Circular **03/13**

For Information

Capital Handbook

Feedback from Consultation and New Arrangements from 2003-04 onwards

Summary

This circular gives further guidance to further education (FE) providers on new and revised capital project grant support arrangements for 2003-04 onwards. It consolidates and supersedes Circular 03/05 and confirms the outcome of the recent capital consultation exercise, confirms new and revised arrangements and consolidates the advice already confirmed in Circular 03/05. It addresses the following topics:

- outcome of the recent capital consultation;
- the Learning and Skills Council's capital programme framework;
- FE and 16–19 capital rationalisation funds;
- the timetable for receiving and determining capital applications;
- the percentage of capital grant support payable;
- calculation of eligible project costs;
- eligibility of other FE providers;
- capital criteria;
- compliance with the requirements of the *Disability Discrimination Act Part 4,* as amended by the *Special Education Needs and Disability Act 2001;*
- post-project review;
- capital programme evaluation;
- FE and higher education capital issues; and
- formula-based allocations.

September 2003

Learning+Skills Council

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For further information, please contact the appropriate Learning and Skills Council local office.

Executive Summary

Date: September 2003

Subject: This circular gives guidance to further education (FE) providers on new and revised capital project grant support arrangements for 2003-04 onwards following the recent capital consultation and decisions taken by the Learning and Skills Council (LSC) at its July and August 2003 Capital Committee and national Council meetings. As previously indicated in Circular 03/05, the LSC has agreed the following principal changes. It will:

- introduce arrangements allowing the level of grant support for a project to reflect what the provider can afford;
- extend the categories of providers eligible to apply for capital grant support; and
- consolidate arrangements whereby providers may apply at the same time for FE capital and 16–19 capital rationalisation funds.

The LSC is also developing high-level criteria for assessing applications for capital grants against the LSC's national targets and performance measures, and those of local Learning and Skills Councils (local LSCs). This will help the LSC decide which applications should be successful, if available funds are over-subscribed.

The main changes, principally making more categories of providers eligible for support and linking the level of grant available to what the provider can afford, were the subject of consultation in Circular 03/05. The new and revised arrangements reflect the outcome of that consultation.

Supercedes: Circular 03/05

Intended recipients: Principals of FE colleges, former external institutions, specialist institutions and higher education (HE) institutions delivering FE provision funded by the LSC, chief education officers, LSC executive directors.

Capital Handbook: Feedback from Consultation and New Arrangements from 2003-04 onwards

Introduction

1 This circular confirms new and updated arrangements for the administration, assessment and determination of applications for consent and capital grant support, as they will apply from 2003-04. It also confirms the outcome of the consultation on capital matters as reported to the Council, the actions taken by the Learning and Skills Council (LSC) in response to these views and consolidates the revised arrangements previously announced in Circular 03/05, which it supersedes.

Background

2 As indicated in Circular 03/05, the Grant Letter from the Secretary of State for Education and Skills to the LSC dated 5 December 2002 reinforced the increased priority being given by the Government to the LSC's capital programme, saying:

> *I have provided significant new and flexible resources for capital funding by 2005-06 – an increase of over 60% in real terms compared to 2002-03. I expect you to use the outcomes of Strategic Area Reviews and area inspection conclusions to develop a strategic capital investment approach for each local Council and for England as a whole, attaching special emphasis to the development of Centres of Vocational Excellence, and meeting the requirements of the Disability Discrimination Act.*

3 In response to the increase in capital resources, the Council agreed changes to the capital project grant support arrangements in support of its new and revised capital programme framework. These were confirmed in Circular 03/05, together with arrangements for consultation with providers on several of these changes. This consultation has now been completed and its outcome is as summarised below and as set out at Annex A to this circular.

Capital Project Grant Support Arrangements: Summary Results of Consultation

4 In total, 101 responses were received from over 700 organisations (further education (FE) colleges, external institutions, local education authorities (LEAs) and universities). Of these, 25 responses were from specialist institutions. The breakdown of the remaining 76 responses is: 48 from FE colleges, 12 from sixth form colleges, four from external providers, nine from LEAs (three of which were also responding as external providers), and three from a category of 'Others', including a

church education service, a local authority adult education college and an LSC-funded Ufi learning hub.

5 The questions asked, along with a detailed summary of responses received, are set out in Annex A to this circular. The outcome of the consultation can be summarised as shown below.

a A clear majority of respondents (59 in favour, 15 against) agreed that the Council should assess the rate of grant support payable towards the costs of qualifying capital projects by reference to the affordability of the project to the provider and to the policy objectives of the LSC. But 13 FE colleges and two sixth form colleges were against the change, arguing that the new approach would penalise well-managed colleges and give favourable treatment to poorly managed ones.

b Fifty-eight respondents agreed that affordability should be determined by the local LSC team in negotiation with individual providers. A few respondents, however, suggested that some local LSCs might not have the resources to deal with this.

c A majority (50 in favour, 23 against) supported the concept that affordability should be determined by reference to the likelihood of a provider remaining in, or achieving, within at most three years of completion, a more favourable financial health group status.

d A majority (45 in favour, 5 against) agreed that the provider should contribute to the financing of the project – from reserves and/or the proceeds of selling assets or through borrowing or arrangements such as Public–Private Partnership/Private Finance Initiative (PPP/PFI) – to an extent that is consistent with achieving or remaining in the appropriate financial health group category. Some respondents distinguished between asset disposals and reserves, the use of which, they stated, should be carefully considered as the funds may be earmarked for other initiatives.

e Sixty-one respondents (with 13 against) agreed that the LSC should continue the practice, reintroduced in 2002-03, of designating a proportion of its capital budget for formula-based capital allocations to all FE providers. The large majority in favour of this proposal would presumably welcome getting an annual amount, with minimum fuss, to carry out routine capital works. The main concern by the 'no' respondents was that some category A colleges would be getting an allocation that they do not need.

f A majority of respondents did not agree that all external FE providers and specialist institutions regularly receiving more than half of their annual income from the LSC should be eligible to receive capital project grant support from the LSC on the same basis as colleges (27 in favour, 46 against). But a majority did favour not-for-profit organisations (42 in favour, 31 against) being treated on this basis.

g Unlike FE college respondents, the majority of specialist institutions were in favour of all organisations receiving more than half their annual income from the LSC being eligible to apply for grant from the main scheme. This included responses from those who are, themselves, charities.

h A small majority of respondents (33 in favour, 39 against) did not agree that FE providers regularly receiving less than half of their annual income from the LSC should receive a formula-based capital allocation, on receipt of evidence that the allocation will be used for the purposes intended. The majority of those against were FE college respondents. The specialist institutions were in favour.

i Most respondents agreed with the changes to the LSC's capital grants criteria at Annex B to the circular, in support of the proposed changes (60 in favour, 10 against).

j Almost all respondents agreed with the proposal that the LSC should no longer deduct other project-related public sector grants from eligible project costs for the purposes of determining project affordability and the amount of capital support (65 in favour, 4 against).

k Although only just over 12% of the FE college sector responded, most of those that did reported progress in addressing compliance with the *Disability Discrimination Act Part 4,* as amended by the *Special Educational Needs and Disabilities Act 2001*.

