Skills Funding Agency

Annual Report and Accounts **2011–12**

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The Skills Funding Agency Annual Report and Accounts for 2011–12

Presented to Parliament pursuant to Schedule 4, paragraphs 7 and 8, to the Apprenticeships, Skills, Children and Learning Act 2009

Ordered by the House of Commons to be printed on 26 June 2012

HC 113

London: The Stationery Office

£21.25

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This publication is available for download at www.official-documents.gov.uk

This document is also available from our website at www.bis.gov.uk/skillsfundingagency

ISBN: 9780102979169

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID: 2441749 06/12

Printed on paper containing 75% recycled fibre content minimum.

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Chief Executive's Review

2011 was another year of major change as we continued to simplify how we engage with the further education (FE) sector, while working through the Agency's own restructuring and downsizing that our lighter-touch role enabled.

In October 2011 we emerged from our restructuring as the streamlined organisation we've been promising: a more effective and efficient partner with the Department for Business, Innovation and Skills (BIS) in a world which more than ever recognises that skills are central to the economic growth and prosperity of the nation. Our new strapline, **Making skills work for England**, is a big vision for the Agency. As our Minister for Skills, John Hayes said recently, *"A skilled, educated workforce is the engine that will drive growth. That's why we are investing in education, skills and knowledge now and in the future."*

As part of our restructure, a clearer role and remit for the National Apprenticeship Service (NAS) was set out by the Business Secretary, Vince Cable, in a Direction issued to the Chief Executive of Skills Funding in July 2011. This gave the NAS end-to-end responsibility for the delivery of the Apprenticeship programme.

This was followed by the announcement of the outcome of the Government's review of the Agency, which concluded it should take the form of a conventional Executive Agency from April 2013. Legislative changes will have to pass through Parliament to enact this change. Under the proposals, the NAS will form a division of the Agency and will continue to lead on the delivery of the Apprenticeship programme.

Against this background of continued organisational change, fewer resources for adult FE and for the Agency itself, we continued to deliver satisfying progress towards our objectives. Examples include the high-profile launch of the National Careers Service, now successfully up and running on schedule, signalling the start of a new chapter in high-quality information, advice and guidance; we also enabled the sector to deliver an even greater number of Apprenticeship places; and, with the NAS, were behind the bi-annual WorldSkills competition, hosted in London last November. It was the biggest and most successful vocational skills competition in history.

Other major milestones include making our procurement and contracting processes more cost-effective; close work with the sector to devise a radically simpler future funding system; the piloting of outcome funding to empower local influence over adult FE provision; further progress in managing subcontracting risks much more tightly; the publication of a clear and concise set of current funding rules that replaces something four times the size; and last, but not least, completion of an in-depth study aimed at reducing unnecessary bureaucracy in the sector. We have met these challenges successfully, while at the same time making ourselves more fit for purpose – and helping the sector to do the same – so we can together rise to the opportunities and manage the risks of 2012 and beyond.

In the 2012–13 financial year the Agency will manage £3.6 billion of investment: funding that will deliver strong value for money through high-quality provision to accelerate the country's skills. The priority will be to channel funding specifically to young adults, the low-skilled and those who are unemployed – all groups that have a vital contribution to make to the economy and to society today. We will also continue to provide services to the Education Funding Agency (the former Young People's Learning Agency), to allow it to pay sixth-form colleges and academies, as well as provide the information management (IM) services to underpin its funding operations. Our very significant IM Services division will also continue to support the wider education sector in England, Northern Ireland and Wales.

In preparation for our new status, BIS, the NAS and the Agency have started to devise the Framework Document that will set out how we will work together next year. This will allow us to define the respective roles and responsibilities of the Agency and BIS – a crucially important process to maintain the necessary balance between policy and delivery to enable the continuation of an effective partnership.

The Government's FE consultation ***New Challenges, New Chances*** was launched in August 2011 covering various aspects of FE reform, including 24+ Advanced Learning Loans, which will be a major piece of work for the Agency this year. 24+ Advanced Learning Loans will introduce a new system of fee loans alongside the removal of public grant funding for advanced and higher-level training courses from the 2013/14 academic year. This will mean that for the first time FE learners will be able to access financial support to meet their contribution to the costs of the course, in the same way as for higher education. Lifelong Learning Accounts will also support 24+ Advanced Learning Loans by providing clear information about courses, grant funding and loans. There will also be support available through the National Careers Service telephone and face-to-face channels to help learners understand their options and the information available.

The Skills Investment Statement 2011–14 (SIS) recognises that skills are linked intrinsically to the Government's key priority of boosting economic growth and greater prosperity for everyone. It champions the vision of a thriving FE sector that has a crucial part to play in building sustainable economic growth, igniting social renewal and fostering an enhanced commitment to lifelong learning.

It provides a clear direction for the Agency to follow in helping the sector to operate with greater freedoms and flexibilities, facilitating greater responsiveness among providers to the demands of customers and stakeholders. It seeks an FE and skills system in which employers are able to demand the skills that they need to equip their businesses with the ability to succeed and thrive. It also seeks to establish a more effective marketplace in which learners can make informed choices, bolstered by information about the quality of provision and the likely impact of new skills on their employability and success. We will capitalise on the steps we took last year to drive this agenda forward.

A key element of this work is contained in our ***New Streamlined Funding System for Adult Skills***, where we set out the features of the future simplified funding system and arrangements for testing it that will be implemented in 2013/14. As part of that process, guidance and software have been developed to enable 'shadow working', which will give providers a valuable early insight into the possible effects on their future funding.

We published performance indicator scores for 2010/11 under the headline of ***FE Choices***, replacing the Framework for Excellence. This publication updates the information available on Success Rates, Learner Satisfaction and Employer Satisfaction, and it should play a critical role in the future operation of the sector, where provision is driven more by informed customers.

We have enjoyed yet another year of successful working relationships with our stakeholders and partners from across the FE sector, including the Association of Colleges, the 157 Group, the Association of Employment and Learning Providers, the UK Commission for Employment and Skills, and many other notable bodies.

We have also benefited from close relationships with members of our Advisory Board. Established in October 2011, the Board meets five times a year, ensuring the Agency has direct input from stakeholder groups to influence its work. I would like to extend my thanks to its members in helping to shape our thinking to the benefit of learners, employers and the sector.

I am very proud of the critical role that the Skills Funding Agency is playing in helping to ensure the success of the sector at a time of such great economic and social need. I would like to express my gratitude to the staff in the Agency – for their resilience in yet another challenging year of change as we have transformed yet again. Their professionalism, enthusiasm and good nature in ensuring that we continue effectively to support skills training never ceases to impress me.

So it has been another exciting and successful year for the Agency. But as this year draws to a close, I want also to look to the year ahead. I want to challenge the sector to explore new opportunities for collaboration, excellence and entrepreneurship. And together I want the Agency and the sector to face the challenge ahead with complete confidence that what we do will be of tangible value and benefit to learners, employers, the economy and society as a whole.

Finally, as this will be my last year in this role, I wish to thank all those, both in and outside the Agency, who have supported and encouraged me over the past three and a half years. FE is truly remarkable and I have never had a more rewarding opportunity in my career. I know my successor, Kim Thorneywork, will provide able leadership and I wish her, the Agency and the sector well.

Geoffrey Russell
Chief Executive of Skills Funding
Skills Funding Agency
A partner organisation of
the Department for Business,
Innovation and Skills

18 June 2012

What We Do and What We Have Achieved

Background

The Skills Funding Agency – a partner organisation of BIS – exists to help make skills work for England.

The Agency funds and promotes FE and skills training in England. The sector comprises more than 220 FE colleges, some 900 independent training providers and some 2,500 organisations with which colleges and providers subcontract. It is all of these organisations that make skills work. Our job is to facilitate their crucial mission by making funding and support available.

Each year BIS sets out its policy priorities for the skills sector in a ***Skills Investment Statement*** (SIS), detailing the overall level of funding available to the sector to deliver the policy intentions of government. The Agency's task is to implement BIS's policy, as set out in the SIS, consistent with the Chief Executive's statutory duty to promote and secure reasonable adult FE in England. To achieve this, we influence and support the capacity and quality of the FE system so we can fund the expected demand for high-quality skills training. Our primary form of influence is the conditions we attach to the funding of learning and skills and the FE system.

We also promote the importance of skills to ensure that individuals, businesses and communities throughout England are aware of and can access the learning opportunities that they need. To this end we work with the sector to promote learning and FE, and provide tools and facilities to inform potential customers of the opportunities available, such as the National Careers Service (established April 2012), national skills competitions and FE Choices.

We do not control the organisations in the marketplace, but we do encourage them to be efficient and effective in the use of public money to deliver the outcomes that customers and partners want. This follows from our statutory duties and our stewardship responsibilities for the significant amount of public money we spend.

And of course, we must be cost-effective ourselves. So, underpinning our entire approach is our shared aim with government and the FE sector of a simpler system to improve transparency and responsiveness, and to minimise unnecessary bureaucracy. Our task is to establish the incentives and accountabilities in the sector to enable it to operate more simply, more autonomously, and more dynamically with customers. But our system must bring the minimum administrative burden, with maximum transparency for all users.

The Agency seeks to use its financial resources fully and effectively in each financial year to ensure it meets the demand for FE. We set ourselves a target of allocating and managing our total budget to within no greater than a 1 per cent underspend by the end of 2011–12. The final position, reported on 4 April 2012, including the NAS, was within 0.6 per cent of the budget.

Review of 2010/11 Academic Year

The academic year 2010/11 (August to July) was the first year delivered under the coalition government. After the election in May 2010, the direction of government policy shifted significantly, and this was first articulated during the academic year 2010/11 in the SIS ***Skills for sustainable growth*** and ***Investing in skills for sustainable growth***, both published in November 2010. New freedoms and flexibilities for colleges and providers were signalled, with the introduction of a single Adult Skills Budget (from 2011/12) and a move away from the public sector agreement targets around Skills for Life and first full Level 2 achievements. The new government was keen to free the sector from central direction, and the Agency responded positively to change its approach during 2010/11 and also in the preparation for the academic year 2011/12.

Sector delivery in 2010/11

In 2010/11, 3.16 million adult learners participated in FE, including apprentices, and there were 2.27 million achievements. This activity was supported by the Agency's teaching and learning budget of just under £3.2 billion.

Overall participation levels have dropped in 2010/11 compared to the previous year. This in part reflects the decrease in public funding and also an increase in more substantial programmes, such as full Level 2s, full Level 3s and Apprenticeships, which attract a higher level of funding than shorter courses but have a more substantial impact on learners' levels of skills. Volumes of English and Maths learners increased in 2010/11, indicating continuing demand from low-skilled adults to improve their competency in these important areas and that the FE sector is responding to and meeting this demand. Success rates for adults in FE rose in 2010/11 to 81.4 per cent.

Review of 2011/12 Academic Year

The SIS brought a new focus on simplifying the funding system and providing greater autonomy and decision-making to providers, constituting a *'genuine transfer of power from Government to learners, employers and providers'*.

Power to learners

To facilitate the transfer of power to learners, the Agency has been working to realise the Government's ambition of a **National Careers Service**, providing high-quality careers information, advice and guidance through integrated online, telephone and face-to-face channels. The service aims to assist prospective learners to assess their local labour market and identify opportunities, evaluate their own skills, determine learning goals and select the best provider to achieve the outcome they desire. The Agency manages 13 prime contractors, delivering the service across England in job centres, community venues, colleges, places of worship and an array of other locations.

Embedded within the National Careers Service are **Lifelong Learning Accounts**, which were launched in September 2011 and provide a secure online location to store past learning achievements, learning plans, assessments and options. They are the result of years of work with awarding bodies, providers and employers through the Learning Records Service to establish Unique Learner Numbers and Personal Learner Records. Over 300,000 people have Lifelong Learning Accounts. Work continues to establish the Learner Passport, which will enable learners to transfer information seamlessly between learning providers and employers, verifying qualifications and informing future learning choices.

Skills for Sustainable Growth heralded the advent of **loans** for learners over 24 pursuing qualifications at Level 3 and above, putting greater purchasing power in the hands of individual learners. The Agency is developing business processes and systems for the allocation of the 24+ Advanced Learning Loans budget, in addition to a performance management and monitoring role in time for the introduction of loans in April 2013.

WorldSkills 2011

The Agency has been a core partner in helping to make **WorldSkills** London 2011 the biggest skills, careers and jobs event the UK has ever seen. In October 2011 the event, held at ExCeL London, saw young people from across the world competing, bringing together international skills competitions with demonstrations and exhibitions. Some 200,000 individuals took part in the event, with 950 competitors from over 50 countries taking part in 46 skills competitions. Some 15,000 people attended the opening and closing ceremonies and 2,300 school and college groups attended, with more than 2,000 volunteers making the show work. The event brought skills into the spotlight like no other event before it and its legacy is being taken forward with a programme that will combine skills competitions and awards, culminating in an annual Skills Show to inspire people with the exciting opportunities in FE, skills and Apprenticeships.

Freedoms to galvanise responsive providers

The SIS built upon the freedoms for colleges and providers in the previous year by establishing a single Adult Skills Budget. The Agency implemented this significant simplification to the skills funding landscape with alterations to the funding rates, payment profiles and guidance, to ensure that providers were better informed and able to work dynamically with employers and communities. The Agency introduced a rigorous performance management process that enhances the responsiveness of the system by transferring funding swiftly from underperforming providers to those that are better able to meet the needs of learners and employers.

To further promote the responsiveness of providers to communities, employers and stakeholders, the 2011/12 SIS introduced the concept of **Outcome Incentive Payments (OIPs)**. OIPs ensure that public money is invested to meet the outcomes desired by learners and needed by local/sectoral employers and communities. In 2011/12, 2.5 per cent of the funding allocation from the Adult Skills Budget for each provider was earmarked for providers to use to build relationships with key stakeholders and develop their offer to unemployed learners to help them into work.

The SIS also introduced a **Minimum Contract Level (MCL)** of £500,000, noting that *'there is a correlation between our ambition for a more autonomous and efficient FE system and provider size'*. Set within the context of increased freedoms and flexibilities for providers, MCLs form part of our wider commitment to simplification and bureaucracy reduction.

The intention of MCLs is to free smaller training organisations from the burden of administering a contract with the Agency. This presents the opportunity for them to work more freely within the sector to develop new and efficient collaborative arrangements for future delivery that maintains a local identity.

The Agency has simplified contract management by using its resources more efficiently and proportionately. It has **reduced audit** requirements by introducing a new two-part assurance approach that minimises the overall number of audits without any reduction in the level of assurance, and worked to simplify **data collection** and simplify processes for **employers**.

Quality provision

To provide further assurance of the reliability of the FE and learning sector, the Skills Funding Agency has established a rigorous due diligence process that every provider, including subcontractors that deliver in excess of £500,000 of publicly funded training provision, is required to complete to be included on the **Register of Training Organisations**. The Register replaces its predecessor, the Approved College and Training Organisations Register (ACTOR) with a less bureaucratic process and it is intended to ensure that all providers involved in the delivery of publicly funded training have the capacity and capability to manage public money and deliver high-quality learning services.

Intelligence-gathering to mitigate risks

To manage the accountabilities, incentives and performance of the marketplace in skills requires intelligence about performance, risks and opportunities.

From October 2011, the Agency established **Relationship Teams** to provide a local interface with providers and to monitor the operation of the local learning and skills market to ensure that customers, employers and communities are receiving the skills they require. The teams gather local intelligence on emerging skills needs and gaps, and monitor the operation of college and provider delivery to facilitate managing risks and opportunities in the local FE sector.

Intelligence from all parts of the Agency is regularly assembled for the Executive Management Team (EMT). Cases where formal intervention is taking place are analysed, including how the Learning and Skills Improvement Service (LSIS) is being used, and what progress is being made. Trends and characteristics are identified that indicate that informal discussion with providers might be required to seek assurance that action is being taken to address emerging issues and thus prevent the need for any formal intervention.

