



ADULT LEARNING
INSPECTORATE

ANNUAL REPORT
AND ACCOUNTS

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Learning and Skills Act 2000

Account, prepared pursuant to, Schedule 6, paragraph 14(4)(b) of the *Learning and Skills Act 2000*, of the Adult Learning Inspectorate, for the year ended 31 March 2003, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons paper number HC1123 of 28 March 2003). Presented pursuant to the *Learning and Skills Act 2000*, Schedule 6, paragraph 14(4)(b).



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INTRODUCTION

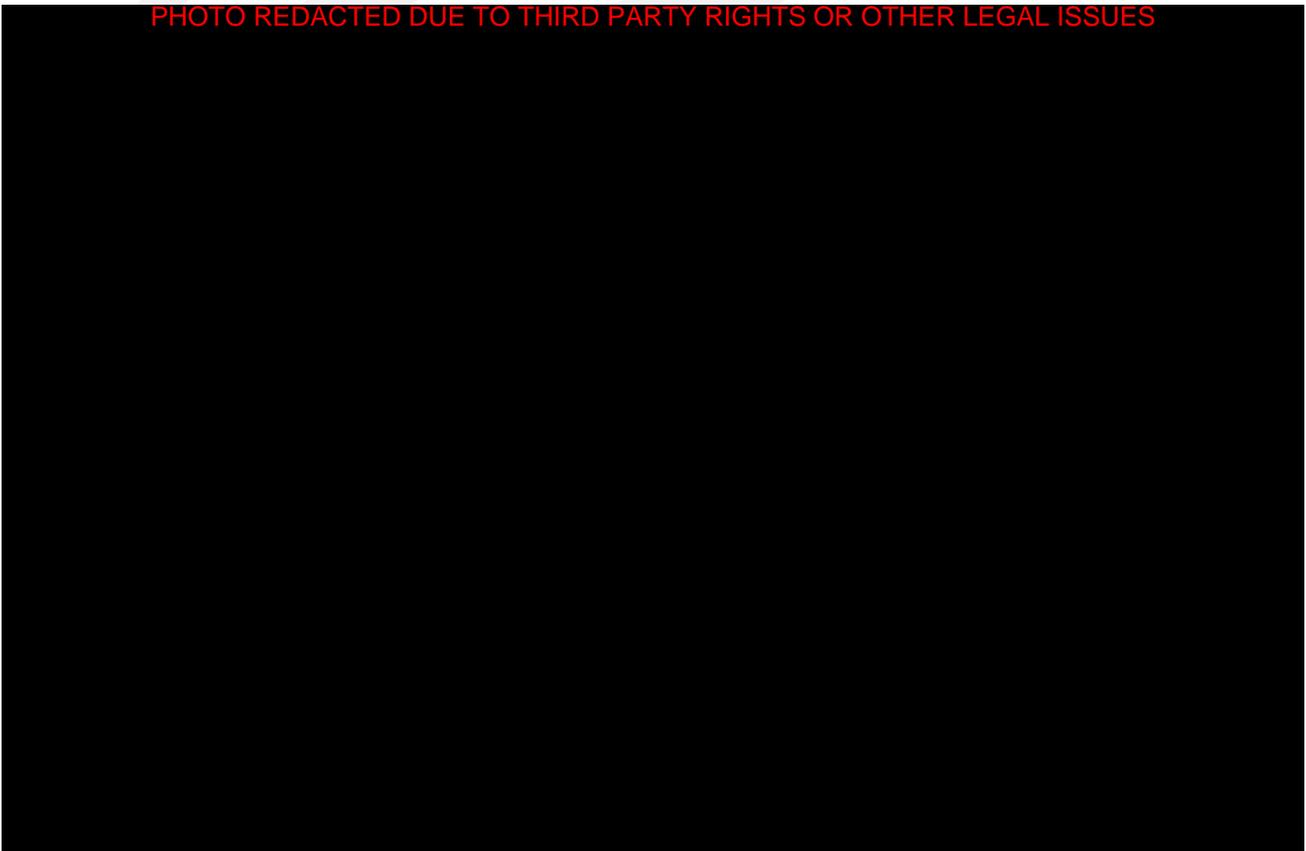
The Adult Learning Inspectorate (ALI) is now two years old. Regular inspection on a fixed four-year cycle has been applied rigorously to sectors of learning activity which had previous experience of working with two predecessor organisations, the Training Standards Council (TSC) and the Inspectorate of the Further Education Funding Council (FEFC). A similar regime has now been applied by the ALI to new areas of learning activity like Ufi **learn**direct and to areas which were once inspected less often like adult and community learning offered under the auspices of local authorities. The extension of public accountability and methodical quality assessment and improvement which the introduction of the ALI entails, has faced the new organization with significant managerial challenges.

These have included:

- a doubling in the number of full-time inspectors from 67 to 140
- recruitment and training of a largely new administrative staff of approximately 100
- location in new, purpose-built premises in Coventry
- development of sophisticated information and communications technology (ICT) to enable the ALI to manage a home-based inspector workforce throughout England
- considerable extension of joint-working with other Inspectorates to cover shared sectoral and national remits, as well as cross-cutting issues
- the development and adoption of exemplary policies and practices, leading to achievement of the Investors in People national standard in September 2002
- development of the standards of governance and internal control appropriate to a non-departmental public body (NDPB) and the implementation of the Turnbull proposals on risk management from April 2003.

With few exceptions the ALI has been wholly successful in meeting these demands. The ALI has been shown by independent consultants commissioned by the Department for Education and Skills (DfES) to be widely respected and established as the authoritative voice on standards in adult learning.

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REVIEW OF BUSINESS 2002–03

Governance

1 Definition of the ALI vision

With the appointment of Richard Handover, group chief executive of WH Smith plc, as chair of the ALI Board in January 2002, a full review of mission and strategy was initiated, to signify the emergence of the ALI from its initial set-up period. The vision for the ALI which has been adopted by the Board is as follows:

The ALI aims to be a world-class quality assessment business, raising standards through inspection.

This vision informs everything the ALI does.

2 Development of tighter internal controls and more formal risk management to achieve full compliance with Treasury guidelines by April 2003

In addition to revisions which this vision might prompt in its corporate and business plans, the ALI has worked to improve internal controls and risk management in order to meet Treasury requirements that full compliance with the Turnbull recommendations be achieved in time for the 2003–04 financial year. Inspection inherently carries significant risks which were managed informally but effectively by the ALI. The challenge has been to introduce greater formality, to create a 'risk-management culture', without tipping over into risk aversion and the loss of effectiveness which it implies. Substantial investment of time and money has been made to train the Board and ALI staff in risk management; to prepare risk registers at each level of the organisation, with their associated mitigation; to design a database enabling each individual's or division's responsibilities to be monitored easily and to refine performance indicators; and to have the systems tested by the ALI's internal auditors in January and March 2003. These activities are reflected in the formal Statement on internal control which forms part of this annual report.

3 Streamlining the structure of the ALI

In addition it was found that a combination of our more clearly enunciated vision and tighter internal controls strongly suggested that the structure of the business should be streamlined. As a consequence the ALI has been reorganised into four divisions which are as follows:

- Inspection and reports
- Governance and corporate services
- Organisational development
- Communications

This structure was implemented on 1 February 2003. The Board's committee structure has been changed to align with the divisions. The opportunity has been taken to make some efficiencies, with one fewer post at executive director level.

Quality of work

4 Use of performance-related pay to support the maintenance of consistently high standards of work while many new inspectors are recruited

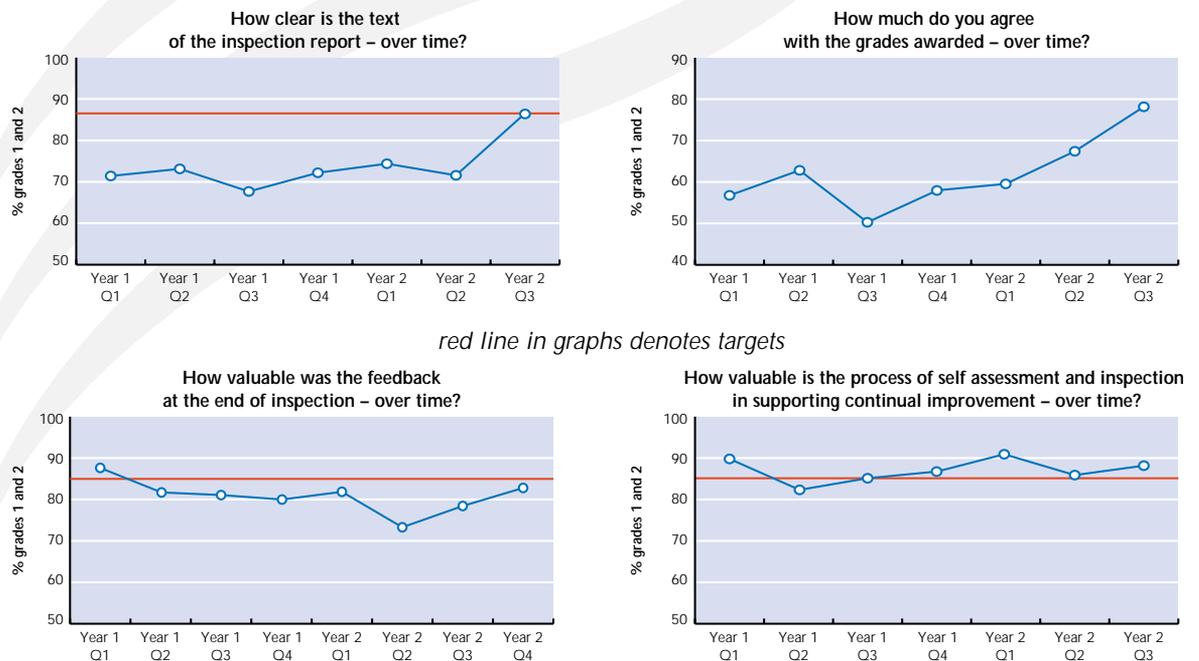
Effective performance management of staff has been a priority for the ALI since its launch, with maintenance of consistent judgements while the number of full-time inspectors doubled, a significant challenge. The ALI achieved delegated powers over pay from the DfES and the Treasury in time for the 2002–03 pay round. The settlement for staff was as follows:

- 2.5% consolidated for staff reaching or exceeding the ALI standard
- 2% non-consolidated team bonus
- 6.5% non-consolidated individual bonus for outstanding performance.