Capital Project Grant Support Arrangements 2003-04 onwards (Consolidating New Arrangements and those Previously Announced in Circular 03/05)

Capital programme framework

6 As indicated in Circular 03/05, the Council has agreed the introduction of new capital programme framework arrangements from 2003-04. Whilst the arrangements by which providers have previously applied for capital project grant support will remain largely unchanged, the LSC is:

- introducing new arrangements whereby the amount of capital grant support offered by the LSC to assist qualifying project proposals may more closely reflect the affordability of that project proposal to the applicant;
- extending the categories of providers eligible to apply for capital grant support;
- giving priority to capital projects identified as being needed by strategic area reviews and area inspections;
- devising arrangements whereby capital projects needed for the achievement of other LSC policy aims may be given priority for funding; and
- consolidating the arrangements where by providers may apply for FE capital and 16–19 capital rationalisation funds.

7 The LSC has established a rolling capital development programme from 2003-04. Providers applying for FE capital and 16–19 rationalisation capital funds will submit project proposals and the LSC will regularly consider additions to (and deletions from) the programme. The LSC will contribute grant aid towards the costs of projects on the programme. Separate arrangements will apply for FE funds associated with *Disability Discrimination Act Part 4,* as amended by the *Special Educational Needs and Disabilities Act 2001* (DDA/SENDA) and adult and community learning (ACL) funds, as indicated later in this circular.

Further education projects percentage of grant support payable

8 Following the outcome of the recent consultation exercise, the LSC has decided that the present 'assumption' of 35% grant support for most college projects will be modified, so that grants are assessed more strictly against affordability and, to some extent, negotiated with providers. (Previously, for larger projects involving well-resourced providers, the LSC has already negotiated a lower level than the previous 35% norm). The percentage of funding the LSC can offer in support of capital project applications will depend, in part, on the demand for capital funds and the extent to which the LSC can assess project applications against affordability. Affordability will be determined by reference to the likelihood of a provider remaining in, regaining, or achieving within at most three years of project completion, a financial health status

as shown in Table 1. This approach will mean that in all cases local Learning and Skills Councils (local LSCs) will review the financial position of a college as a whole to determine an appropriate percentage. This will take account of a college's latest financial health assessment (in accordance with the provisions of Annex C to Circular 02/11 *Planning*), possible capital receipts from sales, cash reserves and cash flow, and the provider's ability to borrow. However, DDA/SENDA works should be separately identified in general capital applications, and this element of the project may qualify for a higher proportion of grant funding.

Table 1 Financial health status

Current financial health	Forecast financial health
Group A	Group A
Group B	Group A (preferred) or B – in transition to A
Group C	Group A (preferred) or B – in transition to A

9 Colleges exceeding the minimum Group A criteria by a substantial margin will normally be expected to put any excess reserves towards their capital project. This will be taken into account when determining any capital grant allocation.

10 These financial groups are assessed in accordance with the provisions of Annex C to Circular 02/11 *Planning* and such other advice as the LSC may publish from time to time. If such an approach is not adopted then colleges recovering from financial difficulties or with no assets at all to sell could find themselves unable to undertake capital investments. It is not the intention of the LSC to unduly penalise successful providers or overly subsidise poor performers, but:

- it does not wish to see an increase in the overall average percentage of grant support, given the current level of resources;
- some colleges benefit from large windfall gains if the existing estate is in a prime development area;
- some colleges are locked into a poor and costly estate of low value, and which may not encourage participation; and
- recent capital demand forecasts from local LSCs have indicated material increases in the future potential level of demand for capital funds, and it is essential to apply the affordability criteria fully and fairly in every case.

Local LSC project assessment teams will be asked to keep these points in mind.

11 Detailed guidance on the approach the LSC will take in determining the affordability of projects and the information applicants will be asked to provide is included at Annex B to this circular. These arrangements apply to all current and future applications for grant support.

Group A colleges

12 Potential capital applicants are reminded that a college with a financial health Group A rating will usually be able to demonstrate the following characteristics:

- a positive cash flow from operations each year;
- more than 25 cash days in hand;
- a current ratio above 1.5:1;
- a positive balance on its general reserve (income and expenditure account);

- an operating surplus year-on-year; and
- total borrowing less than 50% of their general reserve (income and expenditure account).

13 Providers with a Group A rating will also have carried out a rigorous sensitivity analysis and modelled the issues that are most critical to their success. They will have identified contingency plans to deal with the most adverse variances. Detailed guidance on the approach the LSC will take in determining the affordability of projects and the information applicants will be asked to provide is included at Annex B to this circular.

Minimum rate of grant support

14 The Council has decided that all FE projects meeting the LSC's capital criteria but that would not usually qualify for grant support on the above basis on affordability grounds would be eligible to receive a minimum percentage of 10% of eligible project expenditure. Grant support of 10% of eligible project costs will usually be paid in one instalment following the college concerned having provided appropriate evidence of eligible expenditure. Colleges receiving more than 10% but less than 20% of eligible expenditure may receive payments in equal instalments over two years, whilst those receiving grant support of over 20% will continue to be paid over three years. The Council, however, reserves the right to accelerate grant payments against evidence of eligible expenditure, should funds permit.

Minimum project expenditure

15 The current £100,000 qualifying project expenditure threshold has led to the submission of relatively small expenditure projects which might otherwise be regarded as part of a college's general or long-term maintenance programme and in some cases there is doubt as to whether or not this expenditure can be capitalised in the college's accounts. The LSC is also seeing an increasing number of project applications and has to be mindful of the administrative burden of processing relatively small projects, especially for expenditure items that might otherwise have been funded by colleges' general revenue.

16 To address these issues, a similar approach to that of the financial memorandum will be adopted whereby colleges will be eligible to seek grant support for projects related to a percentage of colleges' turnover. For all colleges, the minimum project value for an application for grant support will be the greater of £100,000 or the equivalent of 5% of a college's annual revenue. However, for colleges with annual revenue of over £10 million or more, the threshold will be pegged at £500,000. This change will apply to applications received on or after 1 November 2003.

Other further education providers

17 The LSC's capital funds have previously been principally available to FE colleges, which have been defined, with very few exceptions, as those institutions that were incorporated from April 1993 under the provisions of the *Further and Higher Education Act 1992*. In Circular 02/20, the LSC confirmed that higher education (HE) institutions could also apply to the LSC for capital to support their FE provision. Specialist institutions with LSC-sponsored learners with learning difficulties and/or disabilities have also had limited access to capital funds.

18 The LSC has agreed with immediate effect to extend the availability of FE capital funds to other FE providers receiving FE recurrent funding from the LSC. Some 200 adult education providers (formerly known as external institutions) in this category deliver FE provision. The further 60 or so external specialist institutions that cater for LSC-sponsored learners with learning difficulties and/or disabilities will also be included, having been separately consulted on the arrangements that might apply to them.

19 The extent to which such providers may receive capital grant support under similar arrangements to those for mainstream FE colleges will depend on how much funding they receive from the LSC. Those regularly receiving at least 50% of their annual revenue from the LSC may now apply for inclusion under the general capital programme support arrangements. Other institutions, receiving a minority of their funding from the LSC, may receive some proportion of the capital allocation for all FE providers, based on LSC-funded learner numbers or activity, should the LSC decide that it has sufficient capital funds available to make such 'formula-based' allocations.

