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Company No: 4424743

The Learning Trust Limited

Annual Report

Year ended 31 March 2011

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Company Information

Acting Chief Executive Director of Finance / Secretary	Steve Belk Mark Smith
Registered office	Hackney Technology & Learning Centre 1 Reading Lane, London E8 1GQ
Registered number (England & Wales)	4424743
Auditor	Grant Thornton UK LLP Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW
Bankers	Royal Bank of Scotland Floors 8 & 9 280 Bishopsgate London EC2M 4RB

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 March 2011.

Business review and principal activities
The Learning Trust is a not-for-profit company, established specifically to deliver education and education related services within Hackney. The company has a ten-year contract with the Council and receives an annual contract sum based on a Fair Funding Formula.

In July 2002, the Secretary of State for Education and Skills directed Hackney Borough Council to enter into a contract with an independent, newly established company, limited by guarantee, The Learning Trust being formed to deliver that contract. The activities of the former Hackney Local Education Authority were transferred to the company on 1 August 2002.

This is the ninth period of operation of the contract. In addition the company leads and manages a number of other education related grants. This report is prepared at a time of unprecedented change in education and funding. The company took early action in predicting the majority of changes faced during 2010-11 and developed a change programme called "Evolve". This programme, based around four key areas of Service Delivery, Engagement, People and Finance, has been a key component of the company's activity this year and flavours the rest of this report.

Results and review of the business and key performance indicators
The contract establishes the relationship with the Council and provides key performance indicators, service objectives and other statutory requirements. Under the contract The Learning Trust is required to submit to the Council a strategic-level plan and it does so using a Balanced Scorecard approach, which is now the embedded method for planning within the Company. The strategic plan for 2011-12, submitted to the Council in December 2010, was accepted unconditionally and covers the period up to the cessation of the contract on 31 July 2012.

Through its contract with the London Borough of Hackney, the Trust is accountable for a number of key performance indicators, which are reviewed from time to time to better reflect key priorities.

The Trust now has 36 contract KPIs across 9 areas - School Improvement; Strategic Management; Value for Money; Capital; Finance; Special Educational Needs (SEN); Social Inclusion; Early Years; and Adult and Community Learning. As at the end of financial year 2010/11, 92% of the Trust's contract KPIs performed moderately or better against target (72% of which met target), with 6% requiring development and 3% not reportable against target (one key performance indicator).

39% of contract KPIs showed improved performance on the previous year, with 17% of indicators showing a decline. While 44% of contract KPIs displayed performance that was static, 94% of these (15 of 16) were already performing at their maximum level (e.g. 100% compliance).

Educational performance
Our work with schools and other partners has led to improvement in standards. The following areas are highlighted:

- No schools reported to be in special measures as at 31 March 2011
- Improvements at Early Years Foundation Stage (EYFS), with pupil achievement showing a strong improvement on the 2010 cohort, and the gap between the worst performing 20% and the median of all children narrowing
- Improvement in both Key Stage 2 and Key Stage 4 performance indicators.

Improving provision for Hackney residents
The education estate in Hackney has seen enormous transformation over the last few years through the building of five new Academies, the rebuilding and refurbishment of secondary schools through the Building Schools for the Future programme (BSF), the building or refurbishment of children's centres, and the commencement of works of phase 1 of the Primary Capital Programme. The Learning Trust has provided significant support and worked in partnership with the London Borough of Hackney in the development of these programmes.

In February 2011 The Learning Trust's capital programme team was transferred to the council and integrated with the council's BSF team. Whilst a close relationship is maintained, the Trust is no longer responsible for the maintenance or improvement of the education estate.

Report of the Directors (continued)

Improving standards and outcomes for Early Years and Primary

Our Early Years Strategy has continued to drive improvements in the quality of provision and outcomes for children. External validation shows:

- Our EYFS provision in schools is 100% satisfactory or above with 78% good or better
- Provision in private, voluntary and independent settings is 97.8% satisfactory or better with 65% good or better; and
- Children's centres are 100% satisfactory or better with 75% good or better.