Approximately 20 per cent of eligible staff were judged outstanding, with the proportion of colleagues from ethnic minorities achieving this level of performance being marginally higher than their representation in the business. The names of staff achieving outstanding performance were published with a citation stating the reasons for the judgement.

5 Managing quality through the use of systematic feedback from providers, enables temporary fluctuations in working standards to be corrected

Feedback was routinely sought from providers on the performance of inspection teams. The key indicators fell slightly after each new intake of full-time inspectors, perhaps reflecting a temporary dip in confidence in the ALI rather than, necessarily, any real drop in competence. They recovered thereafter and are rising significantly at the close of 2002–03. A sample of important indicators of provider satisfaction is shown below:



These charts represent 'good' or 'outstanding' grades only. Providers were at least satisfied with the ALI's performance in almost every case. Where indications of emerging problems were found they were reviewed by the Board and remedial action taken. This action included putting all full-time inspectors through the ALI's 'Raising the Game' workshop, normally intended for new inspectors at the end of their probationary period; a presentation workshop available for all inspectors; and improvements in the initial training of associate inspectors as well as full-time inspectors.

6 Formal consideration of providers' requests for internal review or complaints, including access to an independent adjudicator

The ALI has an internal review and complaints procedure jointly developed with the Office for Standards in Education (OFSTED), including providers' access to an independent adjudicator appointed by the Secretary of State for Education and Skills for both Inspectorates. During 2002–03 37 requests for internal review, or complaints, were received, amounting to 6 per cent of inspections. Only one proceeded to independent adjudication. Of the requests received and considered 11 per cent were upheld; 23 per cent were partially upheld; and 57 per cent were rejected. The ALI was not held to be at fault by the independent adjudicator. Requests for internal review or complaints were highest when a new sector of activity, such as adult and community learning, first came on line and declined thereafter as providers' familiarity with inspection grew.

Work output

7 Number of inspections and publication of inspection reports more quickly than the ALI 12-week target

The ALI commenced 900 inspections and reinspections during 2002–03, 577 of which were in its sole remit. The largest number among these, 332, were of work-based training providers. There were 143 further education college inspections, carried out jointly with OFSTED. During the year, 552 inspection reports were published, all of them within the ALI's 12-week inspection-to-publication target period. The average time elapsing between the end of inspection and publication was approximately 10 weeks, with steady improvement in the course of the year.

8 Introduction of a new format for reports in 2003–04 to reduce further the time from inspection to publication of the report

The ALI carried out a survey to determine more exactly the effectiveness with which reports met the needs of their various audiences. While providers and funding bodies were generally satisfied, learners' needs for information on the basis of which they could choose a provider were not well met. As a result a new reporting format was tested during 2002–03 and will be launched from the beginning of fiscal year 2003–04. This format consists of a suite of reports:

- a brief report published on the Internet in plain English
- detailed inspection findings publicly available on request and aimed at providers and funding bodies
- surveys of good practice, published about quarterly on the Internet.

The initial inspection-to-publication target for the summary report and detailed inspection findings is 10 weeks, reducing to six in the course of 2003–04.

9 Development of commissioned inspections

The ALI took careful steps in 2002–03 towards fulfilling those areas of its remit involving commissioned inspection. The ALI inspected work-based provision in Oman, leading to the award of national vocational qualifications (NVQs) during 2001–02, and completed this programme with feedback to providers in 2002–03. Two ALI inspectors were seconded to South Africa for three months to develop the vocational curriculum for colleges in autumn 2002, with assistance from the Department for International Development. A full programme of commissioned inspections of privately funded training in British companies is being developed with advice from consultants, PKF, and in the light of pilot inspections of JCB Training, South West Trains and In Touch Care Training, at the invitation of these companies.

Standards of provision

10 Low levels of learner achievement in work-based learning in 2001–02 leading to classification of many providers as inadequate

In 2001–02 it became clear that standards of learner achievement in a number of settings, especially work-based learning, were unacceptably low. There were some technical reasons for this, notably the practice of defining achievement in the work-based route as completion of the whole qualification. Under this regime, a cessation of training by an employed trainee to take a better job, is counted as a failure. Nevertheless, standards were extraordinarily uneven among different types of provider (e.g. employers training their own staff, private providers, further education colleges) working in different occupational areas. Some evidence existed that a steady decline in achievement rates over time had accompanied the introduction of Modern Apprenticeships, but that a sudden fall had marked the radical changes in support arrangements linked to the *Learning and Skills Act 2000*. The upshot was that 58 per cent of work-based providers were classified by the ALI in 2001–02 as inadequate to meet the reasonable needs of learners.

11 Introduction of an ALI Provider Development Unit to work with other agencies to turn round failing providers

During 2002–03 co-ordinated remedial action, concentrated on work-based providers, was introduced by the DfES, the Learning and Skills Council (LSC), the Learning and Skills Development Agency (LSDA) and the ALI. This included the LSC terminating public contracts in approximately 300 providers which were identified as being particularly weak by the ALI or by the LSC's review procedures. It also included the provision of a service by a new unit of the ALI, the Provider Development Unit (PDU), through which experienced inspectors assisted the recovery of unsatisfactory providers in association with staff of the local LSC. This service, to which inspectors are seconded full time for a fixed term to guarantee the separation of inspection from the offer of advice, sits alongside a new approach to reinspection of unsatisfactory provision through a number of small-scale monitoring visits over about a year, rather than through a single summary reinspection within two years of the original inspection. A report has been made to ministers on the ALI's early experience of this scheme, which suggests that it both hastens and accentuates the extent of providers' improvement. The proportion of work-based providers declared inadequate declined gradually during 2002–03 to 48 per cent average for the year and 39 per cent in the final quarter.

12 Better results in the rest of the ALI remit, but still indicating a need for radical improvement to match the best international standards

Standards in other parts of the ALI's remit were higher with, for example, 25 per cent of general further education, specialist and tertiary colleges qualifying for a declaration of inadequacy (2001–02 academic year); 26 per cent of **learndirect** hubs in their first full year of operation; 35 per cent of Jobcentre Plus provision; and 27 per cent of adult and community learning. None of these percentages is fully satisfactory, comparing badly with fewer than 5 per cent of sixth-form colleges declared inadequate, for example. While 'second-chance' provision without mandatory learner attendance or examination, such as that which forms most of the ALI remit, will always show more mixed performance than compulsory education, there clearly remains much to be done in developing world-class learning opportunities for adults. A full account of quality and standards in the ALI remit was given in the first ALI Chief Inspector's Report published in July 2002. This report was widely praised both for its candour and its accessibility achieved through the use of CD-ROM technology.

Internal management

13 Award of liP after 18 months and Fleet Manager of the Year as steps towards being an exemplary employer

The ALI was charged by the Secretary of State with becoming 'an exemplary employer' and has taken this challenge seriously. The first significant milestones towards this goal were reached in 2002–03 with achievement of the Investors in People national standard (liP) in September 2002, 18 months after start-up, and the Fleet Manager of the Year award in March 2003 for efficient administration of inspectors' lease cars. The ALI was the first public body to win this latter award and was also shortlisted for awards in environmental and safety management.

14 Careful attention to managing diversity is raising the proportion of minority ethnic staff

The ALI has made considerable progress, too, in recruiting a more diverse workforce, with some hope of matching the sector we serve. Gender balance is about even, with 377 men and 391 women among associate and full-time inspectors, and 114 men and 130 women making up the permanent ALI inspection and support staff as a whole. The balance between white British and all minority groups is 88 per cent : 12 per cent at the end of 2002–03 (compared with 10.6 per cent of applications from minority ethnic groups), showing a steady improvement since the ALI was launched and a dramatic improvement over our predecessor organizations which had only one inspector from a minority ethnic group among 67 who transferred into the ALI. Raising this minority representation among home-based inspectors remains a challenge because of the very small number of people from minorities who hold positions from which the ALI might normally recruit; for example, further education college managers.