Further important investment

Further funds were made available to continue investment in the FE estate and enhance the facilities that are critical to enable the sector to respond to employers' and communities' learning demands. The Agency again worked closely with the sector to set criteria to select from a wide range of projects that would have greatest impact on learning opportunity. In total, £129 million was granted to 244 colleges through Renewal Grant/Enhanced Renewal Grant allocations. Together with co-investment by colleges, we expect these projects to represent an investment of £430 million through to September 2013.

Funding simplification

In 2011/12 the Agency, working closely with the sector, developed a simplified funding system for 2013/14 (subject to Ministerial approval). The project is intended to reduce the number of funding rates for different qualifications from over 6,000 to fewer than 50, as well as decreasing the number of multipliers and factors that apply to rates and determine how much a provider actually earns. We published the initial outline of the proposed system in November 2011 and then further details in March 2012. The system will be complete by the end of the academic year and will run in shadow form in 2012/13, to allow providers time to adjust, before full implementation in 2013/14.

A 'Whole' new outlook

The Agency is conducting an exercise with a number of colleges and providers – the **'Whole Provider View'** – to understand the full additional cost of their funding relationship. We are seeking to understand where the Agency's demands for information and assurance can align with those of other agencies, or with those of colleges, to reduce the duplication and cost within each provider. We are focusing on the following: funding of the sector, including performance and financial assurance; audit; data collection; communications; qualifications; eligibility; and fees.

Working in close partnership with the Young People's Learning Agency

A range of **shared services**, including finance, human resources and information management have been delivered effectively, providing efficient and professional support to the Young People's Learning Agency (YPLA) to enable it to operate its funding of young people's vocational learning and academies. From 1 April 2012 the YPLA was replaced by the Education Funding Agency (EFA).

Our workforce

The Agency's headcount reduced by 23 per cent during the year, as a consequence of implementing a streamlined structure which enables us to deliver against our lighter-touch remit, and this contributed to our achievement of the required running-cost budget savings. The staffing reduction was achieved through a voluntary early release scheme and extensive redeployment support for those staff who wished to remain but did not immediately have a post in the new structure. Ultimately only three individuals could not be redeployed and unfortunately they were made compulsorily redundant in April 2012.

Employee numbers

Our **actual** number of employees has fallen over the year, as shown in the following table:

Date	Headcount	FTE
Employees as 31 March 2011	1,654	1,607
Employees as at 31 March 2012	1,263	1,233
Difference	391	374
Percentage	23.6	23.3

Note 2c on page 69 to the accounts shows the **average** number of employees over the year.

Equality and diversity

In April 2012 the Agency and the NAS published a **Single Equality Scheme**. This set out our commitment to meeting the public sector Equality Duty – and going beyond it where we can – to place equality and diversity at the heart of what we do. The Scheme sets out our four equality objectives:

i. use relationship management to advance equality

ii. build equality into our decisions and activities

iii. support equality self-improvement and promote good practice, and

iv. develop a fair, inclusive and diverse working environment for our staff.

In 2011/12, we made substantial progress in promoting equality of opportunity in the learning we fund. In particular, we included stretching requirements in contracts with our providers; funded substantial programmes of provider-led projects; published data and analysis; and commissioned events and provided resources for the sector.

The evidence we collected for our Single Equality Scheme shows that a great deal of progress has been made in recent years to narrow success rate gaps and to improve participation by under-represented and disadvantaged groups.

However, there is still more to do. For example, a significant minority of lesbian, gay, bi- and transsexual learners continue to experience bullying or harassment. In Apprenticeships, we need to do more to engage people from Black, Asian and minority ethnic backgrounds, and people with learning difficulties and/or disabilities, and we need to do more to address gender stereotyping. The action plan set out in our Scheme outlines how we will do this.

Working in partnership with the LSIS, we provided funding to 22 colleges and providers to deliver projects which meet the needs of their learners and communities and build the capacity of the sector to improve its own equality practice. Full reports from all of these projects will be available on the **Excellence Gateway** once the projects are complete in summer 2012.

The NAS and the Agency also worked together to fund 16 pilots testing new ways of engaging more individuals from under-represented groups in Apprenticeships. The final evaluation for these pilots is due in spring 2012 and we will use the recommendations and lessons learnt to inform further activity.

In 2011/12 we have continued to support a **virtual community** of mental health practitioners, learners and service-users. We have also continued to support the LSIS to deliver a project to improve the sector's capability to respond to the needs of deaf learners, including the development of a learner-led training resource for the sector. Finally, we commissioned an evaluation of learners' views on religion and belief equality, and we will act on the findings.
As part of the Single Equality Scheme we set ourselves a series of **workforce equality goals** aimed at developing and maintaining a fair, inclusive and diverse working environment for our staff. We have made significant progress towards these goals, particularly in ensuring that all employees understand equality issues and all policies contribute to our equality objectives. Progress towards our

workforce goals is being delivered through a range of activities with input from stakeholders, including BIS, a range of internal experts, the Staff Consultative Forum and the Public and Commercial Services Union.

As part of our support for employees, we offer free access to an employee assistance programme, which is a 24-hour counselling and support service offering confidential advice and support on life issues such as finance, caring responsibilities, relationship counselling and bereavement, on the telephone or face to face. All Agency staff are required to complete an annual online introduction to equality and diversity. Access to career development for minority ethnic staff is also accessible through the Civil Service Learning Portal.

The Agency's performance on workforce equality has also been recognised through the achievement of the 'two tick' disability symbol, which demonstrates our commitment to employ, keep and develop the abilities of disabled staff.

In the coming year the Agency will continue to work with colleagues in BIS and other government bodies to build on the good practice we have in place, and to ensure that our learning and development offerings provide our staff with the skills they need.

The Agency has in place several channels for providing information to and consulting with staff. These include;

- A weekly Blog by the Chief Executive
- Weekly key issues Bulletin
- Monthly Business in Brief sessions for all staff
- A Staff Consultative Committee.

Environmental, social and community issues

The Agency continues to implement policies to reduce waste, improve its use of resources and support local communities. The Agency has played a significant role in the development of the learning and skills of the nation. Note 4a in the accounts on pages 72 to 75 shows the range of programmes that were funded in 2011/12. Agency staff and their friends and families routinely take part in many charitable fund-raising events and are celebrated by the Agency through in-house communications.

Looking forward to the 2012/13 academic year

Building on our achievements over the past year, the Agency will continue this work into the **academic year 2012/13** and will manage investment in the FE and skills sector of £3.64 billion.

The Agency will support BIS in meeting the requirements of its response to the Public Accounts Committee (PAC) report into 'Reducing Bureaucracy in FE in England (2012)'.

Empowered learners

The Agency is already working with the prime contractors for the **National Careers Service** to ensure that it makes a significant high-profile impact in the FE sector in 2012/13. The service will extend to include careers guidance for individuals in custody and additional services to support 18- to 24-year-olds who are not in employment, education or training through the Youth Contract. The Service will work more closely with Jobcentre Plus, seeking to extend the co-location pilot, and with colleges to ensure that independent professional advice is available to learners across England.

The Service will link to information from **FE Choices** to establish a one-stop shop for advice, information and performance data. We will establish a link from the course directory pages on the National Careers Service website through to training providers' pages on FE Choices, enabling prospective learners to see the performance statistics of providers they are considering using. We are working closely with the sector to establish a common data-set that all providers will provide on their websites, detailing performance statistics for each course and subject area, enabling learners to compare the success rates of specific courses and qualifications.

During 2012/13 the Agency will prepare for the launch of **24+ Advanced Learning Loans** for learners over 24 pursuing qualifications at Level 3 and above, which will be available from April 2013 for learning starting from August 2013. The Agency will be working closely with the Student Loans Company to establish resilient business processes for providers and individuals to manage loans and to ensure access to funding across the FE sector. We will support a promotional campaign to raise public understanding of the funding of FE and promote access to loans.

The importance of informal learning

In response to the commitment in the SIS to test a new Community Learning Trust model, the Agency has developed a prospectus and is selecting up to 50 bids from existing Adult Safeguarded Learning-funded providers to pilot the Trusts in 2012/13. The Agency will evaluate these pilots to ensure effective deployment in 2013/14. This mirrors the Government's commitment to the value of informal learning as a route to securing stronger career opportunities through information and progression.

Simplification of the funding landscape

As indicated above, in 2012/13 we will run the new simplified funding system alongside the existing funding system for the whole year. Payments will be made using the existing funding methodology, but providers will be able to see the earnings they would make under the new simplified system and therefore plan and prepare for the full implementation new system in 2013/14.

A key component of the simplified funding system will be paying for outcomes. The Agency will introduce OIPs into the core funding system in 2013/14. In 2012/13 we will pilot the payment of 'job outcome' achievements using the current funding models, as an interim measure. We will work with the FE sector to implement and embed this significant change.

In April 2012 the Agency published a single document which sets out the funding framework for the 2012/13 funding year. The **Funding Rules** captures guidance from 15 documents into one single publication. This is a substantial transformational change for the sector – in direct response to thinking articulated by the sector itself.

A further element of the new simplified funding system will be the introduction of the **'Innovation Code'** announced in the SIS. This will enable colleges and training organisations to draw down funding more flexibly, while developing new qualifications and products in response to employer demand, particularly for higher-level skills for emerging and high-technology sectors.

Skills investment directed by employers

The re-opening of the **Growth and Innovation Fund** for 2012/13 represents a significant change and benefit for employers with the programme launched as a single policy line. Eligibility has been opened up to Local Enterprise Partnerships. The Fund helps employers to develop their own innovative skills solutions that will seek to accelerate growth in specific sectors, regions or supply chains. The Fund will co-invest up to £34 million with employers this year, with comparable levels of investment planned for the following two years. This aligns to the aims of the statement to empower employers to shape the direction of public investment on skills.

The Agency will be involved closely in the implementation of the **Employer Ownership Investment Fund** in conjunction with the UK Commission for Employment and Skills (UKCES). This Fund will enable employers to design, develop and commission training to meet their business needs. It will comprise £50 million in 2012/13 and the Commission has sought bids from employers for innovative proposals to tackle skills shortages and establish programmes to boost business efficiency and growth. The Agency will be responsible for contracting, financial reporting, account management, assurance and payments.

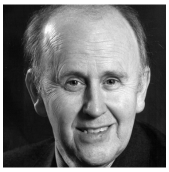
Our Management Team

Executive Officers of the Skills Funding Agency

Geoffrey Russell
Chief Executive of Skills Funding

(plans to leave July 2012)

Verity Bullough
Executive Director, Capacity and Infrastructure



David Cragg OBE
National Director, Development

(left December 2011)

Richard Field
Chief Information Officer and Executive Director, Information Management

David Hughes
National Director, College and Learning Provider Services

(left August 2011)

Paul McGuire
Executive Director, Finance

Marinos Paphitis
Executive Director, South

Chris Roberts
Executive Director, North

(left June 2011)

Julie Robson
Executive Director, North

Sally Stewart
Executive Director, Human Resources and Facilities Management

Kim Thorneywork
Executive Director, Delivery

(started May 2011)

Executive Officers of the National Apprenticeship Service

Simon Waugh
Chief Executive, National Apprenticeship Service

(left March 2012)

David Way CBE
Chief Operating Officer, National Apprenticeship Service

Members of the Skills Funding Agency Advisory Board

The Advisory Board ensures that the Agency has direct input from customer groups in shaping and influencing its work. It advises on the implementation of key policy initiatives and on effectiveness of delivery, as well as providing a feedback mechanism for employers, learners and stakeholders.

The Advisory Board meets five times a year and the minutes from each meeting are available on the Agency's website.

Geoffrey Russell (Chair)
Chief Executive of Skills Funding

Derrick Anderson CBE
Chief Executive, Lambeth Council

Michael Davis
Chief Executive, UK Commission for Employment and Skills

Martin Doel OBE
Chief Executive, Association of Colleges

Mark Farrar
Chief Executive, ConstructionSkills

Professor Ruth Farwell
Vice Chancellor, Buckinghamshire New University

Ian Forward
Head of Community Learning and Skills, Kent County Council and member of Local Education Authorities Forum for the Education of Adults

James Fothergill
Head of Education and Skills, Confederation of British Industry

Jon Graham
Managing Director, Cipfa Business Chartered Institute of Public Finance and Accountancy

Graham Hoyle OBE
Chief Executive, Association of Employment and Learning Providers

Scott Johnson
Member, Confederation of British Industry SME Council

John Longworth
Director General, British Chambers of Commerce

Terry Moran
Chief Operating Officer, Department for Work and Pensions

Frances O'Grady
Deputy General Secretary, Trades Union Congress

Toni Pearce
Vice-President for Further Education, National Union of Students

Ian Pryce
Principal, Bedford College and Vice-Chair, 157 Group

Philip Rutnam
Director General, Department for Business, Innovation and Skills

Les Walton OBE
Chairman, Young People's Learning Agency

Tim Ward
Chief Executive, Learning Curve and Third Sector National Learning Alliance

Members of the Audit and Risk Committee

The Committee comprise the following three independent, non-Agency employees, drawn from the Advisory Board, including an independent Chair:

Mark Farrar (Chair)
Chief Executive, ConstructionSkills

Martin Doel OBE
Chief Executive, Association of Colleges

Jon Graham
Managing Director, Cipfa Business Chartered Institute of Public Finance and Accountancy

Other attendees are the Chief Executive of Skills Funding, Chief Executive of the National Apprenticeship Service, the Executive Director of Finance, the Chief Internal Auditor, an observer from the BIS Internal Audit Team, and an observer from the National Audit Office (NAO).

Programme Assurance

Assurances on entitlement to, and the proper use of, Skills Funding Agency funds

To gain assurance about the proper use of public funds by learning providers, the Agency has a national Provider Financial Assurance (PFA) audit team within the Finance Directorate. As set out in the Accounting Officer's Governance Statement, the PFA audit team is responsible for planning, co-ordinating and delivering a programme of work to secure this assurance. The outcomes of this audit work are scrutinised by the Agency's Audit and Risk Committee.

Overview

The approaches used to obtain assurance depend on the risks associated with providers and funding streams, and they are designed to minimise bureaucracy for providers. Assurance is provided by the PFA audit team, the YPLA, and local authorities working with the Agency under the Joint Audit Code of Practice (JACOP).

Where grant funding is provided to FE colleges, the Agency places assurance on the audit work carried out by the public bodies' auditors. The Agency's PFA audit team reviews the findings of internal and external auditors to ensure that the required assurance has been gained. Assurance is also provided by audit visits from the PFA audit team and the YPLA, as set out under JACOP.

The Higher Education Funding Council for England (HEFCE) funds higher education institutions that are often significant providers of 16–18 and adult learning, and mutual assurance between HEFCE and the Agency, and onwards to the YPLA, is obtained as set out in the JACOP.

For private sector and other training providers funded under contract, the PFA audit team undertakes direct assurance work, delivering a programme of audits to ensure that funds have been applied properly in the delivery of those contracts.

Audit visits undertaken by the Agency's PFA audit team were delivered under the Agency's funding assurance approach, where statistically valid samples are selected for each of the Agency's significant funding streams, allowing the identification of underlying error rates. In addition, responsive audit work was undertaken to cover known risk areas.

The Agency's PFA audit team also undertakes financial management and control evaluation return validations at FE colleges and significant providers (in parallel with Ofsted inspections). This work is high profile and is given high priority.

Assurance on grants

Included in these financial statements are grants to FE learning providers that the Agency has paid for the academic years ending 31 July 2011 (four months) and 31 July 2012 (eight months).

The mismatch between the accounting periods means that certain formal assurances on entitlement and the proper use of the funds will only be received from these providers in line with their own annual accounts reporting timetables, which extend beyond that for these financial statements. Alternative arrangements have therefore been put in place to provide interim assurance as at 31 March 2012. The overall picture is described in the section below.

