

Ufi Limited

Financial statements

For the year ended 31 July 2006

COMPANIES HOUSE

Grant Thornton 

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COMPANIES HOUSE

Company no 3980770

Company information

Company registration number: 3980770

Registered office: Dearing House
1 Young Street
SHEFFIELD
S1 4UP

Directors: L Booth
S Brinton
H A Cann
D Clark
B Davies
D Frost
S Jones
Prof. M D O'Reilly
N W Stuart
Sir G Sweeney
J Weston (Chairman)
T Wilson
C Flatley
J Crooks
R Barnes

Secretary: L Ward

Bankers: Barclays Bank PLC
71 Grey Street
NEWCASTLE UPON TYNE
Tyne and Wear
NE99 1JP

Auditors: Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
2 Broadfield Court
SHEFFIELD
S8 0XF

Report of the directors

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Report of the directors

The directors present their report and the audited financial statements of the company for the year ended 31 July 2006.

Mission and principal activities

The company's mission is to use technology to transform the skills and employability of the working population to improve the UK's productivity.

The company's principal activities during the year were:

- Providing web-enabled learning for individuals so they can develop both personally and professionally;
- the sale of products and services to UK employers to improve the skills of the workforce and enhance productivity;
- the provision of an impartial information, advice and careers guidance service to adults,
- the management of the national UK Online centre network.

Review of business and future developments

The company has enjoyed a successful year exceeding many of the key performance targets set by the Learning and Skills Council (LSC), which have largely been focused around furthering the skills of priority learners.

- Course completions by priority learners reached over 775,000 and 58,984 learners achieved their first Skills for Life qualifications, which was around 25% of the total Skills for Life qualifications achieved in England.
- The development of capacity to deliver National Vocational Qualifications (NVQ) and during the year 1,918 full NVQs were delivered.
- The increase in course completions resulted in a cost per weighted funded completion of £159, a key value for money measure, which was an 11% improvement over 2004/05.
- Learner satisfaction improved to 90%.
- The learner advice service received over 213,000 "pre level 2" telephone callers (callers with less than 5 GCSE/'O' levels or equivalent) to its helpline and over 9 million visits to its advice website.

In addition the company successfully introduced the "Life in The UK" (Citizenship) test programme via a network of selected learning centres on behalf of the Home Office. Since the official launch in November 2005, over 85,000 tests had been taken by July 2006.

From January 2006, the company also commenced a national telephone careers guidance pilot under contract with the DfES and has provided careers guidance to over 49,000 individuals in the seven months since the start of this pilot.

During the year the company completed its eighteen month restructuring programme. The aim of this programme was to streamline the company's core activities and to put in place an organisation able to respond more effectively to opportunities in the learning market and to provide better value for money against the background of reduced funding levels from the LSC, whilst at the same time developing alternative income streams. After extensive consultation and analysis it was concluded that the company was able to improve quality and reduce delivery costs by having fewer tiers between itself and its learners. As a result the decision was taken not to renew contracts with hub operators and instead to directly manage the learning providers under a new national management structure with simplified systems and processes from August 2006. At the same time it was decided to reduce the number of providers in the network and to concentrate resources with fewer but larger providers to improve learner quality and value for money. With reduced delivery tiers and fewer providers and the introduction of consistent national processes the company has been able to identify estimated annual net savings of at least £10m in operating costs starting from August 2006. The exceptional costs incurred from this restructuring programme are shown in the Profit and Loss account in accordance with Financial Reporting Standard 3: Reporting Financial Performance.

Report of the directors

Income is expected to decrease in 2006-07 as the core contract with the LSC continues to be targeted towards priority areas with basic skills. The reduction in income will be matched by a reduction in group costs resulting from the restructuring programme described above and will allow the company to continue its programme of work.

From June 2006, Ufi Limited became subject to the requirements of the Freedom of Information Act 2000.

Reserves

The reserves policy of the company is to maintain a level of reserves to enable the company to adjust in a measured way to a significant change in activity including meeting the unavoidable costs of winding-up where such costs are not expressly covered in contracts for the provision of services. Accordingly the directors have determined to transfer the surplus for the year to reserves.

Directors and their interests

L Booth*	(appointed 22 November 2005)	
S Brinton		II
H A Cann*		I
D Clark	(appointed 28 September 2005)	
B Davies		III
D Frost*		
A W Hall*	(resigned 11 September 2006)	I
S Jones		II, IV
Prof M D O'Reilly		
N W Stuart		
Sir G Sweeney		
J Weston*	(Chairman)	
T Wilson		I, II
C Flatley*	(appointed 14 December 2006)	
J Crooks	(appointed 14 December 2006)	
R Barnes	(appointed 14 December 2006)	

None of the directors had any interest in the shares of the company at 31 July 2006 or 31 July 2005.

*Nominees of the Secretary of State for Education and Skills.

