was Director of Learning from April to December 2005)

David Cragg (West Midlands)

Malcolm Gillespie (South West)

Jacqui Henderson (London – April to October 2005)

David Hughes (London – from October 2005, was East Midlands from April to September 2005)

Verity Bullough (East Midlands – from November 2005, was London until October 2005)

John Korzeniewski (North West)

Chris Roberts (North East)

Each group, regional and executive Director is personally responsible for internal control, risk management and governance in his or her area. Each year, these Directors have to provide a personal statement of internal control to the Chief Executive, confirming that they have met this responsibility.

How we are structured

National Office

From our National Office in Coventry, we work with the Government and a range of stakeholders to make sure we develop policies that support our strategies.

Nine regions

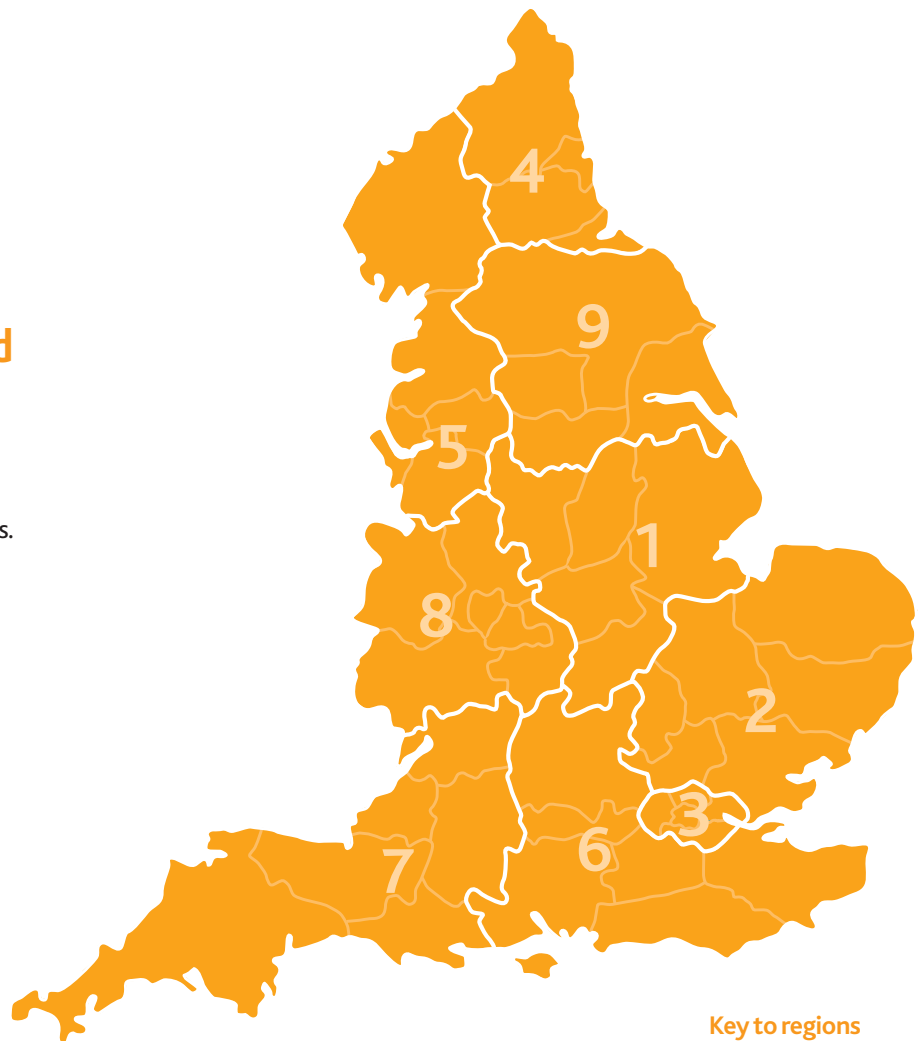
Our nine regional Directors work at a regional level with organisations such as the Regional Development Agencies to provide a framework for the work of our 47 local LSCs.

Local LSCs

Our local LSCs work 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.

Non-executives

The 750 non-executives on our national, regional and local councils play a key role. At each level, they support and challenge what we do, provide leadership to the LSC and the sector, and act as ambassadors for the sector.



Key to regions

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

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 subgroup 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 entirely of non-executive members – three members of the national council, three Chairs of local audit committees and an independent member with a financial background. Each local LSC has its own 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.

Our non-executive members

The 750 non-executives on our national, regional and local councils play a key role. At each level, they support and challenge what we do, provide leadership to the LSC and the sector, and act as ambassadors for the sector.

Advisory committees

The national council is advised by three expert committees – the Young People’s Learning Committee, the Adult Learning Committee, and the Equality and Diversity Committee.

Equality and Diversity Committee

In its second year, the committee continued to work closely with the Adult Learning and Young People’s Learning Committees as well as advising the LSC Chair on his work with the Women and Work Commission. A new online ‘teamsite’ allows the committee to share views and information with the executive equality and diversity team. They advised on our second three-year race equality scheme and have helped to make sure that equality and diversity is an important part of *agenda for change*. One committee member has agreed to chair a task group on mental health. The committee also advised on and influenced issues including:

- measuring the impact of equality and diversity work
- involving learners
- age issues including government regulations
- the National Employment Panel
- the strategic review for people with learning difficulties and disabilities, and
- racial equality in employment standards.

Committee members

Shirley Cramer (Chair)
Chief Executive, Dyslexia Action (formerly the Dyslexia Institute)

Hilary Wiseman
Chief Executive, Wiseman Consulting, and former Head of Diversity, HSBC Bank

David Barker
Business Development Manager, REED in Partnership (North East and Yorkshire)

Jeremy Crook
Director, Black Training and Enterprise Group

Nicola Dandridge
Head of Equality, Thompsons Solicitors

Patrick Grattan
Chief Executive, Third Age Employment Network

Amir Kabal
Chief Executive, East Staffordshire Race Equality Council

Peter Lavender
Director for Research, National Institute of Adult Continuing Education

Alyson Malach
Head of Lifelong Learning, Manchester City Council

Angela Mason
Director, Women and Equality Unit, Department of Trade and Industry

Sally McEnhill
Principal, Merton College

Judith Norrington
Head of National Policy Development, City and Guilds

Yvonne Thomson
Managing Director, ASAP Communications

Adult Learning Committee

This committee promotes adult learning and keeps it at the forefront of our work. During the year we appointed four new members – Graham Taylor, Richard Atkins, Anthony Massouras and Pat McMullan. Two members joined members of the executive on a subgroup looking at our planning and performance issues, one joined the Equality and Diversity Committee’s Learners with Learning Difficulties and Disabilities subgroup, and two joined the subgroup on Centres of Vocational Excellence. Committee meetings focused on themes linked to our strategic priorities, including involving employers, involving adult learners, and the skills needs for the London 2012 Olympics. We also held an awayday that included discussions with Bill Rammell, Minister of State for Lifelong Learning, Further and Higher Education, Lord Sandy Leitch on his review of skills and the LSC Chair on the committee’s future priorities. We are currently setting up a Migration Task Group to advise on the increasingly important area of migrant workers’ skills.



Shirley Cramer, Chair

40%

We need to stay alert to what the business community is thinking. That is why around 40 per cent of our non-executives are employers themselves.

Committee members

Frances O'Grady (Chair)
Deputy General Secretary, Trades Union Congress

Dame Alexandra Burslem
Former Vice Chancellor, Manchester Metropolitan University

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

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

Young People's Learning Committee

This committee advises us on achieving national targets for young people aged 16 to 21, including strategies for increasing participation and achievement levels. During the year we appointed four new members – Mark Sanders, Christine Gaskell, David McGahey and Kath Boullen. Sadly, Bob Reed, Headteacher at Anglo European School, who also served on the committee, has passed away. I would like to take this opportunity to acknowledge his significant contribution.

Committee meetings focused on themes linked to our strategic priorities, including:

- relationships with schools
- targets for young people classed as 'not in employment, education or training'
- local and partnership views on information, advice and guidance for young people
- the Youth Green Paper, Youth Matters, and
- specialised diplomas and Apprenticeships.

The committee also advised on and influenced issues including Apprenticeships, 14 to 19 diplomas, post-16 reorganisations, offender learning and skills, unique learner numbers and the 14 to 19 implementation plan.

750

Over 750 non-executives connect us to business, politics and learning and skills, from the grass roots to the corridors of power.

Committee members

Ian Ferguson (Chair)
Chairman, Data Connection Ltd

Saifuddin Ahmad
Chief Executive, Faith Regen UK

Bob Bischof
Business sector representative

Daniel Carrigan
National Secretary, Amicus

Maggie Galliers
Principal, Leicester College

Ian Gartshore
Principal, Ely College, Cambridgeshire

Ruth Harker
Headteacher, Bournville School and Sixth Form Centre

Lynne Morris
Principal, Joseph Chamberlain Sixth Form College, Birmingham

Sue Peacock
Former Policy Advisor for the National Training Organisation for Engineering Manufacture

John Rourke
Former Principal, St Charles Catholic Sixth Form College

Mark Sanders
Chief Executive, Bury Metropolitan Borough Council

Christine Gaskell
Human Resources Director, Bentley Motors

David McGahey
Director of Public Services, Politics International

Kath Boullen
Chief Executive, St Helens Chamber of Commerce



Frances O'Grady, Chair



Ian Ferguson, Chair

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 we have the skills and ability to deliver our plans. Most of our local LSCs and all National Office groups have achieved the Investors in People standard.

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

Since November 2005, Regional Learning and Development Advisors have been delivering development events across the organisation. By the end of March 2006, they had held over 420 events on themes such as 'leading through change' (for 372 senior managers), 'managing people through challenging times' (for 550 people) and 'working with change' (for 746 people).

At the same time, we have maintained our normal training and development programme at both national and local levels. We also launched a 'pick and mix' scheme offering all staff business-focused, bite-sized courses so they are not away from the job for long periods of time. During the year, we delivered 182 sessions for 1,871 staff in all our offices. The most popular topics included impact and influence, time management and report writing.

As well as providing courses and workshops at sites 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. We also offer courses that combine face-to-face and online techniques.

Communication and consultation

Well-managed, open communication with staff has played a major role in transforming the organisation. In 2005/06, it was an important part of our internal change programme, Theme 7 of *agenda for change*.

Staff 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 their purpose. We listen to feedback, and act on it. We also work closely with the Public and Commercial Services Union, which represents 50 per cent of our staff.

We realised that Theme 7 would be a difficult process for all our staff so we launched a communication campaign to make sure everyone understood what was happening and why.

During the year, we held briefings for all our staff across all offices, including opportunities for feedback and questions. Staff received regular emails from the Chief Executive and a weekly update from the Human Resources Director. A dedicated intranet site included full background information and provided a central point where questions could be raised and answered.

The human resources team also used the intranet to provide the operational information people need at times of change, including details of human resources processes, job advertisements and training opportunities. Every member of staff was given a personal information pack and offered one-to-one meetings with their manager.

All this activity was on top of our normal communication methods – daily headlines on the intranet, a weekly electronic news bulletin, a high-quality magazine six times a year, exhibitions and roadshows.

We also ran our yearly staff attitude survey, 'Learning from you'. The latest survey, published in May 2005, found that the organisation's main strengths included quality of leadership and management, understanding our goals and priorities, and involving employees. Areas for further development included improving the culture of challenge and innovation, and reducing unnecessary paperwork.



Health and safety

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

During the year, we appointed a member of our Management Group as Learner Health and Safety Champion. We work closely with partners in the sector to promote learner safety and have signed a new health and safety agreement with the Health and Safety Executive. Our health and safety team has also developed an effective working relationship with the Adult Learning Inspectorate. During the year, we carried out a project to review accidents and incidents involving learners reported by funded organisations. We will publish the findings in 2006.

In 2005-06 there were 109 minor accidents involving our staff (a 25 per cent reduction on 2004-05) and two reportable accidents (a 50 per cent reduction on 2004-05).

Personal safety and road safety schemes included offering staff personal alarms and laptop backpacks. We also paid for online health and safety training for all staff, hints and tips on personal safety and winter driving, and an online risk assessment and learning package for people who drive on LSC business.

Health schemes included asbestos surveys at all relevant offices. We have published asbestos management plans, including risk assessments, on our intranet.

This year we are developing a smoke-free policy, to prepare for the probable introduction of a complete smoking ban in 2007. We will also investigate ways of helping staff who want to give up. New fire safety regulations will come into force in 2006 so we will provide training for field facilities managers to help them carry out fire risk assessments.

Equality and diversity

Promoting equal opportunities is one of the responsibilities the Government has given us. This applies as much to the way we treat our own staff as it does to the standards we apply to the learning and skills sector.

During the year, we launched our second three-year race equality scheme to promote racial equality throughout the organisation. We held regional and local briefing sessions for staff and provided relevant training.

We reconfirmed our commitment to good practice in employing disabled people, recognised by the Jobcentre Plus Disability Symbol scheme. We also reviewed the way we treat disabled people, by consulting employees and using 'mystery shoppers' to test our online recruitment process.

Good practice begins with awareness, particularly at the top. In the South West, we tested a new diversity awareness programme for senior managers. In the North East, we also ran a 'dignity at work' project, using drama to aid awareness and understanding.