20 To demonstrate eligibility to apply for mainstream capital funds, FE providers will usually have to demonstrate receipt of more than 50% of their annual revenue from the LSC for the three previous financial years from the year of the application and that this will continue for three years or more. Exceptionally, providers able to demonstrate, with the support of the relevant local LSC, that they are likely to receive more than 50% of their future annual revenue from the LSC for three years or more may also be eligible to apply for capital grant support from the LSC. These arrangements are intended to benefit not-for-profit and charitable FE providers. Qualifying providers with projects that meet the LSC's capital criteria may receive offers of grant support on similar terms to those available to the incorporated FE college sector. The LSC will consider applications from other FE providers on their merits. In this context, FE revenue funding for qualifying FE institutions from Education Learning Wales and the Scottish Further Education Funding Council may count as if it were from the LSC.

16–19 Capital rationalisation funds

21 For 2003-04, the LSC proposes to allocate approximately £25 million for capital expenditure specifically to support local action arising out of area inspections, strategic area reviews (StARs), other area review outcomes and other proposals in support of the reorganisation of 16–19 provision. To date, there have been applications for new 16–19 FE colleges and local education authority (LEA) 16–19 centres, although not at the rate originally envisaged. The LSC has not, therefore, instituted a separate bidding round for such projects and applications. The above proposal to assess the rate of grant support by reference to providers' (including LEAs), affordability has enabled the arrangements for 16–19 capital rationalisation to be consolidated into, and considered within, the mainstream capital grant support arrangements described earlier in this circular.

Capital Programme

22 As confirmed in Circular 03/05, the LSC has established a rolling capital development programme from 2003-04. Providers applying for FE capital and 16–19 rationalisation capital funds will submit project proposals and the LSC will regularly consider additions to (and deletions from) the programme. The LSC will contribute grant aid towards the costs of projects on the programme. Separate arrangements will apply for FE DDA/SENDA and ACL funds.

Capital Criteria

23 Applications for FE and 16–19 rationalisation capital funds will continue to be assessed against capital projects criteria that continue to include the educational justification, what the provider can afford, project viability (the '*Green Book* tests'), and value for money. In addition to the technical project-ranking criteria currently used (capital costs/value for money and floor space utilisation as a proxy for running-cost efficiencies), projects will also be assessed against new high-level selection criteria relating to national and local LSC targets and

priorities, and including the *Success for All* programme goals. Local LSCs already consider project applications against their own priorities and targets at the project assessment and endorsement stage. As the demand for capital funds grows, the LSC may have to consider judging applications in the light of central as well as local circumstances, using a system similar to that used for the Centre of Vocational Excellence (CoVE) programme, assuming that the demand for grant funding will outstrip supply in the medium to long term (see paragraph 25 below). The LSC believes that comparing project outcomes with programme aims is a crucial part of the post-project evaluation process.

24 Depending on the demand for funding and the number of projects to be considered, applications will be rolled forward and the capital programme regularly updated, if funds permit. Larger projects (with estimated capital costs of £10 million plus) will join the programme, as now, initially as the subject of an application 'in principle' so that appropriate budget adjustments can be made for affordability and slippage. Within a 12-month period, 'in principle' allocations will need to be converted into 'detailed' allocations. Otherwise, such allocations will either be cancelled or require resubmission. A shadow programme of potential forward commitments identified but not yet approved is being established to assist planning and budgeting at local and national levels as part of the StARs programme.

25 It had been envisaged that the Capital Committee would meet (and report to the Council) on a quarterly basis. Given the likely volume of capital applications expected for 2003-04, the Capital Committee has agreed for the time being to continue to meet during each national Council meeting cycle – eight times a year. Given that projects have to be assessed and then endorsed by the relevant local LSC before being considered by the national Capital Committee, and in some cases the full Council, applications will need to be received at least two full calendar months before the month in which the Capital Committee (or the Chief Executive, for projects with an estimated cost of under £5 million and where grant support of 35% or less is requested - 6 weeks) is due to determine the application. In the case of applications for projects with an estimated cost above £20 million, which the Council will determine, applicants will need to allow three months. All of this should avoid an annual bidding round. However, inclusion of projects in the capital programme should not be considered a foregone conclusion and project applications will still have to be tested against the LSC's general capital project criteria, which following the outcome of the recent consultation are included in amended form at Annex C to this circular. These criteria will be reinforced in due course by the addition of high-level selection criteria, relating to the LSC's national and local targets and criteria, which will be used essentially as part of the ranking process when scarce resources make it necessary to choose between projects. These criteria are being developed and will be shared with providers in due course.

26 Applications for mainstream FE and 16–19 capital rationalisation funds will, therefore, be considered against the following revised, provisional timetable for 2003-04.

- Applications for projects estimated to cost up to £5 million must be received at least six weeks before the date by which determination of the application is requested.
- Applications for projects estimated to cost between £5 million and £20 million will be considered against the revised timetable to July 2004 shown in Table 2 overleaf.

Table 2 Timetable for application and determination of project proposals

Application received by:	Application determined by:
30 July 2003	October 2003
30 September 2003	December 2003
31 October 2003	January 2004
23 December 2003	March 2004
31 January 2004	April 2004
31 March 2004	June 2004
30 April 2004	July 2004

27 Applications for projects estimated to cost £20 million or more, which need the approval of the Council, usually require iadditional time and providers should agree appropriate programmes with their local LSCs.

28 In all cases, these dates are given for guidance only and a timetable for the receipt, assessment and determination of capital applications should be agreed beforehand with the relevant local LSC in consultation with the LSC's national property services team. These timescales only apply to fully detailed applications that have been previously discussed in detail with the local LSC and, as appropriate, the Council's national finance and property services teams. These timescales will be extended if incomplete applications are received, and additional information and analysis have to be requested by the local LSC.

Calculation of eligible project costs

29 The previous practice of deducting grant support from other public sector bodies from the gross cost of project proposals, to arrive at the eligible project cost for LSC grant support purposes has been discontinued. Contributions from, for example, the Single Regeneration Budget (SRB) or the European Regional Development Fund (ERDF) should no longer be deducted from the eligible project costs as they are directly related to project aims and outcomes. They will, therefore, be considered as additional grant support, counted within the college's contribution.

30 The LSC will not give grant support that will provide a total of more than 100% of the eligible cost of the project when all other contributions, based on affordability, have been taken into account.

Centre of Vocational Excellence Programme

31 CoVE application arrangements and criteria are detailed in Circular 01/14 and Circular 02/15.

32 CoVE capital allocations should be spent for the purposes outlined in qualifying providers' CoVE development plans, generally for the purchase of CoVE-related equipment and minor building works and adaptations to accommodate the CoVE. Qualifying FE CoVE providers, with the prior agreement of their local LSCs, may put any surplus CoVE capital funds towards the related costs of capital applications for approval and grant support towards the costs of capital projects to develop or modernise premises in which the CoVE will be located. For applications made under the arrangements set out in Circular 02/20 *Capital Project Grant Support: Updated Arrangements for 2002/03* and Circular 01/06 *Capital Project Grant Support Transitional and Interim Arrangements 2001/02*, these sums would be treated as part of the providers' contribution to project costs. CoVE capital grants will, however, be taken account of in determining project affordability and the LSC's

overall grant contribution under the arrangements confirmed in this circular.