Foundation Stage Profile

At Foundation Stage, Hackney performance against the two former "National Indicators" showed strong improvement in 2010-11. Against the indicator: "Children achieving 6 in all PSED and CLL scales and 78 points overall", performance jumped from 35% in 2009/10 to 48% in 2010/11. Against the indicator: "% gap between mean of worst performing 20% and the median of all children", the size of the gap contracted from 36.6% in 2009/10 to 31.9% in 2010/11.

Key Stage 2

The continued drive to raise standards at Key Stage 2 resulted in a significant improvement - a 7% raise to 71% achievement at level 4 or above in both English and maths at Key Stage 2.

Key Stage 4

Key Stage 4, results improved for the eighth successive year.
Attainment against the headline measure: "Achievement of 5 or more A*-C grades or equivalent including English and Maths" saw performance rise to 55.3% in 2010, an improvement of 3.1% on 2009, and exceeded target by 1.1%. Hackney once again exceeded statistical neighbour and England averages against this indicator.

Post 16

There are currently 79 students taking the Diploma in Hackney. This number will drop dramatically to 10 (potentially 0 if the school concerned 'converts' to a BTEC). The Diploma has declined in popularity in the borough for a variety of reasons; the Diploma is a 'high-risk' option for schools in terms of committed teaching time, financial implications and curriculum choices in the context of the EBacc. Though some academies have included the Diploma in their options choices we are yet to be clear about the projected uptake.

Alison Wolf, in the DfE commissioned Review of Vocational Education, was clear that she found the Diploma to be a robust and challenging set of qualifications, it is only the structure of the Diploma that has proved to be an issue in its deployment. This has been the case in Hackney.

Support provided to schools

The Schools Requiring Additional Support (SRAS) process has recently been amended to ensure that the intelligence being brought together allows for an accurate assessment of the triggers which may indicate that a school is at risk. The Trust's aim is to avoid schools failing by taking early preventative action.

The Trust's Good to Great Schools Policy governs our approach to supporting and challenging schools. This contains criteria for the categorisation of schools, and the allocation of appropriate levels of support.

Processes to identify and support schools requiring additional support are robust and of good quality. The Trust's model has been promoted by the National Strategies as an example of good practice with other boroughs. *("At the heart of this work currently is the unremitting focus on raising the bar and challenging satisfactory schools to become good and good to become outstanding." National Strategies Review 2008).* Hackney has no school in special measures. This is a significant milestone in the improvement journey led by the Trust over the last few years.

Financial results

The profit and loss account is set out on page 11. There is a pre tax surplus of £27,042,441 for the year (2010: £511,135 surplus) after allowing for staff redundancy payments of £2.2 million and the gain on pension settlement in the year.

Report of the Directors (continued)

Financial results (continued)

The company's annual financial plan is informed by the key strategies and priorities set out in its continuous improvement plan, which itself is prepared with reference to the Children & Young People's Plan. The emergency budget introduced in May 2010 by the Coalition Government signalling funding intentions for 2011/12 combined with immediate in-year cuts to grant funding required a complete revision of the budget in the year. In response the company:

(i) Implemented tight controls over headcount and recruitment, culminating in a recruitment freeze;

(ii) Launched a voluntary redundancy programme in November 2010 resulting in a reduction in staffing costs of £4.3m;

(iii) Implemented further compulsory redundancies in February 2011;

(iv) Targeted divisional managers to identify non-staffing expenditure savings.

The overall impact of (i) to (iii) was a reduction in full time equivalent staff from 834 in April 2010 to 730 at 31 March 2011. In year budget savings were released during the year to offset identified risks and the cost of the redundancy programme.

