



Learning and Teaching Scotland

(Limited by Guarantee and not having a Share Capital)

Report and Financial Statements

**Year ended
31 March 2006**

*Registered in Scotland, number SC200241
Recognised as a Charity, number SC030217*

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Further information on Learning and Teaching Scotland is given on the company's website, LTScotland.org.uk where the 2005/06 Annual Report details the activities carried out in the year to 31 March 2006.

The 2006/07 Annual Plan is also available on this website.

Directors' report

Directors		Appointed Until
Prof. Tom Wilson OBE, (<i>Chair, to 31 March 2006</i>)	(2), (3)	31 March 2006
Prof. Lesley Beddie	(2)	30 June 2006
Dr Ray Harris	(1)	30 June 2007
Ms Iris McMillan	(1)	30 June 2007
Mr John Mitchell	(1), (3)	30 June 2007
Prof. Martyn Roebuck	(1)	30 June 2006
Mr Fraser Sanderson		31 July 2007
Prof. Douglas Weir	(1), (2)	31 July 2007
Mr Bernard McLeary, (<i>Chief Executive</i>)	(2)	
Mr Keir Bloomer	(2), (3)	Resigned, 30 April 2006
Mr John Mulgrew OBE (<i>Chair, from 1 April 2006</i>)		31 March 2010

- (1) Member of the Audit Committee during the year
 (2) Member of the Chair's Committee during the year
 (3) Member of the Remuneration Committee during the year.

Corporate Management Team

Mr Bernard McLeary	Chief Executive
Mr Laurie O'Donnell	Director of Learning and Technology
Mr Steve Nott	Interim Director of Corporate Services (as from 11 January 2006)
Mr Stuart Ritchie	Director of Curriculum (as from 6 March 2006)
Ms Margaret Clarke	Director of ICT and Learning (until 31 January 2006)
Mr Alistair Gordon	Finance Director & Company Secretary (until 31 January 2006)
Dr Denis Stewart	Depute Chief Executive, Learning Development (retired 31 October 2005)
Mr Joseph McGalliard	Depute Chief Executive, Policy & Resources (resigned 6 May 2005)

Company Secretary

Mr Alistair Gordon

Headquarters and Registered Office

Optima Building, 58 Robertson Street, Glasgow, G2 8DU

Offices also at Gardyne Road, Dundee, DD5 1NY

Auditors

Scott Moncrieff Chartered Accountants, 17 Melville Street, Edinburgh EH3 7PH

Bankers

Royal Bank of Scotland PLC, 23 Sauchiehall Street, Glasgow G2 3AD

Solicitors

MacRoberts, 152 Bath Street, Glasgow G2 4TB

The Directors submit their report and the audited financial statements for the year ended 31 March 2006.

1. Brief history, organisational background and principal activities

Learning and Teaching Scotland (LT Scotland) was formed on 1 July 2000 as the result of a merger between the Scottish Consultative Council on the Curriculum (SCCC) and the Scottish Council for Educational Technology (SCET®).

LT Scotland is a recognised charity, involved in the advancement of education, with its governing document being its Memorandum and Articles of Association.

Directors' report (continued)

1. Brief history, organisational background and principal activities (continued)

LT Scotland is managed by a board of up to ten Directors, who are appointed for their individual expertise. The Memorandum and Articles provide that all directors are appointed by Scottish Ministers and that the Chief Executive is, by virtue of that position, a Director of LT Scotland.

LT Scotland is an Executive Non-Departmental Public Body. Its principal activities are to:

- actively promote a climate of innovation, ambition and excellence throughout the Scottish education system.
- support teachers, schools and local authorities in improving the quality of education and raising levels of achievement of all learners.
- ensure that the curriculum and approaches to learning and teaching, including the use of ICT, assist children and young people in Scotland to develop their full potential.
- work in close partnership with The Scottish Executive and other key stakeholders to build capacity and support the delivery of a first class education that is recognised as such nationally and internationally.

LT Scotland is funded in part by core grant-in-aid from the Scottish Executive. LT Scotland also receives funding for specific education programmes from a variety of sources and generates income from the sale of products and services to a wide range of stakeholders in education and life-long learning.

2. Basis of Financial Statements

The financial statements have been prepared in a form directed by the Scottish Ministers in accordance with the Educational Development, Research and Services (Scotland) Grant Regulations, 1999. This direction is shown as an Appendix to these financial statements.

3. Statement of Directors' responsibilities

United Kingdom Company Law requires the Directors to prepare financial statements that give a true and fair view of the state of affairs of the company at the year end and of the surplus or deficit for the financial year. In so doing, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors and Chief Executive are responsible for maintaining proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

4. Operating and Financial Review

Working in close partnership with the Scottish Executive Education Department and the Scottish Qualifications Authority, we have been taking forward the Scottish Executive's *Ambitious, Excellent Schools* agenda, with a particular focus on leading and supporting developments associated with *A Curriculum for Excellence*. In that context, we have taken a lead role in communicating and engaging with education authorities and schools across the country. We have continued to strengthen our links with other key national bodies through, for example, establishing partnership agreements with HMIE and with ADES and COSLA. We have developed our links with education authorities individually and in groups to add value to their work on shared priorities. Our links with the main professional associations and with other education bodies have also been strengthened considerably. We recognise that much remains to be done as we take forward the national agenda. Our capacity to lead and support the education system should be greatly increased with the appointment of our full corporate management team by June 2006 and a team of programme directors and area advisers in place for the start of the 2006-07 school session.

Directors' report (continued)

4. Operating and Financial Review (continued)

The deficit for the year, transferred to the General Reserve, was £2,491,384 (2005: (£5,705)). Two major issues impacting the results for the year were:

Sale of our Victoria Crescent Road premises

As more fully detailed in Note 4 to the accounts, we sold our previous Glasgow premises for £10.75m during the year, moving to our new Headquarters at the Optima Building in Robertson Street, Glasgow. The sale proceeds were however passed over to the Scottish Executive resulting in an accounting loss of £3m to the Company given that the Victoria Crescent Road premises had previously been valued at £3m. In cash terms however the Executive funded approximately £3.2m in respect of the fit out of the Optima and necessary IT upgrades. These assets are now shown on our balance sheet as Funded Assets.