15 Launch of *Excalibur – the Learning Network* to provide continual improvement opportunities for ALI staff and others associated with quality issues in the sector

Continual staff development is a priority for the ALI to steadily improve our own performance while seeking to improve that of others. During 2002–03 the ALI launched its own 'corporate university' structure, having developed it with the assistance of Unipart Advanced Learning Systems, the leader in this field in Britain. Called *Excalibur – the Learning Network*, it will provide blended-learning opportunities not only for ALI staff and associates, but also for those who work with the ALI but are not employed by the ALI. These include providers' nominees (representing the provider on inspection teams) and other provider staff and quality management staff from the funding bodies. The ALI's intention is to create over time a national quality community for adult learning, with a wide variety of people knowing what inspectors know and, in effect, seeing what inspectors see. The relationship of *Excalibur* to the ALI's core business has been carefully mapped out in its 2003–06 Corporate Plan and the DfES is supporting rapid development of its external elements in 2003–04.

16 Development of management capability for all staff and the launch of postgraduate awards in inspection

Alongside *Excalibur*, in 2002–03 the ALI completed its first large management training programme, *Moving to Excellence*, in association with Empower. By the end of 2003–04, every member of staff will have completed this programme with all-through benefits to decision-making, risk management and succession planning. With the University of Warwick, dedicated postgraduate awards for inspection have been developed by the ALI, with the first groups of inspectors studying for a post-graduate certificate as part of their initial probationary period, starting in March 2003. A number of other staff have successfully taken NVQs and other awards associated with their work. On average, ALI staff spent just under 10 working days on continual professional development in 2002–03. During the 2001–02 academic year the ALI employed a student on mid-degree release and two more are engaged under similar arrangements at the end of the 2002–03 financial year. The ALI intends to be seen as a 'learning organisation', setting a good example to others in this regard.

17 Difficulty in securing the effective deployment of associate inspectors

The growing extent and complexity of the inspection programme caused difficulty for the inspection support team which books associate inspectors and arranges logistics, exacerbated by the growing practice of providers contracting with ALI associates as consultants to carry out 'pre-inspection inspections'. This practice both reduces the availability of associate inspectors in absolute terms and gives rise to conflicts of interest which restrict deployment, lowering the return on the investment made by the ALI in training them. A 'New Deal for Associates' was formulated during 2002–03 to bind associate inspectors more tightly to the ALI through some improvements in their terms of engagement.

18 Weaknesses in financial accounting

During the absence of a finance director for part of the year there was a lack of satisfactory practice in some areas of financial accounting. From February 2003 the preparation for the end-of-year accounts revealed these shortcomings, and steps were taken to resolve them, and prevent a reoccurrence. The end-of-year accounts are unaffected by the problem, as noted in the Statement on internal control which forms part of the accounts.

Premises and facilities

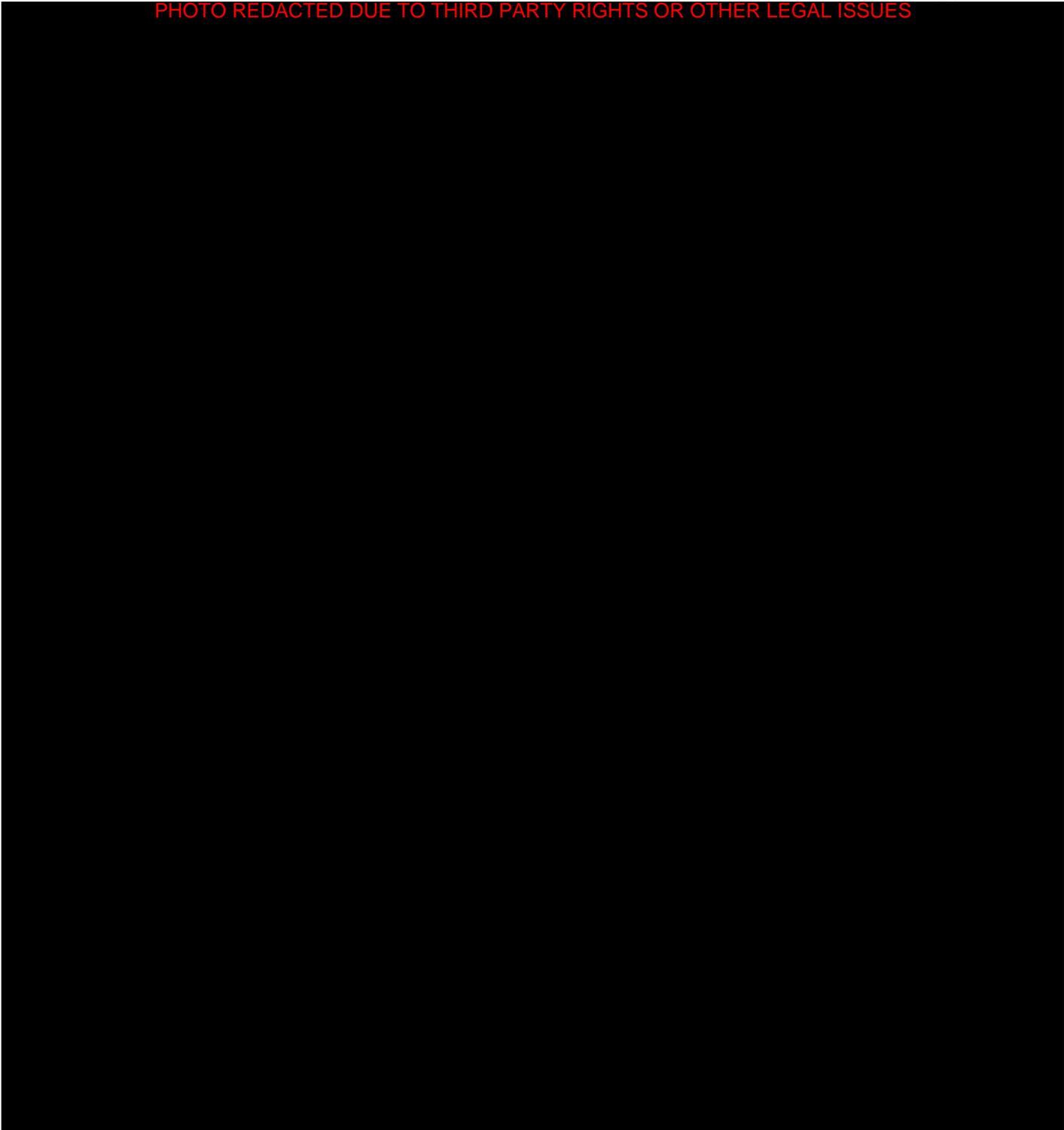
19 Move from temporary premises to an exemplary, open-plan national administration centre at Spring Place, Coventry

The first year of ALI operations was administered from temporary premises in Coventry, all inspectors and inspection managers being home-based throughout England. New premises were constructed at Spring Place, Coventry during 2001–02 and were handed over on time, on budget. The ALI lost only two hours of effective working time in moving from its temporary to its permanent national administration centre, thanks to very careful planning and conduct of the move by ALI staff and contractors. Spring Place was formally opened by the Rt. Hon Estelle Morris MP on 20 June 2002. Spring Place has been nominated for a national award for Best Practice in a Fit-out Project, by designers, Tilney Shane. Its key characteristics have been cited as flexibility to meet changing needs; the fact that it is non-hierarchical with no allocated offices and identical furniture for all; high quality in combination with good value, facilitated by open planning; high technology and full cabling to category 6; disability adaptation; compliance with government environmental policy. The ALI sees the building as necessarily representing its values of openness, transparency and efficiency, offering high security in an informal, modern space.

20 Reliance on excellent information and communications technology (ICT)

The ALI is an e-business, dependent on efficient computer and communications links between its inspectors at home and in the field, and support services at Spring Place. The DfES was far-sighted in equipping the ALI to an advanced standard from the outset. That investment has contributed significantly to a largely trouble-free initial two years of ALI operations, as well as the ability to launch major national communications-based projects like *Excalibur*. ALI systems have passed every external security audit and its Internet site has been widely praised. The challenge for the future will be to stay in the forefront of technological development, without which a complex national operation cannot be carried out from a single office.

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FOREWORD TO THE ACCOUNTS 2002–03

Background

The accounts cover the year from 1 April 2002 to 31 March 2003. They have been prepared in accordance with the direction dated 25 May 2001 given by the Secretary of State for Education and Skills, with the approval of the Treasury, in accordance with Schedule 6, paragraph 14 of the *Learning and Skills Act 2000*, and the Financial Memorandum dated 30 May 2001. The accounts are audited by the National Audit Office on behalf of the Comptroller and Auditor General.

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

- to enable the ALI to inspect learning provision funded by grant or contract through the Learning and Skills Council (LSC)
- from the Department for Work and Pensions (DWP) to enable the ALI to inspect Jobcentre Plus programmes
- and from the Offenders' Learning and Skills Unit (OLSU) which administers funds for learning in custody.

Remit

The ALI was given an extensive remit in a remit letter issued by the Secretary of State for Education and Skills for DfES and on behalf of the Secretary of State for Work and Pensions in 2001. The main points of this remit are as follows:

- learning provision for people aged 19 and over in further education colleges
- work-based learning for people aged 16 and over
- learning provision in programmes offered for unemployed people by Jobcentre Plus, including the New Deals
- e-learning which is part of the **learndirect** network operated by Ufi Ltd.
- adult and community learning, usually run under the auspices of a local education authority (LEA)
- learning provision in prisons, in conjunction with Her Majesty's Chief Inspector of Prisons
- training offered and funded by employers, at the invitation and expense of the employer
- training overseas which leads to qualifications validated by a British awarding body, at the invitation and expense of the foreign government
- area inspections of learning provision for 14-19 year olds, in conjunction with OFSTED.