Colleges

During the financial year 2011–12, the Agency paid grants of £2,274 million (2010–11: £2,094 million) to colleges and other providers of FE. All colleges are required to return a year-end funding claim certified by the Principal. A total of 57 colleges received an audit of their 2010/11 final learner responsive funding claim, which was completed jointly by a combination of the Agency's PFA audit team and contracted audit firms. As a result of the audit work, three colleges received qualified opinions because of control weaknesses and have agreed improvement plans to address the underlying issues.

For the majority of colleges, the primary sources of assurance for the Agency's 2011–12 financial statements are the audit opinion on their own financial statements for the academic year ended 31 July 2011, and the regularity audit opinion. The regularity audit at colleges considers whether expenditure and income has been applied to the purposes intended by Parliament and takes place alongside the financial statements audit. Colleges provide the Agency with an audited statement on regularity, propriety and compliance, signed by the Chair and Principal on behalf of the governing body. One college received a qualified regularity opinion.

The position in respect of the 2010/11 academic year is shown in Table 1.

Table 1: Position of FE colleges in the 2010/11 academic year, representing £1,965 million in grant funding (2009/10: £2,296 million)

	Due	Received	Outstanding
Audited final funding claims	57	57	0
Financial statements audits	254	253	1
Final regularity opinions	254	253	1

There is one college that has both its financial statements and its regularity opinions outstanding, and the Agency is pursuing these outstanding returns.

Other FE providers

Audits of final learner responsive funding claims for 2010/11 were also completed on 12 non-college providers and all 12 received unqualified auditors' reports. A total of £173 million (2009/10: £165 million) of learner responsive funds was received by non-college providers.

Assurance from the EFA (formally the YPLA) was received after the year-end.

Assurance on funding under contracts: private sector and other providers

Private sector and other training providers were audited by the PFA audit team to ensure that the funds provided under contracts have been properly applied to the purpose intended. For the 2011–12 financial year, audit work was delivered under the Agency's funding assurance approach of statistically valid random sampling and responsive work to cover known risk areas. Where funds were identified as being at risk, the Agency took action to recover those funds.

Ufi Ltd

The PFA audit team used various methods to obtain assurance on funding to Ufi Ltd. Ufi Ltd has an assurance framework on which the Agency places reliance. The framework has been assessed as adequate by the Agency's PFA audit team. Within the framework, Ufi Ltd determines the level of audit activity over **learndirect**. Ufi Ltd also has a regularity audit in conjunction with its financial statements audit in the same manner as FE colleges. The PFA audit team monitors and quality assures the outcomes of Ufi Ltd's assurance work in respect of learner responsive funding, and also carries out direct assurance work on Ufi Ltd's employer responsive funding.

Ufi Ltd was sold in October 2011 and now operates as an independent training provider.

Notices to Improve

The Agency issues Notices to Improve to providers identified as underperforming, for one of the following reasons:

- a college is in financial failure
- a provider receives an Ofsted inspection judgement of inadequate for 'Overall Effectiveness of Provision'
- learner responsive provision falls below the required minimum levels of performance (MLP).

Once a Notice to Improve has been issued, the provider must develop an improvement plan to address underperformance. The Notice to Improve will be lifted once a provider can demonstrate to the Agency that it has met the Notice's conditions. If a provider fails to meet the conditions of a Notice in relation to inspection or MLP, the Agency may cease to fund underperforming provision.

During the year 34 providers received a total of 38 Notices to Improve.

Table 2: Notices to Improve issued 2011–12

Trigger	Number of adult learning providers	Number of colleges	Total
Analysis of success rates compared with minimum levels of performance	18[1]	6	24
Ofsted judgement 'inadequate' for overall effectiveness	n/a	5	5
Financial health	n/a	1	1
Financial control	n/a	8	8
Totals	**18**	**20**	**38**

Note[1]: Includes all of the non-college providers issued with a Notice.

Reporting of Personal Data-related Incidents

The tables that follow have been prepared in response to Cabinet Office guidance on reporting personal data-related incidents in the management commentary section of departmental resource accounts.

Table 1: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office in 2011–12

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
No protected personal data-related incidents formally reported to the Information Commissioner's Office				
Further information on information risk	The Chief Executive of Skills Funding continues to monitor and assess the Agency's information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.			

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office but recorded centrally within the Agency are set out in Table 2. Small, localised incidents are not recorded centrally and are not cited in these figures.

Table 2: Summary of other protected personal data-related incidents in 2011–12

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises.	Nil
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises.	Nil
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	Nil
IV	Unauthorised disclosure.	Nil
V	Other.	Nil

Management Commentary

Accounts Direction and Statutory Background

1. These accounts have been prepared under an accounts direction issued by the Secretary of State for Business, Innovation and Skills in accordance with Schedule 4 of the Apprenticeships, Skills, Children and Learning (ASCL) Act 2009. The Skills Funding Agency was established in 2010–11, following the closure of the Learning and Skills Council.

Going Concern

2. The Statement of Financial Position at 31 March 2012 shows net assets of £7.9 million (2010–11: £119.9 million net assets).
3. Funding from BIS, taking into account the amount required to meet the Skills Funding Agency's and the NAS's liabilities falling due in the year, has already been included in the Department's estimates for that year. These estimates have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future Parliamentary approval will not be forthcoming.
4. Therefore, it is appropriate under the Government's Financial Reporting Manual (FReM) to prepare this set of accounts on a going concern basis.

Year-end position

5. The net book value of fixed assets at 31 March 2012 was £70.5 million and it fell £6.5 million as the Agency continued to align its systems infrastructure to its future needs.
6. At 31 March 2012, the Agency had receivables of £159.8 million (31 March 2011: £178.6 million). This slight fall was a net decrease in receivables. FE college prepayments fell because the summer term Learner Support payment was made within the term and European Social Fund (ESF) income continued to fall slightly, but this was offset by rises in Workplace Training receivables and advances to colleges.
7. At 31 March 2012, the Agency held cash balances of £230.9 million (31 March 2011: £324.4 million), including funds drawn from the ESF as well as grant funding from BIS.
8. At 31 March 2012, the Agency had payables of £404.1 million (31 March 2011: £424.0 million). This is mainly due to a decrease in accruals across a range of programmes, although it is offset by a rise in ESF payables and deferred income. Workplace Training payables appear to fall, but this is compensated by a rise in accruals, which is a direct consequence of the Agency operating a faster reporting timetable.
9. International Financial Reporting Standards (IFRS 7) requires

organisations to disclose information on the significance of financial instruments to their financial position and performance and this is shown in notes 8 and 14 of the accounts.

10. The most significant credit risk to the Agency arises from the failure of learners to repay loans provided to them under the Professional Career Development Loan (PCDL) programme. In such circumstances, the Agency has an obligation to fund the cost of the default to the bank that provided the loan. The situation for 2011–12 is as described in note 14.

11. Additional significant credit risk to the Agency arises from the non-payment of debts owed by private sector training providers that are contracted to provide training services. The financial impact of this is largely attributable to provider insolvency and the overall financial impact is currently not material – see note 20 to the accounts.

12. The Agency operates an unfunded multi-employer defined benefit pension that is provided by the Principal Civil Service Pension Scheme (PCSPS). The Skills Funding Agency paid employer contributions of £12.030 million (2010–11: £13.951 million) during the year, but is unable to identify its share of the underlying assets and liabilities. Further information is available in note 2 to the accounts and at www.civilservice-pensions.gov.uk.

Development and performance

13. The accounts cover the period from 1 April 2011 to 31 March 2012.

14. The Agency is funded by BIS and in 2011–12 it provided £4,529.8 million (2010–11: £5,342.5 million).

15. The largest source of income was the ESF, which contributed £99.1 million (2010–11: £298.3 million).

16. The results for 2011–12 show net expenditure of £4,641.9 million (2010–11: £5,191.1 million), which is derived from the comparison of expenditure against income for the year.

17. Capital expenditure on additions in the year, mainly on computer systems, was £20.4 million (2010–11: £26.0 million).

18. The Late Payment of Commercial Debts (Interest) Act 1998 requires government bodies, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services, or the date on which the invoice was received. The target set by HM Treasury for payment to suppliers within 30 days is 95 per cent. In 2011–12, the Agency paid 96.1 per cent (2010–11: 90.7 per cent) of its invoices within 30 days and 74.9 per cent of its invoices within five days (2010–11: 49.5 per cent of its invoices within five days). It incurred £18.75 in interest charges in respect of late payments for 2011–12 (2010–11: £260.47). The Agency has not disclosed a creditor days' figure, as most of its funding is processed by systems.

19. During the year, 13,537 days (2010–11: 16,212) in total were attributable to sickness absence. Using the average number of payroll staff employed over the year (note 2 of the accounts) this equates to

approximately 9.9 days (2010–11: 9.58 days) sickness for each employee each year.

20. The Agency paid no political or charitable donations in the financial year (2010–11: nil).

21. Note 19 to the accounts shows the related party interests of the Agency and its key staff.

Main trends and factors underlying development and performance

22. Overall programme expenditure decreased by 14.8 per cent on the previous year, with total expenditure on programmes now just over £4.6 billion.

23. The drive to spend public money more wisely has impacted on the funding available for the Agency's programmes. However, the Agency continues to work with BIS and the wider sector to deliver a world-class skills system. Future innovations include the Employer Ownership Programme, which will enable employers to take ownership of the skills agenda in their sector, and the trialling of outcome-based payments, particularly for larger employers.

24. ESF expenditure is lower than in previous years but this is not a consequence of Agency actions. It reflects the fact that the funding available for the programmes provided by ESF in the current round of funding is lower.

25. Administration costs appear greater this year. However, the figures for 2011–12 are not directly comparable to those for 2010–11. This is because from April 2011 HM Treasury changed the guidance on which costs are attributable to administration or programme spending. This had the effect of rebasing the Agency's administration budget to include additional items that were previously charged to programmes. It is not judged cost effective to restate the comparative figures for 2010–11 given the level of complexity involved. However our successful performance against the Agency's revised administration budget is discussed below.

26. The Spending Review for 2011–15 gave the Agency an administration budget savings target of £120 million (33% cumulative) over four years, including a saving of £19.7 million (15.6%) in 2011–12. The administration spending figures reported in these accounts represent an additional under spend of £3.1 million (2.9%) against the Agency's revised administration budget for 2011–12.

National Apprenticeship Service

27. The NAS is housed within the Skills Funding Agency and both organisations work together to ensure the delivery of a coherent Adult Skills agenda. It is not a separate entity, although from 1 April 2011 it has its own Accounting Officer, who has specific responsibility for the programme and administration budgets of the NAS. Note 9 to the accounts provides a summary of the income and expenditure that relates specifically to the NAS. The governance arrangements for the NAS expenditure are as reflected in the Statement of Chief Executive of Skills Funding's Responsibilities (paragraph 6).

28. Adult Apprenticeship programme expenditure continued its strong positive growth, enjoying an increase of 39 per cent in line with government policy.

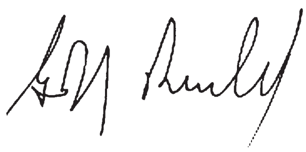
29. Total net expenditure on the NAS's administration was £13.7 million and was within the budget set by BIS.

Auditor

30. The accounts are audited by the Comptroller and Auditor General, who is appointed by statute and whose Certificate and Report, appears on pages 50 and 53. The notional audit fee is expected to be £170,000 (2010–11: £198,000) and no other services were provided during the year.

31. As Accounting Officer I confirm that:

- there is no relevant audit information (as defined) of which the auditors are unaware
- I have taken all the steps that I ought to in order to ensure that I am aware of relevant audit information, and
- I have taken all the steps that I ought to in order to establish that the Skills Funding Agency's auditors are aware of the information.



Geoffrey Russell
Chief Executive of Skills Funding
Skills Funding Agency
A partner organisation of
the Department for Business,
Innovation and Skills

18 June 2012

Sustainability Report

Overview

1. From 2011–12, all public sector bodies reporting in accordance with HM Treasury's FReM are required to produce a sustainability report.

2. In December 2010, the Agency began to formulate a Carbon Management Plan in conjunction with the Carbon Trust, which would propose how the Agency would meet government reduction targets.

3. The main source of emissions for the Agency is from electricity and gas supply and from business travel. It is proposed that 2011–12 is used as a base year from which to monitor subsequent performance. Comparison of the data for three years will be included, as it becomes available.

4. National contracts have been put in place to allow Scope 3 emissions to be measured. However, the Agency estate comprises many types of occupancy: some are shared with other organisations and some are leased as part of multi-occupancy buildings, where the landlord provides services for a service charge.

5. As a result, where landlords provide the Agency with electricity, gas and water supply in return for a service charge, an estimate has been made.

Summary of Performance

6. This is the first year in which the Agency has monitored its environmental impact. This will be used as a baseline to monitor future performance.

Summary of Future Strategy

7. In December 2010, the Agency developed a Carbon Management Plan in conjunction with the Carbon Trust, with the aim to develop the following:

   - an agreed carbon-reduction strategy to identify any major projects for implementation as a part of a longer- term strategy
   - an initial implementation programme plan, together with an agreed communications plan and a strategy for engagement across the Agency
   - a carbon emissions data baseline
   - a carbon emissions reduction target for each of the buildings covered by the plan
   - installation and monitoring of smart metering in those buildings covered by the plan (those buildings where the Agency is in sole occupation and is likely to remain in the building for four years)
   - a business case for action on emission reduction, agreed and adopted by the EMT

- creation of a performance-monitoring mechanism
- a prioritised list of projects costed and weighted to deliver maximum return on investment.

8. Since December 2010 the Agency has used the Carbon Trust's carbon management tool to develop a register, which lists all projects and opportunities identified to reduce emissions. This management tool will enable the Agency to track progress over the next two to three years against its carbon dioxide (C02) emission target.

Targets and the Agency's Direction

9. At present the Agency only has set a single target, which is to reduce CO2 emissions by 25 per cent by 2016. The 2011–12 emission data will be used as a baseline. We plan to set further environmental targets in 2012–13.

Direct and Indirect Emissions

Area	Non-Financial Data 2011–12	Financial Data 2011–12
Direct Greenhouse Gas (GHG) Emissions (Scope 1) These include sources of emissions controlled by the Agency	Nil	Nil
Indirect GHG Emissions (Scope 2) These include electricity supply and gas consumption	Electricity emissions 2,115 CO2 tonnes (3,887,740 kWh) Gas emissions 729 CO2 tonnes (3,963,050 kWh)	Electricity expenditure £494,854 Gas expenditure £163,484
Indirect GHG Emissions (Scope 3) These include business travel paid for directly by the Agency	1,123.8 CO2 tonnes 9,965,401 Km travelled	£2,511,998

Targets and Commentary
The Agency has a target to reduce its emissions by 25 per cent by 2016. At present there are no other targets set for other environmental impacts.

Direct Impacts Commentary
There are no GHG emissions which occur from sources owned or controlled by the Agency.

Indirect Impacts Commentary
The main direct impacts for the Agency are in its electricity and gas consumption. These are likely to decrease due to planned office closure and the more efficient use of office space. From March 2012 to December 2013, the number of Agency offices is due to fall from 17 to 13. In addition, from March 2012, the YPLA will no longer be co-located with the Agency, which should reduce the estate's electricity and gas consumption. Employees are encouraged to register on the car-share website and to use it to find a car-share companion. It is intended that this will reduce carbon emissions in home-to-work travel. Reduction in the number of stationery deliveries to Cheylesmore House by making fewer orders. This reduces carbon emissions from product delivery.

Waste Minimisation and Other Environmental Impacts

Area	Non-Financial Data 2011–12	Financial Data 2011–12
Waste minimisation and management	Total waste 2,667 tonnes	Waste disposal-expenditure total £47,989
Finite Resource Consumption These include water consumption	Water consumption 8,414 M^3	Water expenditure-total £52,367
Biodiversity Action Planning	The Agency has a minimal external estate and therefore has not been involved in biodiversity action planning	Not required

Sustainable Procurement
There are national contracts covering the following areas: • rail and air travel • car hire • accommodation/conferencing • desktop stationery, and • government procurement card. All the national contracts were awarded through centralised, pre-tendered frameworks owned by the Government Procurement Service (GPS), and therefore all aspects of sustainability will have been managed as part of the tender exercises.
Waste Minimisation and Management
From April 2012, new facilities management contracts for waste management will be let. These will require contractors to provide greater levels of detail, showing the proportion of waste sent to landfill, recycled/reused or incinerated.