Membership of sub-committees of the board

I	Member of the Learning and Technology Committee
II	Member of the Equality and Diversity Committee
III	Member of the Ufi Cymru Sub Committee
IV	Member of the Executive Strategic Management Committee

Financial risk management objectives and policies

The company uses financial instruments, other than derivatives, comprising cash and other liquid resources and various other items such as trade debtors and creditors that arise directly from its operations. The company also has a loan from DfES, however this is interest free and repayable on return on the corresponding rental deposit. The main purpose of these financial instruments is to raise finance for the company's operations. The main risk arising from the company financial instruments is liquidity risk. The directors review and agree policies for managing this risk summarised below. The policy has remained unchanged from previous periods.

Report of the directors

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Primarily this is achieved through payment arrangements made with the LSC under the Financial Memorandum.

Directors' responsibilities for the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP).

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the financial activities of the company during the period and of the financial position at the end of the period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Political and charitable donations

The company made charitable donations of £634 (31 July 2005: £316) during the year. No political donations were made during the year (31 July 2005: £nil).

Employees

The company encourages applications for employment by disabled persons by displaying the 'two ticks' symbol on advertisements. Applications from people with disabilities are given full consideration based on their skills and abilities. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged and adjustments made. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The company promotes equal opportunity for all employees and aims to ensure that no person receives less favourable treatment arising from their race, religion, sex or disability.

Report of the directors

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the company. Communication with employees continues through briefings, electronic communications, regular meetings between managers and employees and the employee consultative group.

Remuneration policy for Senior Management Team Members

The objectives of the remuneration policy are to attract, retain, motivate and reward high calibre individuals from both the public and private sectors.

The Remuneration Committee undertakes regular surveys of pay practices in the public and private sectors, examining base pay, variable pay and benefit packages.

The remuneration strategy of the company is to ensure that all members of the senior management team have the opportunity to earn basic pay and variable performance related annual bonus payments which are in line with the upper quartile of public sector pay practice. The benefits package is competitive, drawing appropriately on data from both the public and private sectors.

Creditors payment policy

It is the policy of the company to settle the terms of payment with suppliers when agreeing the terms of the transaction to ensure that suppliers are aware of these terms and abide by them.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD


J Weston
Chairman
14 December 2006

Statement of internal control

Principles of Corporate Governance

Ufi Limited is committed to exhibiting best practice in all aspects of corporate governance and implementation of the terms of the Financial Memorandum with the Learning and Skills Council (LSC), including the LSC's Audit Code of Practice. There is a clear separation of activities funded under the terms of the Financial Memorandum and the activities of Ufi Charitable Trust and related group companies. None of the funding provided by the LSC under the Financial Memorandum has been passed to Ufi Charitable Trust or used to subsidise the activities of any related group company. Transactions are conducted on an arms length basis between Ufi Limited and **learnirect** Solutions Limited, governed by a commercial services agreement.

The summary describes the manner in which the company has applied the principles set out in section one of the Combined Code on Corporate Governance issued by the London Stock Exchange. In the opinion of the board, in so far as it is relevant to the company, the best practice of the Combined Code has been applied throughout the year ended 31 July 2006.

Board Structure

During the year the board comprised the Chairman, the Chief Executive and directors. The board is responsible to the company's stakeholders: principally its shareholder Ufi Charitable Trust, the Department for Education and Skills (DfES) and the LSC for the proper management of the company. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Chief Executive and her Senior Management team are fully considered. To enable the board to discharge its duties, all directors have full and timely access to all relevant information and there is a procedure for all directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the company. The board has a formal schedule of matters reserved to it and meets five times a year. It is responsible for the overall company strategy, approval of major capital expenditure projects and consideration of significant financing matters.

The following group committees, which have written terms of reference, deal with specific aspects of the company's affairs.

The Nomination Committee is chaired by the Chairman and comprises four Non-Executive Directors. The Committee is responsible for proposing candidates for appointment to the board, where they are not appointed by the Secretary of State, having regard to the balance and structure of the board. In appropriate cases recruitment consultants are used to assist the process. All non-executive directors are subject to re-election at least every three years.

The Remuneration Committee is responsible for making recommendations to the Ufi Charitable Trust board on the group's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Senior Management team, including performance related bonus schemes, pension rights and compensation payments. The Committee is comprised of Non-Executive Directors.

The Audit Committee is comprised of five Non-Executive Directors. Its prime tasks are to review the scope of internal, external and funding audits, to receive regular reports from the internal, the external and the funding auditors, and to review the annual financial statements before they are presented to the board, focusing in particular on accounting policies and areas of management judgment and estimation.

The Audit Committee acts as a forum for discussion of internal control issues and contributes to the board's review of the effectiveness of the company's internal control and risk management systems and processes. The Audit Committee is responsible for monitoring the controls that are in force to ensure the integrity of the information reported to the board and other stakeholders. The Audit Committee also conducts a review of the remit of the internal audit service, its authority, resources and scope of work. It advises the board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors.

Statement of internal control

The Audit Committee, which meets at least three times per year, provides a forum for reporting by the company's external auditors. Meetings are also attended by the Chief Executive, Chief Financial Officer and Head of Risk and Audit. The Audit Committee also monitors the effectiveness, quality and value for money of the work of the internal and external auditors.

Internal Control

Scope of responsibility

The directors of Ufi Limited are responsible for the company's system of internal control and reviewing its effectiveness.

The purpose of the system of internal control

The board has designed the company's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material mis-statement or loss.