We made equality and diversity an important part of the reorganisation under Theme 7 of *agenda for change*, identifying the possible effects on equality and diversity, and making changes where needed. We also revised learning and development programmes to introduce equality awareness in the new organisation.

We plan to promote the organisation as a 'best practice' employer and attract a more varied workforce. We have measured our performance against recognised standards, including Opportunity Now, Race for Opportunity and Employers' Forum on Disability, and the findings will guide further developments. We have also made sure that we advertise jobs for people of all ages, in line with the new law on age discrimination.

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For more on our development and training policies, visit our website at:

 www.lsc.gov.uk

For more on our health and safety policies, visit our website at:

 www.lsc.gov.uk

Sustainable development

We want to be a role model for sustainable development in FE so we are researching current activity and best practice across the sector.

Sustainable development means making sure that everyone has a better quality of life, both now and for generations to come. It is often described as development that meets the needs of the present without harming the ability of future generations to meet their own needs.

In September 2005, we launched our sustainable development strategy 'from here to sustainability'. This looks at what we – and the whole learning and skills sector – can do to promote sustainable development skills, and to manage our resources in ways that encourage sustainability.

It takes a long-term view, recognising that we need to make an effort over several years to make the necessary changes. Our aim is to make the LSC a 'best-practice' organisation and a role model for the sector, by including sustainable development in our policies and everyday practices at all levels. In turn, we will be able to lead the sector in contributing to sustainable development through the way it manages resources, delivers learning opportunities and works with communities.

During the year, we asked the Learning and Skills Development Agency to survey current activity in the sector. A national event in June 2006 shared its findings and showed examples of good practice.

Although we are still at an early stage with putting policy into action across the LSC, there are many independent local schemes. For example, some local offices are looking at how they use energy, water and waste with a view to introducing more environmentally-friendly practices. We are also looking into opportunities for recycling waste products such as wood, rubber and plastic. Meanwhile, our Staffordshire office worked closely with a local voluntary organisation which won an award for recycling 240 pieces of LSC office furniture to local voluntary groups.

We encourage our suppliers to have an environmental policy. We are using fair-trade catering products in the National Office and environmentally-friendly cleaning products across the LSC. We are in the process of reviewing our policy on the amount of carbon dioxide released from cars. We are also developing plans to make sure that every local LSC has at least one trained and committed officer to promote sustainable development.

For more on sustainability,
visit our website at:

 www.lsc.gov.uk

Stakeholder communications and partnerships

To achieve our goals, we depend on effective teamwork with many stakeholders and partners. We try to maintain open two-way communication with them all.

Government

We have continuous communication at many levels with various government departments, including the Department for Education and Skills (who we have to answer to), the Department of Trade and Industry, the Treasury and the Home Office (on our responsibility for teaching offenders).

We are also in contact with MPs at local, regional and national level. During the year, our Chief Executive, Mark Haysom, invited every English MP to one of nine meetings to talk about *agenda for change* and other issues.

Opinion leaders

We have identified the business and education leaders, politicians and other people who are particularly interested in our work or influence the environment in which we work. We aim to give them all relevant documents and keep them up to date with our ideas and views. Recent activities have included a series of one-to-one meetings with Mark Haysom and our Chairman, Chris Banks.

Employers


Our aim is to deliver a demand-led FE sector so we treat our relationships with employers seriously. We work with large employers through our dedicated National Employer Service, and with other employers through the Employer Training Pilots and 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, such as the Confederation of British Industry (CBI), the Institute of Directors (IoD) and the British Chamber of Commerce (BCC).

Colleges and training providers

Throughout the year we have kept the providers we fund up to date with our main schemes in a number of ways, including direct correspondence, conferences and workshops, our website and one-to-one consultation on pilot projects. We also use the media to help communicate with our stakeholders.

Other partners

We work continuously with a range of other partners, including Business Links, Connexions, higher education partners such as the Higher Education Funding Council, Investors in People UK, Jobcentre Plus, the Qualifications and Curriculum Authority, Regional Development Agencies, the Skills for Business Network, trade unions, and many voluntary and community sector organisations. We give details of our relationships with these partners in our Annual Statement of Priorities.

 To view or download a copy, search 'Annual Statement of Priorities' in the documents channel on our website.



Local area performance

Level 2 attainment of young people by local LSC

Local LSC	% of young people who reached Level 2 by age 16 in 2001 (2004 cohort)	% of young people who have reached Level 2 by age 19 in 2004	% of young people who reached Level 2 by age 16 in 2002 (2005 cohort)	% of young people who have reached Level 2 by age 19 in 2005	Number of young people who have reached Level 2 by age 19 in 2005
Bedfordshire and Luton	48%	65%	50%	70%	5,218
Cambridgeshire	53%	70%	54%	71%	6,030
Essex	52%	67%	53%	69%	13,518
Hertfordshire	60%	75%	60%	77%	11,017
Norfolk	51%	67%	51%	70%	6,336
Suffolk	56%	71%	58%	75%	6,091
East of England	54%	69%	54%	72%	48,210
Derbyshire	49%	63%	51%	66%	7,751
Leicestershire	48%	66%	51%	71%	8,085
Lincolnshire and Rutland	55%	68%	55%	70%	6,071
Northamptonshire	50%	64%	52%	68%	5,627
Nottinghamshire	43%	59%	44%	63%	8,078
East Midlands	49%	64%	50%	67%	35,612
London Central	40%	62%	42%	64%	8,156
London East	43%	58%	45%	63%	15,037
London North	48%	65%	49%	68%	8,510
London South	56%	74%	57%	78%	12,351
London West	50%	68%	49%	69%	10,959
Greater London	47%	65%	48%	68%	55,013
County Durham	42%	61%	41%	63%	3,841
Northumberland	49%	65%	51%	67%	2,639
Tees Valley	42%	72%	44%	74%	6,854
Tyne and Wear	43%	62%	44%	65%	9,350
North East	43%	65%	45%	67%	22,684
Cheshire and Warrington	56%	72%	57%	76%	8,743
Cumbria	51%	68%	53%	72%	4,492
Greater Manchester	46%	63%	47%	67%	22,904
Greater Merseyside	43%	61%	45%	65%	13,332
Lancashire	48%	65%	48%	67%	12,887
North West	47%	64%	48%	68%	62,358
Berkshire	59%	79%	60%	81%	8,423
Hampshire and Isle of Wight	52%	72%	53%	75%	15,836
Kent and Medway	52%	67%	53%	70%	14,376
Milton Keynes, Oxfordshire and Buckinghamshire	56%	71%	57%	74%	11,650
Surrey	62%	78%	63%	81%	10,328
Sussex	53%	70%	53%	72%	12,101
South East	55%	72%	56%	75%	72,714
Bournemouth, Dorset and Poole	57%	71%	60%	75%	6,295
Devon and Cornwall	53%	70%	52%	72%	13,776
Gloucestershire	58%	72%	61%	77%	5,505
Somerset	58%	73%	58%	75%	4,832
West of England	50%	68%	51%	72%	8,531
Wiltshire and Swindon	54%	71%	55%	74%	5,512
South West	54%	71%	55%	74%	44,451
Birmingham and Solihull	44%	62%	46%	65%	10,691
The Black Country	42%	60%	43%	63%	8,894
Coventry and Warwickshire	50%	68%	51%	73%	7,580
Herefordshire and Worcestershire	52%	69%	55%	73%	6,509
Shropshire	53%	69%	56%	73%	4,313
Staffordshire	45%	63%	46%	67%	9,267
West Midlands	46%	64%	48%	68%	47,254
Humberside	41%	64%	41%	66%	7,847
North Yorkshire	59%	85%	59%	87%	8,302
South Yorkshire	41%	58%	40%	60%	9,626
West Yorkshire	42%	60%	44%	64%	17,380
Yorkshire and the Humber	44%	64%	45%	67%	43,155
Unknown					306
National	49%	67%	50%	70%	431,757

Local area performance

Apprenticeship framework completions, all ages, by local LSC

Local LSC	Framework completions 2002/03	Framework completions 2004/05
Bedfordshire and Luton	322	428
Cambridgeshire	525	741
Essex	892	1,459
Hertfordshire	387	815
Norfolk	575	993
Suffolk	836	1,070
East of England	3,537	5,506
Derbyshire	935	1,209
Leicestershire	446	695
Lincolnshire and Rutland	507	940
Northamptonshire	781	885
Nottinghamshire	711	1,336
East Midlands	3,380	5,065
London Central	524	697
London East	582	679
London North	312	332
London South	488	852
London West	300	479
Greater London	2,206	3,039
County Durham	557	829
Northumberland	179	316
Tees Valley	982	1,341
Tyne and Wear	1,251	1,706
North East	2,969	4,192
Cheshire and Warrington	1,006	1,423
Cumbria	594	761
Greater Manchester	2,313	3,387
Greater Merseyside	1,711	2,371
Lancashire	1,631	1,956
North West	7,255	9,898
Berkshire	973	1,372
Hampshire and Isle of Wight	1,079	1,594
Kent and Medway	711	1,135
Milton Keynes, Oxfordshire and Buckinghamshire	831	1,084
Surrey	274	441
Sussex	470	827
South East	4,338	6,453
Bournemouth, Dorset and Poole	844	1,359
Devon and Cornwall	1,882	2,518
Gloucestershire	416	658
Somerset	410	590
West of England	857	868
Wiltshire and Swindon	460	724
South West	4,869	6,717
Birmingham and Solihull	790	1,250
The Black Country	872	1,640
Coventry and Warwickshire	835	1,017
Herefordshire and Worcestershire	674	1,079
Shropshire	473	559
Staffordshire	951	1,388
West Midlands	4,595	6,933
Humberside	866	1,273
North Yorkshire	1,270	766
South Yorkshire	1,225	1,722
West Yorkshire	1,195	2,234
Yorkshire and the Humber	4,556	5,995
National Employer Service (NES)	5,517	14,369
National Total	43,222	68,167

Note

(1) For some local LSCs significant amounts of provision transferred to NES between 2002/03 and 2004/05, so year-on-year comparisons are not valid for those local LSCs

Local area performance

Learners achieving Skills for Life target qualifications, all ages, by local LSC

Local LSC	Cumulative number of learners gaining target qualifications, 2000/01 to 2003/04	Learners gaining target qualifications numbers 2004/05
Bedfordshire and Luton	9,460	3,323
Cambridgeshire	8,798	3,955
Essex	17,648	7,952
Hertfordshire	10,155	4,514
Norfolk	10,074	4,762
Suffolk	7,460	5,305
East of England	63,595	29,811
Derbyshire	11,291	5,641
Leicestershire	12,968	6,486
Lincolnshire and Rutland	7,633	5,147
Northamptonshire	6,272	2,990
Nottinghamshire	12,222	7,014
East Midlands	50,386	27,278
London Central	38,666	10,696
London East	35,854	15,019
London North	20,972	7,656
London South	26,139	7,930
London West	34,474	12,111
Greater London	156,105	53,412
County Durham	6,086	4,280
Northumberland	3,522	2,049
Tees Valley	14,485	7,193
Tyne and Wear	19,101	10,607
North East	43,194	24,129
Cheshire and Warrington	10,740	5,702
Cumbria	5,959	3,292
Greater Manchester	48,792	25,006
Greater Merseyside	24,447	13,814
Lancashire	23,319	11,029
North West	113,257	58,843
Berkshire	9,409	6,082
Hampshire and Isle of Wight	30,924	14,041
Kent and Medway	17,114	9,437
Milton Keynes, Oxfordshire and Buckinghamshire	13,330	5,183
Surrey	9,099	4,220
Sussex	18,133	9,106
South East	98,009	48,069
Bournemouth, Dorset and Poole	7,694	5,206
Devon and Cornwall	14,482	9,720
Gloucestershire	5,081	3,030
Somerset	6,069	3,995
West of England	11,689	5,704
Wiltshire and Swindon	9,889	3,888
South West	54,904	31,543
Birmingham and Solihull	25,395	9,822
The Black Country	17,362	7,318
Coventry and Warwickshire	11,287	6,279
Herefordshire and Worcestershire	8,091	5,616
Shropshire	6,692	2,543
Staffordshire	15,055	7,688
West Midlands	83,882	39,266
Humberside	16,917	9,710
North Yorkshire	8,634	4,384
South Yorkshire	17,875	11,142
West Yorkshire	34,009	14,409
Yorkshire and the Humber	77,435	39,645
National Employer Service (NES)	4,041	11,713
Other LSC contribution	17,359	
Non LSC-funded contribution	103,068	46,300
National Total	865,235	410,000