Further Education and the Requirements of the *Disability Discrimination Act Part 4*, as Amended by the *Special Educational Needs and Disabilities Act 2001*

33 The LSC proposes to allocate approximately £40 million for FE DDA/SENDA purposes in 2003-04, and expects to allocate a higher sum in 2004-05, in order to help colleges comply with their statutory requirements by the full compliance date in 2005. A recent study for the LSC, by the Learning and Skills Development Agency (LSDA) and Amey Property Consulting, of a representative sample of colleges, indicates that over half of FE colleges have yet to complete a full survey or audit of DDA/SENDA compliance. In 2002-03, the LSC provided a formula-based allocation, to FE providers, *pro rata* to their guided learning hours (glh), in order to help them to carry out the necessary survey and design works and, where appropriate, to implement DDA/SENDA works. Guidance on the implementation of access surveys and audits is reprinted at Annex D of Circular 03/05.

34 Providers are reminded that the new duties under DDA/SENDA are being introduced in three stages.

a The main sections of the DDA/SENDA came into force on 1 September 2002. From that date it has been unlawful to discriminate against disabled people or learners by treating them less favourably than others. In addition, responsible bodies are required to provide certain types of reasonable adjustments to provision where disabled learners or other disabled people might otherwise be substantially disadvantaged.

b From 1 September 2003, responsible bodies will also be required to make adjustments that involve the provision of auxiliary aids and services.

c From 1 September 2005, responsible bodies will be required to have made adjustments to physical features of premises where these put disabled people at a substantial disadvantage.

35 A key element of the new duties is that they are anticipatory, that is, providers must not wait until approached by, for example, a visually impaired learner, to consider what steps are necessary to support learners with visual impairments. For 2003-04, the LSC is providing up to 75% of the costs of relevant DDA/SENDA compliance works, up to a maximum project cost of £1 million for which all qualifying providers, as specified in paragraph 19, may now apply.

36 As at 8 September, the Council had approved 123 applications for DDA/SENDA grant support and the LSC will allocate £19.6 million towards projects estimated to cost £26.5 million. Applications may still be made for DDA/SENDA grant support for qualifying projects.

Higher Education Institutions Providing Further Education

37 As indicated in Circular 02/20 and Circular 03/05, HE institutions providing LSC-funded FE are eligible to apply for capital grant from the LSC in support of their FE provision. As previously, any particular project will be required to comply with the same floor space utilisation standards and other capital criteria and arrangements applicable to FE institutions, as published in this circular and other guidance issued by the LSC from time to time. Where projects envisage mixed FE and HE usage, applications for grant support from the LSC will usually have to demonstrate a minimum of 100 full-time equivalents (FTEs) and one-third or more continued FE usage of the premises to be developed or modernised. The LSC's capital grant support would usually be limited to an appropriate percentage of the qualifying capital costs, *pro rata* to the FE usage of the premises.

Post-project Review and Capital Evaluation

38 Providers are again reminded of the requirement to provide a post-project review of their projects to the LSC within 12 months of practical completion of the project. The form of return is provided at Form E in the LSC's Forms Booklet (see paragraph 45 below). Local LSCs will be asked to follow up colleges that have received capital grant support from the LSC and its predecessor the Further Education Funding Council (FEFC), since revised arrangements were introduced in 1999. As indicated in Circular 03/05, colleges that have not provided a post-project review in a satisfactory form are required to provide a completed return by no later than 30 September 2003. After that date, the LSC will not progress any new applications for capital grant support from colleges that have not provided post-project reviews due for earlier projects until such a return has been provided.

Adult and Community Learning

39 For 2003-04, the LSC is allocating £19 million to provide general capital support and £20.4 million for DDA/SENDA purposes to LEAs that secure ACL provision in support of their provision. Following consultation, the LSC has already informed LEAs, through local LSCs, of arrangements for the distribution of these funds for 2003-04. Using a formula based on learner numbers, it will allocate £9 million for minor works, and £20.4 million for DDA/SENDA purposes. It will allocate £10 million through a challenge fund to which LEAs were invited to submit proposals for between £250,000 and £1 million capital grant towards major capital schemes.

Other Matters

Further Education Estates Management Statistics Study

40 Further to the announcement of the Further Education Estates Management Statistics Study (FEEMS) programme in Circular 02/20, property consultants Drivers Jonas, working with sub-contractors KPMG, are undertaking the FEEMS project on behalf of the LSC and its partners, Education Learning Wales (ELWA) and the Scottish Further Education Funding Council. All FE colleges have been invited to participate in the study and approximately 130 English colleges and 40 Welsh and Scottish colleges have agreed to take part in the first year of the programme, which is now complete with the first year report due for publication in October 2003. The remaining colleges in the English FE sector and colleges in Northern Ireland will join the programme in 2003-04 and 2004-05. The consultants are due to publish their first report in autumn 2003.

Investment appraisals

41 Providers are reminded of the requirement whereby applications for capital project grant support must be accompanied by an investment appraisal in accordance with the manual published by the Treasury called *The Green Book: Appraisal and Evaluation in Central Government*. The Treasury has recently published the latest edition of *The Green Book,* which introduces changes to the investment-appraisal process and, in particular, recommends the use of a new discount rate whereby projects will be evaluated at a rate of 3.5% over 20 years rather than at 6% as at present.

42 The LSC will produce further guidance in due course on its own investment appraisal methodology, based on that demonstrated in *The Green Book*. Applications should be appraised on the new basis using the LSC's appraisal model.

General capital arrangements

43 Unless otherwise stated in this circular and the attached annexes, all other capital project grant support arrangements will remain as set out in Circular 01/06 and Circular 02/20. This Capital Handbook will be updated annually thereafter with in-year changes posted on the LSC website (www.lsc.gov.uk).

Acknowledgement of Learning and Skills Council capital funding

44 All providers receiving project-related capital project grant support will be required to erect a permanent plaque acknowledging the LSC's contribution, and this should usually be located in a prominent position on the exterior of the building. The plaque will be constructed according to the material and design specification to be agreed with the LSC and will be erected at the provider's expense. A similar notice at the main entrance to the construction site will also be required.

Applications and claims using Forms Booklet

45 The LSC's Forms Booklet for 2002-03 is currently available in both pdf and Word formats on the LSC website (www.lsc.gov.uk). It should be used for all capital applications until the publication of the Forms Booklet for 2003-04, with amendments in manuscript where necessary. The LSC has delayed publishing the Forms Booklet for 2003-04 until it could be updated to take account of the changes confirmed in this circular. The Forms Booklet for 2003-04 will be published in October 2003. As there has been little demand for it in paper form, it will only be available electronically from the LSC's website, so enabling it to be updated as required.

Further education colleges providing or proposing to provide higher education

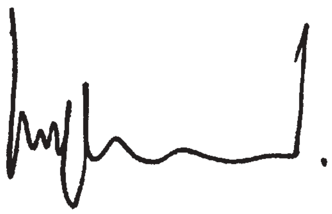
46 The LSC is unable to provide capital funds towards the costs of facilities primarily benefiting HE learners, other than when HE usage is incidental to the main FE usage. Colleges seeking capital investment in their HE facilities should, in the case of franchised HE provision, satisfy themselves that the franchise payments are adequate to support appropriate levels of capital investment. They may wish to review this matter with their existing or prospective HE institution franchise partners.

47 Those directly funded by the Higher Education Funding Council for England (HEFCE) should consult the relevant HEFCE regional consultant as to the sources of capital funds that the HEFCE may make available from time to time. The HEFCE has recently published details of, and the process for, submitting proposals for its new Strategic Development Fund (HEFCE June 2002/28: *Strategic Development Fund*) and to which HEFCE-funded FE colleges may apply. A key aim of the fund is to support a wide range of collaborative arrangements for facilitating strategic change and development that will

benefit the sector as a whole. Proposals can be made at any time, and will be reviewed at regular intervals throughout the year. The HEFCE website is www.hefce.ac.uk.