Accounting for Pension Scheme Liabilities

Under the provisions of Financial Reporting Standard 17 (FRS17) we have previously shown our pension scheme liabilities by way of note to the accounts. FRS17 requires that, this year, these liabilities are incorporated onto our balance sheet. As more fully explained in Notes 10, 17 and 18 to the accounts, the balance sheet now shows a Strathclyde Pension Fund liability of £5.5m at 31 March 2006. Our prior year figures have been restated and both the prior and current balance sheets are now showing a modest deficit on reserves.

In operational terms the past year has seen us moving to our new fit for purpose Headquarters in Glasgow with a significant improvement in both working conditions and visibility of LT Scotland. We have also carried out a voluntary severance scheme, predominantly affecting our support staffing. The future savings from this measure have allowed us to invest in front line educational staff. This is critical to the achievement of our educational priorities.

5. Post balance sheet events

There have been no material post balance sheet events.

6. Payment of suppliers

LT Scotland generally pays suppliers within 30 days or on otherwise specially agreed terms. This was achieved for 96% (2005: 95%) of the value of invoices during the year. At 31 March 2006 trade creditors, excluding accrued invoices, represented seventeen days of purchases.

7. Disabled employees

LT Scotland has a positive attitude towards the employment of disabled persons, both in recruitment and in provision of suitable working conditions. Our previous Victorian era premises in Glasgow had limited disabled access and the move to our new Headquarters building is of significant benefit in this area.

8. Employee involvement/consultation

The Management of LT Scotland communicates with staff and consults with the representatives of the three recognised Trade Unions. Open meetings were held to discuss major items of general importance and staff information was distributed by way of notices and structured meetings.

9. Environmental Responsibilities and Sustainable Development

The Company takes its environmental responsibilities seriously but has been hampered in the past by the age and condition of the previous extensive Glasgow premises. In addition we have had a lack of usable data in respect of our environmental impact. The move to the new headquarters is in itself a significant step forward in improving our performance in this area and, for example, virtually all Glasgow based staff now use public transport rather than commute by car. We have now started to monitor key resource usage and action plans are being put in place to reduce usage in the coming year. We are also now reviewing our working practices, including out of office/ home working where appropriate.

10. Corporate Governance

Board members are appointed by Scottish Ministers, normally for a period of three years. The Board has corporate responsibility for ensuring that LT Scotland fulfils the aims and objectives set in agreement with the Scottish Ministers and has also agreed a Management Statement & Financial Memorandum with the Scottish Executive. This was last updated in March 2006. The Management Statement sets out the broad framework within which LT Scotland should operate and the associated Financial Memorandum sets out in greater detail certain aspects of the required financial arrangements.

Directors' report (continued)

10. Corporate Governance (continued)

The Board is committed to maintaining high standards of corporate governance throughout LT Scotland in line with guidance provided by the Scottish Executive and the United Kingdom Treasury. The Board comprises the Chairman, up to eight other Non-Executive Directors and the Chief Executive. The Non-Executive Directors are considered to be independent of management and have no business or other relationships which could materially influence the exercise of their independent judgement.

Formal induction is carried out for new Board members, involving the Chair, Chief Executive and Company Secretary. Development opportunities are also available to all Board members to ensure that they remain up to date with best practice in corporate governance and other relevant areas.

The Board regularly reviews the major risks to which the company is exposed and ensures that systems have been established to mitigate these risks.

The Board critically examines the organisation's strategy, budget and business plan each year and meets at least four times a year to review performance, key business issues and initiatives. It also meets residentially each year to discuss strategy and on an ad hoc basis as required. The Chief Executive is responsible for developing and implementing business strategy and processes and for the day-to-day management of the organisation. The Board believes that, together, the Directors possess the breadth of business, financial and educational experience and advice necessary to manage effectively an organisation of the size and complexity of LT Scotland. The Board has delegated certain matters to sub-committees as set out below:

Audit Committee

This committee, chaired during the year by Dr Ray Harris, normally meets at least three times per year. It monitors and reviews accounting policies, financial reporting, the systems of internal control, and reviews the annual financial statements before they are presented to the Board. It also considers the organisation's compliance with Scottish Executive and Treasury guidance and oversees the objectivity and effectiveness of internal audit. The Audit Committee can request both auditors and any officers to attend its meetings and internal and external auditors have direct access to the Audit Committee to raise any matters of concern.

Chair's Committee

This committee, chaired during the year by Prof. Tom Wilson, meets on an ad-hoc basis between Board meetings in the event that urgent consideration is required on a particular issue.

Remuneration Committee

This committee, chaired during the year by Prof. Tom Wilson, meets as required to consider senior management remuneration and related matters.

Location Committee

This committee, chaired during the year by Prof. Tom Wilson, and to which all Board members can attend, has met during the year to consider issues relating to the Company's property strategy. With the move to the Optima Building now completed, this committee was formally disbanded in June 2006.

11. Auditors

A resolution to reappoint Scott Moncrieff as auditors to the company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors, and signed by

A Gordon
Secretary

B McLeary
Chief Executive

23 August 2006

Remuneration Report

As noted in the Directors' Report, the Remuneration Committee meets as required to consider senior management remuneration and related matters. The members of this committee during the year are shown in the Directors' Report. Details of the remuneration of the directors and senior management in the organisation are given below.

The Chair received remuneration of £10,868 during the year to 31 March 2006 (2005: £10,691). With the exception of the Chief Executive (see below), no other Directors received remuneration in the year to 31 March 2006 (2005: £nil).

During the year the Chief Executives' total emoluments were as follows:

Name	B McLeary (from 7 June 2004)		M Baughan (to 11 June 2004)	
	2006	2005	2006	2005
	£	£	£	£
Salary	84,733	67,091	-	15,172
Bonus	-	-	-	-
Contributions to company's pension schemes	12,710	9,661	-	2,185
Total emoluments	97,443	76,752	-	17,357
Employer's contribution - % of basic salary	15.0%	14.4%	-	14.4%

Additional details of the emoluments of the company's Senior Managers is required by the Government Financial Reporting Manual ('FReM'). The following information is disclosed.

Name	Age	Emoluments in the Year £'000	Benefits in kind £'000	Other £'000
B McLeary	54	82.5 – 85.0	-	-
L O'Donnell	45	52.5 – 55.0	-	-
A Gordon (to 31 January 2006)	48	50.0 – 52.5	-	-
M Clarke (to 31 January 2006)	49	45.0 – 47.5	-	-
D Stewart (to 31 October 2005)	55	22.5 – 25.0	-	(1)
J McGalliard (to 6 May 2005)	49	5.0 – 7.5	-	(1)
S Ritchie (from 6 March 2006)	57	2.5 – 5.0	-	-

The charge for the services of Mr S Nott, interim Director of Corporate Services from 11 January 2006, was invoiced by an external employment agency.