Local area performance

Adult full Level 2 achievements by local LSC

Local LSC	Number of adults who achieved a full Level 2 qualification in Further Education and work-based learning, 2004/05	Number of adults who achieved a full Level 2 qualification in Employer Training Pilots, 2004/05	Total number of adults achieving a full Level 2 qualification, 2004/05
Bedfordshire and Luton	896	0	896
Cambridgeshire	1,143	531	1,674
Essex	1,808	3,506	5,314
Hertfordshire	1,037	0	1,037
Norfolk	1,464	0	1,464
Suffolk	982	0	982
East of England	7,330	4,037	11,367
Derbyshire	2,507	1,753	4,260
Leicestershire	2,196	2,678	4,874
Lincolnshire and Rutland	903	0	903
Northamptonshire	1,419	0	1,419
Nottinghamshire	3,558	0	3,558
East Midlands	10,583	4,431	15,014
London Central	1,594	0	1,594
London East	2,698	2,832	5,530
London North	1,489	0	1,489
London South	1,654	0	1,654
London West	1,669	0	1,669
Greater London	9,104	2,832	11,936
County Durham	1,744	575	2,319
Northumberland	570	413	983
Tees Valley	2,613	795	3,408
Tyne and Wear	3,526	4,114	7,640
North East	8,453	5,897	14,350
Cheshire and Warrington	2,110	0	2,110
Cumbria	1,057	0	1,057
Greater Manchester	5,044	4,724	9,768
Greater Merseyside	3,264	0	3,264
Lancashire	4,953	905	5,858
North West	16,428	5,629	22,057
Berkshire	1,200	1,191	2,391
Hampshire and Isle of Wight	3,975	0	3,975
Kent and Medway	2,568	1,467	4,035
Milton Keynes, Oxfordshire and Buckinghamshire	1,983	0	1,983
Surrey	830	0	830
Sussex	1,983	0	1,983
South East	12,539	2,658	15,197
Bournemouth, Dorset and Poole	1,522	0	1,522
Devon and Cornwall	3,274	963	4,237
Gloucestershire	983	0	983
Somerset	831	0	831
West of England	1,961	0	1,961
Wiltshire and Swindon	1,168	2,683	3,851
South West	9,739	3,646	13,385
Birmingham and Solihull	2,994	1,891	4,885
The Black Country	2,498	1,332	3,830
Coventry and Warwickshire	1,811	0	1,811
Herefordshire and Worcestershire	1,096	0	1,096
Shropshire	2,013	3,489	5,502
Staffordshire	3,384	0	3,384
West Midlands	13,796	6,712	20,508
Humberside	3,386	0	3,386
North Yorkshire	1,000	0	1,000
South Yorkshire	2,861	3,221	6,082
West Yorkshire	4,219	850	5,069
Yorkshire and the Humber	11,466	4,071	15,537
National Employer Service (NES)	20,236	0	20,236
National	119,674	39,913	159,587

Note

In 2004/05 Employer Training Pilots operated in just under half of all local LSC areas

Local area performance

Further Education success rates, all ages, by local LSC

Local LSC	Further Education 2002/03			Further Education 2004/05		
	Short	Long	Overall	Short	Long	Overall
Bedfordshire and Luton	79%	56%	67%	82%	62%	71%
Cambridgeshire	79%	62%	69%	82%	66%	73%
Essex	74%	60%	64%	80%	67%	72%
Hertfordshire	74%	52%	61%	78%	62%	71%
Norfolk	81%	58%	70%	78%	64%	71%
Suffolk	90%	55%	71%	87%	63%	72%
East of England	79%	58%	67%	81%	65%	72%
Derbyshire	82%	54%	71%	85%	63%	76%
Leicestershire	81%	63%	73%	83%	68%	76%
Lincolnshire and Rutland	81%	51%	65%	89%	57%	73%
Northamptonshire	83%	56%	68%	82%	60%	69%
Nottinghamshire	78%	50%	66%	85%	62%	76%
East Midlands	81%	55%	69%	85%	63%	75%
London Central	73%	59%	69%	77%	65%	73%
London East	68%	56%	62%	82%	64%	76%
London North	71%	57%	64%	83%	68%	74%
London South	67%	55%	60%	76%	62%	68%
London West	68%	61%	65%	69%	67%	68%
Greater London	70%	57%	64%	79%	65%	73%
County Durham	84%	55%	73%	88%	65%	81%
Northumberland	69%	51%	62%	84%	65%	75%
Tees Valley	77%	60%	68%	82%	67%	74%
Tyne and Wear	78%	56%	68%	83%	63%	75%
North East	78%	57%	68%	84%	65%	76%
Cheshire and Warrington	85%	62%	72%	85%	70%	77%
Cumbria	83%	59%	71%	84%	66%	76%
Greater Manchester	77%	62%	68%	81%	70%	74%
Greater Merseyside	81%	59%	68%	83%	66%	73%
Lancashire	78%	60%	67%	85%	66%	74%
North West	79%	61%	68%	83%	68%	74%
Berkshire	80%	52%	65%	80%	58%	67%
Hampshire and Isle of Wight	84%	67%	75%	87%	72%	78%
Kent and Medway	81%	53%	69%	86%	59%	73%
Milton Keynes, Oxfordshire and Buckinghamshire	74%	53%	64%	77%	60%	69%
Surrey	77%	60%	65%	85%	69%	75%
Sussex	84%	63%	73%	82%	66%	72%
South East	81%	61%	70%	84%	67%	74%
Bournemouth, Dorset and Poole	74%	56%	65%	82%	65%	74%
Devon and Cornwall	85%	57%	73%	85%	60%	75%
Gloucestershire	71%	58%	64%	87%	65%	77%
Somerset	74%	56%	64%	83%	67%	75%
West of England	75%	57%	66%	84%	61%	72%
Wiltshire and Swindon	78%	51%	63%	84%	59%	72%
South West	79%	56%	68%	85%	62%	74%
Birmingham and Solihull	73%	52%	61%	81%	62%	71%
The Black Country	74%	55%	63%	83%	59%	69%
Coventry and Warwickshire	81%	56%	70%	88%	67%	79%
Herefordshire and Worcestershire	86%	62%	73%	91%	73%	81%
Shropshire	87%	63%	74%	92%	71%	80%
Staffordshire	79%	53%	66%	86%	63%	75%
West Midlands	79%	55%	66%	86%	65%	75%
Humberside	80%	61%	70%	82%	67%	74%
North Yorkshire	76%	57%	66%	85%	64%	74%
South Yorkshire	77%	56%	64%	80%	60%	70%
West Yorkshire	77%	62%	67%	82%	67%	73%
Yorkshire and the Humber	78%	59%	67%	82%	65%	73%
National	78%	58%	68%	83%	65%	74%

Local area performance

Apprenticeship success rates, all ages, by local LSC

Local LSC	Apprenticeships 2002/03		Apprenticeships 2004/05	
	Apprenticeship Framework	Apprenticeship Framework and/or NVQ	Apprenticeship Framework	Apprenticeship Framework and/or NVQ
Bedfordshire and Luton	26%	38%	39%	49%
Cambridgeshire	27%	41%	43%	56%
Essex	23%	35%	36%	48%
Hertfordshire	18%	37%	33%	47%
Norfolk	26%	36%	38%	48%
Suffolk	33%	46%	47%	57%
East of England	25%	38%	38%	50%
Derbyshire	31%	41%	45%	55%
Leicestershire	25%	39%	34%	50%
Lincolnshire and Rutland	31%	42%	48%	57%
Northamptonshire	33%	44%	42%	50%
Nottinghamshire	21%	33%	36%	47%
East Midlands	28%	39%	40%	51%
London Central	23%	38%	33%	42%
London East	25%	41%	27%	41%
London North	31%	44%	33%	46%
London South	17%	30%	37%	49%
London West	16%	30%	34%	49%
Greater London	22%	36%	32%	45%
County Durham	28%	39%	43%	52%
Northumberland	22%	36%	34%	44%
Tees Valley	29%	42%	42%	51%
Tyne and Wear	28%	39%	38%	48%
North East	28%	40%	40%	50%
Cheshire and Warrington	31%	42%	41%	51%
Cumbria	30%	43%	44%	55%
Greater Manchester	23%	38%	37%	53%
Greater Merseyside	24%	37%	34%	46%
Lancashire	33%	47%	43%	55%
North West	27%	40%	38%	51%
Berkshire	29%	44%	47%	56%
Hampshire and Isle of Wight	26%	40%	43%	55%
Kent and Medway	22%	37%	35%	49%
Milton Keynes, Oxfordshire and Buckinghamshire	20%	37%	31%	46%
Surrey	23%	39%	32%	45%
Sussex	15%	33%	30%	45%
South East	23%	38%	37%	50%
Bournemouth, Dorset and Poole	34%	42%	53%	62%
Devon and Cornwall	32%	47%	44%	58%
Gloucestershire	29%	44%	47%	57%
Somerset	27%	46%	42%	55%
West of England	37%	49%	45%	56%
Wiltshire and Swindon	31%	43%	47%	57%
South West	32%	46%	46%	58%
Birmingham and Solihull	28%	39%	38%	46%
The Black Country	22%	39%	38%	50%
Coventry and Warwickshire	32%	44%	42%	53%
Herefordshire and Worcestershire	31%	43%	50%	60%
Shropshire	29%	43%	39%	49%
Staffordshire	28%	42%	40%	48%
West Midlands	28%	41%	40%	50%
Humberside	29%	45%	42%	52%
North Yorkshire	39%	59%	33%	49%
South Yorkshire	24%	37%	37%	48%
West Yorkshire	21%	36%	36%	47%
Yorkshire and the Humber	27%	42%	37%	49%
National Employer Service (NES)	28%	36%	42%	54%
National	27%	40%	40%	51%

Financial commentary

The accounts have been prepared under an accounts direction issued by the Department for Education and Skills (DfES) on 3 July 2002 in accordance with Schedule 1 of the Act and the financial memorandum between the then Department for Education and Employment (DfEE) and the LSC dated 10 April 2001.

Development and performance

The accounts cover the period from 1 April 2005 to 31 March 2006 and were prepared on a going concern basis. They reflect the change in the fixed asset capitalisation threshold to £5,000 (previously £2,500 to 31 March 2005) and include the policy for accounting for Education Maintenance Allowance expenditure transferred from the DfES to the LSC in 2005-06.

The majority of the LSC's income is grant-in-aid from government. In 2005-06 this amounted to £9,805.9 million (2004-05 £8,941.9 million). The largest source of other income was the European Social Fund (ESF), which contributed £257.6 million (2004-05 £243.7 million).

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 their performance and financial condition. As a non-departmental public body (NDPB), almost wholly funded by the DfES and with no borrowings, the LSC is not exposed to any liquidity or interest rate risks.

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 the DfES, going concern is not usually an issue and the use of more complex financial instruments would not be appropriate.

Year-end position

Research and development expenditure during the year amounted to £2.4 million (2004-05 £4.1 million).

The Treasury requires NDPBs to disclose the full costs of their activities in their accounts. We have therefore included notional income of (£2.5) million (2004-05 charge of £2.0 million) for the cost of capital in our accounts. This is based on a rate of 3.5 per cent (2004-05 3.5 per cent). See also Cost of Capital – Note 11 to the financial statements.

The results for 2005-06 show a deficit of £296.7 million (2004-05 surplus of £5.0 million). This deficit is derived from the comparison of expenditure against Grant-in-aid drawn down for the year, rather than the resource budget. As an NDPB the LSC is required to break even one year with another against the resource budget, and for 2005-06 the total expenditure was within the resource budget set by DfES of £10.2 billion. Total reserves decreased by £301 million.

Capital expenditure in the year (mainly on computer systems) totalled £12.4 million (2004-05 £15.1 million). The net book value of fixed assets at 31 March 2006 decreased slightly from £44.2 million to £40.0 million due mainly to the change in capitalisation threshold.

At 31 March 2006 the LSC had debtors of £296.1 million (31 March 2005 £352.2 million). The decrease reflects a lower level of FE college prepayments and a continuing reduction in the amounts owed by work-based learning (WBL) providers due to the improvement in reconciliation process from quarterly to monthly.

At 31 March 2006 the LSC held cash balances of £74.7 million (31 March 2005 £207.0 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 2006 the balance of DfES funds amounted to £51.9 million or 0.5 per cent (31 March 2005 0.9 per cent).

At 31 March 2006 the LSC had creditors of £435.6 million (31 March 2005 £381.9 million). The rise in creditors is consistent with the rise in the LSC's expenditure.

The accounts are audited by the Comptroller and Auditor General who is appointed by statute and whose Certificate and Report appears on page 48. The audit fee was £150,000 (2004-05 £150,000). No other services were provided by external audit during the year.

Main trends and factors underlying development and performance

In 2005-06 the LSC's programme expenditure increased by 12.5 per cent to £10.1 billion. The increase reflects the change in priorities which were announced in the autumn. Increasing participation at age 16 to 19 resulted in £512 million (21.7 per cent) increased expenditure for FE 16 to 18 Participation programmes. There are more young people in learning than ever and we are increasing the numbers of 16-to-18-year-old learners achieving a Level 2 as we make good progress to the Level 2 at 19 target. There was also £53 million (59.2 per cent) increased expenditure on Employer Training Pilots. The success of this programme in delivering for employers has led to the rollout of Train to Gain – our employer training programme that will be available across the country from August 2006.

On 1 April 2005 the responsibility for a number of learner support programmes was transferred from the DfES to the LSC. The addition of the associated funding increased the LSC's budget for Learner Support to £621 million for the financial year ending 31 March 2006. Corresponding expenditure includes £407 million for Education Maintenance Allowance and £32 million for various 16 to 18 learner support programmes as disclosed in Note 4a to the financial statements.