Formula-based allocations

48 In 2002-03 the LSC made two formula-based capital allocations in support of the *Success for All* programme and DDA/SENDA compliance respectively. Later in 2003 it is hoped to be able to identify such allocations on a similar basis, funds permitting, although on this occasion it is likely that consideration would also be given to supporting the Skills Strategy.



John Harwood, Chief Executive

Annex A: Summary of Responses to Consultation on Capital Issues 2003-04 onwards

Introduction

1 LSC Circular 03/05, *Capital Project Grant Support: New and Updated Arrangements from 2003/04 onwards and Consultation on the Rate of Grant Support*, as the title suggests, gave guidance to FE providers on new and revised capital project grant support arrangements for 2003-04 onwards and consulted them on aspects of those arrangements. In parallel, the 60 or so specialist institutions were each individually sent a separate, cut-down, consultation questionnaire.

2 In total, 101 responses were received. Of these, 25 were from specialist institutions. The breakdown of the remaining 76 is: 48 from FE colleges, 12 from sixth form colleges, four from external providers, nine from LEAs, three of which were also responding as external providers, and three from a category of 'Others' (the Catholic Education Service; the Adult Education College, Bexley; and the Birmingham and Solihull Learning Exchange Ltd, the latter being a directly funded Ufi learning hub).

3 The questions asked, along with a summary of responses received, are as follows. Returns from the specialist institutions are shown separately in view of their slightly different cut-down consultation.

Further education institutions other than specialist institutions

Question 1. Do you agree that the LSC should assess the rate of grant support payable towards the costs of qualifying capital projects by reference to the affordability of the project to the provider and to the policy objectives of the LSC, rather than at present mainly by reference to a standard percentage?

Responses to Question 1

Provider type	Yes	No
FE college	35	13
Sixth form college	10	2
External institution	3	0
LEA	8	0
Other	3	0
Total	**59**	**15**

Overall there was a four to one majority in favour of grant support being linked to affordability, but it should be noted that for FE colleges the majority is less than three to one.

4 The only disagreements to the proposal came from 13 FE colleges and two sixth form colleges. The primary reason given was that some colleges believed that the new approach would penalise well-managed colleges and give favourable treatment to poorly managed ones. Indeed many of the 'yes' respondents expressed similar fears, despite reassurances in the circular that this was not the intention. Many asked for a *de minimus* level of grant support.

Question 2. Do you agree with the proposal that affordability should be determined by the local LSC team in negotiation with individual providers?

Responses to Question 2

Provider type	Yes	No
FE college	35	13
Sixth form college	9	3
External institution	2	0
LEA	9	0
Other	3	0
Total	**58**	**16**

5 Most of the 'no' respondents had also replied 'no' to Question 1 and were therefore disagreeing with the whole 'affordability' issue, rather than just disagreeing with the actual proposal. However, a few, including 'yes' respondents, suggested that local LSCs might not have the expertise to determine this and that it may be better handled by the LSC national office. In either case, it was requested that standard procedures, developed by the LSC national office, be followed by all and that there should be an appeals process to the LSC national office if the local LSC was unable to reach an agreement with the provider.

6 Given the previous provisos, the majority felt that, if these proposals are taken forward, the local LSCs would be best positioned to take this on.

Question 3. Do you support the concept that affordability should be determined by reference to the likelihood of a provider remaining, or achieving, within at most three years of completion, the financial health status group (as set out at Table 2, paragraph 17 (reproduced below)) as assessed in accordance with the provisions of Annex C to Circular 02/11 *Planning*?

Table 3 Financial health status

Current financial health	Forecast financial health
Group A	Group A
Group B	Group A (preferred) or B – in transition to A
Group C	Group A (preferred) or B – in transition to A

Responses to Question 3

Provider type	Yes	No
FE college	30	17
Sixth form college	10	2
External institution	2	0
LEA	6	3
Other	2	1
Total	**50**	**23**

7 The majority here was only two to one, generally across all sectors. Again, the main concern was about colleges being penalised for good financial management. Some felt that their financial health position might worsen if the new proposals are adopted, despite assurances that the position of those in Group A should be maintained. A few stated that there are other support mechanisms for those with poor financial health and that it is not, therefore, appropriate for them to be treated favourably in terms of capital grant as well.

Question 4. If the answer to Question 3 is 'no', what alternative approach, if any, do you propose?

8 Most of the 'no' respondents to Question 3 favoured the status quo, with some suggesting that it need not be 35% but just a reasonable percentage of the cost of the project.

9 Some of the 'no' respondents to Question 3 appeared not to have fully taken note of Question 1, which states '...the rate of grant support payable towards the costs of qualifying capital projects by reference to the affordability of the project to the provider and to the policy objectives of the LSC...' and had suggested various other things to be taken into account in addition to affordability. Some of these suggestions often actually related to the policy objectives of the LSC.

10 Other suggestions were:

- a longer timeframe (five years suggested by a few) for transition between categories, with targets and milestones (agreed with the local LSC) as part of the financial management of the institution;
- other financial factors should be taken into account;
- each scheme should be appraised on its merits and its ability to meet local plans;
- if affordability is to be used it should relate not only to the immediate project, but to the whole accommodation strategy;
- a continuation of a common framework with enhanced percentages for special cases such as DDA projects, London weighting, contaminated land;
- a more sensible approach to the financial health check as the current criteria are flawed and need improving; and
- the non-college sector should be consulted with further as this financial health status is not applicable to LEAs and may lead to distortion in funding. A similar point was made by a former external institution.

11 One respondent suggested that 'providers should aspire to be in Category B, since if they are in Category A then it could be argued that public funds are not wholly being used for the benefit of the learner. If providers are in Category A with high cash reserves then this should be re-distributed around the sector ensuring a higher standard across the board.'

12 Another college responded that 'all projects should be funded 100% by the Council. Some colleges may need to embark on new capital projects to improve their student numbers and facilities. Denying them this option on financial health is tantamount to hitting them when they are down.'

Question 5. If the answer to Question 3 is 'yes', do you agree that the provider should contribute to the financing of the project – from reserves and/or the proceeds of selling assets or through borrowing or arrangements such as Public Private Partnership/Private Finance Initiative (PPP/PFI) – to an extent that is consistent with achieving or remaining in the appropriate financial health category?

Responses to Question 5

Provider type	Yes	No
FE college	27	2
Sixth form college	11	0
External institution	0	1
LEA	5	1
Other	2	1
Total	**45**	**5**

13 The vast majority agree with this proposal, especially with regard to asset disposals, but feel that the use of reserves should be carefully considered as the funds may be earmarked for other initiatives.

Question 6. Should the LSC continue the practice, reintroduced in 2002-03, of designating a proportion of its capital budget for formula-based capital allocations to all FE providers? Individual allocations, which may contribute to the costs of capital equipment, DDA/SENDA expenditure, and so on, would be based on a measure of learner volume such as full-time equivalents (FTEs) or guided learning hours (glh).

Responses to Question 6

Provider type	Yes	No
FE college	40	8
Sixth form college	7	3
External institution	4	0
LEA	7	2
Other	3	0
Total	**61**	**13**

14 A large majority are in favour of this proposal and would welcome getting an annual amount with minimum fuss to carry out routine capital works. The main concern by 'no' respondents is that some well-off colleges will be getting something that they do not need. The majority favoured the use of glh, as opposed to the specialist institutions (see separate section below, Question 4), which favoured FTEs.