The company benchmarks its financial performance against other education authorities, principally through the Department for Education's (DfE) S251 return. Individual services are also benchmarked against other providers and in 2010-11 the company engaged the services of an independent organisation to review its cost base and benchmark costs of provision against other appropriate comparators. This information was used in the development of a traded service offer with effect from April 2011.

The company's balance sheet demonstrates a good level of liquidity supported by a working capital loan of £5m from The London Borough of Hackney which was provided to The Learning Trust at the contract inception. This is repayable at the end of the contract in 2012 and is included on the balance sheet as a long term creditor.

In accordance with the way the company was established, The Learning Trust has no significant fixed assets. The Learning Trust is funded by the education budget through a contract with the London Borough Hackney and as such the revenue funding is secure until the end (or expiry) of the contract in 2012.

The council has provided an indemnity effective from 1 April 2010 in respect of the Trust's liability for historic deficits on its Local Government Pension Scheme. This accounts for the difference in reporting of pensions in the profit and loss account and balance sheet between the two years.

Principal risks and uncertainties facing the company

In terms of its statutory responsibilities the company does not operate in a competitive environment and has had relative financial stability through its contract to date and a positive performance against the key performance indicators set out in the contract with the London Borough of Hackney. However, for non-statutory service provision the company is entering an increasingly competitive commercial environment and has responded to this market change through a change programme, titled 'Evolve'.

The changing national policy for education also presents uncertainty for the company and all local education authorities in the reduction of ring fenced education grants from April 2011, the transfer of increasing levels of resources from the LEA to schools and settings, and the encouragement for maintained schools to leave LEA control and become academies.

Under the terms of a Direction by the former Secretary of State for Education and Skills the contract with the Council will expire on 31 July 2012, when all assets and liabilities will return to the Council, unless directed otherwise by the Secretary of State. A formal process for managing the transition is in place under the leadership of the Director of Children Services.

Financial instruments

The company's operations expose it to a variety of financial risks including credit risk, cash flow interest rate risk and liquidity risk.

The company does not have material exposures in any of the areas identified above and, consequently does not use derivative instruments to manage these exposures.

The company's principal financial instruments comprise sterling cash and bank deposits together with trade debtors and trade creditors that arise directly from its operations.

Report of the Directors (continued)

Financial instruments (continued)

The main risks arising from the company's financial instruments can be analysed as follows:

Liquidity risk

The company seeks to manage this risk by ensuring sufficient liquidity is available to meet foreseeable needs and for future investment. Other than the £5,000,000 non-interest bearing working capital loan secured from the London Borough of Hackney, the company has no other liquidity funding.

Credit risk

The company's principal financial assets are bank balances, cash and trade debtors, which represent the company's maximum exposure to credit risk in relation to financial assets.

The company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one debtor. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the company's management based on prior experience.

The Trust operates under an approved treasury management and investment policy, designed to increase the amount of its investment returns, whilst also seeking to reduce exposure to risk. The diversification of investments between four financial institutions, has helped protect the company from exposure to financial risk. All institutions meet ethical and social responsibility criteria as required by the Trust's investment policy.

Cash flow interest rate risk

Interest bearing assets comprise cash and bank deposits, all of which earn interest at a variable rate.

Environment

The Learning Trust complies with mandatory requirements under the duty of care by ensuring that waste is handled, recovered, or disposed of responsibly. Waste is dealt with by a company that is authorised to do so; and a record is kept of all waste received and transferred by a system of signed notes.

These signed 'Waste Transfer Notes' are kept for two years. If classified as 'hazardous waste' or 'special waste', consignment notes are retained for at least three years.

The Learning Trust also complies with mandatory requirements for the disposal of the following equipment:-

- IT and telecommunications equipment, such as PCs
- Lighting equipment, such as lamps, tubes and fixtures (filament light bulbs are not covered by Waste Electrical & Electronic Equipment Directive WEEED)
- Smoke detectors and thermostats
- Televisions, projectors, audio/hi-fi equipment.