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 2005-06 we paid 90.9 per cent (2004-05 88.8 per cent) of our invoices within 30 days, and in the final month of the year 93.2 per cent of invoices were paid within 30 days. We incurred £70 of interest charges in respect of late payment for 2005-06 (2004-05 £161).

Main trends and factors likely to affect future development and performance

We are currently working through our *agenda for change* programme, aimed at transforming the post-16 sector and the way we work with partners and stakeholders.

Six work streams are focused on skills, quality, data, funding, business excellence and reputation. The seventh is focused on our internal processes. We need to change ourselves to deliver the sort of strategic change we expect from our partners, transform the world of post-16 education and training, and provide strategic leadership.

Current modelling suggests that the total number of posts will be reduced from 4,700 to 3,400 and that annual savings will be in the region of £40 million. As we take this work forward, we are committed to excellent communication with staff.

A provision of £55.7 million has been included in the accounts to cover the one-off costs for this reorganisation. See Note 15 for further details.

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 for England
7 July 2006

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 committee's existence allows greater freedom from our sponsor department (the DfES) on reward policy and practice.

Chairman

Christopher N Banks CBE
Chief Executive, Big Thoughts Ltd

Members

Gareth Cadwallader
Executive Director, Airas Intersoft Ltd
Frances O'Grady (from May 2005)
Deputy General Secretary,
Trades Union Congress
Lynne Morris (to May 2005)
Principal, Joseph Chamberlain
Sixth Form College

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 three times during the period April 2005 to March 2006.

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:

- to review and advise the 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 Council who report directly to the Chief Executive; to review the remuneration of such staff at least annually and to make recommendations to the Chief Executive on any pay increase or remuneration arrangements that may be appropriate.

Components of remuneration

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

The Chief Executive and members of the Management Group (the national and the regional Directors) receive a total reward package made up of base salary, annual bonus, flexible benefits and a defined benefit ('final salary') pension. Subject to the requirements of the role, there may be a job-need car provided by the LSC. Bonus payments are not guaranteed.

The *agenda for change* Champion is employed on a contract that differs from his Management Group peers in that it is for a fixed term of one year. He was appointed on 27 March 2006.

Bonus awards paid in July 2005 relate to the previous financial year, ending March 2005. Achievements were assessed against national and local Public Service Agreement targets as set by the DfES. There were no discretionary elements.

For the year to March 2006, LSC achievements are assessed against Public Service Agreement targets at the national level only. This reflects the 'one LSC' approach in the build-up to *agenda for change*.

From April 2006 the LSC bonus plan will focus on encouraging and rewarding team-based achievement, as assessed against Public Service Agreement targets, at both national and regional level. It will also introduce an element of discretion so as to recognise 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 executive Directors are benchmarked using a range of appropriate data sources including the Association of Colleges Principal Salary survey, Hay Management Consultants and senior Civil Service pay scales. If an individual's salary falls below the 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 are being reviewed to reflect the new organisational structure.

Chief Executive

The reward package for the Chief Executive involves two key elements: a base salary and a bonus which are determined by the Secretary of State after considering proposals from the Chair. The Bonus is assessed on achievement against corporate and personal targets. During 2005/06 the salary increase was 4.5 per cent and the bonus for year to June 2005 was £18,000 (90 per cent of the £20,000 maximum).

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. In future the Chief Executive's bonus potential will be 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 2005/06

Base pay for National and Regional Directors rose by 3.25 per cent. Base pay bands for Executive Directors rose by 3.25 per cent.

Duration of contracts, notice periods and termination arrangements

Non-executive members of National Council

Non-executive members of National Council do not have service contracts and are 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 to 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 is expected to be devoted to the work of the LSC.

The salary for the year to March 2006 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 at the DfES. 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 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.

Remuneration report

(Audited data)

Board members' emoluments

The Chief Executive is appointed by the other members of the Council with the approval of the Secretary of State for Education and Skills. The other members of the Council are appointed by the Secretary of State.

The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review 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 2006 £'000	Year ended 31 March 2005 £'000
The emoluments of the Chairman (Christopher N Banks CBE, Age 46) for the period:		
Salary	51	40
Taxable benefit	0	0
	51	40
The emoluments of the Chief Executive (Mark Haysom, Age 52) for the period:		
Basic salary and other emoluments	204	195
Taxable benefit in kind	0	0
Pension contribution (opted to join premium pension scheme)	26	19
Bonus	**	20
	230	234

**The Chief Executive's bonus is to be approved later in the year.

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

	Date commenced /reappointed or extended	Current term (Years)	Emoluments Year ended 31 March 2006 £'000	Emoluments Year ended 31 March 2005 £'000
Non-executive members				
Christopher N Banks CBE (non-executive until June 2004)	15/06/2004	4	0.0	1.6
Jane Drabble OBE	31/10/2002	4	4.0	4.0
Councillor John Merry	31/10/2002	4	4.0	4.0
Giles Clarke	01/12/2002	4	4.0	4.0
Shirley Cramer	01/12/2002	4	4.0	4.0
Sir Digby Jones	01/12/2002	4	4.0	9.3
Ruth Harker	01/02/2003	4	4.0	4.0
Dame Alexandra Burslem	31/12/2005	1	4.0	4.0
Bryan Gray	01/01/2004	Indeterminate	4.0	4.0
Gareth Cadwallader	01/06/2004	4	4.0	3.3
Frances O'Grady	01/06/2004	4	8.0	5.5
Ian Ferguson ¹	01/06/2004	4	8.0	4.7
Mary Marsh	01/03/2005	4	4.0	0.3
Claire Ighodaro	01/03/2005	4	4.0	0.3
John Taylor	01/03/2005	4	4.0	0.3
Resigned as members				
John Monks	30/04/2004		0.0	0.7
Imtiaz Farookhi	30/04/2004		0.0	0.3
Lynne Morris	26/01/2005		0.0	3.3
Sir George Sweeney	31/01/2005		0.0	3.3
Professor Bob Fryer CBE	31/01/2005		0.0	17.0

Note

(1) Ian Ferguson – emoluments for the period 1/6/04 to 31/3/06 to be claimed.

Senior employees

Salary and benefits in kind

	Year ended 31 March 2006 Salary £'000	Year ended 31 March 2006 Benefits in kind (to nearest £100)	Year ended 31 March 2005 Salary £'000	Year ended 31 March 2005 Benefits in kind (to nearest £100)
National Directors				
Rob Wye Director of Strategy and Communications	105-110	0	95-100	0
Melanie Hunt Director of Learning Group (from 04/01/2006)	20-25 (95-100 full year equivalent)	0	0	0
David Way Director of Skills Group	110-115	0	100-105	0
David Russell Director of Resources Group	120-125	3,000	105-110	2,800
Ray Dowd <i>agenda for change</i> Champion (from 27/03/2006)	0-5 (105-110 full year equivalent)	0	0	0
Regional Directors				
Henry Ball South East	115-120	0	110-115	3,900
Verity Bullough East Midlands (from 31/10/2005) London (until 30/10/2005)	105-110	0	95-100	0
Margaret Coleman Yorkshire and the Humber	105-110	0	100-105	0
Mary Conneely East of England (until 31/12/2005)	80-85 (105-110 full year equivalent)	3,600	105-110	4,600
David Cragg West Midlands	115-120	0	110-115	0
Malcolm Gillespie South West	110-115	3,400	110-115	3,100
Jacqui Henderson London (until 31/10/2005)	85-90 (125-130 full year equivalent)	0	130-135	0
David Hughes London (from 01/10/2005) East Midlands (until 30/09/2005)	110-115	3,700	100-105	3,500
John Korzeniewski North West	110-115	3,100	105-110	2,900
Caroline Neville East of England (from 01/01/2006) Director of Learning Group (until 31/12/2005)	110-115	4,000	105-110	3,800
Chris Roberts North East	105-110	3,300	100-105	2,900

Resigned or retired as Directors

At the time of departure the following former National Directors had not consented to disclosure of their salary and pension details:

Jan Davison, Director of Communications Team (until 29/4/2005)

Remuneration report

(Audited data)

Senior employees (continued)

Pension entitlements

	Accrued pension and related lump sum at age 60 as at 31/03/2006 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31/03/2006 £'000	CETV at 31/03/2005 £'000	Real increase in CETV £'000
National Directors					
Mark Haysom* Chief Executive	0-5	0-2.5	73	35	26
Melanie Hunt Director of Learning Group (from 04/01/2006)	15-20 and lump sum 50-55	0-2.5 and lump sum 2.5-5	297	209	28
Rob Wye Director of Strategy and Communications	35-40 and lump sum 105-110	2.5-5 and lump sum 10-12.5	665	467	63
David Way Director of Skills Group	35-40 and lump sum 110-115	2.5-5 and lump sum 7.5-10	773	572	55
David Russell Director of Resources Group	50-55 and lump sum 150-155	5-7.5 and lump sum 15-17.5	1,123	813	124
Ray Dowd* <i>agenda for change</i> Champion (from 27/03/2006)	0-5	0-2.5	0	0	0
Regional Directors					
Henry Ball# South East	45-50 and lump sum 120-125	0-2.5 and lump sum 0-2.5	1,071	860	32
Verity Bullough East Midlands (from 31/10/2005) Operations, London (until 30/10/2005)	5-10 and lump sum 15-20	0-2.5 and lump sum 2.5-5	79	45	15
Margaret Coleman Yorkshire and the Humber	35-40 and lump sum 110-115	0-2.5 and lump sum 2.5-5	808	632	27
Mary Conneely* East of England (until 31/12/2005)	5-10	0-2.5	127	84	16
David Cragg West Midlands	20-25 and lump sum 60-65	0-2.5 and lump sum 0-5	519	406	32
Malcolm Gillespie South West	15-20 and lump sum 45-50	0-2.5 and lump sum 2.5-5	371	303	26
Jacqui Henderson London (until 31/10/2005)	45-50 and lump sum 135-140	0-2.5 and lump sum 0-2.5	1,008	890	5
David Hughes* London (from 01/10/2005) East Midlands (until 30/09/2005)	5-10	0-2.5	106	56	25
John Korzeniewski North West	35-40 and lump sum 115-120	0-2.5 and lump sum 2.5-5	878	691	28
Caroline Neville* East of England (from 01/01/2006) Director of Learning Group (until 31/12/2005)	5-10	0-2.5	91	49	23
Chris Roberts North East	30-35 and lump sum 100-105	0-2.5 and lump sum 2.5-5	738	573	26

*Opted to join Premium

#Opted to join Classic Plus

Senior Employees (continued) Salary

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

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

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 between membership of premium or joining 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 for service before 1 October 2002 calculated broadly as with 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 if they do, 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 for centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at 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 a 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 the 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 which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to 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, and contributions paid by the employee – including the value of any benefits transferred from another pension scheme or arrangement. It uses common market valuation factors for the start and end of the period.



Mark Haysom
Chief Executive and Accounting Officer
Learning and Skills Council for England
7 July 2006

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 for Education and Skills, 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
 - 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 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 finances for which he is answerable, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting* by The Stationery Office.

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

1 Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Learning and Skills Council's policies, aims and objectives, whilst safeguarding the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Learning and Skills Council (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 it can 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.

The National Council itself consists of between 12 and 16 non-executive members one of whom is appointed as the Chairman. They meet regularly with me and my senior managers, to provide strategic guidance to the executive. As a Chief Executive I am a member of the Council. Schemes of delegation exist between the National Council, local councils and myself.

The Department for Education and Skills sponsors the LSC and appropriate communication channels have been put in place to ensure that the Department is informed of the business of the LSC and that we in turn are informed of the Department's requirements for the LSC.

The Council through its Audit Committee is informed of the risks facing the LSC and the LSC's processes for dealing with risk.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than eliminate all risk of failure, to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going 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 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3 Capacity to handle risk

The LSC has an established risk management policy, which is regularly reviewed. A Risk Management Board consisting of a subset of my Management Group, chaired by the Director of Strategy and Communications, was in place at the start of the year. As the pressures and priorities associated with a major initiative *agenda for change* became apparent it also became clear that a smaller group was needed in order to facilitate speedy decisions. 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.

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 regards to the effective management of risks. Staffing risks associated with *agenda for change* have been recognised and are being addressed.

We have publicised the LSC's priorities and have consulted widely on our *agenda for change*. In doing so we have alerted our strategic partners to the risks that impact on our business.

4 The risk control framework

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 appropriately. In doing so I expect a balanced response to be made to risks, whereby the cost of control is weighed against the likely impact of a risk becoming a reality.

Risks are identified routinely at an operational level, high-level risks are subject to regular scrutiny and reported on.

Although risk management has continued to operate across the LSC one of the impacts of *agenda for change* has been less stringent observation of the formal systems for managing risks. In the main this has meant that the direct link between top corporate risks and local operations risks is not as evident as it should be. Also in some areas the management of risk has been more intuitive than formal following of procedures. Members of the Management Group have agreed a set of principles that will be observed in the future and we are taking steps to promote these principles to all staff.