The above figures exclude pension contributions. Margaret Clarke and Laurie O'Donnell were members of the Scottish Teachers' Superannuation Scheme, paying 6% employee contributions, with the company paying 12.5%. All other individuals named above, other than Mr Nott, were members of the Strathclyde Pension Fund during the year, paying 6% employee contributions, with the company paying 15.0%.

The above individuals do not wish details disclosed regarding the real increase in their pension earned in the year or the value of their accrued pension as at 31 March 2006.

Other Costs (1)

Messrs Stewart and McGalliard are no longer employees of the Company and have not authorised disclosure of other payments made to them, including in respect of lieu of notice and accrued holiday pay.

Approved by the Board of Directors, and signed by

A Gordon
Secretary

23 August 2006

Statement of accountable officer's responsibilities

The direction from Scottish Ministers requires the Board to prepare financial statements for each financial year which comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual ('FReM') which is in force for the year for which the financial statements are prepared. The financial statements should give a true and fair view of the state of affairs of the company as at the end of the financial year and of the surplus or deficit and cash flow of the company for that period.

The Chief Executive is the appointed Accountable Officer responsible for preparing the financial statements and transmitting them to the Auditor of Learning and Teaching Scotland. In preparing those financial statements, the Accountable Officer is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the organisation will continue in business.

The Accountable Officer has the responsibility for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and comply with the direction from Scottish Ministers. The Accountable Officer also has the responsibility for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors, and signed by

A Gordon
Secretary

23 August 2006

Statement on the system of internal control

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's 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 the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. We now have the procedures in place necessary to implement guidance from Scottish Ministers, with some additional tasks in the coming year to complete the work. This takes account of the time needed to fully embed the processes which our outsourced internal auditors have identified and the organisation has agreed need to be made more robust.

Our senior managers have identified the organisation's revised objectives and risks and we have developed a control strategy for each of the significant risks. A risk management policy document has been sent to all staff setting out our attitude to risk and to the achievement of objectives.

The organisation's internal auditors submit regular reports which include their independent opinion on the adequacy and effectiveness of the organisation's system of internal control together with recommendations for improvement.

The Board of Directors and Audit Committee consider risk at every meeting and there has been a full risk and control assessment before reporting on the year ending 31 March 2006. Risk management is now incorporated into the corporate planning and decision making processes of the organisation.

The Board of Directors receives regular reports from the chairman of the Audit Committee concerning internal control and we require regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects. In addition to the actions mentioned above, the organisation has:

- introduced a programme of risk awareness training;
- established a framework for all project management;
- reviewed and maintained an organisation-wide risk register

Areas still to address

We are now looking to fully embed these agreed procedures throughout the organisation, taking into account the changes arising from our revised remit, updated structures and the new staff and processes now in place. We are also in the process of establishing a more meaningful system of key performance indicators.

I am of the view, taking into account the steps noted above that we still have to take in the coming year, that the systems of internal control, whilst improving, are currently not fully effective. My view is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

B McLeary
Accountable Officer

23 August 2006

Independent auditors' report to the members of Learning and Teaching Scotland

We have audited the financial statements of Learning and Teaching Scotland for the year ended 31 March 2006 which comprise the statement of financial activities, the income and expenditure account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement including the notes to the cash flow statement and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2006 and of its deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985, and the direction made by the Scottish Ministers under the Educational Development, Research and Services (Scotland) Grant Regulations 1999. The information given in the directors' report is consistent with the financial statements.

In all material respects the income and expenditure have been applied for the purposes intended by Parliament and the financial transactions conform to the regulations and conditions which govern them.

Scott Moncrieff
Chartered Accountants and Registered Auditors

23 August 2006

Notes: An audit does not provide assurance on the maintenance and integrity of the Company's website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Statement of Financial Activities

Year ended 31 March 2006

	Unrestricted Funds	Restricted Funds	Totals 31 March 2006	Totals 31 March 2005 Restated
	£	£	£	£
Incoming resources				
<i>Incoming resources from generated funds</i>				
Other incoming Resources	2,062,874	29,209	2,092,083	2,468,515
<i>Incoming resources from charitable activities</i>				
SEED general activities grant	4,955,000	-	4,955,000	3,955,000
Other government funding	13,221,078	3,124,170	16,345,248	13,995,999
Other grants	328,320	-	328,320	290,630
Total incoming resources	20,567,272	3,153,379	23,720,651	20,710,144
Resources Expended				
<i>Cost of generating funds</i>				
Cost of sales	1,487,134		1,487,134	1,711,145
<i>Charitable Activities</i>				
Publication and consultancy	2,397,314	4,511	2,401,825	2,929,871
Grants payable	2,189,265		2,189,265	2,629,879
Production and other costs	1,289,527	1,523	1,291,050	1,684,680
Staff costs	7,891,379		7,891,379	7,498,014
Voluntary redundancy	828,710		828,710	125,645
Staff travel and development	639,998	3,037	643,035	760,441
Conferences and seminars	918,127	18,570	936,697	948,026
Administration and building expenses	1,436,799	1,568	1,438,367	1,280,649
Promotional expenses	304,965		304,965	279,812
Other professional fees	334,924		334,924	195,378
Loss on disposal of assets	3,000,000		3,000,000	-
Other expenditure	312,631	108,876	421,507	297,523
Other finance costs	(17,000)		(17,000)	53,000
<i>Governance costs</i>				
Audit fees internal and external	36,162		36,162	34,769
Board costs	8,721		8,721	10,776
Total resources expended	23,058,656	138,085	23,196,741	20,439,608
Net incoming/(outgoing) resources	(2,491,384)	3,015,294	523,910	270,536
Surplus on revaluation of premises	-	-	-	911,227
Actuarial (loss)/ gain on net pension liability	(97,000)	-	(97,000)	86,000
Reconciliation of funds				
Net movement in funds	(2,588,384)	3,015,294	426,910	1,267,763
Fund balances brought forward at 1 April 2005	(865,224)	444,165	(421,059)	(1,506,871)
Increase in restricted reserves (bank interest)	-	3,054	3,054	4,154
Utilisation of restricted reserves	-	(20,685)	(20,685)	(31,356)
Reserves released to match depreciation charge	-	(240,436)	(240,436)	(154,749)
Fund balances at 31 March 2006	(3,453,608)	3,201,392	(252,216)	(421,059)

The statement of accounting policies and notes on pages 15 to 26 form part of these financial statements.