Capacity to handle risk

The board regularly reviews the key risks to which the company is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The board considers that there is a formal ongoing process for identifying, evaluating and managing the company's significant risks that have been in place for the year ended 31 July 2006 and up to the date of approval of these statements.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget, which are reviewed and agreed by the board;
- regular reviews by the board of periodic and annual financial reports, which indicate financial performance against budgets and forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- the adoption of formal project management disciplines, where appropriate.

The company has an internal audit service which is provided independently of the external audit service. The internal audit work is performed to provide assurance that the controls that have been put in place to mitigate risks are operating effectively. The work of the internal audit service is informed by an analysis of the risks to which the company is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the board on the recommendation of the Audit Committee. The Audit Committee receives reports from both internal and external auditors on a regular basis and from the Executive Directors of the company. The internal audit service regularly review the control of financial systems and their associated computer environments, business unit operations and compliance. During the year, the Audit Committee has reviewed the effectiveness of the system of internal control as described above. The board receives periodic reports from all committees.

There are no significant issues disclosed in the reports for the year ended 31 July 2006 and up to the date of approval of this statement that have required the board to deal with any related material internal control issues.

The directors confirm that the Audit Committee on behalf of the board has reviewed the effectiveness of the system of internal control as described during the year and has reported on its activities to the board.

During the year the LSC has undertaken a provider assurance review of Ufi Limited and did not identify any areas of serious concern.

Statement of internal control

Significant internal control problems

Last year we reported on a weakness in internal control that allowed non-unique passwords to exist on the learner support environment, and the risk that this placed over the integrity of learner payments. We had introduced a series of measures last year to remove the issue and during the year have completed a widespread examination of centre records identified as being of high risk. A full report of the investigation and the lessons learnt is available on our website (www.ufi.com). We are able to confirm that there were no material irregularities in funding payments identified as a consequence of the non-unique password issue.

We also reported last year that a learning centre, IT2 Home Ltd had been suspended following notification by the Police of an investigation into an individual associated with the centre. During the year we have conducted an investigation of the centres activities relating to 2004/05. Our investigation indicated that an amount of funding claimed in the year was not adequately supported by audit evidence including the possibility of fraudulent claims. We have recovered the full amount of funding at risk from the hub operator and have passed the report of the investigation to the Police.

Going Concern

The directors confirm that they are satisfied that the company has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

BY ORDER OF THE BOARD



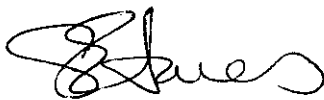
S Jones
Chief Executive
14 December 2006

Statement of Accounting Officer's Responsibilities

Under the Financial Memorandum with the Learning and Skills Council (LSC), Ufi Limited's Chief Executive is designated as Ufi Limited's Accounting Officer by the Council's Accounting Officer and has the following responsibilities for:

- ensuring that all public funds made available to Ufi Limited are used for the purpose intended and that such monies, together with Ufi Limited's assets, equipment and staff, are used economically, efficiently and effectively;
- the proper management of Ufi Limited's resources and staff;
- ensuring high standards of corporate governance in accordance with guidance issued from time to time; and
- ensuring that the conditions of funding set out in the Financial Memorandum with the LSC and the Schedules are complied with.

BY ORDER OF THE BOARD



S Jones
Chief Executive (as Accounting Officer)
14 December 2006

Report of the independent auditor to the members of Ufi Limited

We have audited the financial statements of Ufi Limited for the year ended 31 July 2006 which comprise the principal accounting policies, the income and expenditure account, the balance sheet and notes 1 to 24. 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

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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, whether they are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Report of the Directors is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

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.

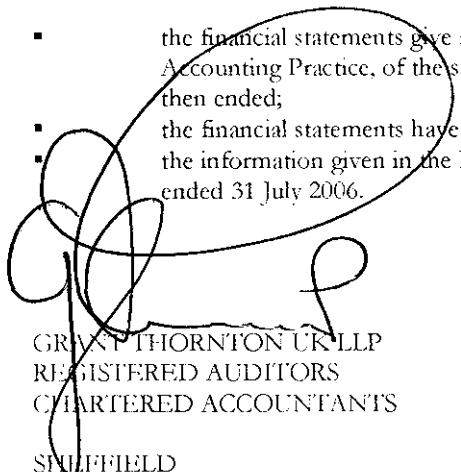
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Report of the independent auditor to the members of Ufi Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2006 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements for the year ended 31 July 2006.



GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

SHEFFIELD
18 December 2006

Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards.

The majority of the company's income during the year has been provided by the Learning and Skills Council (LSC) under a Financial Memorandum. This is supplemented by grant funding for specific projects, other funding contracts awarded by the Department for Education and Skills (DfES) and income from the sale of learning materials and services. The company's projections of cash flows and income and expenditure for the year to 31 July 2007, together with the LSC Financial Memorandum which has been agreed until 31 July 2008 indicates that the company should have adequate financial resources for the foreseeable future. Accordingly the directors consider it is appropriate for the financial statements to be prepared on a going concern basis.