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

5 Review of effectiveness

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

Audit Committee

A duly constituted Audit Committee has operated through the year and its terms of reference reflect best practice. It consists of National Council members and local Audit Committee chairs and an independent member who is from the accounting profession; all are non-executives. The Audit Committee has met regularly and they have considered reports from Internal Audit on the system of internal control, risk management and governance, from the Provider Financial Assurance Service Centre on providers' systems of internal control and from National Audit Office. They have also taken evidence from senior managers as and when they deemed it appropriate.

The committee, also in line with best practice, has considered its own effectiveness. Within the LSC, each local Learning and Skills Council has a duly constituted local Audit Committee which provides a scrutiny and challenge role with respect to the local operations. A particular strength of these arrangements is that all local Audit Committees are required to review and ratify the individual Executive Director's personal statement on internal control.

Management Group

My Management Group consists of nine Regional Directors and four Group Directors (Resources, Learning, Skills and Strategy and Communications). This Management Group allows me to have a focussed approach to control. I have also maintained a requirement upon Group, Regional and Executive Directors to provide a chain of personal assurance as to the adequacy of internal control in their areas of responsibility.

Internal Audit

A professional and independent Internal Audit service was maintained throughout the year. I, on the advice of the national Audit Committee, agreed Internal Audit's strategy and plans for 2005-06. I meet regularly with the Chief Internal Auditor and receive from him quarterly reports on Internal Audit's findings – these I discuss with my 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 Learning and Skills Council. For 2005-06 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 there were some weaknesses that prevented giving a full assurance. In giving this opinion the Chief Internal Auditor indicated that the nature and magnitude of change being sought and delivered through *agenda for change* was such that the above assurance has to be considered time bound. He has also indicated, however, that *agenda for change* provides the opportunity to implement even stronger levels of control across the LSC.

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 LSC Executive Director receives an annual report on his or her operations, as does each Regional Director. An Internal Audit "control health check" is carried out annual at each Group, Region and local LSC and this informs each of the personal statements on internal control received from my Directors. A spirit of cooperation exists between the LSC staff and Internal Audit and they work together to maintain a culture of continuous improvement.

Risk Management Board

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

Other assurance mechanisms

As Accounting Officer I am required to be satisfied that those organisations that the LSC funds also operate in an appropriate control environment. The LSC has established a Provider Financial Assurance Service Centre (PFA), with responsibility for coordinating and carrying out a programme of visits designed to gain assurances over the systems of control operated by providers and providers' application of LSC funds. The level of assurance work carried out by PFA, or by others on which PFA relies, is commensurate with the level of risks associated. I receive from each of my Executive Directors their personal assurance that providers maintain and operate adequate control environments. They base this assurance on a number of things, foremost of which are:

- Provider Financial Assurance reports
- receipt and examination of FE college accounts
- contract managers' reports
- performance reviews
- Audit Committee scrutiny
- third party assurance (ALI, OFSTED).

6 Significant internal control problems

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 During the year we identified at one local office a case of suspected financial irregularity. The police are currently investigating this case and any further comment could impact adversely on the investigation. I am however assured that internal control systems have been reviewed and improved as and where necessary.

b *agenda for change* Theme 7 involves considerable organisational and staff changes. Whilst maintaining business as usual has been a priority, the changes are impacting on the effectiveness of the LSC's system of control. As a consequence of this the LSC is exposed to a heightened level of risks, particularly in the area of staffing. These risks have identified and are being actively managed.

c Procurement of provision and contract management remained an area for the LSC to improve its performance. The above-mentioned organisational changes provide the opportunity to make lasting improvements in the control of contracting and such opportunities will be exploited.



Mark Haysom
Chief Executive and Accounting Officer
 Learning and Skills Council for England
 7 July 2006



4

£600m

On 1 April 2005, we took over the Learner Support Directorate from the Department for Education and Skills. This added £600 million to our budgets for the year.

+12.5%

In 2005-06, our total spending on programmes increased by 12.5% to £10.1 billion.



More on pages 55–56



Finance

Funding success

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 for the year ended 31 March 2006 under the Learning and Skills Act 2000. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the National Council, the Chief Executive and Auditor

The National Council and Chief Executive 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 issued by the Secretary of State for Education and Skills and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Learning and Skills Council's and Chief Executive's Responsibilities.

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

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

I review whether the statement on page 43 to 45 reflects the Learning and Skills Council's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or form an opinion on the effectiveness of the Learning and Skills Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Management Commentary and sections 1 and 2 of the Annual Report and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Learning and Skills Act 2000 and directions issued by the Secretary of State for Education and Skills, of the state of Learning and Skills Council's affairs as at 31 March 2006 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and directions issued by the Secretary of State for Education and Skills; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General
10 July 2006

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

Income and Expenditure Account

for the year to 31 March 2006

	Note	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Income			
Grant-in-aid from Department for Education and Skills for revenue purposes	2	9,805,882	8,941,855
Transferred from Government Capital Reserve	21	19,685	17,971
Transfer from Donated Asset Reserve	22	286	626
Other income	3	295,204	289,236
		10,121,057	9,249,688
Expenditure			
Programme expenditure			
Learning Participation	4a	7,129,302	6,481,746
School Sixth Forms	4a	1,783,093	1,654,764
Capital	4a	376,902	408,005
Local Intervention and Development	4a	148,090	157,173
Education Maintenance Allowance	4a	406,613	20,781
Other	4a	293,218	289,078
Administration costs			
Staff costs	6a	172,409	140,514
Other costs	7a	88,256	74,061
Depreciation, impairment and losses on disposal	7b	19,881	18,669
		10,417,764	9,244,791
Surplus/(Deficit) before interest		(296,707)	4,897
Cost of capital – notional income/(charge)	11	2,498	(2,036)
Surplus/(Deficit) after interest		(294,209)	2,861
Reversal of cost of capital		(2,498)	2,036
Adjustment in respect of backlog depreciation		0	130
Surplus/(Deficit) for the period under review		(296,707)	5,027
Surplus/(Deficit) carried forward		(296,707)	5,027

All activities are continuing.

The notes on page 51 to 74 form part of these accounts.

Statement of Total Recognised Gains and Losses

as at 31 March 2006

	Note	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Surplus/(Deficit) before interest		(296,707)	4,897
Unrealised surplus on revaluation	23	3,410	2,709
Total Recognised Gains and Losses for the period		(293,297)	7,606

The notes on pages 51 to 74 form part of these accounts.

Balance Sheet

as at 31 March 2006

	Note	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Fixed Assets			
Intangible Assets	9	727	2,815
Tangible Assets	10	39,307	41,416
		40,034	44,231
Current Assets			
Debtors	12a	296,082	352,217
Cash at Bank and in Hand	13	74,734	206,987
		370,816	559,204
Creditors			
Amounts falling due within one year	14a	(435,599)	(381,923)
		(64,783)	177,281
Net Current Assets			
		(24,749)	221,512
Total Assets less Current Liabilities			
		(24,749)	221,512
Provisions for Liabilities and Charges	15	(56,270)	(1,626)
Total Net Assets/(Liabilities)		(81,019)	219,886
Represented by			
Capital and Reserves			
General Reserve	20	(121,057)	175,650
Government Capital Reserve	21	40,038	43,858
Donated Asset Reserve	22	0	378
		(81,019)	219,886

The notes on pages 51 to 74 form part of these accounts.



Mark Haysom

Chief Executive and Accounting Officer

Learning and Skills Council for England

7 July 2006

Cash Flow Statement

for the year to 31 March 2006

	Note	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Net Cash Inflow/(Outflow) from Operating Activities	24	(129,693)	92,615
Capital Expenditure			
Payment for the purchase of Fixed Assets		(14,935)	(12,370)
Proceeds from Sale of Fixed Assets		18	60
Net Cash Outflow from Capital Expenditure		(14,917)	(12,310)
Financing			
Transfer to Government Capital Reserve*	21	12,357	15,058
Net Cash Inflow/(Outflow)	25	(132,253)	95,363

*Note – transfer to the Government Capital Reserve includes £736k capital creditors as at 31 March 2006 (£3,314k at 31 March 2005).

Notes to the Accounts

as at 31 March 2006

Accounting Policies

1 Statement of accounting policies

The financial statements have been prepared in accordance 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 2005-06 Government Financial Reporting Manual (FRm) 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 GAAP) 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 DfES 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 modified historical cost accounting convention, whereby fixed assets, current asset investments and stocks (where material), are reflected at current values.

1.3 Intangible fixed assets

Intangible fixed assets mainly comprise licences to use software developed by third parties. However, computer software 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 (previously £2,500 to 31 March 2005)
- 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 (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 (previously £2,500 to 31 March 2005).

All assets falling into the following categories are capitalised:

- a tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000 (previously £2,500 to 31 March 2005)
- b groups of tangible assets, which individually may be valued at less than £5,000 (previously £2,500 to 31 March 2005) but which together form a single collective asset because the items fulfil all 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
 - iv each individual asset thus grouped has a value of over £1,000 (previously £250 to 31 March 2005).

Tangible fixed assets are depreciated on a straight-line basis in order to write off the value of the asset 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

Notes to the Accounts

as at 31 March 2006

Accounting Policies (continued)

1.4 Tangible fixed assets (continued)

Donated assets

Donated tangible fixed assets are capitalised at valuation, which represents current cost, on receipt. This valuation is credited to the donated assets reserve.

Donated assets are revalued, depreciated and subject to impairment reviews in the same way as other fixed assets.

The small balance remaining at 31 March 2006 on the donated assets reserve has been transferred to the Government Capital Reserve.

1.5 Leases

Operating leases and the rentals are charged to the Income and Expenditure Account 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 Income and Expenditure Account. This charge is calculated at the Government's standard rate of 3.5 per cent in real terms on all assets less liabilities, except for:

- donated assets; and
- bank balances at the Office of the Paymaster General.

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 entity 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 DfES

Grant-in-aid is recognised in the Income and Expenditure Account when it is received.

Grant-in-aid received as a contribution towards fixed assets is credited to the Government Capital Reserve and released to the Income and Expenditure Account over the expected useful economic lives of the related assets.

1.9 Programme accounting basis

Further Education Participation

Further Education (FE) Participation Programme expenditure is recognised in the accounts when the grant is paid to colleges. The LSC has recognised a debtor at year-end representing amounts due to the LSC, based on college audited accounts and an estimate of funds to be recovered from colleges not yet audited. The assessment of funds to be recovered is performed in relation to the academic year that has ended in the financial year of account.

Apprenticeships

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

Adult and Community Learning

Adult and Community 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 Form

School Sixth Form Programme expenditure is accounted for on the basis of amounts that are due to Local Authorities (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 (RTG). The RTG was introduced as part of the transition to LSC funding of School Sixth Forms in April 2002. This was designed to ensure that schools which maintained or increased their sixth form pupil numbers had their sixth form funding at least maintained in real terms. The LSC will recognise a debtor or creditor at each year-end for balances with LAs representing the difference between the proportion of funds due and paid to date for the current academic year. These balances normally arise from changes to funding as a result of returns made to the DfES during the year for pupil numbers.

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 European Social Fund and other income

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 Income and Expenditure Account 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.

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) FE Participation Programme expenditure

Exceptional Funding Support

Exceptional funding support provided to colleges in difficulty is charged to income and expenditure over the life of the recovery plan agreed (recovery plans typically cover a period of four years.)

FE 16 to 18 and 19+ Participation analysis

For the academic year ending 31 July 2005, allocations to FE institutions were in the main assigned between 16 to 18 and 19+ Participation. Only a small element of the allocations required apportionment into 16 to 18 and 19+ Participation and this was based on the allocations already detailed into the age bands.

b) Administration expenditure Provision for agenda for change Theme 7

The majority of the provision relates to redundancy costs which are estimated based on the number of posts in the new structure, but the final costs are subject to change depending on the outcome of the internal selection process. The premises element of the provision is the best available estimate based on independent professional property advice. For further details see Note 15 to the accounts.

Notes to the Accounts

as at 31 March 2006

2 Grant-in-aid Income

Grant-in-aid income is from the DfES. This note shows the purposes for which the Grant-in-aid income was provided by the Department. The Grant is shown within the DfES's Resource Account.

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Programmes		
Learning Participation	6,880,516	6,387,927
School Sixth Forms	1,782,518	1,624,493
Capital	394,250	384,350
Local Intervention and Development	143,458	312,491
Education Maintenance Allowance	404,975	21,650
	9,605,717	8,730,911
Administration	212,522	226,002
Transferred to Government Capital Reserve	(12,357)	(15,058)
Grant-in-aid from DfES for revenue purposes	9,805,882	8,941,855

The LSC certifies that grants received from the DfES have been used for their approved purposes.

Note – the analysis of the Grant-in-aid income has changed in 2005-06 to reflect the budget lines in the Grant Letter from DfES for the same year. Comparatives for 2004-05 have been amended so as to ensure consistency. There is no financial impact as the change represents a re-analysis of the grant received only.