Income and Expenditure Account

Year ended 31 March 2006

	Note	2006 £	2005 Restated £
Operating Income			
<i>Government Funding</i>			
SEED General Activities Grant		4,955,000	3,955,000
National Grid for Learning		6,778,136	7,553,913
Other		6,442,943	6,162,937
Total Government Funding		18,176,079	17,671,850
European, Local Authority and Other Grants		328,320	290,630
Own and third party software sales		1,712,758	1,954,729
Royalty and Publications Income		70,903	76,640
Other project income		40,979	33,150
Skills Development income		83,115	70,903
Rental and accommodation services		71,523	125,094
Miscellaneous income		29,133	82,880
Total operating income		20,512,810	20,305,876
Operating Expenditure			
Cost of Sales			
Own and Third Party Software		1,487,134	1,711,145
Total cost of sales		1,487,134	1,711,145
Staff costs	3	7,891,379	7,498,014
Voluntary redundancy	3	828,710	125,645
Publication and consultancy		2,422,899	2,949,240
Grants payable		2,189,265	2,629,879
Production and other		1,291,050	1,684,680
Staff travel and development		643,035	760,441
Administration and building expenses		1,438,367	1,280,066
Promotional expenses		304,965	279,812
Conferences and seminars		945,418	958,802
Depreciation - owned assets	4	55,260	118,228
Depreciation - project funded assets	5	240,436	156,638
Loss on disposal of assets	4	3,000,000	-
Auditors' remuneration		15,088	15,400
Other professional fees		334,924	195,380
Operating lease rentals		16,935	19,041
Total operating expenditure		23,104,865	20,382,411
Operating deficit		(2,592,055)	(76,535)
Bank interest received		83,671	125,119
Other finance income/ (costs)		17,000	(53,000)
Bank interest paid		-	(583)
Other interest paid		-	(706)
Notional cost of capital	6	11,782	(33,920)
Deficit - after interest and notional costs		(2,479,602)	(39,625)
Reversal of notional cost of capital		(11,782)	33,920
Deficit transferred to reserves		(2,491,384)	(5,705)

All disclosures relate to continuing operations. There is no material difference between the deficit as presented and that derived on a historic basis.

The statement of accounting policies and notes on pages 15 to 26 form part of these financial statements.

Statement of total recognised gains and losses

Year ended 31 March 2006

	Unrestricted Funds £	Restricted Funds £	Total 2006 £	Total 2005 Restated £
Deficit of income versus expenditure	(2,491,384)	-	(2,491,384)	(5,705)
Unrealised Surplus on revaluation of property	-	-	-	911,227
Actuarial (losses)/ gains on net pension liability	(97,000)	-	(97,000)	86,000
Net additions in respect of project funded assets	-	3,015,294	3,015,294	278,130
Transferred from restricted reserves bank account	-	3,054	3,054	4,154
Transferred from restricted reserve	-	(261,121)	(261,121)	(187,994)
Total recognised gains and losses relating To the year	(2,588,384)	2,757,227	168,843	1,085,812
Opening capital and reserves	(865,224)	444,165	(421,059)	(1,506,871)
Closing capital and reserves	(3,453,608)	3,201,392	(252,216)	(421,059)

The statement of accounting policies and notes on pages 15 to 26 form part of these financial statements.

Balance sheet

31 March 2006

	Note	31 March 2006 £	31 March 2005 Restated £
Fixed assets			
Owned Tangible Assets	4	41,999	3,145,613
Project Funded Tangible Assets	5	3,132,806	357,948
		3,174,805	3,503,561
Current assets			
Stocks	7	44,290	27,116
Debtors	8	3,434,850	1,200,210
Cash at bank and in hand		4,605,540	4,153,084
		8,084,680	5,380,410
Creditors: amounts falling due within one year	9	(5,368,296)	(3,983,030)
Provisions: amounts falling due within one year	9	(628,405)	-
		2,087,979	1,397,380
Net current assets		2,087,979	1,397,380
Total assets less current liabilities		5,262,784	4,900,941
NET ASSETS excluding pensions (liability)		5,262,784	4,900,941
Creditors: amounts falling due after more than one year			
Provisions for liabilities and charges:			
Pensions (liability)	10	(5,515,000)	(5,322,000)
NET ASSETS including pensions (liability)		(252,216)	(421,059)
<i>Represented by:</i>			
RESERVES			
Restricted reserve for project funded assets	11	3,132,806	357,948
Unrestricted general reserve	12	423,607	263,651
Unrestricted revaluation reserve	12	-	2,651,340
Unrestricted pension reserves	12	(3,877,215)	(3,780,215)
Restricted reserves	12	68,586	86,217
		(252,216)	(421,059)

These financial statements were approved by the Board on 23 August 2006

J Mulgrew
Director

B McLeary
Chief Executive

The statement of accounting policies and notes on pages 15 to 26 form part of these financial statements.

Cash flow statement

Year ended 31 March 2006

	Notes to cash flow statement	2006 £	2005 Restated £
Net cash (outflow)/inflow from operating activities	1	383,940	(3,445,273)
Returns on investment and servicing of finance	2.1	83,671	123,829
Capital expenditure and financial investment	2.2	<u>(15,155)</u>	<u>(65,944)</u>
Net cash (outflow)/inflow		452,456	(3,387,388)
Net funds brought forward at 1 April 2005		<u>4,153,084</u>	<u>7,540,472</u>
Net funds at 31 March 2006		<u>4,605,540</u>	<u>4,153,084</u>

The statement of accounting policies and notes on pages 15 to 26 form part of these financial statements.