The principal accounting policies have remained unchanged from the previous year except for the adoption of FRS 17 Retirement Benefits, FRS 21 Events after the Balance Sheet date and FRS 25 Financial Instruments: disclosure and presentation. Implementation of these reporting standards has not resulted in any material effect on the company's financial statements.

Income

The company's general activities during the year were mainly financed by a contract with the LSC. General funding from the LSC was made available, and accounted for, on an accruals basis. Income received in respect of tangible assets is treated as deferred income, which is credited to the income and expenditure account over the estimated economic lives of the related assets in line with the depreciation policies set out below.

Revenue from other course sales is recognised at the point of learner enrolment. When revenue is received for specific projects on a cost reimbursement basis this is recognised on an accruals basis once the eligible expenditure has been incurred.

Licence revenue from the use of materials and services for the provision of funded learning is recognised in the year for which the charge is made.

Grants awarded

Grants awarded are charged to the SOFA in the year in which the company becomes committed to their payment in accordance with the individual scheme rules.

Capital Grants

Capital grants receivable are treated in line with the awarding bodies' requirements. Unless the awarding body specifies otherwise, capital grants receivable will be treated as deferred income and amortised to the income and expenditure accounts as the underlying assets are depreciated.

Fixed assets

The cost of tangible fixed assets is their purchase cost, plus own labour costs together with any incidental expenses of acquisition. Only assets which cost more than £1,000 are capitalised. Income received for the purchase of fixed assets is treated in line with the policy above.

Principal accounting policies

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual value, on a straight-line basis over their estimated economic lives. The estimated economic lives used for this purpose are:

Leasehold improvements	shorter of lease term and 50 years
Fixtures and fittings	5 years
Computer software and equipment	2 to 3 years
Motor vehicles	2 to 3 years
Assets relating to specific projects	shorter of useful life or project life

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for promotional, obsolete and slow moving items.

Leased assets

Leasing agreements and hire purchase contracts which transfer to the company substantially all the benefits and risk of ownership of an asset ("finance leases") are treated as if the asset had been purchased outright. Assets held under such agreements are included in fixed assets and the capital element of commitments is shown as obligations under finance leases. Payments under such agreements are treated as consisting of capital and interest elements. The interest element is charged to the income and expenditure account over the primary lease period in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

All other leases are treated as operating leases, the costs of which are charged on a straight-line basis over the lease term.

Research and development

Research and development expenditure is written off in the SOFA in the period in which it is incurred.

Development of computer software is capitalised as described in the Fixed Assets policy above. Direct costs including purchases, directly attributable own labour costs and any incidental expenses of acquisition are capitalised as incurred and depreciated on a straight-line basis over its useful economic life.

Pensions

Retirement benefits to employees of the group are provided under the following arrangements:

- a group stakeholder pension scheme;
- the Teachers' Pension Scheme (TPS); and
- contributions to personal pension plans of the employee's choice.

Contributions to the group stakeholder pension scheme, which is a defined contribution scheme, are charged to the income and expenditure in line with recognition of earnings and in accordance with the rules of the scheme.

The TPS is a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. Contributions to the scheme are charged to the income and expenditure account in line with recognition of earnings. The contributions are determined by qualified actuaries on the basis of quinquennial valuations, using a prospective benefit valuation method.

Contributions to personal pension plans of the employee's choice are charged to the income and expenditure account in line with recognition of earnings and in accordance with the rules of the scheme.

Principal accounting policies

Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax is not provided on timing differences arising from revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Exemption from the obligations to prepare a cash flow statement

The company has taken advantage of the exemption from the obligation to prepare a cash flow statement, on the grounds that the company is a wholly owned subsidiary of UFI Charitable Trust and the results and cash flows of the company are included in the consolidated financial statements of that charity.

Related party transactions

The company has taken advantage of the exemption contained in FRS 8 not to disclose transactions with its fellow group undertakings.

Financial instruments

Financial instruments and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Finance costs and gains or losses relating to financial liabilities are included in the income and expenditure account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Recognition of contingent assets

Recoverable amounts are recognised only when it has become virtually certain that an inflow of economic benefit will arise. The recognition will be in the period in which the change occurs.

Income and expenditure account

	Note	2006 £	2005 restated £
Income			
Income received	1	<u>226,173,299</u>	<u>246,320,222</u>
Expenditure			
Staff costs	4	14,772,742	16,860,662
Other operating costs:			
Learner funding		98,885,194	107,225,301
Hub funding and management fees		42,700,098	49,190,241
Product development and licences		4,411,328	7,206,603
ICT		4,721,754	6,154,662
Delivery support, audit and distribution		6,218,948	11,478,183
National learner advice line costs		15,396,099	13,164,780
UK Online		7,507,751	12,024,099
Marketing and communications		11,296,126	14,496,443
Other expenses	3	6,005,224	8,131,054
My Guide		2,938,990	300,536
Guidance Trial		6,447,037	-
Life in the UK		712,390	327,069
		<u>222,013,681</u>	<u>246,559,633</u>
Operating surplus/(deficit)		4,159,618	(239,411)
Restructuring costs	6	(4,573,722)	-
Interest receivable	7	759,654	797,353
Interest payable and similar charges	8	-	(769)
Surplus on ordinary activities before taxation	2	345,550	557,173
Tax on surplus on ordinary activities	9	(93,905)	(149,000)
Surplus after taxation transferred to reserves	18	<u>251,645</u>	<u>408,173</u>

There were no other recognised gains or losses in the year.