Principal activities during 2002–03

Inspections of further education colleges are carried out jointly with OFSTED. Other inspections are also carried out collaboratively, including those with Estyn (work-based learning provision which takes place in both England and Wales); with Her Majesty's Chief Inspector of Constabulary (training in equal opportunities for constables during 2002–03); with inspectors in the armed forces (military training).

The ALI has built up its operations gradually to encompass its complete remit, recruiting the necessary staff in batches to maintain the quality and culture of the ALI. Extensions to the remit are introduced through a programme of consultation with providers and their representative bodies and a short series of pilot inspections which enable appropriate inspection methods to be tried and adopted and guidance to be produced on the interpretation of the inspection framework in each particular set of circumstances. In 2002–03 the most notable extension to the remit was the inspection of adult and community learning, entailing careful consideration of the proper interpretation of learner achievement in courses which do not lead to qualifications.

The ALI inspects against the *Common Inspection Framework*, which was drawn up in partnership with OFSTED and which applies (with variations to accommodate schools regulations) to all post-16 learning provision. The *Common Inspection Framework* was published in March 2001 after public consultation. It has statutory force under the *Learning and Skills Act 2000* and cannot be amended without further public consultation and the consent of the Secretary of State for Education and Skills.

The *Common Inspection Framework* achieved consensual support across the learning and skills sector and enables comparison to be made between similar subjects delivered in differing settings.

In addition to inspections of individual providers or areas, the ALI has a duty to advise the Secretary of State for Education and Skills on standards within its remit. In order to inform policy formation and improvement the ALI produces survey reports on a curriculum area or thematic basis; four such reports were produced solely by the ALI in 2001–02 and one in partnership with OFSTED on literacy, numeracy and language learning.

The ALI works closely with the LSC, Jobcentre Plus, OLSU, Ufi Ltd. and the Adult Basic Skills Strategy Unit (ABSSU) to promote excellence in learning and raise public confidence in the standards of learning. This work includes the provision of ALI link inspectors to liaise with these organizations locally or regionally, as appropriate, ensuring that the inspection programme matches current contracts and remains sensitive to local issues.

During 2002–03, the ALI also developed a Provider Development Unit at the invitation of the Secretary of State for Education and Skills, to assist failing providers of work-based learning. The form of this unit was based on that of the Schools Improvement Division at OFSTED and inspectors were seconded to it to separate clearly quality improvement from quality assessment. The ALI is required by the Secretary of State to demonstrate its independence by maintaining its reputation for fairness, by making judgements which are soundly based on evidence and reporting them on the Internet without fear or favour.

Future developments

Budgets have been agreed with the DfES for the next three years. This allows the ALI to focus on a number of important developments. In particular:

- reinforcing the importance of inspection and reinspection as a key force in raising standards in post-16 learning and 14 to 19 work
- continuing to build effective partnerships with the LSC, Jobcentre Plus, OFSTED and entities sponsored by the DfES and other government departments and organisations
- developing inspection activities funded by departments other than the DfES and work commissioned by the private sector
- expanding the pilot for the Provider Development Unit to raise standards at providers with unsatisfactory performances
- expediting the development of *Excalibur*, the ALI's corporate university and learning network, by making it available to external providers as well as employees and associates.

Organisational structure

The strategic direction of the Adult Learning Inspectorate is overseen by nine members appointed by the Secretary of State, who appoints two of these members to serve as Chair and Chief Inspector respectively. These members are known collectively as the Board. The Chief Inspector, who is also the chief executive and also part of the permanent staff, serves as the Accounting Officer on behalf of the Department for Education and Skills. A small team of senior directors supports the Chief Inspector.

At the start of the year the Adult Learning Inspectorate consisted of six business groups comprising Inspection Planning & Reporting, Quality & Continuous Improvement, External Relations, New Business Development, Organisational Development and Corporate Governance & Environment. The activities of these groups were pulled together by a co-ordinating group.

Following a strategic review, from February 2003 the Adult Learning Inspectorate was reorganised into four divisions, comprising Inspection and Reporting, Communications, Organisational Development and Governance and Corporate Services. The divisions in turn consist of 23 departments.

The Director of Business Services resigned on 4 August 2002, and following an extensive and protracted recruitment process, the new Finance Director took up his appointment on 5 June 2003. The role of the Finance Director includes the management of the finance team as well as some of the other responsibilities of the former Director of Business Services.

Members

The ALI is overseen by a Board appointed by the Secretary of State for Education and Skills. The Board has nine members, including the Chief Inspector and chief executive of the ALI, who is also its Accounting Officer. The Board met quarterly during 2002–03, its meetings being organised as a strategy session, at which intensive discussion of proposed policies and plans can take place, and a formal session dealing with its fiduciary duties. An assessor from the DfES is present at both parts of the Board's meetings; observers from the LSC, Jobcentre Plus and the Office for Standards in Education (OFSTED) are present in the formal meeting. The Board also has formally constituted committees, chaired by non-executive directors. In 2002–03 these committees were designated as follows:

- audit
- communications
- personnel and remuneration
- quality and performance.

The Board's committees also met quarterly and reported to the Board.

The members who served on the Adult Learning Inspectorate between 1 April 2002 and 31 March 2003 are as follows:

Richard Handover	Chair, appointed 2 January 2002
David Sherlock	Chief Inspector of Adult Learning, appointed 2 August 2000
Balvinder Chana	Appointed 20 September 2002
Paulene Collins*, OBE	Appointed 14 December 2000
David Croll*	Appointed 14 December 2000
Ann Limb	Resigned 9 October 2002
Margaret Luck, MBE	Appointed 14 December 2000
Neil Makin	Vice Chair, appointed 14 December 2000
Peter McKee*	Appointed 20 September 2002
Chris Trinick*	Appointed 14 December 2000

The Chief Inspector is also a permanent member of staff. Each of the remaining members, who are appointed for a term of four years, serves on at least two committees and has the right to attend other committees. The committees provide an annual report to the Inspectorate covering activities and recommendations.

Those members whose names are marked with an asterisk served on the Audit Committee, which was chaired by Chris Trinick throughout the year.

The Chief Inspector is the designated Accounting Officer for the Adult Learning Inspectorate. As such, he is responsible for seeing that the exchequer funds received by the Inspectorate are put to proper use, the Inspectorate's accounts are properly maintained and the Inspectorate's financial management is sound.

The National Audit Office provides external audit services. PricewaterhouseCoopers were appointed as internal auditors from April 2002.

Code of best practice on corporate governance

The Adult Learning Inspectorate complies with all the relevant requirements of the Treasury regarding corporate governance.

Senior employees

The details of senior employees are given in note 3 to the financial statements.

Register of interests

The Adult Learning Inspectorate maintains a record of declarations of interest made by Board members and employees. A copy of the Register of Interests is available from the Manager, Executive Support Team, Adult Learning Inspectorate, Spring Place, Coventry Business Park, Herald Avenue, Coventry, CV5 6UD.

Accounting policies

For 2002–03 the notes on notional costs have been included under Accounting Policies. It should be noted that notional costs will be real in future years.

Financial results for 2002–03

Grant-in-Aid is paid by the Secretary of State under the authority of the *Learning and Skills Act 2000* to enable the ALI to discharge its functions under the Act. The approved Grant-in-Aid total for 2003 amounted to £24,600,000 (2002 £21,010,000). Subsequently the ALI incurred expenditure of £24,311,000 (2002 £17,754,000) during the year. The principal reasons for the underspend were:

- delay in the appointment of some staff including the new Finance Director
 - fewer on-site and associate days used because of the new reinspection profile
- Offset slightly by:
- higher than forecast telephone, travel and subsistence costs and the deferral of some survey reports into the following year.

In addition, the ALI had a separate contract with the DfES to cover £1,950,000 of transitional expenditure on ICT and premises, mainly associated with the move to the new building at Spring Place. Despite early delays, good progress was made with the building work and the move took place at the beginning of May 2002. The £637,000 balance of the funding was spent during 2002–03.

The ALI received income of £8,000 (2002 £420,000) from the Government of Oman for training following the inspection of NVQ training undertaken on a cost-recovery basis during the year.

The Business Plan for 2002–03 included the following key targets for inspection activities which give an indication of the performance of the Inspectorate:

Activity	Target 2003	Actual 2003	Target 2002	Actual 2002
<i>Number of inspections</i>	693	715	572	588
<i>Number of reinspections</i>	161	185	237	186
<i>Cost per inspection day</i>	£800	£763	£700	£698
<i>Proportion of time full-time inspectors spend inspecting</i>	71%	69%	70%	62%
<i>Proportion of ALI resources directly attributable to inspection</i>	68%	68%	55%	61%
<i>Ratio of inspectors to support staff (excluding Directors and Associates)</i>	1.59 : 1	1.55 : 1	1.35 : 1	1.32 : 1

From October 2002 the ALI agreed with the DfES a new model for reinspections. This was aimed at providing regular inspection visits during a 12-month period to ensure continual improvement in the provider during the course of the reinspection. The 185 reinspections during 2003 represent activity started, but not necessarily due for completion during 2002–03, and are therefore not necessarily comparable to reinspections during 2001–02.