Notes to the cash flow statement

Year ended 31 March 2006

1 Reconciliation of operating deficit to net cash (outflow)/inflow from operating activities	2006	2005
	£	Restated £
Operating deficit	(2,592,055)	(76,535)
Depreciation – owned assets	55,260	118,228
Depreciation – project funded assets	240,436	156,638
Disposal of owned fixed assets	3,063,509	289
(Increase) in stock	(17,174)	(7,565)
(Increase) in debtors	(2,234,640)	(104,392)
Increase/(decrease) in creditors/ provision for voluntary redundancy	2,013,671	(3,352,347)
(Decrease) in restricted reserves	(17,631)	(27,202)
Pensions	113,000	4,251
Amortisation of reserve in respect of project funded assets	(240,436)	(156,638)
Net cash inflow/(outflow) from operating activities	<u>383,940</u>	<u>(3,445,273)</u>
2 Gross cash flow		
2.1 Returns on investment and servicing of finance		
Interest received	83,671	125,119
Interest paid	-	(1,290)
	<u>83,671</u>	<u>123,829</u>
2.2 Capital expenditure and financial investment		
Payments to acquire owned fixed assets (note 4)	(15,155)	(65,944)
Payments to acquire project funded fixed assets (note 5)	(3,124,170)	(279,149)
Receipts relative to project funded assets	<u>3,124,170</u>	<u>279,149</u>
	<u>(15,155)</u>	<u>(65,944)</u>

Notes to the financial statements

Year ended 31 March 2006

1 Accounting Policies

Basis of Preparation

The financial statements are prepared in accordance with the financial statements direction issued by Scottish Ministers (in accordance with paragraph 4 of the Educational Development, Research & Services (Scotland) Grant Regulations 1999), the Government Financial Reporting Manual ('FReM'), and with generally accepted accounting practice in the UK, including United Kingdom accounting standards and the Charities SORP, to the extent that it is meaningful and appropriate in the public sector context.

The particular accounting policies adopted are described below.

Accounting Convention

The financial statements have been prepared under the historical cost convention, modified to include revaluations to certain fixed assets.

Grants

Grants relating to tangible fixed assets are treated as deferred income and released to the income and expenditure account over the expected useful lives of the assets concerned. Other grants are credited to the income and expenditure account as the related expenditure is incurred.

Tangible fixed assets

Depreciation is provided on all fixed assets at rates calculated to write off their cost or valuation in annual instalments over their effective lives as follows:

Leasehold improvements	Over life of lease
Property renovations	15 years
Fixtures and fittings	10 years
Office equipment	5 years
Computer equipment	3 years

The company also uses assets funded by external bodies, generally the Scottish Executive Education Department (SEED). These assets, used for specific projects, are classed as Project funded assets. As shown in Note 11, a restricted reserve is designated and amortised to the income and expenditure account over the effective lives of these assets in accordance with their write-off policy.

Investment Properties

Land and buildings which are identified as surplus to the company's requirements are transferred to Investment Properties and re-valued at an open market valuation.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Research and development

Research and development expenditure is written off to the income and expenditure account as incurred.

Leases and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the assets have passed to the company, are capitalised and depreciated over the term of the lease or contract. The interest element of the rental obligations is charged to the income and expenditure account over the period of the lease or contract and represents a constant proportion of the balance of capital repayments outstanding.

Operating lease rentals are charged to the income and expenditure account in equal annual amounts over the lease term.

Notes to the financial statements

Year ended 31 March 2006 (continued)

1 Accounting Policies (continued)

Notional costs

In accordance with accounting requirements laid down by the Financial Reporting Advisory Board, the Income and Expenditure Account includes notional costs where this is necessary to disclose the full cost of the company's activities. The calculation of notional costs of capital is explained in note 6.

Pensions

The majority of employees of LT Scotland participate in the Strathclyde Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme. The Fund operates in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 as amended.

The company accounts for defined benefit pensions in accordance with the requirements of FRS17.

The company also has a number of employees, formerly teachers, participating in the Scottish Teachers' Superannuation Scheme. This is a notionally funded defined benefit scheme and, as such, is accounted for under defined contribution rules.

Income

Operating income represents the amounts derived from the provision of services that fall within the company's ordinary activities, stated net of VAT.

Allocation of Expenditure

Expenditure is allocated to the various cost headings set out in the Statement of Financial Activities and the Income and Expenditure Account, with this allocation consistent between accounting periods.

Prior Year Adjustments

During the year under review the company has adopted the provisions of FRS17 (pensions) and Charities SORP 2005. Adoption of FRS17 has required restatement of balances in the year ended 31 March 2005 and these are detailed in Note 18 to these accounts.

Adoption of Charities SORP 2005 has resulted in certain minor reclassification adjustments in our Statement of Financial Activities, shown on page 9 of these accounts.

2 Directors and their interests

Due to the nature of the company's operations and the composition of its Board of Directors it is inevitable that transactions will take place with companies or organisations in which a Director will have an interest. All transactions involving organisations in which a Director may have an interest are conducted at arm's length. Directors are not permitted to participate in discussions or decisions on transactions involving their organisations.

Net balances greater than £1,000, due to/ by LT Scotland in respect of these organisations have now been paid.

The total value of the following sales transactions represented 0.45% per cent of the company's income during the year.

The total value of the following purchase transactions represented 1.80% of the company's operating expenditure during the year.

Notes to the financial statements

Year ended 31 March 2006 (continued)

Transactions for the year to 31 March 2006 and balances outstanding as at 31 March 2006 with organisations in which Directors have an interest are noted below:

Name	Company	Position Held	Sales Balances Over £1,000		Purchases £	Purchase Balances over £1,000	
			£	£		£	£
Lesley Beddie	University of Durham	Director of IT	-	-	-	-	-
	British Computer Society: education And Training	Forum Chair/ Council Member	-	-	-	-	-
	Margaret Blackwood Housing Association	Board Member	-	-	-	-	-
Keir Bloomer	Clackmannanshire Council	Chief Executive	22,117	3,301	80,724	22,928	
	CBI Business Education Coalition	Member	-	-	-	-	
	Tapestry	Board Member	-	-	-	-	
Ray Harris	Telford College	Principal & Chief Executive	156	-	-	-	
	Telford Training & Consultancy Services	Director	-	-	-	-	
	Thomas Telford Trust	Director	-	-	-	-	
	Edinburgh Europa Ltd	Director	-	-	-	-	
	Forth Valley College	Other interest	-	-	-	-	
Bernard McLeary	No notifiable interests						
Iris McMillan	City of Edinburgh Council	Solicitor	12,747	7,801	119,176	2,000	
	NISUS Scotland Ltd	Chair & Director	-	-	-	-	
	Training for Care Ltd	Director	-	-	-	-	
	Office of the Scottish Charity Regulator	Member	-	-	-	-	
John Mitchell	Scottish Qualifications Authority (SQA)	Board member	5,856	-	39,337	17,728	
Martyn Roebuck	University of Edinburgh	Chairman	958	-	-	-	
	University of Glasgow committees	Member	1,032	-	56,747	-	
	British Council Minerva Panel	Member	-	-	-	-	
	Evaluation of Future Learning & Teaching by Glasgow university	Contract	-	-	-	-	
	University of Edinburgh – Steering committee for CALL Centre HMIE	Chairman Other Interest	- 42,004	- 12,340	-	-	
Fraser Sanderson	Dumfries and Galloway Council	Director of Education and Community Services	540	-	100,481	24,253	
	Council of General Teaching Council of Scotland	Member	-	-	-	-	
Douglas Weir	University of Strathclyde	Professor of Education	6,690	-	17,709	-	
	Court of University of Strathclyde	Member	-	-	-	-	
Thomas Wilson	Glasgow Metropolitan College	Principal	424	-	1,397	-	
	Glasgow Colleges Group Ltd	Director	-	-	-	-	
	West of Scotland Colleges Partnership	Director	-	-	-	-	
Totals			92,524	23,442	415,571	66,909	