Question 7. Should all external FE providers and specialist institutions regularly receiving more than half of their annual income from the LSC be eligible to receive capital project grant support from the LSC on the same basis as colleges? Or should such support be available only to charitable trusts and other not-for-profit organisations?

Responses to Question 7

Provider type	All providers	Charitable not-for-profit only	Neither
FE college	6	38	4
Sixth form college	5	4	0
External institution	4	0	0
LEA	9	0	0
Other	3	0	0
Total	**27**	**42**	**4**

15 The vast majority of FE colleges, and just under half of sixth form colleges, responded that only charitable and other not-for-profit organisations should be eligible to apply for the LSC's main capital grant scheme on the same basis as FE colleges. Conversely, all the remaining respondents felt that it should be open to all LSC-funded institutions. Similarly, the majority of specialist institutions (reported on separately below), in response to a similar question, believe that all LSC-funded institutions should be eligible.

16 A few FE colleges believe that no other institutions should be given capital grant support and that all LSC capital funds should be dedicated solely to FE colleges.

Question 8. Should all external FE providers regularly receiving less than half of their annual income from the LSC receive a formula-based capital allocation, on receipt of evidence that the allocation will be used for the purposes intended?

Responses to Question 8

Provider type	Yes	No
FE college	12	34
Sixth form college	6	4
External institution	4	0
LEA	8	1
Other	3	0
Total	**33**	**39**

17 Again, opinion was split between FE colleges and sixth form colleges, and the remainder, with the majority of the former group believing that no allocation should be made to institutions receiving less than 50% of their annual income from the LSC and the majority of the latter taking the opposite view.

Question 9. Do you agree with the changes to the LSC's capital grants criteria at Annex B? Substantial changes, other than drafting amendments, are printed in italics in Annex B.

Responses to Question 9

Provider type	Yes	No
FE college	40	7
Sixth form college	8	2
External institution	2	0
LEA	7	1
Other	3	0
Total	**60**	**10**

18 A high majority of respondents overall largely agreed with the proposed changes to the capital grants criteria, albeit subject to any comments they made in relation to earlier questions.

19 A few requested more guidance on the 'Race Relations' paragraph and one stated that 'the requirements for provision of services should not be determined by race'.

Question 10. Do you agree with the proposal that the LSC should no longer deduct other project-related public sector grants from eligible project costs for the purposes of determining project affordability and the amount of capital support?

Responses to Question 10

Provider type	Yes	No
FE college	44	1
Sixth form college	8	3
External institution	3	0
LEA	8	0
Other	2	0
Total	**65**	**4**

20 As expected, the vast majority supported this proposal. The few that opposed it felt that it gave an unfair advantage to those in receipt of other funding.

21 The remaining three questions are not considered fully in this paper as they were asked in relation to DDA/SENDA compliance, rather than policy proposals. They were asked in order to gauge the extent of DDA/SENDA access audits remaining to be carried out, and the possible amounts of grant likely to be required to ensure DDA/SENDA compliance across all FE sectors by the due dates. The low response rate cannot provide as much information as we would have wished. However, from the responses received, it appears that providers are now taking on their responsibilities and almost all have completed, started or commissioned access audits, with many already undertaking the necessary works.

Question 11. Has your institution completed an access audit of all of its premises to determine the capital works necessary to comply with DDA/SENDA legislation?

Question 12. If the answer to Question 11 is 'no', please indicate the percentage of the premises by area that had been audited/surveyed by 31 March 2003.

Question 13. Does your college intend to carry out DDA/SENDA compliance capital works in the periods shown in Table 1 (reproduced below)?

Table 4 DDA/SENDA compliance capital works.

Date period	Yes/No	Estimated cost (£m)
1 April 2003 to 30 September 2003		
1 October 2003 to 31 March 2004		
1 April 2004 to 31 March 2005		
1 April 2005 to 31 March 2006		

Specialist institutions

Question 1. Do you agree that the LSC should assess the rate of grant support payable towards the costs of qualifying capital projects by reference to the affordability of the project to the provider and to the policy objectives of the LSC, rather than at present mainly by reference to a standard percentage?

Responses to Question 1

Yes	No
18	5

22 The main issue raised by the 'no' respondents was that smaller providers, that is, those with only a few LSC-funded learners, would be better off with a standard percentage and with a continuation of the *pro rata* scheme. Most of these did, however, acknowledge that the proposed system would be fairer for larger providers.

Question 2. Do you agree with the proposal that affordability should be determined by national or local LSC teams as appropriate in negotiation with individual specialist institutions?

Responses to Question 2

Yes	No
23	2

23 The two 'no' respondents were opposed to the whole 'affordability' proposal, rather than just disagreeing with Question 2.

Question 3. If the answer to Question 2 is 'no', what alternative approach, if any, do you propose?

24 Both 'no' respondents to Question 2 felt that it would be unfair on providers that had, through sound financial prudence, built up funds for a specific purpose to be forced to use these funds for essential capital works, some of which may be legislative requirements, such as DDA/SENDA. No alternatives were proposed.

Question 4. Should the LSC continue with the practice, reintroduced in 2001-02, to provide a proportion of its capital budget for specialist institutions by way of a formula-based capital allocation towards the costs of capital equipment, DDA Part 4 expenditure etc., based on a measure of learner volume such as full-time equivalents (FTEs), as in previous specialist institution allocations, or guided learning hours (glh)?

Responses to Question 4

Yes	No
23	1

25 All except one respondent agreed with this proposal. The majority preferred the use of FTEs.

26 The one 'no' respondent felt that the *pro rata* allocation would not provide access to capital funds for larger projects. However, it should be noted that there is already a scheme for larger projects in this sector, and there may be a similar scheme in future.

Question 5. Should all specialist institutions regularly receiving more than half of their annual income from the LSC be eligible to receive capital project grant support from the LSC on the same basis as FE colleges; or should this only apply to charitable trusts and other not-for-profit organisations?

Responses to Question 5

All providers	Charitable and not-for-profit only
19	6

27 Unlike FE college respondents, the majority of specialist institutions respondents is in favour of all institutions receiving more than half of their annual income from the LSC being eligible to apply for grant support from the main scheme. This included responses from those who are, themselves, charities.

Question 6. Should all specialist institutions regularly receiving less than half of their annual income from the LSC receive a formula-based capital allocation on receipt of an application for eligible works?

Responses to Question 6

Yes	No
21	1

28 The one 'no' respondent felt that 'this would not primarily be the LSC's responsibility.'

29 The remaining questions dealt with DDA/SENDA compliance, rather than policy issues, and are not covered in this annex. Indications are that most of these institutions, unsurprisingly given their specialist nature in this area, are quite advanced in dealing with their obligations. The shortage of funds was the main problem reported.

Annex B: Guidance to Local Learning and Skills Councils and Providers on Affordability Assessments of Capital Projects in Relation to Applications from Qualifying Further Education Providers for Appropriate Levels of Capital Grant by the Learning and Skills Council

Introduction

1 In order to ensure consistency with past performance, the baseline year of a forecast should be the most recent audited accounts and changes from that baseline, if any, justified in detail. Affordability relies on realistic achievable financial forecasts from the current year to the third year after substantive project completion, normally the full opening of the relevant building to learners. It is therefore incumbent on colleges to submit fair and honest forecasts and not those that show poor operating performance in order to predict poor financial health and thereby gain a high level of grant. Plans will be rigorously assessed to ensure the maximum number of projects that can be supported by capital grants.