Notes

Includes all of the non-college providers issued with a Notice.

1. The above report has been prepared in accordance with the guidelines laid down by HM Treasury in Public Sector Sustainability Reporting.
2. Conversion rates from the Department for Environment, Food and Rural Affairs (Defra) have been used to account for carbon.
3. Estimates have been included for the following:

	Proportion estimated (per cent)
Electricity emissions	14
Electricity costs	13
Gas emissions	23
Gas costs	33
Water consumption	11
Water costs	14
Total cost of waste disposal	99.7
Total waste	99.7

Remuneration Report

Introduction and Components of Remuneration

10. Throughout this remuneration report, references to the Skills Funding Agency can be taken to include the NAS. Although the NAS has its own Accounting Officer, whose contract of employment is with BIS, all other employees of the NAS are employees of the Chief Executive of Skills Funding.

11. The Chief Executive and members of the EMT (the Executive Directors) receive a total reward package made up of base salary, annual bonus, online benefits and a defined benefit pension. Bonus payments are contractual but not guaranteed and are subject to affordability and successful performance.

12. In instances where a bonus may be paid, the Agency's bonus plan has been structured to focus on encouraging and rewarding team-based as well as individual achievement at both the national and the divisional level, as assessed against agreed targets.

General

13. The Skills Funding Agency sets base salaries at the market median and recognises achievement through the bonus scheme (subject to affordability).

14. As the pay freeze remained in place, only the bonus elements of Directors' pay were subject to performance conditions in 2011–12.

15. The Skills Funding Agency uses a range of methods to assess performance of its EMT. These include, but are not necessarily limited to:

    - Business Performance and Corporate Risk Management – to drive up the delivery of operational performance through delivery of the business plan measures
    - Change Leadership – to provide strong and effective leadership in implementing, communicating and embedding the organisation's change activities
    - People Management – to robustly manage the performance of individuals.

16. The Chief Executive is responsible for assessing performance over the course of the year.

17. Salaries for Executive Directors are benchmarked using a range of appropriate data sources, including the Association of Colleges' survey of Principals' salaries, Hay Group management consultants and Senior Civil Service pay scales.

18. When setting individual executive pay and bonuses, the Skills Funding Agency will consider guidance issued

by Cabinet Office, HM Treasury, BIS and relevant information from external market data (for example Hay Group and Towers Watson) relating to pay and bonus levels.

19. The Skills Funding Agency does not operate a remuneration committee: the Chief Executive of Skills Funding has statutory authority to determine the remuneration of the Agency's employees.

Chief Executive

20. The reward packages for the Chief Executive of Skills Funding and the Chief Executive of the NAS involve two key elements (base salary and bonus), which are determined by the BIS Permanent Secretary. Any potential bonus payment is assessed on achievement against corporate and personal targets. During 2011–12 neither the Chief Executive of Skills Funding, Geoffrey Russell, nor the Chief Executive of the NAS, Simon Waugh, received a pay increase.

21. Due to the nature of their roles, neither Chief Executive receives an automatic salary progression award.

Base pay changes 2011–12

22. Base pay for Directors of the Agency was not increased in 2011–12, as this group of employees was covered by the Government's pay freeze.

Skills Funding Agency EMT members and other senior staff

23. Appointment is by service contract, which can be ended by either party giving 12 weeks' written notice.

24. The Chief Executive of Skills Funding, Geoffrey Russell and the Chief Executive of the NAS, Simon Waugh, were both appointed on a permanent basis, which could be ended by the employer giving six months' written notice or by either Chief Executive giving three months' written notice. Simon Waugh stepped down from his post in March 2012, and during the course of 2011–12 Geoffrey Russell also announced his intention to retire in July 2012.

25. There are no specific termination clauses in EMT members' service contracts.

Highest paid director and relation to median pay
(Audited Information)

26. The highest paid director is Geoffrey Russell. His base salary is £151,000 (2010–11: £151,000) and this is 3.5 times (2010–11: 3.94) greater than £43,135 (2010–11: £38,302), which is the median salary of Agency employees at the end of 2011–12.

Remuneration Tables

Audited Information

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
The emoluments of the Chief Executive of Skills Funding, Geoffrey Russell*, for the period:		
Basic salary and other emoluments	151	157
Taxable benefit in kind	0	0
Pension contribution (opted to join nuvos pension scheme)	37	36
Bonus**	0	15
	188	**208**

*Plans to leave in July 2012.

**The bonus payment relates to the previous year.

The emoluments of the Chief Executive of the NAS, Simon Waugh*, for the period:

*Left 31 March 2012

Basic salary and other emoluments	107	113
Taxable benefit in kind	0	0
Pension contribution (opted to join nuvos pension scheme)	26	27
Bonus (paid on behalf of BIS)	0	12
	133	**152**

Senior Management Group Emoluments

Audited Information

	Salary £'000	Bonus* £'000	Benefits in kind (to nearest £100)	Redundancy £'000	Year ended 31 March 2012 Total £'000	Salary £'000	Bonus* £'000	Benefits in kind (to nearest £100)	Redundancy £'000	Year ended 31 March 2011 Total £'000
National Directors										
Verity Bullough										
Executive Director, Capacity and Infrastructure	115–120	0	0	0	115–120	115–120	0	0	0	115–120
Mary Conneely										
National Director, Projects (until 30 June 2010)	–	–	–	–	–	30–35	0	0	95–100	125–130
David Cragg OBE										
National Director, Development (until 31 December 2011)	65–70	0	0	90–95	155–160	90–95	0	0	0	90–95
Full Year Equivalent	80–85									
Richard Field										
Executive Chief Information Officer and Executive Director, Information Management	120–125	10–15*	0	0	135–140	120–125	0	0	0	120–125
David Hughes										
National Director, College and Learning Provider Services (until 31 August 2011)	50–55	0	0	0	50–55	125–130	0	0	0	125–130
Full Year Equivalent	125–130									
Paul McGuire										
Executive Director, Finance	110–115	10–15*	0	0	125–130	110–115	0–5*	0	0	115–120
Marinos Paphitis										
Executive Director, South	110–115	0	0	0	110–115	110–115	0	0	0	110–115
Chris Roberts										
National Executive Director, North (until 30 June 2011)	30–35	0	0	95–100	125–130	115–120	0	0	0	115–120
Julie Robson										
Executive Director, North	110–115	0	0	0	110–115	110–115	0	0	0	110–115
Sally Stewart										
Executive Director, Human Resources	110–115	0	0	0	110–115	110–115	0	0	0	110–115
Kim Thorneywork										
Executive Director, Delivery (from 1 May 2011)	95–100	10–15*	0	0	105–110	–	–	–	–	–
Full Year Equivalent	105–110									
David Way										
Chief Operating Officer, NAS	115–120	10–15*	0	0	130–135	115–20	0	0	0	115–120

* Bonus payments relate to previous year unless stated otherwise.

Note: The redundancy payments noted above were made under the standard terms of the Civil Service Compensation Scheme (CSCS) and do not include any additional or special element.

Senior Management Group Pension Entitlements

Audited Information

	Accrued pension and related lump sum at age 60 as at 31 March 2012 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31 March 2012 £'000	CETV at 31 March 2011** £'000	Real increase in CETV £'000
Chief Executives:					
Geoffrey Russell					
Chief Executive of Skills Funding	10–15	2.5–5	119	82	26
Simon Waugh					
Chief Executive, NAS	10–15	2.5–5	98	64	25
National Directors:					
Verity Bullough					
National Director, Employer and Learner Services	15–20 and lump sum 45–50	0–2.5 and lump sum 0–2.5	249	220	8
Mary Conneely					
National Director, Projects (until 30 June 2010)	0	0	0	0	0
David Cragg OBE (partially retired)					
National Director, Development	25–30 (of which 25–30 is in payment) and lump sum 170–175 (of which 165–170 has been paid)	0	674	668	0
Richard Field					
National Director, Information Management	15–20	0–2.5	250	201	23
David Hughes*					
National Director, College and Learning Provider Services	20–25	0–2.5	296	271	18
Paul McGuire*					
National Director, Strategic Finance	30–35	0–2.5	377	340	5
Marinos Paphitis					
National Director, South	35–40 and lump sum 110–115	0–2.5	741	695	0
Chris Roberts					
National Director, North	45–50 and lump sum 145–150	0 and lump sum 0	1,137	1,129	0
Julie Robson					
National Director, Central	25–30 and lump sum 85–90	0 and lump sum 0	504	465	0

	Accrued pension and related lump sum at age 60 as at 31 March 2012 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31 March 2012 £'000	CETV at 31 March 2012** £'000	Real increase in CETV £'000
Sally Stewart*					
National Director, Human Resources	30–35	0–2.5	490	449	1
Kim Thorneywork					
National Director, Delivery (from 3 October 2011)	45–50	10–12.5	742	545	17
David Way					
Chief Operating Officer, NAS	50–55 and lump sum 155–160	0 and lump sum 0	1,193	1,127	0

Notes:
*Opted to join the CSPS premium scheme.

** The actuarial factors used to calculate a cash equivalent transfer value (CETV) changed this year to reflect changes in demographic assumptions and the move to the Consumer Prices Index (CPI); there may be slight differences between last year's reported closing figures and this year's opening figures.

Salary

27. For the purposes of the analysis, 'salary' includes the following, where applicable:

- gross salary payable
- other allowances
- overtime payable.

28. Bonuses and compensation or redundancy payments are reported separately.

Benefits in kind

29. The monetary value of benefits in kind covers any benefits provided by the employer and treated by Her Majesty's Revenue and Customs as a taxable emolument.

Pensions

30. Pension benefits are provided through the PCSPS. From 1 October 2002, civil servants may be in one of three statutory-based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose to join either the premium scheme or a good-quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

31. Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for the Classic scheme and 3.5 per cent for the Premium, Nuvos and Classic Plus schemes. Benefits in the Classic scheme accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For the Premium scheme, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic scheme, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). The Classic Plus scheme is essentially a variation of the Premium scheme, but with benefits in respect of service before 1 October 2002 calculated broadly as in the Classic scheme.

32. The Nuvos scheme is a relatively new defined benefit scheme where employee contributions are currently at 3.5 per cent of pensionable pay. Pension benefits build up at the rate of 2.3 per cent of pensionable earnings each year and the option is available at retirement to convert up to 25 per cent of total notional pension benefits into a lump sum.

33. The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of

pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

34. Further details of the Civil Service pension arrangements can be found at www.civilservice-pensions.gov.uk.

Cash equivalent transfer values

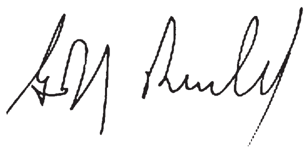
35. A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

36. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures (and from 2003–04 the other pension details) include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the Civil Service pension arrangements, and for which the Civil Service vote has received a transfer payment commensurate with the additional pension liabilities being assumed. The CETV figures also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reductions to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

37. Please note that the factors used to calculate the CETV were revised on 1 April 2011 on the advice of the scheme actuary. The CETV figure for 31 March 2011 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2012.

Real increase in CETV

38. This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period.



Geoffrey Russell
Chief Executive of Skills Funding
Skills Funding Agency
A partner organisation of
the Department for Business, Innovation and Skills

18 June 2012

Statement of Chief Executive of Skills Funding's Responsibilities

1. The ASCL Act 2009 created the statutory post of Chief Executive of Skills Funding and sets out the legal framework for its duties and powers. The Skills Funding Agency is the collective term given to the Chief Executive of Skills Funding and the staff of the Skills Funding Agency.
2. Under Schedule 4 to the ASCL Act 2009, the Chief Executive of Skills Funding is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State, with the consent of HM Treasury.
3. Under the Accounts Direction issued by the Secretary of State, the accounts must be prepared on an accruals accounting basis and must show a true and fair view of the Agency's state of affairs at the year-end, and of its income, expenditure and cash flows for the financial year.
4. In preparing the accounts, the Chief Executive of Skills Funding as Accounting Officer has been required to comply with the requirements of the Government's FReM and in particular to:
   - observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
   - make judgements and estimates on a reasonable basis
   - state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements, and
   - prepare the financial statements on a going-concern basis.
5. The principal Accounting Officer for BIS has designated the Chief Executive of Skills Funding as the Accounting Officer for the Skills Funding Agency. The responsibilities of an Accounting Officer – including responsibility for value for money, the feasibility, propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, and for safeguarding public assets – are set out in the document *Managing Public Money*, published by HM Treasury.
6. In addition, the principal Accounting Officer for BIS has designated the Chief Executive of the NAS as the Accounting Officer for those budgets

relating directly to the National Apprenticeship Service. The NAS works as part of the Skills Funding Agency. In order to discharge his Accounting Officer responsibilities, the Chief Executive of the NAS and the NAS team work under the Agency's framework of internal control. The Agency and the NAS are party to an operational service-level agreement that defines each side's expectations and responsibilities.

Governance Statement

The Purpose of the Governance Statement

1. This statement explains how the Skills Funding Agency and I, as Chief Executive of Skills Funding, have put in place arrangements for good corporate governance and reviews the effectiveness of these arrangements.

Scope of Responsibility

2. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Skills Funding Agency's policies, aims and objectives while safeguarding the public funds and Agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in HM Treasury's publication *Managing Public Money*.

3. The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policy aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

   - identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives
   - evaluate the likelihood of those risks being realised and their impact should they be realised
   - take reasonable steps to manage them economically, efficiently and effectively.

4. The system of internal control has been in place in the Agency for the financial year ending 31 March 2012 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

The Organisation's Governance Framework

5. The Chief Executive of Skills Funding is a statutory post and a corporation sole established by the ASCL Act 2009, that has the statutory duty to secure and promote adult FE. In discharging those duties, the holder of the post makes funding decisions relevant to individual providers independent of Ministers, but with regard for their policy and objective-setting direction and within the funding envelope and grant conditions they set. The Skills Funding Agency is the name used to describe the civil servants appointed by the Chief Executive to carry out the functions of the office and it is not a legal entity.

6. Within the Agency, the Chief Executive of the NAS has delegated responsibility for the funding of apprentices of all ages. The NAS is an integral part of the Agency, working under the Agency's system of internal control governed and supported by the Agency's corporate services and contracting capabilities through a

comprehensive service-level agreement. Delegation of the NAS's budgets is governed by a Ministerial Direction that took effect on 1 April 2011. Management of the post-19 Apprenticeship budget is undertaken by the Agency as part of a single Adult Skills Budget.

7. The Chief Executive of Skills Funding is responsible for the direction and management of the Agency, which is a partner organisation of BIS. A corporation sole does not allow for a formal board or non-executive governance structure, as all the duties and associated powers are vested in the Chief Executive. I have nevertheless established an Advisory Board with external non-executive members to provide support and challenge to the Agency in respect of how it implements policy. An Audit and Risk Committee has been established, drawn from members of the Advisory Board. Since 1 April 2011, the Advisory Board has met five times and the Audit and Risk Committee three times.

The Risk and Internal Control Framework

Risk Management

8. Risk management is not a separate function, but rather is embedded within the Agency's management processes. The EMT formalised a risk management policy recently. Consistent with risk being the responsibility of all managers, there is no separate post of corporate risk manager. EMT members have each nominated staff to support the recording and dissemination of risk information. The Agency's key management document, the Performance and Risk Report, forms the platform which the EMT uses to report delivery against the organisation's objectives and risks thereto. The same document is shared with BIS and Ministers. These reporting arrangements are underpinned by specific management arrangements within each functional area, with each EMT member responsible for escalating risks from their area of responsibility, either to the Performance and Risk Report or to the horizon-scanning document. The latter is the area of the Agency's intranet where early warning of possible issues is recorded immediately from across the business.