As noted in the Annual Report the ALI established a Provider Development Unit (PDU) at the request of the Secretary of State. The increase in cost per inspection day includes the cost of the PDU, but excludes the time of inspectors seconded to the PDU because this activity is not direct inspection as it is aimed at quality improvement rather than assessment.

Following the appointment of more full-time inspectors the ALI has started to benefit from efficiencies of scale from support staff.

All but two employees are members of the Principal Civil Service Pension Scheme (PCSPS). As indicated in the note 1 to the financial statements all costs are charged to the Income and Expenditure account at rates determined from time to time by the PCSPS. As the PCSPS is an unfunded multi-employer defined benefit scheme, the Adult Learning Inspectorate is unable to identify its share of the underlying assets and liabilities.

Fixed assets

During the year the ALI spent £53,000 (2002 £nil) and £1,023,000 (2002 £1,277,000) on additions to intangible and tangible fixed assets respectively. The movements in intangible and tangible fixed assets are set out in note 6 and 7 to the financial statements.

Equal opportunities and diversity

The ALI is committed to the principles of diversity in employing and managing its staff and during its inspection activities. It is the policy of the ALI that nobody should be unfairly discriminated against directly or indirectly because of their ethnicity, national origin or nationality, gender, sexual orientation, marital status, religious beliefs, political affiliation, age, social class, disability, trades union membership, employment status, role as a carer or criminal record. The ALI has a diversity statement and policy and has conducted a diversity audit. The development of diversity is guided by a diversity steering group with broad staff representation and a designated 'champion' among Board members.

Health and safety

The ALI health and safety management system has been developed in accordance with BS-18001. While the emphasis of the ALI's work in health and safety in its first two years of operation was on statutory compliance, a more active risk-management approach was adopted in 2002–03, with the advice of specialist consultants. The two primary sets of risks to be managed by the ALI are related to driving and lone working. The Board is taking an active role in all policies and procedures related to health and safety, including this more advanced phase of work, which is planned for completion by September 2003.

Environmental policy

The ALI seeks to be environmentally responsible in accordance with government policy. Among its policies and practices are the following:

- car emissions limited to a maximum of 190 gms of CO₂ per km reducing in 2003–04 to 180 gms
- high proportion of home-based staff, eliminating unnecessary travel to work and use of multiple offices to achieve national coverage
- careful design of building fit-out
- active management of paper and plastic recycling.

Policy in relation to disabled employees

The ALI is an equal opportunities employer. The aim of the equal opportunities policy in relation to disabled employees is to ensure that no job applicant or employee receives less favourable treatment, directly or indirectly, on the grounds of disability (except where this conflicts with job suitability). The ALI draft policy statement will be finalised following consultation with staff.

Consultation with employees

The ALI has a joint consultative committee (JCC) reflecting staff wishes in relation to representation and consultation with managers. The JCC meets regularly to deal with issues of:

- management policy and procedure
- welfare
- workload
- remuneration and benefits.

Open government

During 2002-03 the ALI established a working party to develop policies and procedures on Access to Information and Guidance. This policy will combine existing *Data Protection Act 1998* provisions and the regime that would operate under the *Freedom of Information Act 2000* from February 2004. The policy will provide an Access scheme matrix to inform staff which categories of information can be routinely released and which requests should be transferred to the Freedom of Information Co-ordinator.

From January 2004 the ALI will publish edited minutes of its Inspectorate/Board meetings on its web site. This will include edited minutes of the four committees of the Inspectorate:

- Audit, Governance & Corporate Services
- Communications
- Inspection & Reporting
- Organisational Development & Remuneration.

Minutes will be made available as part of the Inspectorate's decision to implement the principles of the *Freedom of Information Act*. The agenda front sheets of the meetings are also included on the web site.

Payment of creditors

The *Late Payment of Commercial Debts (Interest) Act 1998*, which came into force on 1 November 1998, requires government bodies, in the absence of any agreement to the contrary, to make payments to suppliers within 30 days of either the provision of the goods or services or the date on which the invoice was received. During the year ending 31 March 2003 93% (2002 90%) of all third party supplier invoices were paid within 30 days. To date no claims for interest under the Act have been received.

Euro compliance

The ALI has taken steps to ensure it is ready for the possibility of a UK decision to join the single currency. As part of its modernisation programme the ALI decided to upgrade its finance systems and has therefore ensured that the new product will be able to cope with any decision to join the euro. Following implementation of this new finance system no other systems will record or use financial data. Consequently no significant additional costs will be incurred by the ALI subsequent to a decision to join the single currency.

Staff will be issued with conversion charts and set expenses will be revised in accordance with Inland Revenue official rates. Payments to suppliers will be converted to the single currency during the implementation phase.



David Sherlock
Chief Inspector
17 June 2003

STATEMENT OF THE RESPONSIBILITIES OF THE CHIEF INSPECTOR

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

In preparing the accounts the Adult Learning Inspectorate is required to:

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

The Accounting Officer for the Department of Education and Skills has designated the Chief Inspector of the Adult Learning Inspectorate as the Accounting Officer for the Adult Learning Inspectorate.

The Accounting Officer is responsible for the proper management of the Inspectorate's resources and staff; for ensuring high standards of corporate governance; and for ensuring that government guidance on regularity, propriety, and value for money is complied with. The Accounting Officer is responsible for the following:

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

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



David Sherlock
Chief Inspector
17 June 2003

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 Inspectorate's policies, aims and objectives, set by the Department for Education and Skills' ministers, while safeguarding the public funds and Inspectorate assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am also accountable to the Board for management of risk and establishing a continual process for identifying, evaluating and managing the principal risks of the ALI.

The Board is involved in determining the ALI's risk-management culture, the appropriate risk appetites and level of exposure and approving major decisions which affect the organization's risk profile. It also has responsibility for monitoring the management of significant risks, for satisfying itself that the less significant risks are being actively managed and annually reviewing the ALI's approach to risk management.

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 to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Inspectorate 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. I had arrangements in place by March 2003 necessary to implement Treasury guidance on risk management for the year 2003–04.

3 Capacity to handle risk

As Accounting Officer I have led a risk management workshop with my executive directors to identify key risks and I have discussed these with the Inspectorate. All ALI staff have received risk management training and guidance appropriate to their authority and duties. Risk management is an integral part of the ALI's new corporate plan for 2003–06, which was formally approved by the Inspectorate in January 2003, and annual related business plans, including that prepared for 2003–04. Procedures to manage and mitigate risk and appropriate reporting arrangements are in place from April 2003, in line with the new business plan. Although the effectiveness of the reporting arrangements cannot yet be verified, the organization has embedded the process, to the extent of risk management strongly influencing a recent reorganization of the ALI's management structure.

4 The risk environment

In the ALI the main processes which we have in place for identifying, evaluating and managing risk are:

The risk assessment process (including emerging risks) now operates both top down and bottom up, with the Board having addressed the issue of risk appetite and with risk assessment being fully embedded in all operational aspects of the ALI. The strategic and business planning manager has specific objectives related to day-to-day management of risk management processes including documentation, timescales and the risk management database.

The most significant risks to the organisation are:

- failure to deliver inspections to the required ALI standard
- failure to properly disseminate inspection findings
- under-delivery of the inspection programme by 10 per cent or more
- loss of reputation for rigour and quality

- sudden loss of the Chief Inspector
- lack of appropriate, competent and properly trained staff
- failure to achieve compliance with laws and regulations and statements of government good practice
- failure to maintain adequate controls and provide adequate financial information.

Our management of risk is embedded in policymaking, planning and delivery as follows:

The risk-management structure starts with corporate objectives, their associated risks, the steps taken to mitigate those risks and the identification of an executive director responsible for each one. Each mitigation of a corporate risk is then expressed as a divisional objective, with divisional risks, mitigation and so on cascaded throughout the business. Great care has been taken to ensure that stated risks do not proliferate unnecessarily, promoting risk aversion rather than risk-awareness. Staff at all levels have been thoroughly trained, over an extended period, creating a risk-aware business culture.

Our risk environment involves managing risks which have an impact on the public. Stakeholder involvement is ensured by their representation on the Board and Audit Committee.

5 Review of effectiveness

As Accounting Officer, I also 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 Inspectorate 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 internal system of control by the Board, the Audit Committee and a plan to ensure continual improvement of the system is in place.

The following processes have been applied in maintaining and reviewing the effectiveness of the system of internal control:

- regular reporting of performance against targets by managers to directors, and directors report to me, Board committees and the Board. In particular, the Audit Committee considers internal and external audit reports, including follow-up of management responses to control weaknesses identified by audit
- consideration of the annual report of the Head of Internal Audit
- the establishment of human resources policies and other policies, which underpin internal control systems
- the prompt achievement of the Investors in People national standard and maintenance of our internal quality review mechanisms, which contribute to systems of internal control.

6 Significant internal control problems

For six months of the year there was no Director of Finance. Subsequently it was discovered by the interim Finance Director that some routine elements of financial control had not been carried out regularly throughout the year. The omissions, which occurred during the period without a Director of Finance, were rectified before the year-end, and consequently the ALI has not suffered any material or continuing damage.



David Sherlock
Chief Inspector
17 June 2003

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements on pages 22 to 39 under the *Learning and Skills Act 2000*. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 25 to 26.