All items dealt with in arriving at the result above relate to continuing operations.

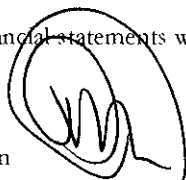
The 2005 comparatives have been restated for consistency with 2006.

Balance sheet

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	10	<u>3,097,001</u>	<u>4,033,830</u>
Current assets			
Stock	11	162,706	428,232
Debtors	12	19,623,551	27,822,094
Cash at bank and in hand		<u>15,162,560</u>	<u>8,694,475</u>
		<u>34,948,817</u>	<u>36,944,801</u>
Creditors: amounts falling due within one year	14	<u>(35,044,017)</u>	<u>(38,665,225)</u>
Net current liabilities		<u>(95,200)</u>	<u>(1,720,424)</u>
Total assets less current liabilities		3,001,801	2,313,406
Creditors: amounts falling due after more than one year	15	<u>(2,341,883)</u>	<u>(1,905,133)</u>
Net assets		<u>659,918</u>	<u>408,273</u>
Capital and reserves			
Share capital	17	100	100
Income and expenditure account	18	<u>659,818</u>	<u>408,173</u>
Shareholders' funds	19	<u>659,918</u>	<u>408,273</u>

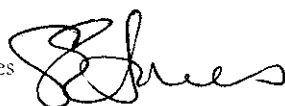
The financial statements were approved by the board of directors on 14 December 2006.

J Weston



Chairman

S Jones



Director

Notes to the financial statements

1 Income

	2006	2005 restated
	£	£
LSC funding for general activities	17,302,318	29,961,980
LSC learner funding	98,885,195	107,225,301
LSC hub funding	42,700,098	49,190,241
LSC (DfES) UK Online funding	7,736,347	13,558,281
LSC National Learner Advice service funding	18,819,587	16,985,665
LSC (DfES) income for small projects	2,695,155	796,921
My Guide	3,064,805	499,593
Guidance	6,447,037	-
Life in the UK	771,966	327,069
Income from learning materials and services	24,380,202	24,068,532
Other grants received	2,192,867	2,735,766
Other trading income	775,332	549,743
Other income	402,390	421,130
	<u>226,173,299</u>	<u>246,320,222</u>

Income is stated exclusive of VAT and arises wholly within the United Kingdom.

The 2005 comparatives have been restated for consistency with 2006.

2 Surplus on ordinary activities before taxation

The surplus on ordinary activities before taxation is stated after charging/(crediting) the following:

	2006	2005
	£	£
Auditors' remuneration:		
External audit	27,295	19,750
Other non-statutory services	18,750	29,850
Operating lease rentals:		
Equipment and vehicles	9,104	9,104
Other	349,313	349,313
Grants payable:		
UK Online grants	6,281,263	10,049,627
Depreciation	2,716,454	4,679,457
Profit on disposal of fixed assets	(18,048)	(11,235)
Release of deferred income on disposal of fixed assets	(150,880)	(2,799)
Release of deferred income in respect of fixed asset depreciation	<u>(2,716,456)</u>	<u>(4,679,457)</u>

Notes to the financial statements

3 Other expenses

Other expenses are further analysed as follows:

	2006	2005 restated
	£	£
Accommodation and other office costs	2,585,638	2,901,416
Other staff related expenditure	2,422,191	3,442,887
Legal and professional fees	997,395	1,786,751
	<u>6,005,224</u>	<u>8,131,054</u>

The 2005 comparatives have been restated for consistency with 2006.

4 Staff numbers and costs

Staff costs during the year were as follows:

	2006	2005
	£	£
Salaries	16,443,379	14,358,451
Social security costs	1,388,320	1,278,480
Pension costs (note 21)	1,307,520	1,034,354
Other staff costs	158,551	112,602
Seconded costs	15,259	76,775
	<u>19,313,029</u>	<u>16,860,662</u>
Less:		
Redundancy costs shown as exceptional	(2,861,233)	-
Capitalised own labour	(652,458)	-
Charged to projects	(1,026,596)	-
	<u>14,772,742</u>	<u>16,680,662</u>

During the year individuals have been seconded to the company from a number of different organisations. Seconded costs represent the amounts invoiced to the company by these organisations for the provision of these secondees.

Included within staff costs is £267,890 (2005: £802,716) of redundancy costs unrelated to the restructuring programme.

The monthly average number of full time equivalent permanent employees (including the Chief Executive and secondees) during the year was as follows:

	2006 Number	2005 Number
Corporate development, support services and administration	58	59
Learning and technology	79	80
Marketing	64	65
Learning delivery and advice	164	166
	<u>365</u>	<u>370</u>

The brief period during which individuals transferred into the company under TUPE (note 6) did not affect the average number of staff during the year.