Significant Risks and Mitigation

9. The new legal structure to which we will move may not maintain the crucial policy/delivery tension, or the separation of funding decisions from Ministers. It is key that both BIS and the Agency has a clear and shared understanding of the split of responsibilities between policy and delivery, and between the provision of the overall funding envelope and funding decisions for individual providers. We will mitigate this risk by working closely with BIS on the development of the new Executive Agency's Framework Document, Financial Memorandum and Funding Decision Protocol.

10. There may be a possible negative impact on the Agency's operational capability resulting from the proposed move to a conventional Executive Agency. Internally the Agency cannot afford to let transition planning affect our ability to deliver. We will mitigate

this risk by working to ensure that sufficient operational capability is maintained to enable the Agency to continue to be effective. We will incorporate the respective roles and responsibilities of the Agency and BIS in the Framework Document.

11. There is a continuing risk of under-delivery by colleges and other providers in 2011/12. Pressures created by poor economic conditions and changes in public funding may mean that our providers under-deliver. We will mitigate this risk by continuing to work with providers to focus on delivery, and by efficiently managing our funding and contracting processes to ensure that the FE and Skills sector is responsive to the needs of learners.

12. There is a risk that quality issues and consequent adverse publicity around Apprenticeship provision funded by the NAS will also impact on delivery. We will mitigate this risk by continuing to work with our providers to improve the quality of provision, and with employers and learners to promote the Apprenticeship brand.

13. The introduction and impact of 24+ Advanced Learning Loans from 2013/14 also presents a risk. Changing the nature of funding for providers and learners from direct government grant funding to repayable loan funding will have an impact on the drivers for participation and delivery. We are mitigating this risk by working closely with BIS, the Student's Loans Company, and providers to ensure that loans can be delivered operationally and also to ensure that there is strong communication to prospective learners of the benefits of FE and clear and consistant information on loans.

14. There have been no significant lapses of data security during the year that merited reporting to BIS or the Information Commissioner's Office.

Audit and Risk Committee

15. An Audit and Risk Committee was established and has met three times during the year. It consists of non-executive Advisory Board members and other attendees, including from BIS and the Agency's Internal Audit team and from the NAO. Its terms of reference reflect best practice and were reviewed at the last meeting.

16. The Committee has considered reports from the Agency's Internal Audit team on the system of internal control, risk management and governance, and from the PFA audit team on providers' systems of control over the use of public funds. The Committee also considered reports on the Agency's hard-close final accounts and on counter-fraud, as well as reports from our external auditors, the NAO. The Committee provided robust challenge and valuable support during the year and I wish to record my appreciation for that service.

17. The Committee has recommended to the Chief Executive that this statement is an appropriate report on the risks that the Agency faces and the processes and controls around them to manage those risks

Management Board

18. The EMT comprises the Chief Executive and the Agency's seven senior officers and meets weekly to consider:
    - the performance and risks thereto that face the Agency
    - progress in taking these matters forward
    - mitigating and/or corrective action, where necessary.
19. One of the meetings is held at a different Agency office each month and is devoted to operational matters, but it is extended to allow a longer discussion on strategic issues and to meet with local staff.

Internal Audit

20. The Agency maintains a professional and independent internal audit service; monthly reports were provided on audit findings, including progress against the internal audit plan. Internal audit work was targeted towards the higher-risk areas.
21. The Internal Audit team reports directly to the Chief Executive of Skills Funding, and the Chief Internal Auditor has direct access to the Chair of the Audit and Risk Committee, as well as the BIS Chief Internal Auditor. The Internal Audit team also conducts a number of audits jointly with the BIS Internal Audit team. The Chief Internal Auditor receives all EMT papers and may attend any EMT meeting.
22. I met at least monthly with the Chief Internal Auditor and received an Annual Report on findings, which included a professional opinion as to the level of control assurance that was applicable to the Agency.
23. For 2011–12 the Chief Internal Auditor has concluded that, overall, the Agency has maintained sound systems of governance, internal control and risk management, but that there were some weaknesses that need to be addressed. The significant issues identified by the Chief Internal Auditor in his annual report were as follows:
    - Information Management – there were issues with the relationship between the Agency and its main IT supplier, including the deployment of strategic re-platforming
    - Physical Security – a significant amount of work remains to be done to meet the Government's mandatory requirements for physical security and counter-terrorism
    - Declaration of Interests – there have been some improvements in the latter part of the year, but there are still a number of staff who have not completed a declaration of interests
    - Investigations Unit – a need for improvements in the approach to fraud prevention and recovery of funds was identified; a number of changes and improvements have taken place since the audit review
    - Project Management Financial Information – the financial information to support project management was found to vary considerably; a follow-up review showed that significant improvements had been made

- Business Continuity – progress is being made to ensure compliance with BS 25999 (the required standard) but there is still a significant amount of work left to do.

24. Through his reports, all of which I have read, the Chief Internal Auditor alerted me to where improvements were necessary. I took a personal interest in the implementation of improvement plans. The findings in Internal Audit reports are taken into consideration by me in assessing the performance of EMT members.

25. An evaluation by the Internal Audit team informed each of the personal Statements on Internal Control received from the EMT. The evaluation took into account changes in staffing that occurred as a result of reorganisation and the voluntary severance scheme, and their impact on internal control arrangements.

Counter-Fraud Unit

26. The Agency has taken steps to strengthen its approach to fraud prevention and the recovery of funds, including placing the responsibility for counter-fraud under the management of an EMT member, rather than being part of Internal Audit, and setting up the Delivery and Capacity and Infrastructure Subgroup on Counter-Fraud, which is now operational. The terms of reference are currently being updated to reflect the scope of the Group, which is to act as the focal point within the Agency for counter-fraud activity.

27. The Agency continues to promote a zero-tolerance approach to instances of potential fraud. To this end it has an Investigations Unit that has operated throughout the year. The staff complement within the Unit has been increased from six to nine, including the recruitment of a new Head of Counter-Fraud.

28. The Unit brought forward 55 allegations from 2010–11 into 2011–12, and 71 new allegations were made to March 2012. 31 cases were closed after vetting and a further 42 cases were closed after investigation. The Unit carried forward 53 allegations, 40 of which are in vetting. The statistics give some feel for the scale of the work involved in dealing with allegations of fraud or financial irregularity.

29. The Agency is tightening its procurement arrangements considerably in respect of subcontracting, to add a greater level of control and transparency within the sector around subcontracting. The work of the Unit is contributing to this enhancement in control. (See the Subcontracting section.)

Financial Management

30. As Accounting Officer I had responsibility to ensure that there were effective systems in place to manage and monitor all funds granted to me. I have received assurances for all of my direct reports that effective systems are working in their individual areas of responsibility.

31. To assure myself of our financial management processes, I commissioned an independent review of financial management in the Agency. The Cipfa report concluded that the Agency performs “very well”

on financial management, particularly on strategic direction, ownership and accountability, stewardship – internal control and risk, responsiveness to stakeholders, and the quality of financial reporting. The report also states that Cipfa has "rarely encountered such strengths at such a consistently high level of scoring across these areas." All of which is all the more notable when considered within the context of a sustained period of change for the organisation.

32. Therefore, I can confirm that there were effective systems in place to manage and monitor the funds I was responsible for, in line with BIS financial rules and procedures, and that accurate financial records were maintained. I also confirm that funds were spent on achieving the outputs and outcomes detailed in my funding letter from the Secretary of State.

Provider Financial Assurance Audit Team

33. As Accounting Officer I am required to be satisfied that those organisations that the Agency funds also operate in an appropriately controlled environment to make proper use of public money. The Agency has a PFA function, with responsibility for co-ordinating and carrying out a programme of audits designed to gain assurance over the systems of control operated by providers in respect of use of Agency funds.

34. The scope of the PFA audit team's work also covered the funding for which the NAS and the former YPLA, now Education Funding Agency (EFA), are responsible. The latter was in accordance with the JACOP, where it was agreed with the YPLA that, with the exception of ESF funding, just one government agency will normally audit a training provider and give assurance over both Agency and YPLA funds.

35. In 2011–12 the PFA audit team's work included sampling across all key funding streams. The results of their work includes, but is not biased towards, higher-risk areas, and therefore provides a statistically representative picture of the level of error in training providers' funding data. The PFA audit team also undertook audits at higher-risk providers and areas based on known risks.

36. The result of this work is that the residual error rate within most of the Agency's funding streams is below 1 per cent. Errors are mainly data errors or others failures due to mismanagement and are not indicative of fraud; where fraud is suspected, these are referred to the Agency's Investigations Unit.

37. Further sources of assurance are considered by the PFA audit team, including the results of work carried out by providers' financial statement auditors, internal auditors and funding auditors.

Review of Effectiveness

38. As Accounting Officer I have responsibility for reviewing the effectiveness of the Agency's system of governance, risk management and internal control. My review of the effectiveness of the systems in place is informed by the work of the internal auditors and the EMT within the Agency, who had responsibility for the development and maintenance of the

internal control framework, together with comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Committee, the EMT and the Internal Audit team, and a plan is in place to address weaknesses and ensure continuous improvement of the system.

Internal Control Issues

39. As Accounting Officer I am satisfied that the Agency's governance, risk management and internal control were compliant with Managing Public Money requirements during 2011–12.

40. The following significant internal control issues should nevertheless be highlighted as areas that will be improved.

Information Assurance

41. The Agency is not fully compliant at Level 1 in four out of six 'information assurance areas' within the Information Assurance Maturity Model. However, four areas have recorded considerably improved scores, with two areas now pushing well into Level 2. All six areas have a level of compliance that is greater than 85 per cent, with the average score across all areas up by over 12 from last year's average result of 79.83 to 92 per cent.

42. In respect of the Security Policy Framework, the criteria have changed between 2010–11 and 2011–12, making direct comparison difficult. However, the Agency's current position is significantly better than last year.

43. The Agency is compliant in respect of 104 out of the 148 monitored control items. My belief is that, whilst there is still room for improvement, this compares well against organisations with similarly large and complicated systems.

44. In all areas of protective security, the improvement process is a judgement about the balance of risks versus costs. These are monitored monthly.

45. The EMT, under the direction of our Senior Information Risk Owner (SIRO), will continue to seek improvements in the areas of highest risk, but I am satisfied that our current position represents an appropriate trade-off of risk and resource.

Business Continuity Planning

46. The business continuity policies that the Agency inherited from its predecessor organisation, the Learning and Skills Council, were not considered to be best practice. The Agency took action to ensure that better processes and arrangements are developed for business continuity plans in line with BS 25999, the British Standard for Business Continuity. These are not complete, but we are working as fast as is practicable to reach this standard. To support this aim we have taken on a business continuity expert on a short-term basis. We plan to complete and test our new processes by the end of July 2012.

47. The existing systems we have at present are such that when a number of our offices have had to close for a variety of reasons, the local business continuity plans operated effectively.

Financial Stability of the Sector

48. All parts of the public sector need to achieve efficiency savings over the coming years and this cannot be done painlessly. Inevitably there have been redundancies and some colleges and training providers, particularly those whose finances are not sufficiently strong, may become economically unviable. This risk is fully recognised, together with the potential subsequent risk to learners. To this end the Agency has enhanced its monitoring and is reviewing its arrangements so that it can take appropriate and timely actions if learners are at risk when colleges or providers fall into difficulty.

Higher-risk Providers

49. Early in the 2010–11 financial year it became clear to the Agency that there was a risk that certain providers and individuals, which experience had shown to be untrustworthy with either public money or delivering learning, could nonetheless secure funding agreements in other procurement rounds. I commissioned the Internal Audit team to review this risk and to advise management on appropriate internal controls. There is still some work to be done to develop processes and guidance further but during the current year significant progress has been made to implement the findings of this review, which includes:

    - a policy has been produced and agreed
    - a schedule of high-risk providers has been produced and guidance on the use of the schedule is to be produced
    - checks of the schedule are included in the procurement process
    - a list of subcontractors has been collated and it is proposed to check subcontractors against the list of high-risk providers.

Subcontracting

50. Subcontracting continues to expose the Agency to higher levels of operational and financial risk. Recent changes to policy, for example implementing a minimum contract level, have increased the need for subcontracting throughout the sector. However the prime driver has been the requirement to maintain the proportion of the Adult Skills Budget earmarked for Apprenticeships, which has meant that many providers, mainly colleges, have had to subcontract this provision.

51. To manage this risk the Agency developed and implemented a more robust subcontractor management framework for the 2010/11 academic year, and further strengthened the requirements in the 2011/12 academic year.

52. Key areas of control that are now in place for all subcontracted activity include:

    - a requirement for all subcontracting to be declared as part of the regular contracting process throughout the year; these declarations allow the Agency to monitor the use of funds in the wider sector and then identify and address areas of potential risk
    - a reinforcement of the accountability of the lead provider

for having appropriate procurement processes; for assuring themselves of the suitability, capacity and capability of their subcontractors; and for having suitable controls over subcontracted provision

- a requirement for all subcontractors in receipt of £500,000 or more of Agency funds to pass the Agency's Due Diligence Assurance Gateway
- a requirement for mandatory terms to be used by lead providers in their subcontract documents.

53. We will continue to monitor this risk and will refine and strengthen controls in response to sector activity.

Consolidation of FE College Accounts

54. During the course of the previous financial year 2010–11, the status of FE colleges became an issue with regard to their classification as part of the public sector, and consequently the potential requirement to consolidate their accounts into the wider public sector accounts. There were two elements to this issue.

55. Firstly, the Office for National Statistics (ONS) announced in October 2010 that, given elements of control potentially exercisable by the Secretary of State and the Chief Executive of Skills Funding, FE colleges should have been classified as public sector bodies since their initial incorporation in 1993. For example, the elements of control identified relate to the control over colleges' financial policies implied by the requirement to seek approval for significant borrowing.

56. The implications of this decision were that income and expenditure of statutory FE colleges would fall within the BIS accounting 'boundary' from 2011–12. However, the ONS reviewed this assessment of the classification of FE colleges in February 2012. From 1 April 2012, following the enactment of legislative change in the Education Act 2011, FE colleges were reclassified as private sector organisations.

57. A second and related consideration was also highlighted to me as Accounting Officer: the accounting framework under which government bodies prepare their accounts is based on International Financial Reporting Standards (IFRS), as adopted by the Government's FReM. This includes the provisions of International Accounting Standard 27: Consolidation and Separate Financial Statements (IAS 27). IAS 27 specifies the criteria for control under which an accounting entity is required to consolidate the accounts of subsidiary bodies.

58. Under the Accounts Direction issued to me by the Secretary of State, I am required to comply with the FReM in preparing the accounts of the Agency. The powers in place under the ASCL Act 2009 over FE colleges mean that the Agency would have the ability to "control" FE colleges and therefore needed to consolidate the results of these bodies to meet the requirements of IAS 27.

59. However, I believed that it was impractical to achieve consolidation successfully for 2010–11, not least because colleges produce their accounts on a different accounting year basis and under different

accounting standards from government bodies, including the Agency. This was also the case for 2011–12 for the period until the Chief Executive of Skills Funding's powers changed with the passage of the Education Act 2011. The change in powers meant that by year-end there was no longer a requirement for the Agency to consolidate the accounts of FE colleges into its own. Although the Agency's 2011–12 accounts are qualified by the Comptroller and Auditor General, his report recognises the change in control that took place during the year.

60. As stated in my Statement on Internal Control in last year's Annual Report, I believe that this accounting issue has had no wider impact on the control environment of the Agency.

Value for Money Reports on the Agency's activities

61. During 2011–12 the NAO published two VFM studies directly relevant to the Agency, concerning adult Apprenticeships and FE bureaucracy. Subsequent Public Accounts Committee (PAC) hearings dealt with these important areas. The Agency is committed to working with its partners to ensure that value for money in the use of public funds is always at the forefront of what we do.