Respective responsibilities of the Inspectorate, the Chief Executive and Auditor

As described on page 17, the Inspectorate and Chief Inspector are responsible for the preparation of the financial statements in accordance with the *Learning and Skills Act 2000* and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Inspectorate and Chief Inspector are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the *Learning and Skills Act 2000* and Treasury directions made thereunder, and 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 if, in my opinion, the Foreword is not consistent with the financial statements, if the Inspectorate has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 18 to 19 reflects the Inspectorate's compliance with Treasury's guidance *Corporate Governance: Statement on Internal Control*. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Inspectorate and Chief Inspector in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Inspectorate's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Adult Learning Inspectorate at 31 March 2003 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the *Learning and Skills Act 2000* and directions made thereunder by Treasury; 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.

A handwritten signature in black ink that reads "John Bourn". The signature is written in a cursive style with a large initial 'J' and 'B'.

John Bourn

Comptroller and Auditor General

Date 26th June 2003

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

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2002-03 £000s	2001-02 £000s
Gross income			
Grants received	2a	23,299	15,298
Transitional set-up funding	2a	44	93
Other operating income	2b	178	566
Transfers from government capital grants reserve	13	559	237
		24,080	16,194
Expenditure			
Staff costs	3	11,849	8,730
Inspection fees and expenses	4a	6,137	4,336
Other costs	4b	5,722	4,436
Depreciation	6 & 7	559	212
Loss on asset revaluation	7	29	25
Notional cost of capital	1	15	15
		24,311	17,754
		(231)	(1,560)
Operating deficit			
Gain/(loss) on sale of fixed assets		(9)	8
Reversal of notional cost capital		15	15
Deficit for the period		(225)	(1,537)
Retained deficit brought forward		(1,537)	-
		(1,762)	(1,537)
Retained deficit carried forward			
All activities are continuing			

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2002-03 £000s	2001-02 £000s
Deficit for the period			
Revaluation of fixed assets taken to reserve	7	27	-
Revaluation of depreciation taken to reserve	7	(2)	-
		(200)	(1,537)

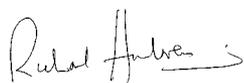
The notes on pages 25 to 39 form part of these accounts

BALANCE SHEET AS AT 31 MARCH 2003

	Notes	31 March 2003 £000s	31 March 2002 £000s
Fixed assets			
Intangible assets	6	52	–
Tangible assets	7	1,802	1,367
Current assets			
Debtors	8	896	499
Cash at bank and in hand	9	369	32
		<hr/>	<hr/>
		1,265	531
Creditors			
Amounts falling due within one year	10	(2,626)	(1,919)
		<hr/>	<hr/>
Net current assets/(liabilities)		(1,361)	(1,388)
Total assets less current liabilities		493	(21)
Provisions for liabilities and charges	11	(138)	(146)
Long-term creditor	12	(204)	–
		<hr/>	<hr/>
Total assets less total liabilities		151	(167)
Financed by:			
Government capital grants reserve	13	1,854	1,367
General Reserve	14	(1,703)	(1,534)
		<hr/>	<hr/>
		151	(167)
		<hr/>	<hr/>

The notes on pages 25 to 39 form part of these accounts

Richard Handover
Chair



David Sherlock
Chief Inspector



CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2003

	2002-03 £000s	2001-02 £000s
Grants received from the DfES	23,299	15,298
Other cash receipts	312	539
Cash paid to and on behalf of employees	(12,187)	(8,440)
Other cash payments	(11,074)	(7,122)
Payments against provisions	(58)	-
	<u>(23,319)</u>	<u>(15,562)</u>
Net cash inflow/(outflow) from operating activities	292	275
Capital expenditure:		
Payments to acquire intangible assets	(53)	-
Payments to acquire fixed assets	(996)	(1,277)
Receipts from sale of fixed assets	18	5
	<u>(1,031)</u>	<u>(1,272)</u>
Net cash inflow/(outflow) before financing	(739)	(997)
Financing:		
Grant-in-Aid applied for purchase of intangible fixed assets	53	-
Grant-in-Aid applied for purchase of tangible fixed assets	1,023	1,029
Net cash inflow/(outflow) after financing	<u>337</u>	<u>32</u>
Increase/(decrease) in cash during the period	<u>337</u>	<u>32</u>

The notes on pages 25 to 39 form part of these accounts

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Statement of Accounting Policies

i) Basis of preparation

The Adult Learning Inspectorate (ALI) was created under the *Learning and Skills Act 2000* and was established on 1 April 2001. It is a non-departmental public body (NDPB) sponsored by the Department for Education and Skills (DfES).

The accounts are drawn up in accordance with the Accounts Direction dated 25 May 2001 given by the Secretary of State for Education and Skills, with the approval of the Treasury, in accordance with the *Learning and Skills Act 2000*, Schedule 6, paragraph 14, and the Financial Memorandum between the Secretary of State and the Adult Learning Inspectorate dated 30 May 2001, copies of which may be obtained from the ALI or DfES.

The accounts are prepared under the modified historic cost convention and in accordance with the accounting disclosure requirements of the *Companies Act 1985* (as amended by the *Companies Act 1989*), and accounting standards issued or adopted by the Accounting Standards Board; with the exception of the requirement contained in FRS3 for the inclusion of a note showing historic cost profits and losses.

ii) Grants from the Department for Education and Skills (DfES)

Grants from the Department are credited to the Income and Expenditure Account when applied for current purposes, but credited to the Government Capital Grants Reserve account when applied to meet the cost of acquiring or constructing assets which are capitalised. Grant held in this account is released to the Income and Expenditure account over the expected useful life of the relevant assets.

iii) Value Added Tax

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

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

iv) Notional costs

Following the guidance contained in the Treasury guidance on NDPBs' Annual Reports and Accounts (published November 1998) which requires NDPBs to disclose the full cost of their activities in their accounts, the Adult Learning Inspectorate has included in its accounts charges for the notional cost of capital.

The Income and Expenditure Account result for the year is arrived at after charging a notional cost of capital calculated at 6% (2002 6%) of the average total assets less liabilities during the year.

v) Pension costs

All employees of the Adult Learning Inspectorate (other than those on casual contracts) are entitled to be members of the Principal Civil Service Pension Scheme (PCSPS). The conditions of the *Superannuation Acts 1965 and 1972*, and subsequent amendments apply to the employees of the ALI. Costs of the ALI's contributions are charged to the Income and Expenditure Account in the year in which they are incurred.

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

vi) Operating leases

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

vii) Fixed assets and depreciation

The policy of the ALI is to show the value of fixed assets at their current cost to the business except where it is considered that the effect of revaluation makes no material difference to the results for the year or the financial position at the year end.

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

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

- IT software licences – 3 years

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

- Spring Place refurbishment – 8 years (equivalent to half the lease)
- office furniture – 3 years
- office equipment – 3 years
- IT equipment (hardware and software) – 3 years.

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

Note 2a Grant income

The following note shows Grant-in-Aid received by the Adult Learning Inspectorate from the DfES in the year to 31 March 2003. A final transition grant of £637,000 (2002 £1,313,000) was received in the year to 31 March 2003 to fund non-recurring expenditure incurred in the set-up phase of the ALI.

	Year ended 31 March 2003		Year ended 31 March 2002	
	Grant received from DfES	Allocation of Grant	Grant received from DfES	Allocation of Grant
	£000s	£000s	£000s	£000s
Grant-in-Aid income	23,782	23,782	15,355	15,355
Transferred to Government Capital Grants	–	(483)	–	(57)
	23,782	23,299	15,355	15,298
Transition income	637	637	1,313	1,313
Transferred to Government Capital Grants	–	(593)	–	(1,220)
	637	44	1,313	93

Note 2b Analysis of other income

	2002–03 £000s	2001–02 £000s
Income from overseas inspection activities	8	420
Cost recovery of ALI staff working with partners	130	131
Share of rebates earned by third party supplier	24	–
Income from nominee conferences	16	15
	178	566

The ALI undertook no overseas inspections during 2002–03 (2002 Oman 39), although some final work on training in respect of the Oman contract was undertaken during April 2003. However preparatory work for additional overseas inspections was commenced and it is expected that these will take place during 2003–04.

	2002–03 £000s	2001–02 £000s
Income from overseas inspection activities	8	420
Inspector fees and salaries	4	263
Travel and subsistence	4	79
Depreciation	–	5
Other costs – overheads	2	139
Cost of capital (8%)	–	–
Total costs	10	486
Deficit	(2)	(66)

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

The deficits occurred because the overheads of the ALI had to be estimated some two years before the set up of the ALI. As noted last year, an accurate overhead recovery rate has now been determined and will be used as the basis for costing future overseas and commercial inspection contracts in accordance with the Treasury guidance. On a marginal cost basis, a contribution of £291 (2002 £73,000) was made to the fixed overheads of the ALI during 2002–03.

Note 2c Issue of Grant-in-Aid

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

The Inspectorate confirms that Government Grants received from the DfES have been used only for their approved purposes.