Notes to the financial statements

Year ended 31 March 2006 (continued)

3. Staff costs

2006

2005

£

Restated

£

The average weekly number of persons employed by the company during the year was 201 (2005: 205).

Staff costs comprised:

Wages and salaries	4,901,618	4,845,281
Social security costs	418,473	427,353
Pension and early retirement costs	737,169	675,563
Staff on secondment and temporary or contract personnel	1,834,119	1,549,817
	7,891,379	7,498,014

Pension and early retirement costs can be analysed as follows:

Regular pension costs	44,169	48,563
FRS17 Current Service Cost	615,000	584,000
FRS17 Past Service Cost	78,000	43,000
	737,169	675,563

Voluntary Redundancy

828,710

125,645

These costs were principally incurred in respect of 27 staff who left the company on 31 March 2006 or shortly thereafter under the terms of a voluntary severance scheme.

Seconded Staff

In addition to the staff employed noted above, the company makes use of the services of a number of education professionals seconded from external bodies, generally Education Authorities. 35 individuals were working for LT Scotland under these secondment arrangements at 31 March 2006 (2005: 26)

Pension scheme members

Within the 200 employees as at 31 March 2006 (2005: 201), 126 (2005: 127) employees were members of the Strathclyde Pension Scheme with a further 22 (2005: 23) being members of the Scottish Teachers' Superannuation Scheme.

Senior staff salaries

The following number of senior employees received remuneration, including employer's pension contributions, during the year within the range below:

	2006	2005
	No.	No.
£50,001 - £60,000	3	-
£60,001 - £70,000	-	2
£70,001 - £80,000	-	3
£90,001 - £100,000	1	-

Notes to the financial statements

Year ended 31 March 2006 (continued)

4 Tangible fixed assets - owned

	Heritable Property & Renovations	Computer Equipment	Office Equipment & Fixtures	Total
	£	£	£	£
Cost or valuation				
As at 1 April 2005	3,000,000	781,107	201,273	3,982,380
Additions	-	6,317	8,838	15,155
Disposals	(3,000,000)	(729,803)	(191,188)	(3,920,991)
As at 31 March 2006	-	57,621	18,923	76,544
Accumulated depreciation				
As at 1 April 2005	-	713,311	123,456	836,767
Charge for year	-	38,654	16,606	55,260
Disposals	-	(723,767)	(133,715)	(857,482)
As at 31 March 2006	-	28,198	6,347	34,545
Net book value				
As at 31 March 2006	-	29,423	12,576	41,999
As at 31 March 2005	3,000,000	67,796	77,817	3,145,613

The Company's freehold Glasgow premises was professionally valued at Existing Use Value by Drivers Jonas, Chartered Surveyors who are external to the company. The valuation, undertaken as at August 2004, was £3,000,000. The directors do not consider that a materially different valuation would have resulted if undertaken at 31 March 2005, and this valuation was incorporated into those financial statements.

As noted in our financial statements last year the Company entered into an agreed Offer for Sale of Victoria Crescent Road on 1 August 2005 with two associated external bidders. This set out a total sale price for the Glasgow office of £10,750,000 of which £100,000 was received in August 2005 as a deposit. The agreement set out an entry date within the period 1 December 2005 to 31 March 2006.

The Scottish Executive reserve the right to retain capital proceeds and required that the entire proceeds on this sale were remitted to them, less £1,800,000 to be retained by the Company as an advance payment against our Core Grant for the year ending 31 March 2007.

We vacated the premises on 10 March 2006 and the agreed sum of £8,950,000 was remitted to the Executive. We have retained the balance of £1,800,000 less the amount of £100,000 which has been held by the buyer's solicitors pending an agreed quantification of the cost of removing certain moveable items left on site by us on departure. The Directors are confident that we will recover the bulk of these remaining monies.

The disposals of computer and office equipment noted above relate principally to the scrapping/ sale of the dated or obsolete equipment at the previous Glasgow office.

No assets were held under hire purchase contracts during the year.

Notes to the financial statements

Year ended 31 March 2006 (continued)

5 Tangible fixed assets – project funded

	Leasehold Improvements £	Heritable Property & Renovations £	Computer Equipment £	Office Equipment & Fixtures £	Total £
Cost					
As at 1 April 2005	-	35,288	1,077,428	99,121	1,211,837
Additions	1,346,115	-	1,049,500	728,555	3,124,170
Disposals	-	(35,288)	(765,690)	(106,592)	(907,570)
As at 31 March 2006	1,346,115	-	1,361,238	721,084	3,428,437
Depreciation					
As at 1 April 2005	-	7,894	796,851	49,144	853,889
Charge for year	25,358	-	198,763	16,315	240,436
Disposals	-	(7,894)	(741,656)	(49,144)	(798,694)
As at 31 March 2006	25,358	-	253,958	16,315	295,631
Net book value					
As at 31 March 2006	1,320,757	-	1,107,280	704,769	3,132,806
As at 31 March 2005	-	27,394	280,577	49,977	357,948

The additions noted above relate principally to the investment in the Company's new Headquarters over which a 15 year lease was entered into in September 2005. The computer equipment disposals noted above relate principally to the scrapping/ sale of the dated or obsolete IT equipment at the previous Glasgow office.