2 It is for local LSCs to carry out the initial checks on affordability but, in order to satisfy the national Council and Capital Committee that capital grants are no higher than is absolutely necessary and to ensure national consistency, the relevant national office area finance director (AFD) will review and moderate all capital proposals. Applicants should not expect any local LSC approval for a particular level of capital grant before this process has been completed. Local LSCs should involve AFDs as soon as possible in the affordability assessment process in order to ensure timely process of applications.

3 The national Capital Committee will continue to consider all project applications with estimated costs in excess of £5,000,000 or where the grant requirement is in excess of 35%. The current and forecast demand for capital funds is now much greater than previously, and the outcome of the StARs is expected to place further demands upon the LSC's capital budget. In these circumstances, capital grants greater than 35% will be approved only in exceptional circumstances

and subject to a full and proper explanation.

4 In order for the LSC to decide the appropriate level of grant for a project, the college will usually be required to demonstrate need by producing financial forecasts for a relevant range of grant levels to be agreed between the college and the LSC which will always expect one of those scenarios to be at the 35% grant level. If the financial health of the college two or three years after substantive completion on that basis demonstrated is other than financial health Group A or a strong Group B, then at least two higher levels would be required (for example, 40% and 50%) to calculate the likely grant level required. If the 35% grant level produced financial health significantly better than the current situation then the LSC will require at least two lower levels of grant to be projected (for example 25% and15%). Colleges that have cash reserves from past asset sales not yet fully spent on subsequent capital projects will normally be required to deplete those funds before consideration is given to any level of capital grant support. It is noted, however, that where colleges are in a financial recovery situation, grant support for essential projects may not materially help achieve the required improvement in financial health. Similarly, projects may not be of sufficient scale to impact on financial health. Such applications and circumstances will be considered on their merits but the colleges concerned would normally have to demonstrate that the appropriate levels of solvency would be achieved through other measures.

5 In assessing affordability to help determine the percentage of capital grant levels, it is essential that a higher grant is not sought to solve a college's immediate solvency problems which should be properly resolved by recovery plans or other intervention that may incorporate exceptional revenue support. Capital grant level flexibility is intended to help improve financial health where a college has a historic weak financial position that prevents it from proceeding with an accommodation development with a capital grant of 35% or less. It is likely that significant changes will have been made to the management of the college or that the college inheritance on incorporation or following merger was particularly poor. It cannot necessarily be assumed that colleges in recovery will justify a higher level of capital support.

6 Colleges are expected to use commercial loans by extending their borrowing facilities to reasonable levels in order to finance capital projects before capital grant applications will be considered.

7 It has been agreed that the minimum level of grant support for a project that met all the LSC's criteria would be 10%, except where the college had received other grant funds from other sources or receipts from related asset sales, which made such a contribution unnecessary. The usual *de minimus* level of qualifying project expenditure for capital grant purposes from 1 November 2003 will be £100,000 (the current level for all qualifying FE providers) for colleges with an audited turnover of under £2 million, or 5% of a college's most recent audited annual turnover for colleges with a most recent audited turnover between £2 million and £10 million, or £500,000 for colleges with a turnover beyond £10 million. To avoid doubt, this information is repeated overleaf

Table 5 Minimum level of grant support for a project that met all the LSC's criteria.

Most recent audited college turnover	Minimum qualifying project expenditure
Under £2 million	£100,000
Over £2 million and under £10 million	5% of college turnover
Over £10 million	At least £500,000

8 Where the Capital Committee is invited to give consent in principle to a major project in several phases (for example, campus relocation over several years) then, even where an indicative average grant level appears relevant over the whole project, the detailed consent for each phase will usually be assessed for affordability on that stage alone. For example, a project may show an indicative average need of 40% grant but stage 1 (where the college has a good amount of cash) may be assessed as 20%, then stage 2 as 40%, then stage 3 as 60%. This allows the LSC to recheck the situation and to review updated projections before each stage and, indeed, guards against the situation where only stage 1 is eventually completed.

9 The LSC reserves the right in exceptional circumstances to review the level of grant in the light of very significant differences between financial health forecasts and actual outturns. The Post Project Review form in the LSC's Forms Booklet is being amended to incorporate updated financial information and financial health assessment in order to inform this process.

Annex C: Learning and Skills Council Capital Projects Criteria

Stage 1: Validation Criteria

1 Before applying to the LSC for support, a provider should apply the following validation criteria to its own proposals.

Consistency with delivery plan and accommodation strategy

2 A provider should be able to demonstrate how its proposals assist its overall plan for:

- accommodating its learners and activities;
- curriculum areas requiring specialist provision;
- the provision of work-based learning to employers (if appropriate);
- new provision in both new and existing curriculum areas; and
- otherwise meeting the priorities of the relevant local LSC as indicated in its published plans and area reviews and in the outcome of its StAR under the *Success for All* programme.

3 Necessary steps in preparing and reviewing FE providers' property strategies are set out in the *Guidance on Property Strategies* (available on the LSC website at www.lsc.gov.uk). LEAs will be required to demonstrate that their proposals reflect the authority's published asset plans and other capital and property strategies for educational property.

Confirmation of provider contribution

4 Given the scarcity of capital funds, a provider will be expected to contribute as much as it reasonably can to the costs of its projects.

5 In 2003-04, the LSC's maximum contribution towards the costs of a project will usually be no more than the sum the LSC considers necessary for the provider to be able to afford to undertake the project. A provider will need to demonstrate the need for a particular level of grant support in confirming the affordability of the project.

6 An appropriate figure should be provisionally confirmed with the finance director of the appropriate local LSC before proposals are finalised. Under the stage 3 criteria (see below), preference may be given to providers applying for less than the maximum available LSC support. Examples of project financing and the calculation of the LSC's contribution towards project costs will be included in the LSC's Forms Booklet 2003-04, to be published in October 2003.

Financial viability

7 A provider should be able to demonstrate that it will be financially viable after taking account of its contribution to the project, that it has no major weaknesses in its financial systems and that it has made satisfactory arrangements to manage the project.

Planning requirements

8 A provider should be able to demonstrate that appropriate planning permission for the proposal will be or has been obtained.

Private Finance Initiative and Public–Private Partnership

9 Providers will be required to demonstrate that they have diligently examined whether better value for money might be obtained by private sector investment and participation in the provision and subsequent management of the assets to be created and in the delivery of relevant services through Public–Private Partnership and Public Finance Initiative (PPP/PFI).

Stage 2: Application to the Learning and Skills Council

10 The factors that applicants are advised to consider in developing a capital project proposal are listed below. These will not all be equally relevant to every case and, in certain cases, others not mentioned here might be particularly significant. In addition, there may be different outcomes for the same factor in different projects. The LSC will wish to be assured that a particular outcome is appropriate for the project in question and that the project will contribute to the achievement of its national and local aims and targets.