Conclusion

62. I believe that the risks the Agency faced in 2011–12 were managed effectively, albeit not without some level of impact on either the Agency or the sector. I do not believe that there were any material adverse effects on our learners or the taxpayer. The existing processes and practices of the Agency have been enhanced but, as always, there is more still to be done and change continues. Both the Agency and the FE sector would welcome – and the taxpayer would benefit from – a period of relative stability.

Geoffrey Russell
Chief Executive of Skills Funding
Skills Funding Agency
A partner organisation of the Department for Business, Innovation and Skills

18 June 2012

Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Skills Funding Agency for the year ended 31 March 2012 under the Apprenticeships, Skills, Children and Learning Act 2009. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive of Skills Funding and auditor

As explained more fully in the Statement of Chief Executive of Skills Funding's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Apprenticeships, Skills, Children and Learning Act 2009. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Skills Funding Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Skills Funding Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on the financial statements

International Financial Reporting Standards require an entity to prepare group financial statements where it controls other entities, as defined by International Accounting Standard 27. Under IAS 27 the Chief Executive Skills Funding controlled further education colleges and the Agency should therefore have prepared group accounts consolidating the results and financial position of further education colleges until 15 November 2011. The Education Act 2011, which received Royal Assent on 15 November 2011, removed the Chief Executive's ability to control further education colleges from that date.

The Skills Funding Agency has not prepared group financial statements because it has not collected the information required to do so and does not consider it cost effective to undertake additional actions in order to obtain the necessary information.

Had group accounts been prepared, the group primary statements, excluding the statement of financial position, for the year ended 31 March 2012 would have been materially different from the Agency's own financial statements. In addition the corresponding figures for all primary statements for the year ended 31 March 2011 do not give a true and fair view of the state of affairs of the Skills Funding Agency at that date or of its net expenditure for the year then ended. The effects on the financial statements of the failure to consolidate have not been determined.

Qualified opinion on financial statements

In my opinion, except for the effects of the matter described in the 'Basis for Qualified Opinion on the financial statements' paragraph, the financial statements give a true and fair view of the state of affairs of the Skills Funding Agency as at 31 March 2012, and of its net expenditure for the year then ended in accordance with the Apprenticeships, Skills, Children and Learning Act 2009 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Apprenticeships, Skills, Children and Learning Act 2009; and
- the information given in 'Our Management Team' and 'Management Commentary' elements of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

My report on pages 53 to 55 provides further detail of my qualified opinion on the financial statements.

Amyas C E Morse
Comptroller and Auditor General

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

21 June 2012

Report of the Comptroller and Auditor General to the Houses of Parliament

Introduction

1. The Chief Executive of Skills Funding is a corporation sole established under the Apprenticeship, Skills, Children and Learning Act 2009 (ASCL Act 2009). The Chief Executive is head of, and supported by, the Skills Funding Agency (the Agency), which is a partner organisation of the Department for Business, Innovation and Skills.

2. The Chief Executive's role is to fund and regulate adult further education and skills training in England. The Agency supports him in this task. The Agency provided funding of £4.6 billion in 2011–12 to Further Education colleges (FE colleges) and other skills and training organisations, to fund training for adults in England.

3. The Agency is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FReM). Under the FReM, the Agency is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Purpose of Report

4. In my report (HC 1393/11) on the Agency's 2010–11 financial statements, I reported that the accounts of the Agency did not give a 'true and fair' view because they did not consolidate the financial results and financial position of FE colleges. In my opinion the Chief Executive of Skills Funding was able to control these entities and therefore the Agency was required to consolidate them to comply with the requirements of the financial reporting framework. On 15 November 2011 the Education Act 2011 gained Royal Assent. The Act removed certain powers from the Chief Executive of Skills Funding and, as a result, it is my view that the Agency is no longer able to control these bodies.

5. However, Financial Reporting Standards require the financial transactions of FE colleges to be consolidated up to the point that the Act removed the powers of the Chief Executive to control these bodies. The financial statements on pages 56 to 92 do not include these transactions and so I have qualified my audit opinion on the Agency's statements in this respect. I have also modified my opinion to reflect my view that the comparative information relating to 2010–11 does not present a true and fair view. This report provides further details of the reasons for qualification.

Explanation for Qualified Audit Opinion

6. Since 2009–10 central government bodies, except charities, have been required to adopt IFRS. One of these standards, IAS 27, requires parent bodies to consolidate into their accounts the results of bodies they control.

7. IAS 27 sets out the factors that indicate control. The circumstances where control exists include when there is the power to appoint or remove the majority of the members of the board of directors or equivalent governing body. Under the ASCL Act 2009, the Chief Executive of Skills Funding had these powers and other controls over FE colleges.

8. The Agency did not consider it feasible to prepare a robust consolidation of the financial accounts of the 258 FE colleges for 2010–11 to meet the statutory deadline under the ASCL Act 2009 for the presentation of group financial statements to me by the end of August 2011. This took into account the complexities of consolidating the financial results of these bodies given their number and their different accounting and reporting requirements. The Agency's view took into account that the powers of the Chief Executive of Skills Funding were in the process of being changed.

9. Since 2010, Ministers have been reviewing the regulation and controls over the governance and operation of FE colleges. The relevant provisions of the Education Act 2011 removed many of the powers previously held by the Chief Executive of Skills Funding. Specifically the power to remove the majority of members of FE colleges board of directors transferred from the Chief Executive to the Secretary of State and the power to appoint governors to the board of directors transferred from the Chief Executive to colleges themselves.

10. The Education Act received Royal Assent on 15 November 2011 and the relevant provisions commenced on 1 April 2012. From the date of Royal Assent, the Chief Executive required the Secretary of State's approval to exercise his powers to remove or appoint members to the Board of FE colleges under the ASCL Act. My conclusion is that the Chief Executive no longer had the ability to control FE colleges under IAS 27 after the Act received Royal Assent.

11. The financial statements exclude the financial results of colleges until 15 November and the entries which would have been required to account for the loss of control on 15 November 2011. According to their 2010–11 financial statements, FE colleges record both income and expenditure of some £6.8 billion[1] compared with total expenditure in the 2011–12 financial statements of the Agency of £4.6 billion. Although a number of consolidation adjustments to FE colleges' income and expenditure would be needed, the figures are an indication of the overall material impact on the Agency's accounts. I have, therefore, modified my audit opinion on the 2011–12 statements to reflect the material impact of non-consolidation on the truth and fairness of the account.

12. I am satisfied, however, that the Agency was no longer required to consolidate colleges by 31 March 2012, and that it has correctly presented a statement of financial position that does not include the assets and liabilities of colleges.

13. In auditing the accounts of the Agency, my staff identified no other issues that materially impacted on the truth and fairness of the Agency's accounts as presented for my audit. There are no other matters that would have caused me to modify my audit opinion.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
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21 June 2012

[1]Taken from the Summary record (dated 30 May 2012) of audited FE college accounts collated by the Agency (reflecting the 1 August 2010 to 31 July 2011 academic year).

Statement of Comprehensive Net Expenditure

for the Year to 31 March 2012

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Administration costs			
Staff costs	2a	75,590	55,215
Other costs	3a	67,075	27,736
Depreciation, impairment and losses on disposal	3b	26,951	38,614
Total Administration costs		**169,616**	**121,565**
Programme costs			
Classroom-based	4.01	1,521,871	1,725,950
Adult Apprenticeships	4.02	624,602	450,880
Other Workplace Training	4.03	526,663	743,476
Growth and Innovation Fund (GIF)	4.04	20,050	30,047
Adult Safeguard Learning	4.05	209,902	209,805
Offender Learning	4.06	148,770	146,014
Learner Support Funds	4.07	129,953	120,229
Information Advice and Guidance	4.08	68,808	62,614
Skills Infrastructure	4.09	84,270	162,127
Capital	4.10	387,474	682,918
DfE Funded Programmes	4.11	764,370	751,369
ESF and Other Non-BIS Funded Programmes	4.12	123,383	325,236
Total Programme costs		**4,610,116**	**5,410,665**
Income			
EU Income	5	(99,095)	(298,255)
Other Income	5	(38,724)	(42,884)
Total Income		**(137,819)**	**(341,139)**
Net Expenditure		**4,641,913**	**5,191,091**

There are no other gains or losses other than net expenditure for the year.

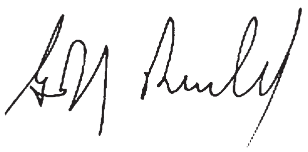
The notes on pages 60 to 92 form part of these accounts.

2011–12 Administration costs are not directly comparable with those for 2010–11 because, from April 2011, HM Treasury clarified what costs should be considered as 'Administration'. For the Agency this meant that some costs formerly categorised as 'Programme' costs were reclassified as 'Administration' costs.

Statement of Financial Position
as at 31 March 2012

	Note	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Non-current assets			
Property, plant and equipment	6	2,907	4,195
Intangible assets	7	67,569	72,848
Total non-current assets		**70,476**	**77,043**
Current assets			
Trade and other receivables	10a	159,822	178,583
Cash and cash equivalents	11	230,839	324,410
Total current assets		**390,661**	**502,993**
Total assets		**461,137**	**580,036**
Current liabilities			
Trade and other payables	12a	(404,080)	(408,126)
Total assets less current liabilities		**57,057**	**171,910**
Non-current liabilities			
Payables	12a	0	(15,907)
Provisions	13	(17,717)	(4,594)
Financial Guarantee	14	(31,404)	(31,544)
Assets less liabilities		**7,936**	**119,865**
Represented by			
Taxpayers' equity			
General fund		7,936	119,865
Total Taxpayers' equity		**7,936**	**119,865**

The notes on pages 60 to 92 form part of these accounts.



Geoffrey Russell
Chief Executive of Skills Funding
Skills Funding Agency
A partner organisation of
the Department for Business,
Innovation and Skills

18 June 2012

Statement of Cash Flows

for the Year to 31 March 2012

	Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Cash flows from operating activities			
Net expenditure		(4,641,913)	(5,191,091)
Notional Audit fee	3a	170	198
Depreciation charges	3b	21,612	25,542
Loss on disposal of non-current assets	3b	5,339	15,187
Decrease in receivables – excludes capital receivables	10a	18,763	41,581
(Decrease) in total payables – excludes capital payables	12a	(20,816)	(24,526)
Increase/(Decrease) in use of provisions for liabilities and charges	13	13,123	(5,072)
(Decrease)/increase in use of financial guarantees	14	(140)	136
Net cash outflow from operating activities		**(4,603,862)**	**(5,138,045)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,202)	(284)
Purchase of intangible assets		(18,361)	(30,801)
Proceeds of disposal of property, plant and equipment		40	78
Net cash outflow from investing activities		**(19,523)**	**(31,007)**
Cash flows from financing activities			
Financing from BIS		4,529,814	5,342,475
Net cash inflow from financing activities		**4,529,814**	**5,342,475**
Net increase in cash and cash equivalents in the period		(93,571)	173,423
Cash and cash equivalents at the beginning of the period	11	324,410	150,987
Cash and cash equivalents at the end of the period		**230,839**	**324,410**

The notes on pages 60 to 92 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the Year to 31 March 2012

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Balance at 1 April	**119,865**	**(31,717)**
Retained deficit	(4,641,913)	(5,191,091)
Reversal of notional audit fee	170	198
Total recognised income and expense for the year	**(4,641,743)**	**(5,190,893)**
Financing from BIS	4,529,814	5,342,475
Balance at 31 March	**7,936**	**119,865**

Notes to the Accounts

1 Statement of Accounting Policies

This set of financial statements for the Skills Funding Agency has been prepared in accordance with the 2011–12 Government FReM issued by HM Treasury. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Skills Funding Agency for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the Skills Funding Agency have been applied consistently in dealing with items that are considered material to the accounts and they are described below.

1.1 Going Concern

The Skills Funding Agency is a partner organisation of BIS and the Department's estimates and forward plans include provision for its continuation. It has therefore been considered appropriate to prepare these accounts on a going concern basis.

1.2 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets, where material.

1.3 Property, Plant and Equipment

Property, Plant and Equipment is carried at fair value. Depreciated historical cost is used as a proxy of fair value for the following classes of assets because the Agency considers this to be the best reflection of fair value:

- Furniture and Fittings
- Plant and Machinery
- Computers and Other IT Hardware.

Costs comprise purchase price and those costs that are directly attributable to making the asset capable of operating in the manner intended by the Skills Funding Agency's management.

For the purposes of calculating the current value of property, plant and equipment, where material, revaluation is applied to the closing carrying value of assets in use at 31 March, using indices prepared by the ONS.

The minimum level for capitalisation of a property, plant and equipment asset is £5,000. All assets falling into the following categories are capitalised:

- individual assets which are capable of being used for more than one year and have a cost equal to or greater than £5,000
- groups of assets that individually may be valued at less than £5,000 but taken together form a single collective asset because the items fulfil all of the following criteria:
    a. they are functionally interdependent
    b. they are acquired at about the same date and are planned for disposal at about the same date
    c. they are under single managerial control
    d. each individual asset thus grouped has a value of more than £1,000.

1 Statement of Accounting Policies (continued)

1.4 Intangible Assets

Intangible assets are carried at fair value that is determined by reference to an active market where possible. Where there is no active market, the Skills Funding Agency uses depreciated replacement cost as a proxy for fair value.

The majority of intangible assets comprise computer software systems that have been developed exclusively for the Skills Funding Agency. Expenditure on research of such systems is recognised as expenditure when incurred. Where separately identifiable, development expenditure to support the creation of a software system is capitalised where the Skills Funding Agency can demonstrate all of the following criteria:

a. completion of the system is technically feasible and adequate resources are available to do so

b. an intention to complete the system for use

c. ability to use the system

d. how the system can generate future economic benefits

e. attributable development expenditure can be reliably measured.

Computer software licenses are capitalised if they are capable of being used for more than one year and have an initial cost, individually or as a group, equal to or greater than £5,000.

1.5 Depreciation

The depreciation methods that best reflect the pattern of the consumption of economic benefits and the periods over which such benefits are expected to be consumed by the Skills Funding Agency are summarised in the table below:

Summary of depreciation methods

	Category	**Component (if applicable)**	**Method**	**Useful Life**
Property, plant and equipment	IT	Desktop IT	Straight Line	Three years
		Other IT	Straight Line	Five years
	Plant and machinery		Straight Line	Three years
	Furniture and fittings	Furniture	Straight Line	Five years
		Fitting out	Straight Line	Lower of 10 years or the length of the building lease
Intangible assets	Internally developed systems		Straight Line	Five years
	Software licences		Straight Line	Life of the licence or three years where none given

For property, plant and equipment, the residual values, depreciation methods and useful life assumptions described above shall be reviewed at least annually by each financial year-end. For intangible assets, amortisation periods and methods described above shall be reviewed at least annually by each financial year-end. Any changes arising from these reviews will be accounted for as changes to accounting estimates.

1 Statement of Accounting Policies (continued)

1.6 Revaluation

For all classes of assets, revaluation shall be undertaken with sufficient regularity to ensure that carrying values do not differ materially from fair values.

1.7 Impairment

Property, Plant and Equipment and Intangible Assets are subject to impairment reviews to ensure they are carried at no more than recoverable amount; the higher of net selling price and value in use. For each financial reporting period, the Skills Funding Agency will assess whether there are any internal or external indications of impairment in its assets and will estimate the recoverable amounts of any such assets affected.

1.8 Subsequent Measurement

Where material, any surplus arising from indexation is recognised directly in a revaluation reserve within equity, except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in the Statement of Comprehensive Net Expenditure, in which case the credit is to the Statement of Comprehensive Net Expenditure.

1.9 Subsequent Measurement – IT Systems

The Skills Funding Agency's software systems are designed and built specifically for the Skills Funding Agency's use. They are not income-generating and there is no active market for them. Under IAS 38 Intangible Assets where no active market exists, the asset should be valued using indices or some suitable model. As there is no appropriate indices to apply to these assets, the Skills Funding Agency therefore considers depreciated historic cost to be the most suitable model of depreciated replacement cost (as a proxy for Fair Value).