6 Cost of capital

Notional interest has been charged on the capital employed of the company as at 31 March 2006 at the rate of 3.5% (2005: 3.5%) as follows:	2006	2005 Restated
	£	£
Net Assets as at 1 April 2005	(421,059)	2,359,345
Net Assets as at 31 March 2006	(252,216)	(421,059)
Average balance	(336,638)	969,143
Notional Interest at 3.5% pa, (2005: 3.5%) apportioned over year	(11,782)	33,920

7 Stocks

	2006	2005
	£	£
General stocks	44,290	27,116

Notes to the financial statements

Year ended 31 March 2006 (continued)

8 Debtors	2006	2005
	£	£
Trade Debtors	3,014,742	957,595
Prepayments and Accrued Income	370,108	241,420
Other Debtors	50,000	1,195
	3,434,850	1,200,210
9 Creditors: Amounts falling due within one year	2006	2005
	£	£
Trade creditors	1,637,335	1,036,301
Other taxation & social security	143,548	241,432
Accruals	911,903	1,819,222
Other Creditors	123,641	78,259
Deferred Project Income	2,551,869	807,816
	5,368,296	3,983,030
Provisions: Amounts falling due within one year	2006	2005
	£	£
Provision for Voluntary Redundancy	628,405	-
The provision for voluntary redundancy relates to amounts payable to staff leaving the company shortly after the year end under the terms of the voluntary severance scheme, as shown in Note 3.		
10. Pension Liability	2006	2005
	£	Restated
	£	£
At 1 April 2005	(5,322,000)	(5,280,000)
Contributions	480,000	450,000
Contributions in respect of unfunded benefits	100,000	102,000
Current Service Costs	(615,000)	(584,000)
Past Service Costs	(78,000)	(43,000)
Net Return on Assets	17,000	(53,000)
Actuarial Gains/(Losses)	(97,000)	86,000
At 31 March 2006	(5,515,000)	(5,322,000)
The pension liability relates to obligations under the Strathclyde Pension Fund as described in Note 17.		
11. Restricted reserve for project funded assets	2006	2005
	£	£
At 1 April 2005	357,948	236,456
Additions for the year	3,124,170	279,149
Disposals for the year	(108,876)	(2,908)
Released to match depreciation charge	(240,436)	(154,749)
At 31 March 2006	3,132,806	357,948

Notes to the financial statements

Year ended 31 March 2006 (continued)

12. Reserves	Revaluation	General	Pension	Totals	Totals
	Reserve	Reserve	Reserve	2006	2005 Restated
	£	£	£	£	£
(i) Unrestricted Reserves					
As at 1 April 2005	2,651,340	263,651	(3,780,215)	(865,224)	(1,856,746)
Revaluation of heritable property	-	-	-	-	911,227
Movement on pension reserve (note 17)	-	-	(97,000)	(97,000)	86,000
Realisation of sale of property	(2,651,340)	2,651,340	-	-	-
Deficit for year	-	(2,491,384)	-	(2,491,384)	(5,705)
As at 31 March 2006	-	423,607	(3,877,215)	(3,453,608)	(865,224)
				2006	2005
				£	£
(ii) Restricted Reserves					
As at 1 April 2005				86,217	113,419
Transferred to restricted reserves bank account				3,054	4,154
Transferred from restricted reserves				(20,685)	(31,356)
Received during the year				29,209	35,797
Expended during the year				(29,209)	(35,797)
As at 31 March 2006				68,586	86,217

These restricted reserves relate to funds held on behalf of other bodies for specified educational purposes. The bodies are the Gordon Cook Foundation, Stirling Maths and the IDES Network.

13. Financial Commitments	2006	2005
	£	£
As at 31 March 2006 LT Scotland had annual commitments under equipment operating leases as follows:		
- Expiring within one year	49,401	57,755
- Expiring in second to fifth year inclusive	-	103,229
	49,401	160,984

14. Share capital

The company is limited by guarantee and therefore has no share capital.

15. Related Party Transactions

LT Scotland is an executive non-departmental public body, sponsored by the Scottish Executive Education Department (SEED) which is regarded as a related party. During the period, LT Scotland has had various material transactions with SEED.

Income received from SEED during the year amounted to £18,176,079 (2005: £17,671,850). The amount included in trade debtors at 31 March 2006 was £2,492,207 (2005: £377,964).

Note 9 to the financial statements, regarding creditors payable within one year, includes a figure of £2,551,869 (2005: £807,816) relating to deferred project income. Of this figure, £2,467,954 (2005: £748,431) related to SEED at 31 March 2006. As shown in Note 4, £1,800,000 of this deferred income relates to an advance payment against Core Grant for the next financial year (2005: £Nil)

Notes to the financial statements

Year ended 31 March 2006 (continued)

16. Disclosure of Grants Received

LT Scotland received various cash grants during the year to 31 March 2006 as contributions towards the cost of activities. The receipts from the Scottish Executive's Special Education Needs Innovation Grants Programme to carry out work on the Inclusive Education Online Resource project and the Support for Special Schools project are acknowledged and noted below.

Grants were also received from the Department for International Development to carry out work, expended in accordance with agreed terms, on Global Dimension in the Curriculum and these are also acknowledged and noted below.

Project Income & Expenditure in the year to 31 March 2006	Education Online Resource	Global Dimension in the Curriculum
	£	£
Funding Received	141,716	2,717
Monies brought forward from 2004/05	(6,137)	-
Income recognised to cover direct costs and overheads	147,853	2,717
	141,716	2,717

Annual grant in aid received from the Scottish Executive Education Department of £4,955,000 (2005: £3,955,000) is in respect of current revenue expenditure and the amount carried forward at the year end is £Nil (2005: £Nil).

17. Pension Scheme – FRS 17 Disclosures

As detailed in Note 1, the company participates in the Strathclyde Pension Fund, part of the Local Government Pension Scheme, a defined benefit scheme. The levels of contribution paid to the Fund by LT Scotland in recent years have been as follows:

Year to 31 March	
2002	12.6% of salary costs
2003	13.2% of salary costs
2004	13.8% of salary costs
2005	14.4% of salary costs
2006	15.0% of salary costs

Employee pension contributions have remained unchanged at 6% throughout the above period. In the year ending 31 March 2007 the company is paying 15.6% of salary costs with further planned increases of 0.6% for each of the two years ending 31 March 2009.

The balance sheet position for the company's share of the scheme as calculated by an independent actuary under the provisions of FRS 17 as at 31 March 2006 was as follows:

	2006 £'000	2005 £'000	2004 £'000
Fair value of assets	24,030	17,147	14,906
Present value of scheme liabilities	(27,827)	(20,965)	(18,758)
Present value of unfunded liabilities	(1,718)	(1,504)	(1,428)
Net Pension Liability	(5,515)	(5,322)	(5,280)

No deferred tax asset would arise on the net pension liability as the company is not liable to pay tax due to its charitable status.