3 Other Income

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Other funding for activities		
European Social funding	257,572	243,692
Single Regeneration Budget funding	10,034	17,425
Other Programme income	25,382	25,801
	292,988	286,918
Income from activities		
Sub-letting of part of premises	1,806	1,747
Training/conferences	153	24
Other activities income	257	547
	2,216	2,318
Total Other Income	295,204	289,236

4a Programme Expenditure

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Programmes		
4.1 Learning Participation		
FE 16–18 Participation	2,867,451	2,355,593
16–18 Apprenticeships	592,484	615,001
E2E	222,373	246,583
16–18 Discretionary Support for Students	40,603	46,455
Learner Support – Care to Learn	14,712	0
Dance and Drama Awards	13,810	9,727
Education Business Links	31,076	36,134
Aim Higher	7,263	13,657
Level 2 Implementation	1,666	22,175
Increasing Flexibility for 14-16 Year Olds	43,083	44,940
FE Ethnic Minority Achievement Grant	0	4,365
Career Development Loans	17,284	0
FE 19+ Participation including Basic Skills	2,292,220	2,137,695
19+ Apprenticeships	232,157	243,162
Adult Discretionary Support for Students	82,012	95,288
Adult and Community Learning	174,398	172,243
Adult Information Advice and Guidance	34,405	36,652
Workforce Development	41,550	48,297
Neighbourhood Learning in Deprived Communities	19,596	20,007
Employer Training Pilots	141,697	88,995
Family Literacy and Numeracy	22,222	27,845
Family Learning and Adult Learning Promotion	11,567	13,360
Union Learning Fund	13,695	11,181
Area Inspections	43,189	38,439
IIP Small Firms Initiative	4,150	12,619
FE 19+ New Entrepreneur Scholarships	5,135	5,818
Learning and Skills Development	6,971	6,435
Offenders in the Community	34,781	8,842
NES Employer Pilots	16,671	12,690
Adult Skills Pilot	21,338	23,719
Regional Skills Funds	21,538	27,384
TEC Legacy	23,467	27,648
Other Learning Participation programme expenditure	34,738	28,797
Total Learning Participation	7,129,302	6,481,746
4.2 School Sixth Forms	1,783,093	1,654,764
Total School Sixth Forms	1,783,093	1,654,764

Notes to the Accounts

as at 31 March 2006

4a Programme Expenditure (continued)

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
4.3 Capital		
Raising Disability Access Standards in FE	29,155	26,868
Raising Disability Access Standards in Community Learning	17,986	18,323
FE and 16–19 Sector Rationalisation Capital Funding	993	15,189
FE Capital – Information and Learning Technology	42,519	69,385
FE Capital – Buildings	210,757	201,069
Programme Systems Development and Support	16,248	11,889
Adult and Community Learning Capital	15,564	20,511
Neighbourhood Learning in Deprived Communities Capital	9,502	9,082
Other Capital expenditure	34,178	35,689
Total Capital	376,902	408,005
4.4 Local Intervention and Development		
Local Initiatives Fund	91,249	105,252
Transforming Local Delivery	0	3,179
Skills for Life	33,598	28,603
Golden Hellos	6,359	5,261
Other Local Intervention and Development programme expenditure	16,884	14,878
Total Local Intervention and Development	148,090	157,173
4.5 Education Maintenance Allowance	406,613	20,781
Total Education Maintenance Allowance	406,613	20,781
4.6 Other programmes		
European Social Fund (ESF)	257,943	245,465
Local Initiatives – Single Regeneration	10,049	17,425
Local Initiatives – Non DfES	22,932	26,187
Other Initiatives programme expenditure	2,294	1
Total Other Programmes	293,218	289,078
Total Programme Expenditure	10,137,218	9,011,547

Note – the descriptions and classification of some programmes have been changed in 2005-06 to reflect the Grant Letter and reporting requirements of DfES for the same year. Comparatives for 2004-05 have been amended so as to ensure consistency. There is no financial impact as the change represents a re-analysis of programmes only.

4b Programme Expenditure by Region

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Programmes		
Regional analysis of programme funding		
East of England	933,436	826,094
East Midlands	835,676	746,546
Greater London	1,694,907	1,512,792
North East	610,762	534,759
North West	1,444,965	1,293,934
South East	1,440,787	1,255,120
South West	959,883	833,342
West Midlands	1,194,559	1,068,306
Yorkshire and the Humber	1,022,243	940,654
Total Programme Expenditure by Region	10,137,218	9,011,547

4c Programme Expenditure by Organisation Type

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Programmes		
Type of organisation in receipt of LSC programme funding		
Local Authorities	2,311,617	2,172,893
Public Corporations and Trading Funds	25,070	17,276
FE Colleges and other institutions	5,590,229	5,080,853
Other Non-Profit Institutions	217,252	163,690
Private Sector	1,530,835	1,178,273
Other Bodies and Organisations (includes Government Bodies)	462,215	398,562
Total Programme Expenditure by Organisation Type	10,137,218	9,011,547

Notes to the Accounts

as at 31 March 2006

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, the PFA team are responsible for planning, coordinating and delivering a programme of work to secure this assurance. The outcomes of PFA work are scrutinised by local and national LSC audit committees.

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

Grants

Included in these financial statements are grants to FE learning providers totalling £5,700 million (2004-05 £5,099 million), which the LSC has paid for the academic years ending 31 July 2005 (four months) and 31 July 2006 (eight months). The LSC also paid £540 million (2004-05 £605 million) grants to colleges and other institutions for specific purposes.

The mis-match between the accounting periods means that certain formal assurances on entitlement and the proper use of the funds will only be received from these providers in line with their own annual accounts reporting timetable, which extends beyond that for these financial statements. Alternative arrangements have therefore been put in place to provide interim assurance as at 31 March 2006. The overall picture is described below.

5a Further Education colleges and institutions

During the financial year 2005-06, the LSC paid grants of £5,160 million (2004-05 £4,493 million) to colleges and other institutions for the provision of FE on the basis of agreed Development Plans. The LSC implemented plan-led funding for 2004-05 and under this initiative, the majority of colleges and many other institutions are 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). LEE audits were carried out on 47 colleges during March 2006. Although four of the colleges received unsatisfactory conclusions, the findings were not significant and overall the LSC gained satisfactory assurance from the LEE audits. Therefore for the majority of colleges, the primary sources of assurance for the LSC's 2005-06 financial statements are audit opinions on their accounts for the academic year ended 31 July 2005. Final funding claims for the 37 colleges not eligible for plan-led funding in academic year 2004/05 were also required to be audited.

To provide assurance in respect of funds paid to FE colleges for the period 1 August 2005 – 31 March 2006, eligible 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 2006, 334 eligible colleges have submitted the required statement. For the 40 colleges that are required to provide the LSC with an interim regularity opinion, submission is due by 31 May. As at 16 June, 35 unqualified opinions have been received.

The position in respect of the 2004/05 academic year is shown in Tables 1 and 2.

Table 1: 2004/05 position of FE colleges (£4,774 million) (2003/04 £4,697 million)

	Due	Received	Outstanding
Audited Final Funding Claims	37	37	–
Financial Statements	384	382	2
Final Regularity Opinions	384	383	1

There is one college that has both its financial statements and regularity opinion outstanding. All outstanding opinions are being pursued by the LSC. The LSC regards none of the two institutions as presenting a significant risk to the LSC.

Table 2: 2004/05 position for other education institutions (£254 million) (2003/04 £263 million)

	Due	Received	Outstanding
Audited Final Funding Claims	104	100	4

The LSC regards none of the four institutions as presenting a significant risk to the LSC, as funds have been recovered during the year on the basis of funding claims submitted.

Ufi and learndirect

Throughout 2005-06 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. The Ufi interim regularity opinion taken part way through the academic year 2005/06 to support the accounts was unqualified. Ufi and learndirect is included within the FE 19+ Participation programme line in Note 4a of the accounts.

5b Adult and Community Learning

The LSC paid £174 million (2004-05 £172 million) for adult and community learning (ACL) to Local Authorities (LAs) in England in the financial year 2005-06. Four months of this relates to the academic year ending 31 July 2005 and eight months relates to the academic year ending 31 July 2006.

For the year ending 31 July 2005, each LA was required to submit an externally audited statement on the use of ACL funding. Of the 149 LAs that received ACL funding in this period, 11 audited statements are still outstanding.

A similar assurance process will operate for the year ending 31 July 2006, with audited Use of Funds Statements due to be received by December 2006. In the interim, the LSC has examined the use of funds in a sample of 10 LA and non-LA providers, and overall satisfactory assurance was gained.

For the year ending 31 July 2004, 15 audited statements are still outstanding. Local LSCs are pursuing these outstanding statements from individual providers.

5c School Sixth Forms

The LSC paid LAs £1,783 million (2004-05 £1,655 million) for School Sixth Forms in the financial year 2005-06. Four months of this relates to the academic year ending 31 July 2005. Eight months relates to the year ending 31 July 2006.

All schools are required to make two 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 2006 using data from the September 2004 return, pupil numbers per the September 2004 census count and January 2005 pupil level annual school census (PLASC). September 2004 pupil census data was audited in summer 2005 at a sample of 294 schools.

Contracts

Note 4a of these financial statements includes payments made in respect of programmes including apprenticeships and E2E, employer training pilots, local initiatives fund, and ESF. The LSC's PFA teams deliver assurance over learning providers' use of funds based on audit plans which are approved by the LSC's audit committees. Coverage of providers and funding streams is dependent on a detailed risk assessment, and audits take place on a cyclical basis. Where PFA teams identify funds at risk the LSC takes action to recover funding.

Notes to the Accounts

as at 31 March 2006

6a Staff costs

Information in respect of Board members' and senior employees' emoluments and pension entitlements is provided in the Remuneration Report on pages 36 to 41.

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
The aggregate payroll costs for the LSC were as follows:		
Salaries	125,679	119,245
Social security	10,643	10,047
Pension costs	22,697	16,109
Redundancies and payment in lieu of notice	35,436	377
Other staff (includes agency/contract/seconded staff)	9,890	11,629
	204,345	157,407
Staff costs related to Programmes	(31,936)	(16,893)
	172,409	140,514

Note – the above includes part of the charge (£34.79 million on redundancy and outplacement support) relating to the provision for the reorganisation of the LSC under *agenda for change* Theme 7 included in Note 15 to the Accounts.

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

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. The LSC is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £22,134,303 were paid to the PCSPS by 31 March 2006 (2004-05 £15,500,535) at one of four rates in the range 16.2 per cent to 24.6 per cent of pensionable pay, based on salary bands (the rates in 2004-05 were between 12 per cent and 18.5 per cent). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1 per cent and 25.5 per cent.

The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £146,734 (2004-05 £90,002) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £10,718 (2004-05 £6,935), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

No contributions were outstanding to the partnership pension providers at the balance sheet dates of 31 March 2006 and 31 March 2005.

6c Ill-health retirement

In 2005-06 two individuals retired on ill-health grounds; the total additional pension liabilities in the year amounted to £5,450. For 2004-05 no individuals retired on ill-health grounds.

6d Average number of staff employed

i 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
Human Resources		106		4	110
Local LSCs	10	3,238	7	196	3,451
	15	4,126	12	298	4,451

ii Year ended March 2005

	Senior Management Staff Number	Payroll Staff Number	Inward Seconded Staff Number	Agency/ Temporary Staff Number	Year ended 31 March 2005 Total Staff Number
The average number of staff employed during the year, including the Chief Executive, was:					
Group					
Learning	1	108	3	15	127
Skills	1	94		7	102
Resources	2	408	3	70	483
Strategy and Communications	3	49	1	12	65
Human Resources		98		22	120
Local LSCs	10	3,148	19	232	3,409
	17	3,905	26	358	4,306

7a Administration (other costs)

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
National and Local Council members' emoluments	50	49
National and Local Council members' associated travel and subsistence costs	96	121
Travel and subsistence – staff	7,999	7,215
Recruitment and training	7,417	6,955
Furniture and office equipment	505	885
IT and computer maintenance	13,523	14,105
Telecommunications and postage	6,433	6,657
Publications, printing and publicity	3,853	3,330
General administration expenditure	4,813	4,015
Premises	44,104	26,643
External audit fee	150	150
Legal fees and other audit fees	871	1,656
Consultancy fees	3,467	6,010
	93,281	77,791
Non pay costs related to Programmes	(5,025)	(3,730)
	88,256	74,061

Note – the above includes part of the charge (£17.7 million on premises and £3.21 million on HR support) relating to the provision for the reorganisation of the LSC under *agenda for change* Theme 7 included in Note 15 to the Accounts.

Notes to the Accounts

as at 31 March 2006

7b Depreciation, impairment and losses on disposal

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Intangible Fixed Assets (Note 9)		
Depreciation charge for period	1,642	1,936
Loss on disposal	927	260
Tangible Fixed Assets (Note 10)		
Depreciation charge for period	12,737	12,829
Loss on disposal	3,657	668
Loss on impairment	918	2,976
Total charged for period	19,881	18,669

8 Operating lease commitments

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'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	1,300	826
Two to five years	2,655	1,734
More than five years	12,143	13,461
	16,098	16,021
b Others		
Leases expiring within:		
One year	402	3,572
Two to five years	3,456	1,385
More than five years	1,905	2,074
	5,763	7,031
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)	16,053	15,834
Other Leases (includes telecommunications and lease cars)	7,256	7,005
	23,309	22,839

9 Intangible Fixed Assets

	IT Software £'000	Total Purchased £'000
Cost or Valuation		
At 1 April 2005	5,938	5,938
Additions	229	229
Disposals	(3,184)	(3,184)
At 31 March 2006	2,983	2,983
Depreciation		
At 1 April 2005	(3,123)	(3,123)
Disposals	2,257	2,257
Charge for period	(1,642)	(1,642)
Revaluation	252	252
At 31 March 2006	(2,256)	(2,256)
Net Book Value (NBV)		
At 1 April 2005	2,815	2,815
Total NBV Intangible Fixed Assets at 31 March 2006	727	727

Notes

- a The revaluation of accumulated depreciation includes the relieving of previously fully depreciated intangible fixed assets that remain in use.
- b The capitalisation threshold for intangible assets was changed to £5,000 in 2005-06 (previously £2,500 to 31 March 2005). The financial impact of this accounting estimate change has resulted in a loss on disposal of £766k charged to expenditure included with other losses on disposal of intangible assets in Note 7b.