1.10 Leases

Operating leases and the rentals are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the lease term.

1.11 Receivables: Programme Expenditure

Programme receivables derive from various programmes. They mostly reflect part of the normal operation of the reconciliation process of the respective programme to ensure that only amounts earned on the basis of actual delivery are paid to providers and recorded in the Skills Funding Agency's accounts. In the vast majority of cases, these amounts are offset against future payments to providers, so they are recovered over the short term.

The Skills Funding Agency also has receivables that are the result of assurance work. This work may determine either:

- an actual amount that needs to be recovered from a provider, or
- a data error that is extrapolated across the data population to determine an amount to be recovered from a provider.

These amounts are only included in the Skills Funding Agency's accounts when a reliable value for the recovery has been established. In most cases, the amounts are recovered through in-year data adjustments that result in reduced future payments to providers.

1 Statement of Accounting Policies (continued)

1.12 Provisions

Provisions are recognised when it is probable that the Skills Funding Agency will be required to settle a present obligation as a result of a past event and a reliable estimate can be made of that obligation. The obligation is normally the amount that the Skills Funding Agency would pay to settle the obligation at the statement of financial position date or to transfer it to a third party at that time. Where the impact is material, expected future cash flows are discounted using HM Treasury's real discount rate of 1.8 per cent.

1.13 Financial Instruments

The Skills Funding Agency is party to many contracts in the course of providing programme funding and in the course of its own operation that give rise to assets and liabilities in its statement of financial position. Where such Financial Instruments are deemed to have a significant impact on the medium- to long-term financial risk profile of the Skills Funding Agency, they are recognised in the financial statements in accordance with IAS 39 Financial Instruments: Recognition and Measurement and details are disclosed in accordance with the provisions of IFRS 7 Financial Instruments: Disclosures.

1.14 Administration and Programme Expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme reflects the determination of administration costs in HM Treasury's Consolidated Budgeting Guidance.

Administration costs reflect the costs of running the Agency and include staff costs such as wages, salaries and other administrative costs, including travel, subsistence, IT maintenance and office expenditure.

Programme costs reflect the costs of programme delivery and may include staff and other costs where these relate to activities associated with frontline service delivery.

1.15 Programme Accounting Basis

The main groups of programme expenditure are Recurrent Programmes and Capital Programmes. Recurrent Programmes include Teaching and Learning elements (incorporating the Adult Skills Budget) and Recurrent Support elements. The policies for the most significant elements of expenditure are described below:

Recurrent Programmes

Teaching and Learning Programmes: Adult Skills Budget

Freedoms and Flexibilities

As part of the continuing drive to simplify funding arrangements, all organisations now receive a single Adult Skills Budget encompassing the elements described below, and they have the freedom and flexibility to vire amounts between programme strands to reflect their individual pattern of delivery.

Overall college allocations across the Adult Skills Budget are reconciled annually at the end of each academic year. Other training organisations are paid on an actual basis over the year.

Classroom-based

Classroom-based programme expenditure is recognised in the accounts when the grant is paid to colleges and training providers in line with an agreed profile for the academic year.

The Skills Funding Agency sometimes pays advances of funding to colleges that experience cash flow difficulties. These are repayable, usually over a short term, through profiled deductions from future payments. Where they have not been recovered by the year-end, the balances are included within Advances and FE college receivables.

1 Statement of Accounting Policies (continued)

Apprenticeships

Apprenticeships programme expenditure is accounted for on the basis of providers' actual delivery (subject to contract value) in the financial year concerned, except when the expenditure is made to colleges, in which case it is recognised in the accounts when the grant is paid to colleges in line with the agreed profile for the academic year, as this value provides the best reflection of delivery for accounting purposes. 16-18 Apprenticeship funding is all paid on actual delivery.

Other Workplace Training and Train to Gain

The Workplace Training programme is accounted for on profile for colleges and on actual delivery for other organisations.

Train to Gain programme expenditure is accounted for on the basis of providers' actual delivery of training and services, except when the expenditure is made to colleges in which case it is recognised in the accounts when the grant is paid to colleges in line with the agreed profile for the academic year, as this value provides the best reflection of delivery for accounting purposes.

Other Teaching and Learning

Adult Safeguarded Learning

Adult Safeguarded Learning programme expenditure is accounted for on the basis of the utilisation of funds paid to local authorities. The Skills Funding Agency will recognise a receivable at each year-end representing amount of unspent funds, based on use of funds statements submitted by local authorities for the academic year that has ended within the financial year. The Skills Funding Agency may recover any unspent funds or may allow local authorities to utilise the unspent funds in the following year.

Recurrent Support Programmes

Learner Support Funds

The expenditure for these programmes mostly represents grant payments to support learners either directly or indirectly through the training provider they attend. Payments made for a particular academic term are accounted for in the period to which they relate and specific grant payments are accounted for when they are paid.

Capital Programmes

Funding for the building of FE colleges is recognised in the financial year that the funding is fully approved and in accordance with the Agency's Capital Handbook. This usually means that fully verified claims for capital project funding that are received between 2 February in the previous financial year and 1 February in the current financial year count as expenditure in the current financial year.

Exceptionally, the conditions of the capital grant funding to colleges allow the Skills Funding Agency to bring forward approvals of payments for evidenced capital expenditure, but only where it has the funds available to do so. Where they occur, the approved values received after 1 February are also recognised as expenditure in the current year.

1.16 Employee Benefits

Pension and superannuation costs

Present and past employees are covered by the provisions of the PCSPS (www.civilservice-pensions.gov.uk), which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS and the Skills Funding Agency is unable to identify its share of the underlying assets and liabilities. The cost of pension cover provided for the staff employed by

1 Statement of Accounting Policies (continued)

the Skills Funding Agency is met by payment of charges calculated on an accruing basis. The accruing cost of providing for future benefits for current employees is charged to the Statement of Comprehensive Net Expenditure so as to spread the total cost over the estimated remaining service lives of employees in each scheme. For unfunded schemes such as the PCSPS, this is achieved by charging the actuarially calculated accruing superannuation liability charges paid by each individual body.

There is a separate scheme statement for the PCSPS as a whole.

Early Retirement Costs

Where the Skills Funding Agency is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early, provision is made in full for this cost when the early retirement programme has been announced and is binding. In certain circumstances, settlement of some or all of the liability may have been made in advance by making a payment to the Paymaster General's account at the Government Banking Services (GBS) Citibank for the credit of the Civil Superannuation Vote. The prepayment and provision are disclosed separately.

Other Employee Benefits

This includes the value of untaken holiday leave at the financial year-end which is recognised on an accrual basis.

1.17 Value Added Tax

Irrecoverable Value Added Tax (VAT) is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.18 Other Income: European Social Fund

Funding for certain projects is received from the European Commission. This income is matched to the expenditure profile for each project concerned and any balance at the end of the financial year transferred to deferred income (or income may be accrued where the expenditure exceeds income received for any particular financial year as appropriate). This is consistent with the 2011-12 FReM interpretation of IAS 20 as the entitlement to income arises as the underlying expenditure is incurred and unspent grant is repayable until grant conditions are met.

1.19 Segmental Reporting

Under HM Treasury guidance in the FReM, the Skills Funding Agency is expected to meet the requirements of IFRS 8 to report information concerning operating segments where the criteria under IFRS 8 are met.

For 2010–11, the Skills Funding Agency considered that its activities contributed to an overall mission within the same business environment and there are no separable operating segments. The analysis of programme and administration expenditure and income in these financial statements reflects the presentation of financial information in the Skills Funding Agency's management accounts that were reviewed regularly by the Skills Funding Agency's chief operating decision-maker: the Chief Executive and the senior management team. Therefore, there were no separable operating segments.

For 2011–12, the NAS is considered to be an operating segment, because it engages in activities that incur expenditure, its results are reviewed by its Chief Executive, and discrete financial information is available, as described in note 9 to the accounts on page 80.

The Skills Funding Agency managed its assets and liabilities at the entity level during the year and therefore the distribution of assets and liabilities to those programmes and administration has not been disclosed.

1 Statement of Accounting Policies (continued)

1.20 Accounting Judgments and Estimates

Other than for the determination of provisions for liabilities and charges, and financial guarantees, no material accounting estimates or judgements were made by the Skills Funding Agency in preparing these accounts.

1.21 Accounting Developments

Accounting Standards: issued but not effective

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) issued the following standards and interpretations with an effective date after the date of these financial statements. Where the changes are relevant to the Agency's circumstances they will be adopted at the effective date. Those detailed below have not been adopted early and the table indicates whether the Agency considers that adoption will have an impact on its financial statements:

Standard affected	Issued Date	Future Effective Date	Impact on the Skills Funding Agency
IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) Presentation changes to clarify offsetting.	December 2011	1 January 2014	No Impact expected.
Amendment to **IFRS 7** New disclosure requirements relating to comparing IFRS and US GAAP.	December 2011	1 January 2013	No impact expected.
Mandatory Effective Date of **IFRS 9** and Transition Disclosures (Amendments to **IFRS 9** and **IFRS 7**). Includes relief from restating comparatives.	December 2011	1 January 2015	No impact expected.
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. Relates to asset recognition.	October 2011	1 January 2013	No impact expected.
Amendments to **IAS 1** Financial Statement Presentation. Changes to presentation of Other comprehensive income.	June 2011	1 January 2012	No impact expected.
Amendments to **IAS 19** Employee Benefits. Changes to improve recognition and disclosure of defined benefit plans.	June 2011	1 January 2013	As the Agency provides a defined benefit pension to its staff, it may be affected by this amendment. It is in the process of reviewing the implications.

1 Statement of Accounting Policies (continued)

IFRS 13 Fair Value Measurement provides a single standard on Fair Value measurement and disclosure but does not introduce any new requirements.	May 2011	1 January 2013	No impact expected.
IFRS 12 Disclosure of Interests in Other Entities.	May 2011	1 January 2013	No impact expected.
IFRS 11 Joint Arrangements supersedes IAS 31 and SIC 13.	May 2011	1 January 2013	No impact expected.
IFRS 10 Consolidated Financial Statements – replaces IAS 27 Consolidated and Separate Financial Statements and identifies control as the basis for consolidation of all entities.	May 2011	1 January 2013	No significant impact expected.
IFRS 9 Financial Instruments – covers the classifications and measurements of financial assets and liabilities (intended to replace IAS 39).	November 2009 and October 2010	1 January 2013	No significant impact anticipated.
Various minor amendments to IFRSs and IFRICs in the 'Annual Improvements Process'.		Ongoing effective date of 1 January	No significant impact anticipated.

Source: http://www.ifrs.org/Home.htm

2a Staff Costs

Information in respect of Senior Employees emoluments and pension entitlements is provided in the Remuneration Report on pages 30 to 37.

	Year ended 31 March 2012 £'000		Year ended 31 March 2011 £'000	
The aggregate payroll costs for the Skills Funding Agency were as follows:				
Salaries	66,012		74,125	
Social security	6,175		6,417	
Pension costs	12,122		14,063	
Redundancies and payment in lieu of notice	12,293	**	(1,085)	*
	96,602		**93,520**	
Other staff (includes agency/contract)	3507		2624	
Recoveries in respect of outward secondments	(775)		(395)	
	99,334		**95,749**	
Staff costs related to programmes	(22,780)		(37,766)	
Staff costs related to the YPLA and other organisations	(964)		(2,768)	
	75,590		**55,215**	

Notes:

* The figure in 2010–11 is negative because of the reversal of a prior year accrual.

** The significant movement between years represents a reclassification of an accrual made in 2010–11 to a provision in 2011–12 and does not represent additional expenditure to the Agency. See note 4.

2b Pension Costs – Principal Civil Service Pension Scheme Employer Contributions

Pension benefits are provided through the PCSPS, which is an unfunded multi-employer defined benefit scheme. The Agency is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2010. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2011–12, employers' contributions of £12,030,292 were paid to the PCSPS by 31 March 2012 (2010–11: £13,950,915) at one of four rates in the range 16.7 per cent and 24.3 per cent of pensionable pay (2010–11: 16.7 per cent and 24.3 per cent), based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2011–12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £88,618 (2010–11: £113,417) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £6,068 (2010–11: £8,291) representing 0.8 per cent of pensionable pay were payable to PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement.

No contributions were outstanding to the partnership pension providers at the Statement of Financial Position dates of 31 March 2012 and 31 March 2011.

2c Average Number of Staff Employed

Year to March 2012

	Permanent		Other		
	Senior Management Staff Number	**Payroll Staff Number**	**Inward Seconded Staff Number**	**Agency/ Temporary Staff Number**	**Year ended 31 March 2012 Total Staff Number**
Capacity and Infrastructure	1	65	0	1	67
Chief Executive's Office	1	16	0	0	17
Delivery	1	163	0	0	164
Finance	1	161	0	0	162
Information Management Services	1	141	0	10	152
National Apprenticeship Service	2	328	0	2	332
Human Resources and Facilities Management	1	28	0	0	29
Marketing and Communications	0	30	0	0	30
Relationships	2	273	0	2	277
Other Agency	0	138	0	0	138
	10	**1,343**	**0**	**15**	**1,368**

The total average full-time equivalent in the year was 1,466. The analysis above reflects the position since the Agency reorganised in October 2011. For information, the actual number of employees at the beginning and end of the year is shown in the table on page 9.

Year to March 2011

	Senior Management Staff Number	**Payroll Staff Number**	**Inward Seconded Staff Number**	**Agency/ Temporary Staff Number**	**Year ended 31 March 2011 Total Staff Number**
The average number of staff employed during the year, including the Chief Executive was:	12	1,658	0	22	1,692
	12	**1,658**	**0**	**22**	**1,692**

2d Civil Service Compensation Scheme Analysis

	Compulsory Redundancies		Other Departures		Total Departures	
Value	**2011–12**	**2010–11**	**2011–12**	**2010–11**	**2011–12**	**2010–11**
< £10,000	0	0	58	37	58	37
£10,000 – £24,999	0	0	157	55	157	55
£25,000 – £49,999	0	0	137	47	137	47
£50,000 – £99,999	0	0	73	47	73	47
£100,000 – £149,999	0	0	2	17	2	17
£150,000 – £199,999	0	0	0	15	0	15
£200,000 +	0	0	0	7	0	7
Total number of exit packages	**0**	**0**	**427**	**225**	**427**	**225**
Total resource cost of exit packages (£'000)	**0**	**0**	**13,110**	**12,643**	**13,110**	**12,643**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Agency has agreed early retirements, the additional costs are met by the Agency and not the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table above.

Three members of staff were made compulsorily redundant in April 2012.

3a Other Costs

Some of this expenditure is incurred in the administration of the Agency and some is incurred in the delivery of a shared service to the YPLA. Some costs are programme in nature because in addition to funding provision in the sector, the Agency also delivers some programmes directly.

	Year ended 31 March 2012 £'000		Year ended 31 March 2011 £'000
The 'Total Agency administration costs' line at the foot of the table shows the cost of administration for the Agency.			
Staff expenditure – travel, training and other	3,522		2,898
Publications, printing and publicity	1,287		899
Telecoms	2,349		2,753
Audit costs (Non-cash)	170	*	198
Other supplies and services	67		853
Computing	74,206	**	15,406
Premises	17,950		14,967
General administration and other costs	18,810		15,563
LSIS Administration Grant	12,198		0
Total Other costs	**130,559**		**53,537**
Other costs incurred in the delivery of programmes	(58,476)	***	(18,066)
Other costs incurred in the delivery of services to the YPLA	(5,008)		(7,735)
Total Agency administration costs	**67,075**		**27,736**

* The Agency was charged a notional audit fee of £170,000.

** The movement between years reflects a change in processes enabling the Agency to show total spending on computing more transparently. In 2011–12 we changed accounting processes to capture all computing costs in one place before charging them to their appropriate place in the accounts.