Notes to the financial statements

Year ended 31 March 2006 (continued)

17. Pension Scheme – FRS 17 Disclosures (continued)

LT Scotland's estimated share of the assets in this Scheme and the expected rates of return at 31 March 2006 were: -

	2006 Long Term Return	2006 Value £000	2005 Long Term Return	2005 Value £000	2004 Long Term Return	2004 Value £000
Equities	7.4%	18,272	7.7%	12,669	7.7%	10,892
Bonds	4.6%	2,468	4.8%	2,292	5.1%	2,122
Property	5.5%	2,183	5.7%	1,641	6.5%	1,271
Cash	4.6%	1,107	4.8%	545	4.0%	621
Total market value of assets		<u>24,030</u>		<u>17,147</u>		<u>14,906</u>

The liabilities of the scheme at 31 March 2006 were calculated on the basis of the following assumptions

	2006	2005	2004
Salary increases	4.6%	4.4%	4.4%
Pension increases	3.1%	2.9%	2.9%
Discount Rate	4.9%	5.4%	5.5%
Price increases	3.1%	2.9%	2.9%

Analysis of amount charged to operating surplus/ (deficit):

	2006 £000	% of Payroll	2005 £000	% of Payroll	2004 £000	% of Payroll
Current service costs	615	19.2%	584	18.6%	496	16.4%
Past services costs	78	2.4%	43	1.4%	0	0%
Net service costs	<u>693</u>	<u>21.6%</u>	<u>627</u>	<u>20.0%</u>	<u>496</u>	<u>16.4%</u>

Analysis of amount credited to other finance income:

	2006 £000	% of Payroll	2005 £000	% of Payroll	2004 £000	% of Payroll
Expected return on pension scheme assets	1,326	41.3%	1,075	34.3%	856	28.3%
Interest on pension scheme liabilities	(1,309)	(40.8)%	(1,128)	(35.9)%	(971)	(32.1)%
Net interest	<u>17</u>	<u>0.5%</u>	<u>(53)</u>	<u>(1.6)%</u>	<u>(115)</u>	<u>(3.8)%</u>

Analysis of the actuarial gain/ (loss) recognised in the STRGL (page 11):

	2006 £'000	2005 £'000	2004 £'000
Actual return less expected return on pension scheme assets	3,804	570	2,146
Experience (losses)/ gains arising on scheme liabilities	(36)	(52)	17
Changes in assumptions underlying the present value of scheme liabilities	(3,865)	(432)	(1,161)
Actuarial gains shown in the STRGL	<u>(97)</u>	<u>86</u>	<u>1002</u>

Notes to the financial statements

Year ended 31 March 2006 (continued)

17 Pension Scheme – FRS 17 Disclosures (continued)

Movement in scheme deficit during the year:

	2006 £'000	2005 £'000	2004 £'000
Deficit at 1 April 2005	(5,322)	(5,280)	(6,178)
Movement in year:			
Current service cost	(615)	(584)	(496)
Contributions	580	552	507
Past service cost	(78)	(43)	-
Net finance income	17	(53)	(115)
Actuarial gains	(97)	86	1,002
(Deficit) at 31 March 2006	<u>(5,515)</u>	<u>(5,322)</u>	<u>(5,280)</u>

The above deficit of £5,515,000 as at 31 March 2006 (2005: £5,322,000) includes the estimated present value of unfunded early retirement liabilities in respect of former employees of £1,718,000 (2005: £1,504,000).

History of experience gains and losses:

	2006 £'000	2005 £'000	2004 £'000
Difference between the expected and actual return on assets	3,804	570	2,146
Value of assets	24,030	17,147	14,906
Percentage of assets	15.8%	3.3%	14.4%
Experience (losses)/gains on liabilities	(36)	(52)	17
Total present value of liabilities	29,545	22,469	20,186
Percentage of the total present value of liabilities	(0.1%)	(0.2%)	0.1%
Actuarial (losses)/ gains recognised in the STRGL	(97)	86	1,002
Total present value of liabilities	29,545	22,469	20,186
Percentage of the total present value of liabilities	(0.3%)	0.4%	5.0%

Analysis of projected amount to be charged to operating profit for the year to 31 March 2007

	Year to 31 March 2007	
	£'000	% of Payroll
Projected amount charged to operating profit:		
Estimated current service cost	747	23.3%
Past service costs	-	-
Curtailment and settlements	-	-
Decrease in irrecoverable surplus	-	-
Total operating charge (A)	<u>747</u>	<u>23.3%</u>
Projected amount credited to other finance income:		
Expected return on employer assets	1,643	51.2 %
Interest on pension scheme liabilities	(1,456)	(45.4)%
Net return (B)	<u>187</u>	<u>5.8 %</u>
Estimated net revenue account cost (A) – (B)	<u>560</u>	<u>17.4 %</u>

Notes to the financial statements

Year ended 31 March 2006 (continued)

18. Prior Year Adjustment

The company policy for calculating the cost of retirement benefits was changed during the year to take full account of FRS 17 – Retirement Benefits.

The directors consider that the new policy provides a fairer presentation of the results and of the financial position of the company as it ensures the financial statements reflect at fair value the assets and liabilities arising from the retirement benefit obligations and any related funding.

The comparative figures in the primary statements and notes have been restated to reflect the new policy. The effects of the change in policy are summarised below:

Income and Expenditure Account

	2005 £'000
Transfer to reserves at 31 March 2005 as previously stated	51
	<hr/>
Additional FRS 17 current service costs	(4)
Other finance income	(53)
	<hr/>
Decrease in profit in the financial year	(57)
	<hr/>
Transfer to reserves at 31 March 2005 restated	(6)
	<hr/> <hr/>

Balance sheet

	2005 £'000
Net assets at 31 March 2005 as previously stated	3,416
	<hr/>
Removal of early retirement provision	1,485
Creation of FRS 17 pension liability	(5,322)
	<hr/>
Decrease in net assets in the financial year	(3,837)
	<hr/>
Net assets at 31 March 2005 restated	(421)
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LEARNING AND TEACHING SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of paragraph 4 the Educational Development, Research and Services (Scotland) Grant Regulations, 1999 (SI 1999/65), hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 25 September 2002 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 14 December 2005