Delivery plan

11 The following factors apply to providers' delivery plan and should be reflected in its development and business plans and financial forecasts. Providers should consider:

a a whether the project is consistent with the provider's delivery and business plans;

b whether the strategic aims of the project have been set out in a measurable form to enable a satisfactory post-project implementation review;

c how far the project relates to specialist provision;

d whether the provider's learner number projections are soundly based; and

e how the proposed project will affect and be affected by other providers in the locality:

- whether the project would contribute to securing proper and reasonable provision for the provider's normal recruitment area;
- how far neighbouring colleges and other educational institutions have been consulted about the project;
- whether there is under-utilised space in colleges, school sixth forms and other educational institutions serving the same market;
- whether the project will engender wasteful competition;
- whether the project will engender an undue duplication of specialist facilities within a locality or a replication of courses resulting in uneconomic learning groups;
- how far the project will jeopardise the financial viability of other providers;
- the impact of the development on any merged institution where a merger, potential merger or other form of reorganisation is likely; and
- whether appropriate collaborative ventures have been considered.

12 Providers putting forward projects should seek the endorsement of their local learning partnerships, LEAs and other relevant parties to reinforce their evidence that the project will not promote wasteful competition.

Quality

13 The following factors apply to quality issues. Providers should consider:

- whether the existing provision has at least a balance of strengths and weaknesses;
- whether it has achieved at least satisfactory inspection grades for leadership and management; and
- how the project will enhance and help to maintain the quality of the provision.

Property indicators

14 The following factors apply to providers' property. Providers should consider whether:

- the project improves the quality of the provider's buildings;
- the proposed buildings are of an appropriate type;
- the building design enables access by people with physical and sensory disabilities and will meet the requirements of DDA/SENDA;
- the building is energy-efficient;
- the gross and net floor areas are appropriate;
- listed buildings are involved;
- health and safety issues have been considered and all legal requirements met;
- there will be continuity of provision for learners during construction; and
- opportunities are being taken for site and premises rationalisation and for their more cost-efficient operation.

Economic appraisal

15 The following factors apply to the economic appraisal. Providers should consider whether:

- the options considered are economically appropriate;
- all reasonable options have been evaluated;
- the appraisal includes all relevant costs and benefits and only relevant costs and benefits;
- the appraisal includes the cost of land;
- the project could be broken down into several smaller projects including at least one project which has a higher net present value than the proposal;
- the project secures a satisfactory return for the UK economy;
- the provider's contribution to the project is satisfactory, (bearing in mind any windfall gains, for example from sales of property); and
- the planned profile of expenditure has been realistically constructed and has taken account of the provider's financial forecasts.

Borrowing appraisal

16 If a borrowing appraisal is included in the application the following factors will apply. Providers should consider whether:

- the provider's overall borrowing will exceed the permitted levels set out in the LSC's financial memorandum with the provider (if appropriate);
- there are onerous conditions attached to the loan; and
- the interest rate is reasonable.

Financial health

17 The following factors apply to the provider's financial health. Providers should consider whether:

- there appears to be any current risk to their financial health;
- the project creates a risk to their financial health; and
- appropriate risk analysis and sensitivity studies have been conducted.

18 Software has been developed by the LSC which assists with the calculations required in the economic appraisal, the borrowing appraisal and the appraisal of financial health. The software is available to all providers and may be obtained by contacting their local LSC or area property adviser.

Race Relations

19 Applicants for capital grant support will be required to demonstrate how their proposals have taken into account the *Race Relations Act 1976* and the *Race Relations (Amendment) Act 2000*, and how new and modernised facilities will meet the needs of all racial groups.

Stage 3: Selection of Proposals by the Learning and Skills Council

20 The LSC will consider all proposals that pass the first two stages of the process against the seven selection criteria described at paragraphs 21–26.

Selection Criteria

Proper and reasonable facilities

21 The LSC will have available, if appropriate, the view of the relevant local LSC on the contribution a project would make to ensuring that there are proper and reasonable facilities for further education and work-based training in the area in the light of sixth form and other reorganisations proposed or any mergers in progress.

22 In particular the LSC will consider the following:

- how far the project proposal reflects the new priorities for changes in local provision for 14–16 and 16–19 year-old learners and collaboration with other local providers and, where appropriate, the outcomes of area inspections and reviews;
- whether the project proposal will establish or further develop CoVEs and specialisation within the college and/or in collaboration with other local providers; and
- how far the provider has also consulted fully on its proposals with, for example the relevant colleges, other FE providers, local learning partnerships, LEAs, school sixth forms and other providers.

Quality assessments

23 The LSC will take into account relevant FEFC quality assessments and, as they become available, those from the Office for Standards in Education (Ofsted) and the Adult Learning Inspectorate (ALI). The LSC would not support a proposal where the provision had been classed on inspection as having more weaknesses than strengths unless the provider was able to show either that it had satisfactorily addressed the shortcomings identified, or that the project was necessary to improve the provision. Should there be competing proposals in a locality, the LSC would give preference, all other things being equal, to the provider where the provision had received the highest quality classification, unless there were over-riding reasons not to do so.

Economy

24 The LSC will compare the cost per m^2 of the net added space of a proposal with that of similar constructions in the same area of the country. For FE projects, the LSC will use its own database and will refer to other property industry databases as appropriate. For 16–19 school or LEA-sponsored projects, the LSC will also liaise with the Department for Education and Skills (DfES) schools division on appropriate levels of building costs.

Value for money

25 A measure of value for money can be calculated for a proposal thus: divide the net present value (NPV) to the UK economy of the proposal, at the Treasury test discount rate, by the value of the proposed LSC contribution. This indicator is specifically recommended by the Treasury for situations in which decisions about rationing capital need to be made. It will be weighed against the other selection criteria in reaching a decision on any proposal.

Space utilisation

26 The LSC will require evidence that the institution has fully addressed the efficient use of floor space and facilities in its accommodation strategy. For further advice on FE projects, see the LSC's booklet *Guidance on Property Strategies* (available on the LSC's website www.lsc.gov.uk). For 16–19 school or LEA-sponsored projects the LSC will also liaise with the DfES schools division on appropriate levels of space utilisation.

Projects required in order to meet legal requirements

27 The LSC will give preference to:

- projects with evidence of a significant amount of remaining urgent health and safety-related works on buildings to be retained;
- other legally required works such as those required, for example, under DDA/SENDA; and
- works intended to broaden participation by those attending the institution, in particular, by improving access and facilities for learners with learning difficulties and/or disabilities.

Financing

28 The LSC will give preference firstly to PPP/PFI projects and secondly to loan-financed projects.

Stage 4: Moderation Arrangements

29 Local LSCs will determine the priority of competing capital applications according to the extent that they will contribute to meeting the LSC's local and national targets and objectives. In the event of applications for capital grant exceeding the funds available, the LSC will put in place national moderation arrangements to determine the relative priority to be given to competing applications.

Annex D: Glossary

ACL
adult and community learning

AFD
area finance director

ALI
Adult Learning Inspectorate

CoVE
Centre of Vocational Excellence

DDA/SENDA
Disability Discrimination Act Part 4, as amended by the *Special Educational Needs and Disabilities Act 2001*

DfES
Department for Education and Skills

ELWA
Education Learning Wales

ERDF
European Regional Development Fund

FE
further education

FEEMS
Further Education Estates Management Statistics Study

FEFC
Further Education Funding Council

FTE
full-time equivalent

glh
guided learning hours

HE
higher education

HEFCE
Higher Education Funding Council for England

LEA
local education authority

local LSC
local Learning and Skills Council

LSC
Learning and Skills Council

LSDA
Learning and Skills Development Agency

NPV
net present value

Ofsted
Office for Standards in Education

PPP/PFI
Public–Private Partnership/Private Finance Initiative

SRB

Single Regeneration Budget

StAR

strategic area review

Notes

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