Note 3a Employees costs (including Chief Inspector)

The total costs of employees (including the Chief Inspector) employed by the ALI and temporary agency staff during the period to 31 March 2003 were:

	2002-03 £000s	2001-02 £000s
Salaries and wages	9,322	6,468
Social security costs	809	610
Pension costs	1,418	997
Early retirement	–	308
Temporary agency staff	300	347
Total costs of employees	11,849	8,730
Recoveries of costs of secondees to partners	(105)	(124)
Net costs of employees	11,744	8,606

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

As noted in 3b overleaf, employees were seconded to partners during the year. The total costs of employees shown above include costs of £105,000 (2002 £124,000) subsequently recovered from partners in respect of salaries, NI and pension contributions. This income is also shown in 2b above and the remaining income covers other non-payroll expenses incurred on behalf of the partners.

As also noted in 3b overleaf, there is one person seconded from a partner in industry. The costs incurred in relation to this secondment during the year amounted to £51,000 (2002 £nil). These costs are included in the costs of temporary agency staff.

Pension costs represent the charge to the Income and Expenditure Account in the year and comprise the amount payable to the Principal Civil Service Pension Scheme.

Note 3b Employee numbers

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

	2002–03	2001–02
Directors	5	6
Inspection managers	13	11
Inspectors	122	74
Office-based staff	86	69
Seconded from a partner in industry	1	–
Total average number of employees	227	160

In addition to these employees, there was an average of two (2002 2) inspectors seconded to partner organisations.

As well as variations resulting from setting up the organisation, changes in priorities and functions, the totals are influenced by variations in the number of positions filled by temporary staff or consultants.

Note 3c Emoluments of senior employees

	Year to 31 March 2003	Year to 31 March 2002
David Sherlock, Chief Inspector		
Age at 31/03/03, 59		
Emoluments (£000s)	121	121
Benefits in kind (£000s)	7	9
Real increase in pension at age 60 (£000s)	1	2
Total accrued pension at age 60 at 31 March 2003 (£000s)	3	2
Lisa Yeoman, Director of Inspection		
Age at 31/03/03, 47		
Emoluments (£000s)	77	75
Benefits in kind (£000s)	5	7
Real increase in pension at age 60 (£000s)	1	1
Total accrued pension at age 60 at 31 March 2003 (£000s)	2	1
Denis McEnhill, Director of Inspection		
Age at 31/03/03, 53		
Emoluments (£000s)	77	75
Benefits in kind (£000s)	4	5
Real increase in pension at age 60 (£000s)	1	1
Total accrued pension at age 60 at 31 March 2003 (£000s)	2	1
Nicky Perry, Director of Inspection		
Age at 31/03/03, 53		
Emoluments (£000s)	79	75
Benefits in kind (£000s)	5	6
Real increase in pension at age 60 (£000s)	1	1
Total accrued pension at age 60 at 31 March 2003 (£000s)	2	1

The following people also served as senior employees for part of the year ended 31 March 2003:

Coral Newton, Director of Business Services

Until 4 August 2002

Age at 31/03/03, 42

Emoluments (£000s)	28	77
Benefits in kind (£000s)	2	2
Real increase in pension at age 60 (£000s)	0	1
Total accrued pension at age 60 at 31 March 2003 (£000s)	1	1

Keith Marshall, Director of Inspection

Until 28 February 2003

Age at 31/03/03, 51

Emoluments (£000s)	71	75
Benefits in kind (£000s)	5	6
Real increase in pension at age 60 (£000s)	1	1
Total accrued pension at age 60 at 31 March 2003 (£000s)	2	1

Emoluments include salary, performance pay, bonus, and allowances. Performance pay is calculated according to annual performance as measured by the appraisal process. The figures exclude pension payments made to the PCSPS in accordance with the scheme as noted in 1 above.

The benefits in kind are the monetary value of the leased company car and medical benefits provided to staff in the course of their duties.

No directors objected to the publication of information concerning their individual pension arrangements. The value of pension benefits transferred in from another scheme and added years and AVCs at full cost to pension scheme members are not required to be disclosed.

The annual increase in accrued pension for the year ended 31 March 2003 for all the above employees was approximately £1,000. The annual increase in pension is attributable to the additional year of service and any increases in pensionable pay, and only covers employment with the ALI.

The comparative figures for the year ended 31 March 2002 have been restated in line with current guidelines.

Note 4a Inspection costs

	2002-03 £000s	2001-02 £000s
Fees paid to associate inspectors	3,620	2,767
NIC paid on fees paid to associates	374	-
Inspection expenses	2,143	1,569
Total inspection costs	6,137	4,336

Since 1 April 2002 the ALI is considered to be the employer for the purposes of national insurance contributions, and this cost is shown above.

Note 4b Other costs

	2002–03 £000s	2001–02 £000s
Board members' emoluments	9	3
Travel, subsistence and hospitality		
Board	8	11
Employees	823	489
Courses, conference, venues	959	970
Office supplies and services	405	464
Telephones and ICT	983	641
Premises and equipment	736	345
Recruitment and advertising	144	375
Other professional charges	256	184
Charges for operating leases	686	427
Consultancy fees	546	356
Staff welfare and relocation	132	134
Auditors' remuneration	32	34
Bank charges	3	3
Total other costs	5,722	4,436

Of the above expenditure, £nil (2002 £43,246) relates to expenditure incurred in respect of setting up the ALI during 2000–01.

The travel costs for employees and consultancy fees for the year ended 2002 have been restated to ensure an accurate comparison in line with current practice.

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

The total emoluments including non-consolidated bonus received by the Chair and Chief Inspector in the year to 31 March 2003 excluding out of pocket expenses were £148,688 (2002 £141,279). Inspectorate members other than the Chair and Chief Inspector were neither paid nor were entitled to any emoluments.

(b) Emoluments of the Chair

Richard Handover, Chair, has received £9,228 (2002 £2,250) in the year to 31 March 2002.

The Chair receives no bonuses or taxable benefits, and no pension contributions are payable on his behalf.

(c) Emoluments of the Chief Inspector

The Chief Inspector's total actual emoluments, including pension contributions, of £139,460 (2002 £139,029) received in the year to 31 March 2003 comprises a salary of £101,280 (2002 £97,392), backdated pay of £nil relating to 2001–02 (2002 £9,708 relating to 2000–01), a non-consolidated bonus of £10,658 including £780 relating to 2001–02 (2002 £4,980), and an employer's contribution to pension scheme of £17,982 (2002 £17,649). The Chief Inspector received a taxable housing allowance of £9,540 (2002 £9,300), and benefits in kind amounting to £7,447 (2002 £8,830). The benefits in kind are the monetary value of the leased company car and medical benefits provided to the Chief Inspector in the course of his duties. The Chief Inspector is an ordinary member of the Principal Civil Service Pension Scheme; contributions are paid at the rates as outlined in note 19. The Chief Inspector's bonus was based on the senior civil service scale for measuring performance.

(d) Emoluments of other Inspectorate members

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

A total of eight members (2002 6) submitted claims for non-taxable travel and subsistence payments during the year. These amounted to £3,000 (2002 £3,000) in total. The balance of expenditure shown in note 4 relates to expenditure where payments were made direct to suppliers for goods or services to enable the members to carry out their duties.

During the year to 31 March 2003, no monies were paid to third parties on behalf of Inspectorate members (2002 £nil) in respect of their services.

Note 6 Intangible fixed assets**Cost or valuation**

	IT software licences £000s
At 1 April 2002	–
Additions	53
Disposals	–
Indexation – to Income and Expenditure	–
– to Government Capital Grants Reserve	–
As at 31 March 2003	<u>53</u>

Depreciation

At 1 April 2002	–
Charge for the year	1
Eliminated on disposals	–
Indexation – to Income and Expenditure	–
– to Government Capital Grants Reserve	–
As at 31 March 2003	<u>1</u>

Net Book Value at 31 March 2003

	<u>52</u>
--	-----------

Net Book Value at 31 March 2002

	<u>–</u>
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Historic Cost Net Book Value at 31 March 2003

	<u>52</u>
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No indexation was applied in 2002–03 as this was immaterial.

Note 7 Tangible fixed assets

Cost or valuation	ICT £000s	Furniture £000s	Refurbishment £000s	Total £000s
At 1 April 2002	849	24	854	1,727
Additions	528	345	150	1,023
Disposals	(31)	–	–	(31)
Indexation – to Income and Expenditure	(45)	–	–	(45)
– to Government Capital				
Grants Reserve	–	5	22	27
As at 31 March 2003	1,301	374	1,026	2,701
Depreciation				
At 1 April 2002	356	4	–	360
Charge for the year	324	114	120	558
Eliminated on disposals	(5)	–	–	(5)
Indexation – to Income and Expenditure	(16)	–	–	(16)
– to Government Capital				
Grants Reserve	–	1	1	2
As at 31 March 2003	659	119	121	899
Net Book Value at 31 March 2003	642	255	905	1,802
Net Book Value at 31 March 2002	493	20	854	1,367
Historic Cost Net Book Value at 31 March 2003	666	252	886	1,804

Building refurbishment costs, office equipment/furniture and ICT hardware and software costs were revalued by comparing average indices for the year of purchase with those for the financial year. Indices were drawn from the Office of National Statistics publication *Price Index Numbers for Current Cost Accounting* (MM17). No indexation was applied in 2001–02 as it was immaterial.

Note 8 Debtors: amounts falling due within one year

	31 March 2003 £000s	31 March 2002 £000s
Trade debtors	60	140
Accrued income	–	249
Other debtors	441	–
Prepayments	395	110
Total debtors: amounts falling due within one year	896	499

Other debtors represents an advance payment of £441,000 (2002 £nil) made to Coventry City Council, who provide payroll services to the ALI, in respect of PAYE and National Insurance prior to onward transmission to the Inland Revenue by Coventry City Council. The liability for PAYE and National Insurance is included in note 10.