Notes to the financial statements

4 Staff numbers and costs (continued)

The 11 members of the Senior Management Team have not consented to disclose their remuneration individually but have consented to disclose their remuneration in bandings as follows:

	2006	2005
Emoluments (in bands of £5,000)		
£25,000 - £29,999	3	-
£30,000 - £34,999	2	-
£40,000 - £44,999	-	1
£70,000 - £74,999	-	1
£90,000 - £99,999	1	-
£100,000 - £104,999	-	1
£105,000 - £109,999	-	2
£120,000 - £124,999	1	-
£135,000 - £139,999	1	-
£155,000 - £159,999	2	-
£165,000 - £169,999	1	-
£180,000 - £184,999	-	1
	11	6

	2006	2005
Benefits in kind (in bands of £100)		
£nil	10	4
£1,900 - £1,999	-	1
£11,900 - £11,999	1	-
£23,700 - £23,799	-	1
	11	6

	2006	2005
Employers' pension contributions (in bands of £100)		
£nil	2	1
£2,600 - £2,699	1	-
£2,800 - £2,899	1	-
£2,900 - £2,999	2	-
£4,100 - £4,199	-	1
£7,300 - £7,399	1	-
£10,600 - £10,699	-	1
£10,900 - £10,999	1	-
£12,500 - £12,599	1	-
£13,200 - £13,299	1	-
£15,900 - £15,999	-	1
£21,400 - £21,499	-	1
£22,100 - £22,199	-	1
£23,000 - £23,099	1	-
	11	6

Notes to the financial statements

4 Staff numbers and costs (continued)

Benefits in kind

Benefits in kind included leased cars and relocation allowances.

The members of the Senior Management Team during the year were as follows:

S Jones, Chief Executive Officer	
J Brown, Group Strategic Business Development Director	(retired 31 May 2006)
P Lloyd, Deputy Chief Executive Officer	
H Milner, Group Strategic Business Development Director	(until 5 April 2006)
R Peace, Chief Financial Officer	
P Wade, Group Director of Marketing, Research & Policy	(resigned 4 April 2006)
G Craven, Director of Organisational Development	(appointed 5 April 2006)
K Donnelly, Director of Products & Marketing	(appointed 5 April 2006)
M Lofthouse, Director of Business Development	(appointed 5 April 2006)
R Moore, Director of Technology	(appointed 5 April 2006)
D Wood, Director of Operations	(appointed 5 April 2006)

5 Directors' emoluments

	2006	2005
	£	£
Aggregate emoluments	<u>167,900</u>	<u>99,583</u>

Only one director, who is also by definition the highest paid director, was remunerated in the year.

No retirement benefits are accruing to directors under defined benefit or money purchase pension schemes during 2006 or 2005.

6 Restructuring costs

During the year the company completed its eighteen month restructuring programme. The aim of the programme was to streamline the company's core activities and to put in place an organisation able to respond more effectively and to provide better value for money by having fewer tiers between itself and the learners. Under the provisions of the Transfer of Undertakings Protection of Employment (TUPE) regulations, during late July 2006, over 200 individuals were transferred into the company. Of these 118 were made redundant plus a further 39 employees of the company.

The main costs were:	2006
	£
Redundancy costs	2,861,233
Other costs	<u>1,712,489</u>
	<u>4,573,722</u>

Notes to the financial statements

7 Interest receivable

	2006 £	2005 £
On bank deposits	<u>759,654</u>	<u>797,353</u>

8 Interest payable and similar charges

	2006 £	2005 £
On bank loans and overdrafts	<u>-</u>	<u>769</u>

9 Taxation

	2006 £	2005 £
Current tax		
UK corporation tax on surplus of the year	107,000	149,000
Adjustment in respect of prior periods	(6,051)	-
Total current tax	<u>100,949</u>	<u>149,000</u>
Deferred tax:		
Origination and reversal of timing differences	<u>(7,044)</u>	<u>-</u>
Tax on surplus on ordinary activities	<u>93,905</u>	<u>149,000</u>

The tax assessed for the year is lower than the standard rate applying in the UK (30%). The differences are explained below:

	2006 £	2005 £
Surplus on ordinary activities before taxation	<u>339,499</u>	<u>557,173</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 % (2005: 30%)	101,850	167,152
Effects of:		
Benefit of nil rate band	-	(70)
Expenses not deductible for tax purposes	5,384	12,323
Non taxable receipts	(5,414)	(3,370)
Allowable taxation relief	-	(20,719)
Other	-	(6,316)
Adjustment in respect of prior periods	(6,051)	-
Marginal relief	(3,605)	-
Other timing differences	7,044	-
Rounding on tax charge	1,741	-
Current tax charge for the year	<u>100,949</u>	<u>149,000</u>