Disposals in Note 9 above include those relating to the change in the capitalisation threshold and this element is analysed below:

	Capitalisation threshold £'000	Other Disposals £'000	Total Disposals £'000
Disposals			
Cost or Valuation	2,773	411	3,184
Depreciation	(2,007)	(250)	(2,257)
Net Book Value	766	161	927

Notes to the Accounts

as at 31 March 2006

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 Purchased £'000
Cost or Valuation						
At 1 April 2005	1,631	88	19,844	2,189	46,051	69,803
Reclassification of assets under construction	(3,539)	0	0	0	3,539	0
Reclassification of assets	0	0	59	(196)	137	0
Additions	3,027	6	1,548	121	7,431	12,133
Disposals	0	(47)	(1,818)	(1,363)	(10,571)	(13,799)
Revaluation	0	0	(3)	(11)	2	(12)
Impairment	0	0	0	0	(1,642)	(1,642)
At 31 March 2006	1,119	47	19,630	740	44,947	66,483
Depreciation						
At 1 April 2005	0	(48)	(5,733)	(1,416)	(21,190)	(28,387)
Reclassification of assets	0	0	(34)	107	(73)	0
Disposals	0	35	1,134	1,211	7,672	10,052
Charge for period	0	(18)	(2,322)	(508)	(9,889)	(12,737)
Revaluation	0	3	109	202	2,858	3,172
Impairment	0	0	0	0	724	724
At 31 March 2006	0	(28)	(6,846)	(404)	(19,898)	(27,176)
Net Book Value (NBV)						
At 1 April 2005	1,631	40	14,111	773	24,861	41,416
Total NBV Tangible Fixed Assets at 31 March 2006	1,119	19	12,784	336	25,049	39,307

Notes

- a The revaluation of accumulated depreciation includes the relieving of previously fully depreciated tangible fixed assets that remain in use.
- b The capitalisation threshold for tangible assets was changed to £5,000 in 2005-06 (previously £2,500 to 31 March 2005). The financial impact of this accounting estimate change has resulted in a loss on disposal of £2,360k charged to expenditure included with other losses on disposal of tangible assets in Note 7b.

Disposals in Note 10 above include those relating to the change in the capitalisation threshold and this element is analysed below:

	Capitalisation threshold £'000	Other Disposals £'000	Total Disposals £'000
Disposals			
Cost or Valuation	3,807	9,992	13,799
Depreciation	(1,447)	(8,605)	(10,052)
Net Book Value	2,360	1,387	3,747

11 Cost of Capital

Guidance given by the Treasury in the Financial Reporting Manual requires 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.

The average capital employed is defined as an average of total assets less total liabilities at 1 April and 31 March. The total assets are to exclude donated assets, and non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England.

For 2005-06 the cost of capital represents notional income of £2.5 million rather than a charge as in the previous year due to the increase of liabilities over assets in the balance sheet as at 31 March 2006.

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Capital employed as at 1 April	12,806	103,536
Capital employed as at 31 March	(155,565)	12,806
Average capital employed	(71,380)	58,171
Interest on capital at 3.50% per annum	(2,498)	2,036

12a Debtors

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Due in one year		
FE College debtors	24,769	39,800
Work-based learning debtors	1,338	13,328
School Sixth Form debtors	29,362	24,501
Trade debtors	2,107	3,441
Other debtors	56,224	31,722
Sub-total debtors	113,800	112,792
Accrued income	97,347	114,791
FE College prepayments	62,477	95,721
Administration cost prepayments	5,831	5,712
Other prepayments	15,304	20,174
Sub-total accrued income and prepayments	180,959	236,398
Sub-total debtors, accrued income and prepayments	294,759	349,190
Capital debtors (sale proceeds of fixed assets)	73	2
Sub-total due in one year	294,832	349,192
Due in more than one year		
FE College debtors	1,250	3,025
Total Debtors	296,082	352,217

Within FE college debtors, the value of the clawback of 2004/05 main revenue allocation repayable to the LSC is £0.5 million (2003/04 £1.4 million), which has been based on shortfalls against funding agreements for 2004/05, as evidenced by audited or estimated student activity returns.

FE college debtors also include £20.8 million at 31 March 2006 (2004-05 £26.2 million) due to the LSC in respect of advances of future years' funding to 17 providers that experienced cash flow difficulties during the year (the majority of these are due for repayment within 2006-07). The FE college debtors at 31 March 2005 have been restated to re-analyse the amount due in one year and more than one year for the advances element only. The advances due in more than one year were fully allocated to the category of debtors due in more than one year but each advance has now been split between due in one year and more than one year.

Debtors include a provision for doubtful debts of £8.6 million at 31 March 2006 (£8.2 million 2004-05) after the write-off of £1.6 million of bad debts in 2005-06 as detailed at Note 27.

Notes to the Accounts

as at 31 March 2006

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 2006 £'000	As at 31 March 2005 £'000
Due in one year		
Local Authorities	47,370	28,351
NHS Trusts	487	23
Public Corporations and Trading Funds	24	53
Other Central Government Bodies	92,069	152,683
Non-Profit Institutions	106,829	139,209
Private Sector	44,866	27,481
Other Bodies and Organisations	3,187	1,392
Sub-total due in one year	294,832	349,192
Due in more than one year		
Non-Profit Institutions	1,250	3,025
Total Debtors by Organisation Type	296,082	352,217

Note – the above analysis now includes accrued income and prepayments and the restatement of college advances for 2005-06 as explained in Note 12a. The comparatives for 2004-05 have been restated to include the same for that year. This is an additional analysis of the same total debtors so there is no financial impact.

12c Debtors: Balances included above with other Government Bodies

The following note details debtor balances exceeding £1 million with other Government Bodies included in the above:

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Local Authorities		
Birmingham City Council	1,894	1,524
Bradford Metropolitan Council	327	1,084
Kent County Council	1,425	1,036
Other Central Government Bodies		
Department for Work and Pensions	88,160	110,447
CITB-ConstructionSkills	83	1,409
Advantage West Midlands	1,185	1,732
Yorkshire Forward	3,402	3,068

Note – as a result of including accrued income and prepayments for 2005-06 in Note 12b the comparatives for 2004-05 have been restated in Note 12c where applicable.

There were no material (exceeding £1 million) debtor balances at 31 March with the following type of Government Bodies:

- NHS Trusts
- Public Corporations and Trading Funds

13 Cash at bank and in hand

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Cash held at the Office of Paymaster General	74,546	206,702
Cash held at other banks and in hand	188	285
	74,734	206,987

The DfES authorises a working balance at 31 March of 1 per cent of the total resource budget agreed for the financial year. This working balance excludes funding for 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 2006 £'000	As at 31 March 2005 £'000
Total resource budget	10,182,820	8,976,739
1% thereof	101,828	89,767
Paymaster General account balance for DfES funding within the above	51,940	79,182

14a Creditors: Amounts falling due within one year

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Trade creditors	3,952	14,495
FE College creditors	14,106	28,794
Work-based learning creditors	111,461	110,937
School Sixth Form creditors	0	1,577
Tax and Social Security	103	143
Other creditors	22,375	42,113
Sub-total creditors	151,997	198,059
Deferred income	78,112	37,408
FE College accruals	7,679	406
Work-based learning accruals	12,958	3,938
School Sixth Form accruals	16	86
Other accruals	184,101	138,712
Sub-total deferred income and accruals	282,866	180,550
Sub-total creditors, deferred income and accruals	434,863	378,609
Capital creditors	736	3,314
Total Creditors	435,599	381,923

Note – Local Authority creditors have been re-analysed between School Sixth Form creditors and other creditors to provide a more consistent analysis by main programme similar to that provided in Note 12 for Debtors.

Notes to the Accounts

as at 31 March 2006

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 2006 £'000	As at 31 March 2005 £'000
Local Authorities	32,883	32,717
NHS Trusts	146	226
Public Corporations and Trading Funds	10,107	7,227
Other Central Government Bodies	91,482	53,238
Non-Profit Institutions	118,016	99,318
Private Sector	176,595	176,840
Other Bodies and Organisations	6,370	12,357
Total Creditors by Organisation Type	435,599	381,923

Note – the above analysis now includes deferred income and accruals for 2005-06 and the comparatives for 2004-05 have been restated to include the same for that year. This is an additional analysis of the same total creditors so there is no financial impact.

14c Creditors: Balances included above with other Government Bodies

The following note details creditor balances exceeding £1 million with other Government Bodies included in the above:

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Public Corporations and Trading Funds		
Learning and Skills Development Agency	2,573	2,142
Central Office of Information (COI) Communications	2,163	405
Local Authorities		
Manchester City Council	1,332	495
Other Central Government Bodies		
Higher Education Funding Council for England	4,238	122
Ministry of Defence	6,747	2,944
Department for Work and Pensions	72,048	34,292
CITB-ConstructionSkills	8,252	5,009

Note – as a result of including deferred income and accruals for 2005-06 in Note 14b the comparatives for 2004-05 have been restated in Note 14c where applicable. Where the balance for an organisation did not exceed £1 million for 2005-06 then the comparative for 2004-05 will also be excluded where that was also below £1 million.

There were no material (exceeding £1 million) creditor balances at 31 March with the following types of Government Bodies:
NHS Trusts

15 Provisions for Liabilities and Charges

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Balance of provision at 1 April	1,626	7,706
Additional charge in year	56,022	238
Provision utilised in year	(818)	(6,250)
Provision unused and reversed during the year	(560)	(68)
	56,270	1,626
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	570	422
Provision for reshaping the LSC in 2003-04	0	1,204
Provision for <i>agenda for change</i> Theme 7	55,700	0
Total Provision at 31 March	56,270	1,626

The LSC is working through a programme we call our *agenda for change* – aimed at transforming the post-16 sector and the way we work with partners and stakeholders. Six work streams are focused on skills, quality, data, funding, business excellence and reputation. The seventh stream is focused on our internal processes. The LSC needs to change to deliver the sort of strategic change we expect from our partners.

Note 15 includes a provision of £55.7 million to cover the costs for the reorganisation of the LSC under the seventh stream of the *agenda for change* programme. The majority of this provision relates to redundancy costs which are estimated based on the number of posts in the new structure. The final costs are subject to change depending on the outcome of the internal selection process. The premises element of the provision is the best available estimate based on independent professional property advice.

The charge to expenditure for this provision is included in the following Notes to the Accounts:

	Note	£'000
Redundancy and outplacement support	6a	34,790
Premises	7a	17,700
HR support	7a	3,210
Total provision for <i>agenda for change</i> Theme 7		55,700

16 Capital commitments

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

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Payable within one year		
Authorised and contracted for	17,669	16,954
	17,669	16,954
Payable between two to five years		
Authorised and contracted for	14,495	32,007
	14,495	32,007

Notes to the Accounts

as at 31 March 2006

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 2006 £'000	As at 31 March 2005 £'000
Payable within one year		
FE Participation	1,896,606	1,951,629
School Sixth Forms	620,578	564,926
FE Capital project support	188,971	169,301
Other capital grants (Accessibility and Centres of Vocational Excellence)	78,809	69,217
	2,784,964	2,755,073
Payable between two to five years		
FE Capital project support	118,062	135,632
Other capital grants (Accessibility and Centres of Vocational Excellence)	4,022	25,269
	122,084	160,901

18 Contingent liabilities

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
The LSC had no material contingent liabilities as at 31 March 2006	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 DfES, 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

	Note	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Balance at 1 April		175,650	170,623
Surplus/(Deficit) before interest		(296,707)	4,897
Sub-total current period		(121,057)	175,520
Backlog depreciation	21, 22	0	130
Sub-total other movements		0	130
Balance at 31 March		(121,057)	175,650

21 Government Capital Reserve

	Note	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Balance at 1 April		43,858	44,360
Allocated from grant-in-aid (purchase of capital assets)	2	12,357	15,058
Transferred to Income and Expenditure Account		(19,685)	(17,971)
Revaluation/relief		3,254	2,535
Backlog depreciation		0	(124)
Transfer from Donated Asset Reserve	22	254	0
Balance at 31 March		40,038	43,858

22 Donated Asset Reserve

	Note	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Balance at 1 April		378	836
Additions		6	0
Revaluation/relief		156	174
Backlog depreciation		0	(6)
Transferred to Income and Expenditure Account	2	(286)	(626)
Transfer balance to Government Capital Reserve	21	(254)	0
Balance at 31 March		0	378