Note 9 Cash balances

	31 March 2003 £000s	31 March 2002 £000s
Total cash held in Paymaster General account at 31 March	<u>369</u>	<u>32</u>

The DfES authorises a working cash balance for the ALI of 2 per cent of the Grant-in-Aid budget for the year. At 31 March 2003 the balances as per bank, compared with the amounts authorised, were as follows:

	31 March 2003 £000s	31 March 2002 £000s
Grant voted	24,600	21,010
2% thereof	492	420
Balance as above	369	32
Balance to be surrendered	<u>Nil</u>	<u>Nil</u>

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

Note 10 Creditors: amounts falling due within one year

	31 March 2003 £000s	31 March 2002 £000s
Trade creditors	880	1,091
Other creditors including income tax and social security	600	306
Receipts in advance	10	-
Current element of long-term creditor in respect of rent	34	-
Accruals	1,102	522
Total Creditors: amounts falling due within one year	<u>2,626</u>	<u>1,919</u>

Note 11 Provisions for liabilities and charges

	31 March 2003 £000s	31 March 2002 £000s
Provisions at 1 April 2002	146	-
(Payment)/provision for early retirement costs	(58)	146
Provision for Income Tax and National Insurance	40	-
Legal claims (see Note 20)	10	-
Total provisions for liabilities and charges as at 31 March	<u>138</u>	<u>146</u>

The provision for early retirement costs is to meet the estimated costs of continued pension contributions until the age of 60 for two members of staff who retired early under the terms of the staff transfer from the Further Education Funding Council for England. No allowance has been made for future inflation increases in the pension contributions.

The provision for Income Tax and National Insurance is to cover liabilities in respect of expenses made in the normal course of business since 1 April 2001. Agreement on the actual amount payable will be reached with the Inland Revenue during 2003.

Note 12 Long-term creditor

Following the move to Spring Place in May 2002 the ALI has enjoyed a number of months where no rent was payable under the terms of the lease. This benefit will be credited to the accounts over the lease until this is renewed in March 2010. The amount of benefit relating to future years is £238,000 (2002 £nil) and this is shown in the balance sheet as follows:

	31 March 2003 £000s	31 March 2002 £000s
Creditor due within one year (see note 10)	34	–
Long-term creditor	204	–
Total creditor in respect of rent	238	–

Note 13 Government Capital Grants Reserve

	31 March 2003 £000s	31 March 2002 £000s
Opening balance	1,367	330
Allocated from Grant-in-Aid	484	57
Allocated from transition income	593	1,220
Released to income and expenditure account	(559)	(237)
Released to general reserve in respect of disposal	(27)	(3)
Released to general reserve in respect of loss on asset value arising from indexation	(29)	–
Surplus on revaluation	27	–
Additional depreciation on revaluation	(2)	–
Balance as at 31 March	1,854	1,367

The balance on the account represents Grant-in-Aid funding used to finance the purchase of the ALI's fixed assets. A proportion is transferred to the Income and Expenditure account annually over the estimated life of the relevant assets, to offset the depreciation charge based on historic cost on those assets.

The opening balance of £330,000 in 2001–02 consists of £148,000 of assets purchased on ALI's behalf by the DfES before to 1 April 2001 and £182,000 of assets transferred from the Training and Standards Council to the ALI on 1 April 2001.

Note 14 General Reserve: reconciliation in movement of government funds

	31 March 2003 £000s	31 March 2002 £000s
Opening balance	(1,534)	–
Retained deficit for the year	(225)	(1,537)
Surplus on revaluation	–	–
Additional depreciation on revaluation	–	–
Released from Government Capital Grants Reserve in respect of disposal	27	3
Transfer from Government Capital Grants Reserve in respect of loss on asset value arising from indexation	29	–
Balance as at 31 March	(1,703)	(1,534)

Note 15 Leases and hire purchase agreements

At 31 March 2003, the ALI had the following commitments under operating leases as set out below:

	31 March 2003 £000s	31 March 2002 £000s
Land and buildings		
Operating leases which expire:		
Within one year	–	–
Within two to five years	–	–
After more than five years	364	295
Other operating leases		
Operating leases which expire:		
Within one year	17	–
Within two to five years	509	254
After more than five years	–	–

Note 16 Financial commitments at the end of the period

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

At 31 March 2003 the ALI had £24,000 (2002 nil) of capital commitments in respect of furniture, £9,000 (2002 £153,000) for computer equipment and £nil (2002 £467,000) in respect of fit-out at Spring Place.

Note 17 Statement of losses and special payments

The ALI has the delegated authority, under the terms of its Financial Memorandum with the DfES signed on 25 May 2001, to write off individual losses up to a value of £1,000, subject to an annual limit of £10,000. The Adult Learning Inspectorate also has the delegated authority to make individual *ex gratia* payments up to a value of £1,000, subject to an annual limit of £10,000. Above these levels the ALI must seek approval from the DfES to write off losses and to make *ex gratia* payments.

The statement below sets out the losses incurred during the year to 31 March 2003 where the sum involved was above the delegated limits:

	Number	2002-03 £	2001-02 £
Losses (above £1,000) (written down value)	3	3,674	2,024
<i>Ex gratia</i> payments	–	–	–

Note 18 Reconciliation of operating deficit to movements in net funds

	2002–03 £000s	2001–02 £000s
Operating deficit for the period	(231)	(1,560)
Transfer from deferred government capital grants or reserves	(559)	(237)
Add:		
Depreciation on intangible fixed assets	1	–
Depreciation on tangible fixed assets	558	212
Loss on revaluation of assets	29	25
Notional items	15	15
Increase in debtors	(397)	(499)
Increase in creditors	699	2,065
Increase in long-term creditors	204	–
Receipt from sale of fixed assets	18	11
Net cash inflow/(outflow)	337	32
Reconciliation of net cash flow to movement in net funds		
Net funds at 1 April 2002	32	–
Net funds at 31 March 2003	369	32
	337	32

Note 19 Pensions

The PCSPS is an unfunded multi-employer defined benefit scheme but the Adult Learning Inspectorate is unable to identify its share of the underlying assets and liabilities. The last published full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

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

Classic scheme

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

Premium scheme

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

Classic plus scheme

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

Pensions payable under classic, premium and classic plus are increased in line with the Retail Price Index.

Partnership pension account

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

From 1 April 2002, employers' contributions were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay based on salary bands up to 30 September 2002. From 1 October contributions were payable at the rates appropriate to each employee's membership of the four new schemes described above. For 2002–03 total employers contributions of £1,418,000 (2002 £997,000) were payable to the PCSPS in respect of all schemes in operation during the year.

There are 2 (2002 1) employees who have not joined the PCSPS. No payments have been made on their behalf into any other pension scheme. From 1 October all other employees are members of one of the four schemes (classic, premium, classic plus and partnership pension account) described above.

Note 20 Legal claims

Various outstanding claims existed at 31 March 2003. Provision has been made in the accounts for the year ended 31 March 2003 for those outstanding liabilities which will probably require settlement by the ALI and where the amount of the liability can be reliably estimated (see note 11).

Note 21 Contingent liabilities

There are no contingent liabilities at the balance sheet date requiring disclosure at the date of signing the accounts (2002 £nil).

Note 22 Related party transactions and connected bodies

The Adult Learning Inspectorate is sponsored by the Department for Education and Skills (DfES) which is regarded as a related party. There were material transactions with the DfES in respect of the Grant-in-Aid (note 2a). In addition, the ALI provided staff on secondment to partner organisations (note 3b).

There were also material transactions with the Learning and Skills Council, University for Industry (**learnirect**), and the Offenders' Learning and Skills Unit, being entities for which the DfES is regarded as the parent department. These transactions relate to inspections carried out during the normal course of business.

During the year the ALI had similar material transactions with the following government departments and central government bodies:

- Office for Standards in Education (OFSTED)
- Department for Work and Pensions (Jobcentre Plus)
- Ministry of Defence
- Home Office
- Local Education Authorities

In addition the following members had related party transactions in that they held appointments with organisations which were directly or indirectly related to providers where the ALI carried out inspections during the year in the normal course of business:

Paulene Collins, director of quality assurance, College of Law:
Walford and North Shropshire College

David Croll, principal and chief executive of Derby College:
Derby College, Wilmorton
Derby College for Deaf People
North Derby Tertiary College

Margaret Luck, quality and staff development manager for adult learning and leisure,
Somerset County Council:
Connexions Somerset

Chris Trinick, chief executive of Lancashire County Council:
Adult College, Lancaster
North and West Lancashire Hub
University of Central Lancashire
Lancashire Police

No other member, key managerial staff or other related party has been involved in any material transactions with the ALI during the year ended 31 March 2003.

Since 31 March 2003 the ALI has conducted an inspection at Stanmore College, Middlesex, where Peter McKee is a member of the board of governors.

Note 23 Key financial targets

The accounts direction requires that the notes to the accounts include details of the key corporate financial targets set by the Minister together with the performance achieved. There were no specific targets; however key targets from the ALI Business Plan for 2002–03 are included in the foreword to the accounts.

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