Notes to the financial statements

10 Tangible assets

	Leasehold improvements £	Fixtures and fittings £	Computer software and equipment £	Motor Vehicles £	Total £
Cost					
At 1 August 2005	1,333,885	827,941	25,015,736	331,773	27,509,335
Additions	-	50,764	1,728,935	-	1,779,699
Disposals	-	-	(150,954)	(331,773)	(482,727)
At 31 July 2006	<u>1,333,885</u>	<u>878,705</u>	<u>26,593,717</u>	<u>-</u>	<u>28,806,307</u>
Depreciation					
At 1 August 2005	632,265	723,665	21,787,802	331,773	23,475,505
Charge for the year	133,389	52,186	2,530,879	-	2,716,454
Disposals	-	-	(150,880)	(331,773)	(482,653)
At 31 July 2006	<u>765,654</u>	<u>775,851</u>	<u>24,167,801</u>	<u>-</u>	<u>25,709,306</u>
Net book amount at 31 July 2006	<u>568,231</u>	<u>102,854</u>	<u>2,425,916</u>	<u>-</u>	<u>3,097,001</u>
Net book amount at 31 July 2005	<u>701,620</u>	<u>104,276</u>	<u>3,227,934</u>	<u>-</u>	<u>4,033,830</u>

All additions during the year were financed through grant in aid receivable from the LSC. None of the disposals during the year were financed through grant in aid receivable from the LSC.

Computer software and equipment includes assets under construction of £1,344,486 at 31 July 2006 (2005: £nil).

11 Stock

	2006 £	2005 £
Stocks of learning materials	<u>162,706</u>	<u>428,232</u>

12 Debtors

	2006 £	2005 £
Trade debtors	1,192,693	1,509,621
Amounts owed by LSC	14,467,256	21,736,585
Amounts owed by group undertakings	400,000	321,951
VAT recoverable	1,524,988	1,905,374
Other debtors	453,504	154,647
Prepayments	1,578,066	2,193,916
Deferred tax asset (note 13)	7,044	-
	<u>19,623,551</u>	<u>27,822,094</u>

Under the terms of a lease agreement for premises in Sheffield, the DfES has placed £518,193 in a designated bank account for the purpose of providing security against default on the lease. This rental deposit has been recorded in both prepayments (above) and creditors (note 14) and falls due after more than one year.

Notes to the financial statements

13 Deferred taxation

The movement in the deferred taxation asset during the year was:

	2006 £	2005 £
Provision brought forward	-	-
Income and expenditure movement arising during the year	7,044	-
Provision carried forward	<u>7,044</u>	<u>-</u>

The asset for deferred taxation consists of the tax effect in respect of timing differences in respect of:

	2006 £	2005 £
Other timing differences	<u>7,044</u>	<u>-</u>

14 Creditors: amounts falling due within one year

	2006 £	2005 restated £
Trade creditors	7,838,099	8,281,141
Learner funding due to hubs	9,817,377	11,188,151
Amounts owed to LSC	5,673,753	6,726,820
Amounts owed to group undertakings	785,248	504,902
Taxation and social security	436,089	395,750
Corporation tax	107,000	149,000
Other creditors	662,767	15,015
Accruals	8,050,374	8,457,556
Deferred income (note 16)	1,273,310	2,646,890
Deferred income - UFI Charitable Trust grant	400,000	300,000
	<u>35,044,017</u>	<u>38,665,225</u>

The 2005 comparatives have been restated for consistency with 2006.

15 Creditors: amounts falling due after more than one year

	2006 £	2005 £
DFES rent deposit loan	518,193	518,193
Deferred income	1,823,690	1,386,940
	<u>2,341,883</u>	<u>1,905,133</u>

Notes to the financial statements

16 Deferred income

Deferred income represents income received for the purchase of fixed assets. This is credited to the income and expenditure account in accordance with the company's accounting policy:

	2006 £	2005 £
As at 1 August 2005	4,033,830	7,536,834
Income received in year for capital assets (net of disposals)	1,779,626	1,176,453
Release to income and expenditure account	(2,716,456)	(4,679,457)
As at 31 July 2006	<u>3,097,000</u>	<u>4,033,830</u>
Represented by:		
Deferred income less than 1 year	1,273,310	2,646,890
Deferred income greater than 1 year	<u>1,823,690</u>	<u>1,386,940</u>
	<u>3,097,000</u>	<u>4,033,830</u>

17 Share capital

	Authorised £	Called up issued and fully paid £
Ordinary shares of £1 each	<u>10,000</u>	<u>100</u>

18 Reserves

	Income and expenditure account £
At 1 August 2005	408,173
Surplus after taxation	<u>251,645</u>
At 31 July 2006	<u>659,818</u>

19 Reconciliation of movement in shareholders' funds

	2006 £	2005 £
Surplus for the period after taxation	251,645	408,173
Opening shareholders' funds at 1 August 2005	<u>408,273</u>	<u>100</u>
Closing shareholders' funds at 31 July 2006	<u>659,918</u>	<u>408,273</u>

Notes to the financial statements

20 Financial commitments

At 31 July 2006 the company had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Within one year	-	-	759	-
Within two to five years	-	-	-	9,108
After five years	457,313	433,313	-	-
	<u>457,313</u>	<u>433,313</u>	<u>759</u>	<u>9,108</u>

The operating lease for the Head Office is held by the parent company UFI Charitable Trust on behalf of the group. Ufi Limited re-imburses UFI Charitable Trust for the annual rental costs since it occupies substantially all of the premises. The Directors believe the disclosure of the operating lease commitments and DfES Rent Loan Deposit by Ufi Limited more accurately reflects the substance of these arrangements.