The Learning Trust arranges and finances the treatment and environmentally sound disposal of WEEED discarded as waste when:

- Disposing of equipment purchased before 13 August 2005 and not purchasing 'like for like'
- Disposing of equipment purchased after 13 August 2005, where the 'responsible producer compliance scheme' is identified. The user must ensure that the WEEED is separately collected, and obtain and retain proof that it was handed to a waste management company that ensured it was treated and disposed of in an environmentally sound manner.

Employees

The Learning Trust has been following a well developed and successful People Management Strategy for several years, which

(i) Embed good leadership and management practice across the Trust and broader educational workforce
(ii) Efficient organisation of the Trust and provision of highly effective services
(iii) Organisational culture that ensures full workforce contribution and supports achievement of the Trust's priorities.

Engagement with employees has been of paramount importance in 2010-11 given the need for clear communication around strategic change and redundancies. The Trust has well established channels for communication including staff briefings, weekly emailed news bulletins, staff surveys and focus groups and the strength of the communications process was exemplified in the way in which staff have responded to the changes over the year. The company has also invested in leadership and management development over the last three years and managers are demonstrating increasing confidence in supporting their teams in achieving high levels of performance and in responsiveness to change.

Employees (continued)

The Trust continues to consider the health and wellbeing of its employees by offering the following benefits:

- An **occupational health programme** launched with onsite health checks and including monthly healthy lifestyle campaigns
- An **employee assistance** service, a confidential helpline offering advice and counselling on topics including legal advice, debt counselling and benefit advice, health information as well as general information and advice
- **TrustPlus**, a benefits scheme offering substantial savings for employees on a wide range of lifestyle products from holidays, to gyms and health clubs to entertainment and leisure activities to high street shopping
- **Flexible working,** offering a structured way of formalising some of the informal working arrangements.

Disabled Employees

The Company gives full consideration to applications for employment from all sectors of the community. Where an applicant has indicated that they are registered disabled and meets the essential criteria they will be guaranteed a job interview. Where an existing employee becomes disabled it is the Trust's policy to make reasonable adjustments to the workplace.

Payment of suppliers

The company's policy is wherever practical to:

- settle the terms of payment with suppliers when agreeing the contract or terms of each transaction
- ensure that suppliers are made aware of the terms of payment, and
- abide by the terms of payment.

In 2010/11 suppliers invoices were consistently paid within an average of 30 days (2009/10: 30 days).

Future prospects

The company has demonstrated a track record of delivering outstanding rates of improvement over all key stages and is now planning for the final phase of the contract through to its cessation in July 2012. A joint planning team has been established with The London Borough of Hackney to oversee the transition of the education service to the Council at that date. A high level plan will be in place by July 2011 to be implemented over the following year. Through the joint transition planning group the Council has agreed to take over the ownership of the company from 1 August 2012. In the meantime the company is continuing to strive for further improvements in educational outcomes for the children and young people in Hackney in 2011-12.

The company will retain fewer financial resources in 2011-12 than in previous years, passing more funds directly to schools, who will have increasing autonomy and choice as to how they deploy those resources. The company is responding positively and proactively to these changes in the market place through the Evolve change programme.

A proposed consultation by DfE on school funding, the introduction of free schools, likelihood of more schools becoming academies and the known reduction in core funding from 2011-12 all provide risk and uncertainty for the company but risk management measures are in place to ensure any risks can be met.

Dividends

The company is limited by guarantee, has no shareholders and does not propose dividends. Any surplus generated by the company is reinvested in education activities.

The Board of Directors

The articles of association specify the composition of the Board from its community of stakeholders and from within the company. The Board is composed as follows: -

- The Chair of the Board, who is appointed by the Secretary of State for Education in consultation with the Council.
- Three Executive Directors appointed by the Board and comprising the Chief Executive of the company, the Finance Director of the company and one other member of the company's senior management team
- Four independent non-executive Directors appointed by the Chair of the Board in consultation with the Secretary of State and the Mayor of the Council