23 Reconciliation of Movement in funds

	Note	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Opening balance of funds		219,886	215,819
Movement in funds:			
General Reserve			
Operating surplus/(deficit) before interest		(296,707)	4,897
Backlog depreciation	21, 22	0	130
Government Capital Reserve			
Allocated from Grant-in-aid (purchase of capital assets)	2	12,357	15,058
Transferred to Income and Expenditure Account		(19,685)	(17,971)
Backlog depreciation	21	0	(124)
Donated Asset Reserve			
Additions	22	6	0
Transferred to Income and Expenditure Account		(286)	(626)
Backlog depreciation	22	0	(6)
Sub-total		(304,315)	1,358
Other Recognised Gains and Losses for the year			
Capital – Revaluation/relief	21	3,254	2,535
Donated – Revaluation/relief	22	156	174
Sub-total – Other Recognised Gains and Losses for the year		3,410	2,709
Net (reduction)/increase in funds		(300,905)	4,067
Closing balance of funds		(81,019)	219,886
	Note	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Represented by			
Balance on Reserves:			
General Reserve	20	(121,057)	175,650
Government Capital Reserve	21	40,038	43,858
Donated Asset Reserve		0	378
Closing balance of funds		(81,019)	219,886

Notes to the Accounts

as at 31 March 2006

24 Reconciliation of operating surplus to net cash flow from operating activities

	Note	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Operating surplus/(deficit) before interest		(296,707)	4,897
Depreciation charges	7b	14,379	14,765
Release from Government Capital Reserve	21	(19,685)	(17,971)
Release from Donated Asset Reserve	22	(286)	(626)
Loss on disposal of Fixed Assets	7b	4,584	928
Loss on impairment	7b	918	2,976
(Increase)/Decrease in Debtors – excludes capital debtors	12a	56,206	60,280
Increase/(Decrease) in Creditors – excludes capital creditors	14a	56,254	33,446
Increase/(Decrease) in Provisions for Liabilities and Charges	15	54,644	(6,080)
Net Cash Inflow/(Outflow) from Operating Activities		(129,693)	92,615

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

	Note	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Cash at bank and in hand at 1 April	13	206,987	111,624
Increase/(Decrease) in cash for the year – per cash flow statement		(132,253)	95,363
Cash at bank and in hand at 31 March	13	74,734	206,987

26 Related Party Transactions

The LSC is an NDPB sponsored by the DfES. The DfES is regarded as a related party. During this period the LSC has had various material transactions with the DfES, Department for Work and Pensions, Higher Education Funding Council for England, Ministry of Defence, and the Learning and Skills Development Agency (LSDA) the Board of which is appointed by the Secretary of State for Education and Skills.

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 arms length:

- services provided by North West Regional Development Agency for whom Council member Bryan Gray is Chairman
- funding allocations to Manchester Metropolitan University for whom Council member Dame Alexandra Burslem was Vice Chancellor
- funding allocations to and services provided by Bolton Lifelong Learning Partnership for whom Council member Dame Alexandra Burslem is Chair
- funding allocations to and services provided by City College Manchester for whom Council member Dame Alexandra Burslem is a Board member
- services provided to Sector Skills Development Agency for whom Council member Gareth Cadwallader is a Board member
- funding allocations to and services provided by E-skills UK for whom Council member Gareth Cadwallader is a Board member
- funding allocations to Birmingham Local Authority in respect of Bournville School and Sixth Form Centre for whom Council member Ruth Harker is Headteacher
- funding allocations to Shooters Hill post-16 Campus for whom Council member Mary Marsh is Governor
- funding allocations to Salford City Council for whom Council member John Merry is Councillor
- services provided by North West Regional Development Agency for whom Council member John Merry is a Board member
- services provided by UK Skills for whom Council member Frances O'Grady is a Director
- funding allocations to Catalyst for whom Council member Frances O'Grady is a Director
- funding allocations to Sheffield College for whom Council member John Taylor is Chief Executive
- services provided by LSDA for whom Regional Director Henry Ball was a Board member
- services provided by Capital Quality Ltd for whom Regional Director Verity Bullough is a Director
- funding allocations to and services provided by Shipley College for whom the spouse of Regional Director Margaret Coleman is Assistant Principal
- funding provided for Technology Innovation Centre Ltd and Technology Innovation Centre (Commercial) Ltd for whom Regional Director David Cragg is a Director
- services provided by Birmingham Partnership for Change Ltd for whom Regional Director David Cragg is a Director
- services provided by Birmingham Professional Divercity for whom Regional Director David Cragg is a Director
- services provided for and by Birmingham Core Skills Development Partnership Ltd for whom Regional Director David Cragg is a Director
- services provided for and by Birmingham and Solihull Connexions Partnership Ltd for whom Regional Director David Cragg is a Director
- funding allocations to and services provided by Warwickshire College for whom the spouse of Regional Director Malcolm Gillespie was Vice President
- funding allocations to and services provided by Plymouth College of Further Education for whom the spouse of Regional Director Malcolm Gillespie is Vice President
- services provided by North West Regional Development Agency for whom Regional Director John Korzeniewski is a Board member.

Notes to the Accounts

as at 31 March 2006

27 Losses and Special Payments

27a Losses Statement

The LSC incurred the following material losses in the period to 31 March 2006. The losses have been charged to the relevant programme in Note 4a.

Category	Description	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
A(i)	Cash losses		
	Work-based Learning Providers (WBL)		
	2005-06 – Cases below £250,000 individually	757	
	2004-05 – Cases above £100,000 individually		4,905
	2004-05 – Other cases below £100,000 individually		1,777
		757	6,682
	European Social Fund Providers (ESF)		
	2005-06 – Cases below £250,000 individually	781	
	2004-05 – Cases below £100,000 individually		136
	Other Programme Providers		
	2005-06 – Cases below £250,000 individually	81	
	2004-05 – Cases below £100,000 individually		47
	Total cash losses	1,619	6,865

With the agreement of the Committee of Public Accounts (PAC) the Treasury has amended the reporting threshold for losses from £100,000 to £250,000 from 1 April 2005.

At 31 March 2006 there were 77 cases (35 WBL Providers, 16 ESF Providers and 26 Other Programme Providers) of which none were 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 £5,000 and subject to an overall limit of £100,000 in any one year. The DfES and HM Treasury have approved the other cases within their respective delegated authorities as summarised below:

Authority	Item value	Number of cases	Loss £'000
LSC	Up to £5,000	36	45
DfES	£5,000 to £100,000	38	1,155
HM Treasury	Over £100,000	3	419
	Total Losses	77	1,619

27b Special Payments

The LSC incurred no special payments in the period to 31 March 2006 (2004-05 Nil).

Annex A

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 Reform

The Government's policy document *14–19: opportunity and excellence*, published in January 2003, set out plans for reforming the curriculum for 14-to 16-year-olds and giving young people under 19 a broader choice of subjects and qualifications. Pilots of local partnerships linking all the organisations responsible for delivering education and training to this age group will identify and spread good practice, and inform the national development of 14–19 education and training from 2005/06.

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. In 1999, seven million adults in the UK had poor basic literacy and numeracy skills. Half of this number were already in employment.

Adult Learning Grants (ALGs)

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

Apprenticeships

Apprenticeships offer training in the workplace. Young Apprenticeships allow 14-to 16-year-olds to spend two days a week learning a trade. Apprenticeships (equivalent to GCSE level) give people aged 16 and over on-the-job training to NVQ Level 2 while they get 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 and a technical certificate. The LSC funds apprenticeship training and assessment costs.

Centres of Vocational Excellence (CoVEs)

Training centres that provide vocational training in specialist areas needed by the local economy. Centres of Vocational Excellence 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.

Employer Training Pilots (ETPs)

These encourage training in small firms by funding training schemes and, in some areas, covering the costs of releasing staff for training in working hours. The employer decides on the type and method of training. ETPs will be extended into the Train to Gain service.

Enterprise Advisor Service

Works with 1,000 secondary schools, mainly in deprived areas, to improve the quantity and quality of learning about business. It aims to increase the emphasis on enterprise within the curriculum and strengthen links with employers.

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: FE and Higher Education (HE). FE covers learning opportunities up to the standard of GCE A-levels and NVQ Level 3.

Higher Education (HE)

HE includes courses above the standard of GCE A-levels or NVQ Level 3. Examples include degree courses, postgraduate courses and Higher National Diplomas (HNDs).

Investors in People

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

Annex A (continued)

'Light-touch' audit

An inspection of a learning provider that makes limited demands and relies on a level of trust between the inspector and the learning provider.

Local Authorities

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

National Employer Skills Survey

This survey provides detailed information about employers' recruitment problems, their experience of skills gaps and their involvement in training. We commissioned it in partnership with the Sector Skills Development Agency and the Department for Education and Skills (DfES). It is the largest survey of its kind ever done in England, based on 72,100 interviews from a representative sample of English employers.

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.

Business cycle

Introduced in 2004, this is our new process for planning and managing skills training and education to make sure they fit the changing needs of employers. It is based on an annual review of the skills available to employers, which forms the basis of planning and action through the year.

Plan-led funding

This is the new, simplified way we give funds to FE providers. Providers agree three-year development plans with their local LSC, which pays them to carry out the plans and monitors their performance against those plans.

Qualifications and Curriculum Authority (QCA)

Regulates standards in education and training.

Regional Development Agencies (RDAs)

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

Sector Skills Councils (SSCs)

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 1,770 School Sixth Forms in 138 local education authorities (LEAs). In the remaining 12 LEAs the education of over-16s is mainly in FE colleges and sixth-form colleges.

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 who develop their workforces.

Union Learning Fund

An LSC-run fund that helps trade unions improve workforce skills by encouraging training in the workplace.

Years

The academic year runs from August to July and is written in the style '2005/06' in this report. The financial year runs from April to March and is written in the style '2005-06'.

Further information

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

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

The media should call 07881 837 030 with any queries about this Report or any other LSC issue.

Other useful websites

Apprenticeships
www.apprenticeships.org.uk

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

Connexions
www.connexions.gov.uk

Department for Education and Skills
www.dfes.gov.uk

Investors in People
www.iipuk.co.uk

QIA
www.qia.org.uk

SSDA
www.ssda.org.uk

Standards Unit
www.standards.dfes.gov.uk

Train to Gain
www.traintogain.gov.uk

TUC
www.tuc.org.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 (February 2005)**
www.dfes.gov.uk/publications/14-19educationandskills/index.shtml
- **Equality and Diversity Strategy 2004/07**
http://readingroom.lsc.gov.uk/pre2005/learningopportunities/promotion/equality-and-diversity-strategy-04-07.pdf
- **Other equality and diversity documents**
www.lsc.gov.uk/National/Documents/Keyinitiatives/EqualityandDiversity/default.htm
- **LSC Business Cycle (April 2004)**
http://readingroom.lsc.gov.uk/pre2005/ourbusiness/strategy/shaping-a-better-future.pdf
- **LSC Grant Letter 2005-06**
http://readingroom.lsc.gov.uk/pre2005/about/purpose/lsc-grant-letter-2005-06.pdf
- **LSC Grant Letters**
www.lsc.gov.uk/National/Documents/SubjectListing/CorporateandStrategic/Corporate/GrantRemitLetters.htm
- **LSC *agenda for change* Prospectus (August 2005)**
http://readingroom.lsc.gov.uk/lsc/2005/quality/reshaping/agenda-for-change-prospectus.pdf
- **National Employer Skills Survey 2005: key findings**
http://readingroom.lsc.gov.uk/Lsc/2006/research/commissioned/nat-nationalemployersskillssurvey2005keyfindings-re-june2006.pdf
- **Other National Employer Skills Surveys**
www.lsc.gov.uk/National/Documents/SubjectListing/Research/LSCcommissionedresearch/default.htm
- **Skills Strategy White Paper**
Skills: Getting on in business, getting on at work (March 2005)
www.dfes.gov.uk/publications/skillsgettingon/
- **FE White Paper 'Raising Skills and Improving Life Chances'**
www.dfes.gov.uk/furthereducation
- **Annual Statement of Priorities**
www.lsc.gov.uk/national/documents/keyinitiatives
- **Priorities for Success 2006-08: funding for learning and skills**
http://readingroom.lsc.gov.uk/lsc/2005/funding/streams/priorities-for-success-2006-08.pdf
- **Priorities for Success 2006-08: school sixth form funding**
http://readingroom.lsc.gov.uk/lsc/2005/funding/streams/priorities-for-success-2006-08-sixth-form.pdf
- **'From Here to Sustainability' the LSC's sustainable development strategy**
From here to sustainability: the Learning and Skills Council's strategy for sustainable development
http://readingroom.lsc.gov.uk/lsc/2005/ourbusiness/strategy/from-here-to-sustainability-lsc-strategy-for-sustainable-development.pdf
- **Planning for success – a framework for planning and quality**
http://readingroom.lsc.gov.uk/lsc/2005/quality/goodpractice/planning-for-success-framework-for-planning-and-quality.pdf
- **National Learners Satisfaction Report** www.lsc.gov.uk
- **'Realising the Potential' – Sir Andrew Foster's review of the future of further education colleges** www.dfes.gov.uk/furthereducation



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