21 Pension commitments

Group stakeholder pension scheme

Contributions are paid to the scheme and charged to the income and expenditure account as they become payable. Contributions paid by the company during the year under this scheme was £926,760 (2005: £925,313) which represented 10% of employees' salaries.

The Teachers' Pension Scheme

The Teachers' Pension Scheme is an unfunded scheme. Contributions on a 'pay as you go' basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972.

The pension cost is assessed every five years in accordance with the advice of the government actuary using a prospective benefits valuation method. The latest actuarial valuation of the scheme was at 31 March 2001. The scheme has been invested notionally in government securities. A gross rate of interest of 7% per annum was assumed as the return on the investment and the rate of increase in salaries was assumed to be 5% per annum.

The value of the assets (estimates future contribution together with the proceeds from the notional investments held at the valuation date) was £142,880 million.

On the basis of the last actuarial valuation, the company contributes at a rate of 13.5% of employee salary. Contributions paid by the company during the year were £70,642 (2005: £86,901).

It is not possible to identify each institution's share of the underlying assets and liabilities of the Teachers' Pension and hence the company has taken advantage of the exemption in FRS 17 whereby the scheme is accounted for as if the scheme was a defined contribution scheme.

Personal pension plans

Contributions to personal pension plans are charged to the income and expenditure account as they become payable. Contributions paid by the company during the year were £23,069 (2005: £22,140).

There are no outstanding or prepaid contributions to any of the pension schemes at the balance sheet date.

Various external pension schemes

Contributions were payable to various external schemes due to a number of redundancy agreements as part of the company's eighteen month restructuring programme (note 6) and charged to the profit and loss account as they become payable. Contributions payable by the company for these various external schemes were £287,049 (2005: £Nil). This amount was outstanding at the year end. (2005: £Nil).

Notes to the financial statements

22 Capital commitments

At 31 July 2006 £393,342 (2005: £nil) was contracted for but not provided in the financial statements.

23 Contingent liabilities

The DfES holds a fixed and floating charge over the assets of the company.

24 Related party transactions

During the year, Ufi Limited entered into the following transactions, which were in the course of normal business and conducted at arms length.

- It received material funding from the Learning and Skills Council, for whom Sir G Sweeney was a Special Advisor.
- It supplied learning material courseware of £85,000 (2005: £79,000) to Ystrad Mynach College, for whom B Davies was Principal. £1,123 was outstanding at the end of July 2006 and collected in August 2006.
- It sponsored "Adult Learner Weeks" (England and Wales) and similar campaigns for £25,913 (2005: £110,000) with the National Institute of Adult Continuing Education (England Wales), for whom N Stuart and B Davies were Trustees. £14,448 was outstanding at the end of 31 July 2006 and paid during August 2006.
- It used secretarial services of £4,398 (2005: Nil) provided by Spirent Communications plc, for whom J Weston was non-executive Chairman. £1,101 was outstanding at year end and paid during October 2006.
- It paid for award sponsorship and exhibition space of £3,480 (2005: £Nil) with Eforwm, for whom B Davies was Director. No amount was outstanding at the year end.

25 Ultimate controlling party

The immediate controlling party is UFI Charitable Trust by virtue of its 100% shareholding in the company. The financial statements of UFI Charitable Trust and Ufi Limited can be obtained from the registered office at Dearing House, 1 Young Street, Sheffield, S1 4UP.

Report of the independent auditors to the Members of Ufi Limited and the Learning Skills Council ('the LSC')

In accordance with the terms of our engagement letter dated 7 July 2005 and further to the requirements of the LSC, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure disbursed and income received of Ufi Limited during the year ended 31 July 2006 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the Members and the LSC. Our review work has been undertaken so that we might state to the Members and the LSC those matters we are required to state to it in a 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 Members and the LSC, for our review work, for this report, or for the opinion we have formed.

Respective responsibilities of the Members of Ufi Limited and the Auditors

The Members are responsible, under the requirements of the financial memorandum, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

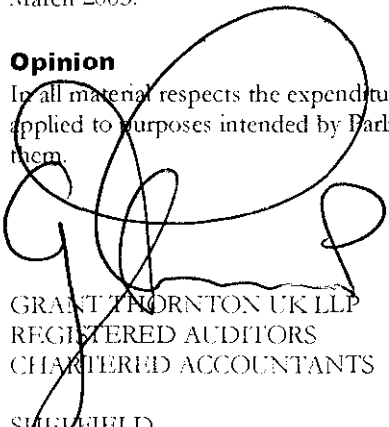
Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework 2004/05 issued by the LSC. We report to you whether, in our opinion, in all material respects, expenditure disbursed and income received during the year ended 31 July 2006 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis of opinion

We conducted our review in accordance with the Audit Code of Practice and the Regularity Audit Framework 2004/05 issued by the LSC. Our review includes examination, on a test basis, of evidence relevant to the regularity and propriety of Ufi Limited's income and expenditure. The scope of our testing ends at the point where funding has been paid over to hubs within the Learndirect network in accordance with the agreement made with the LSC on 16 March 2005.

Opinion

In all material respects the expenditure disbursed and income received during the year ended 31 July 2006 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.



GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

SHEFFIELD
18 December 2006