*** The most significant element of this is computing costs relating to systems – for example development of the National Careers Service system and maintaining the Apprenticeship Vacancy Matching System, which are Agency delivered programmes.

2011–12 Administration costs are not directly comparable with those for 2010–11 because, from April 2011, HM Treasury clarified what costs should be considered as 'Administration'. For the Agency this meant that some costs formerly categorised as 'Programme' costs were reclassified as 'Administration' costs.

3b Depreciation, Impairment and Losses on Disposal

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Property, plant and equipment (Note 6)		
Depreciation charge for period	1,467	1,738
Loss on disposal	981	50
Intangible assets (Note 7)		
Depreciation charge for period	20,145	23,804
Loss on disposal	4,358	15,137
Capital contributions from other organisation		(2,115)
Total charged for period	**26,951**	**38,614**

4a Programme Expenditure

		Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
4.01	**Classroom-based**		
	Classroom-based – Colleges	1,344,344	1,396,727
	Classroom-based – Training Organisations	18,958	0
	Classroom-based – College Additional Learning Support (ALS)	133,284	131,527
	First Step Provision – Adult Community Learning (ACL) Providers	37,485	36,474
	Invest to Save	(4,451)	17,866
	Provision for the Unemployed (PfU) Discontinued Programmes	(7,749)	143,356
	Total Classroom-based	**1,521,871**	**1,725,950**
4.02	**Adult Apprenticeships**		
	19+ Apprenticeships – Colleges	101,981	314,722
	19+ Apprenticeships – Training Organisations	237,331	0
	25+ Apprenticeships – Colleges	57,248	136,158
	25+ Apprenticeships – Training Organisations	228,042	0
	Total Adult Apprenticeships	**624,602**	**450,880**
4.03	**Other Workplace Training**		
	Other Workplace Training – Colleges	223,409	0
	Other Workplace Training – Training Organisations	109,046	0
	Train to Gain	194,208	743,476
	Total Workplace Training	**526,663**	**743,476**

4a Programme Expenditure (continued)

		Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
4.04	**Growth and Innovation Fund (GIF)**		
	Leadership and Management	19,278	30,047
	Joint Investment Programme	772	0
	Total Growth and Innovation Fund (GIF)	**20,050**	**30,047**
4.05	**Adult Safeguard Learning (ASL)**		
	Professional and Career Development Loans (PCDL) Safeguard	120,887	122,916
	Neighbourhood Learning in Deprived Communities	20,831	20,521
	Family Language Literacy and Numeracy	24,653	24,355
	Family Learning	11,864	11,906
	PCDL Safeguard (FE Providers)	31,667	30,107
	Total Adult Safeguard Learning	**209,902**	**209,805**
4.06	**Offender Learning**		
	Offender Learning	148,770	146,014
	Total Offender Learning	**148,770**	**146,014**
4.07	**Learner Support Funds**		
	19+ Hardship	52,354	39,458
	19+ FE Learners in Higher Education Institutions	187	771
	19+ Residential Bursaries	2,343	7,140
	20+ Childcare	54,958	37,609
	Residential Support Scheme	1,387	1,389
	Adult Learning Grant	13,342	30,196
	Career Development Loans	2,471	756
	Adult Bursary	2,911	2,910
	Total Learner Support Funds	**129,953**	**120,229**
4.08	**Information Advice and Guidance (IAG)**		
	Next Step Face to Face	45,371	45,616
	Next Step Helpline	13,381	16,998
	IAG IM Development	2,493	0
	Next Step Development	(9)	0
	National Careers Service Development	7,417	0
	Lifelong Learning Accounts	155	0
	Total Information Advice and Guidance	**68,808**	**62,614**

4a Programme Expenditure (continued)

		Year ended 31 March 2012 £'000		Year ended 31 March 2011 £'000
4.09	**Skills Infrastructure**			
	NAS BIS Non-Participation	15,863		10,552
	Training Quality Standard	(81)		406
	Golden Hellos/FE Grant	(3)		3,468
	Framework for Excellence	2,459		3,842
	LSIS	20,436		0
	Equality and Diversity	4,357		2,524
	UKSkills	3,221		21,695
	Health and Safety Booklets	64		100
	Learning Records Service	9,926		6,840
	Information Authority	718		785
	Data Services	6,367		3,603
	National Skills Academies	10,787		16,510
	UKonline	0		15,295
	Qualifications and Credit Framework	28		10,359
	Podium Funding	125		125
	YPLA Recharge Recurrent	(588)		0
	Voluntary Severance	(13,599)	*	15,996
	Voluntary Early Severance (VES)	10,726	**	0
	VES NAS	2,384	**	0
	Other/Discontinued Programmes	11,080		50,027
	Total Skills Infrastructure	**84,270**		**162,127**

4a Programme Expenditure (continued)

		Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
4.10	**Capital**		
	FE Capital Buildings	349,091	608,602
	Regional Skills Capital Development	2,154	5,958
	Skills Capital Projects Fund	7,250	9,267
	National Skills Academies – Capital	7,104	16,601
	ASL Capital Buildings	467	9,652
	Systems Development	15,251	17,464
	Integrated Adult Careers Service IT Build	(27)	4,677
	Local Education Authority Loan Liabilities	3,538	3,733
	Qualifications and Curriculum Framework – Capital	247	0
	PCDL Default Expenditure	8,642	10,365
	PCDL Receipts	(3,124)	(3,401)
	YPLA Recharge Capital	(3,119)	0
	Total Capital	**387,474**	**682,918**
4.11	**Department for Education (DfE) Funded Programmes**		
	16–18 Apprenticeships	758,966	744,870
	NAS DfE Non-Participation	3,009	6,499
	Young People's Helpline	2,395	0
	Total DfE Funded Programmes	**764,370**	**751,369**
4.12	**ESF and Other Non-BIS Funded Programmes**		
	ESF	98,175	297,370
	Train to Gain ESF Response to Redundancy	1,757	10,007
	Next Step ESF Response to Redundancy	12,427	6,104
	Other Funding	11,024	11,755
	Total ESF and Other Non-BIS Funded Programmes	**123,383**	**325,236**
	Total Programme Costs	**4,610,116**	**5,410,665**

Note: The descriptions and classifications of some programmes have been changed in 2011–12 to reflect the Funding Letter and reporting requirements of BIS for the same year. Comparatives for 2010–11 have been amended to ensure comparability. There is no financial impact as the change represents a re-analysis of the same programmes.

Grants to the private sector totalling £1,182,154 (2010–11: £1,432,660) are included in the values above.

* The significant movement between years represents a reclassification of an accrual made in 2010–11 to a provision in 2011–12 and does not represent additional expenditure to the Agency. See note 2a.

** Voluntary Early Severance refers to a specific programme whereby costs of staff departure from the Agency are charged in full to the year of departure.

5 EU and Other Income

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Other funding for activities		
ESF 2003/06	1,201	3,248
ESF 2007/13	97,894	295,007
Other programme income	24,931	28,258
	124,026	**326,513**
Income from activities		
Subletting of part of premises	421	232
Other activities income	13,372	14,394
	13,793	**14,626**
Total EU and other income	**137,819**	**341,139**

Following the closure of the Learning and Skills Council on 31 March 2010 and the creation of the Skills Funding Agency and the YPLA on 1 April 2010, arrangements were entered into to provide shared services between the two new bodies. The Skills Funding Agency provided human resource management, financial management, information management, internal audit investigation, and facilities services to the YPLA. The YPLA provided legal services and Learner Support administration to the Skills Funding Agency. These arrangements had largely ceased by the end of the 2011–12 financial year, except for information management services. The above income figures include sums paid by the YPLA to the Skills Funding Agency for shared services provided during 2011–12.

6 Property, Plant and Equipment

As at 31 March 2012	Furniture and Fittings £'000	Plant and Machinery £'000	Computers and Other IT £'000	Total purchased £'000
Cost or Valuation				
At 1 April 2011	13,190	427	4,101	17,718
Additions	623	0	579	1,202
Disposals	(2,492)	(211)	(971)	(3,674)
At 31 March 2012	**11,321**	**216**	**3,709**	**15,246**
Depreciation				
At 1 April 2011	(9,198)	(423)	(3,902)	(13,523)
Disposals	1,486	211	954	2,651
Charge for period	(1,323)	(1)	(143)	(1,467)
At 31 March 2012	**(9,035)**	**(213)**	**(3,091)**	**(12,339)**
Net book value (NBV)				
At 1 April 2011	3,992	4	199	4,195
Total NBV tangible non-current assets at 31 March 2012	**2,286**	**3**	**618**	**2,907**

As at 31 March 2011	Furniture and Fittings £'000	Plant and Machinery £'000	Computers and Other IT £'000	Total purchased £'000
Cost or Valuation				
At 1 April 2010	16,059	618	4,672	21,349
Additions	280	0	4	284
Disposals	(3,149)	(191)	(575)	(3,915)
At 31 March 2011	**13,190**	**427**	**4,101**	**17,718**
Depreciation				
At 1 April 2010	(10,872)	(597)	(4,145)	(15,614)
Disposals	3,124	191	514	3,829
Charge for period	(1,450)	(17)	(271)	(1,738)
At 31 March 2011	**(9,198)**	**(423)**	**(3,902)**	**(13,523)**
Net book value (NBV)				
At 1 April 2010	5,187	21	527	5,735
Total NBV tangible non-current assets at 31 March 2011	**3,992**	**4**	**199**	**4,195**

7 Intangible Assets

As at 31 March 2012	IT AUC £'000	IT Systems £'000	IT Software £'000	Total purchased £'000
Cost or Valuation				
At 1 April 2011	9,984	113,068	1,694	124,746
Transfer from Assets Under Construction (AUC)	(10,807)	10,807	0	0
Additions	19,218	0	6	19,224
Disposals	(26)	(15,628)	(690)	(16,344)
At 31 March 2012	**18,369**	**108,247**	**1,010**	**127,626**
Depreciation				
At 1 April 2011	0	(50,251)	(1,647)	(51,898)
Disposals	0	11,296	690	11,986
Charge for period	0	(20,104)	(41)	(20,145)
At 31 March 2012	**0**	**(59,059)**	**(998)**	**(60,057)**
Net book value (NBV)				
At 1 April 2011	9,984	62,817	47	72,848
Total NBV tangible non-current assets at 31 March 2012	**18,369**	**49,188**	**12**	**67,569**

7 Intangible Assets

As at 31 March 2011	IT AUC £'000	IT Systems £'000	IT Software £'000	Total purchased £'000
Cost or Valuation				
At 1 April 2010	9,758	121,293	1,881	132,932
Transfer from AUC	(8,890)	8,890	0	0
Additions	9,235	16,461	22	25,718
Disposals	(119)	(33,576)	(209)	(33,904)
At 31 March 2011	**9,984**	**113,068**	**1,694**	**124,746**
Depreciation				
At 1 April 2010	0	(45,081)	(1,780)	(46,861)
Disposals	0	18,560	207	18,767
Charge for period	0	(23,730)	(74)	(23,804)
At 31 March 2011	**0**	**(50,251)**	**(1,647)**	**(51,898)**
Net book value (NBV)				
At 1 April 2010	9,758	76,212	101	86,071
Total NBV tangible non-current assets at 31 March 2011	**9,984**	**62,817**	**47**	**72,848**

8 Financial Instruments

IFRS 7 requires the Skills Funding Agency to disclose information on the significance of financial instruments to its financial position and performance.

In addition to the risks associated with the Financial Guarantee relating to the PCDL programme (refer to note 14) the Skills Funding Agency is exposed to credit risk resulting from the non-payment of debts relating to private sector provision of training services and this is most usually attributable to insolvency. Private sector training providers are subject to quality and financial status reviews prior to being awarded contracts. Provision of funding is reconciled to earned values on a monthly basis with future payments adjusted to ensure the risk of building up debt is minimised. The overall financial impact of such instances is not material, as shown in notes 10 and 20.

As a partner organisation of BIS and with no borrowings, the Skills Funding Agency is not exposed to any market or liquidity risk.

The Skills Funding Agency has no material deposits in interest bearing accounts and as all material assets and liabilities are denominated in sterling, it is not exposed to any significant interest rate or currency risk.

9 The NAS Summary

The NAS is an integral part of the Skills Funding Agency although, with effect from 1 April 2011, it does have its own accounting officer who is responsible for the programme and administration budget. Accordingly, under IFRS 8, the NAS is considered to be an operating segment within the Skills Funding Agency.

This note is included in the Agency's accounts to provide the reader with a summary of the income and expenditure items that relate to the NAS contained within the balances in other notes. The items are directly incurred by the NAS. The assets and liabilities of the NAS are not separately reported to the Chief Executive of Skills Funding.

Agency Accounts note	Page	NAS element £'000
2 Staff Costs	68	
Salaries		15,758
Social security		1,459
Pension costs		2,948
		20,165
Other staff (includes agency/contract/seconded staff)		190
		20,355
Staff costs related to programmes		(7,417)
Staff costs related to the YPLA and other organisations		(43)
		12,895
3a Other administrative costs	71	
Staff expenditure – travel, training and other		641
Publications, printing and publicity		116
Telecoms		113
Other supplies and services		14
Computing		9
Premises		14
General administration and other costs		2,358
		3,265
Non-pay costs to programmes		(76)
		3,189

9 The NAS Summary (continued)

Agency Accounts note	Page	NAS element £'000
4 Programme expenditure	72	
Adult Apprenticeships		
19+ Apprenticeships – Colleges		101,981
19+ Apprenticeships – Training Organisations		237,331
25+ Apprenticeships – Colleges		57,248
25+ Apprenticeships – Training Organisations		228,042
Total Adult Apprenticeships		**624,602**
NAS BIS Non-Participation		15,863
UKSkills		3,221
VES NAS		2,384
Total Skills Infrastructure		**21,468**
16-18 Apprenticeships		758,966
NAS DfE Non-Participation		3,009
Total DfE Funded		**761,975**
ESF		28
Other Funding		336
Total ESF and Other Non-BIS Funded Programmes		**364**
Total Programme		**1,408,409**

9 The NAS Summary (continued)

Agency Accounts note	Page	NAS element £'000
5 EU and Other Income	76	
Other funding for activities		
ESF		(15)
Other programme income		338
		323
Income from activities		
Subletting of part of premises		9
Other activities income		2,331
		2,340
Total EU and other income		**2,663**
Net NAS Expenditure for the year		**1,421,830**

10a Trade Receivables and Other Current Assets

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Amounts falling due within one year Trade and other receivables		
Advances and other FE college receivables	47,676	35,237
Workplace Training receivables	14,374	4,417
Trade receivables	41	94
Tax and social security	0	1,996
ESF and other receivables	19,788	38,856
	81,879	**80,600**
Prepayment and accrued income		
ESF and other accrued income	75,851	74,037
FE college prepayments	0	19,772
Administration cost prepayments	2,089	3,090
Other prepayments	0	1,083
	77,940	**97,982**
Capital receivables (sale proceeds of non-current assets)	3	1
Total receivables and other current assets	**159,822**	**178,583**

Note: Receivables include a provision for doubtful debts of £11.2 million at 31 March 2012 (£7.6 million 31 March 2011).

10b Trade Receivables and Other Current Assets: Analysed by type of organisation

The following note provides an analysis of the receivables, accrued income and prepayments detailed above by type of organisation:

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Current receivables		
Local authorities	2,115	4,129
NHS trusts	153	260
Public corporations and trading funds	2	116
Other central government bodies	53,527	81,066
Balances with other government bodies	55,797	85,571
Balances with non-governmental bodies	104,025	93,012
Subtotal current receivables	**159,822**	**178,583**

11 Cash and Cash Equivalents

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Balance at 1 April	324,410	150,987
Net change in cash and cash equivalent balances	(93,571)	173,423
Balance at 31 March	**230,839**	**324,410**
The following balances at 31 March were held at:		
Government Banking Service	230,839	324,410
Commercial banks and cash in hand	0	0
Short-term investments	0	0
Balance at 31 March	**230,839**	**324,410**

12a Trade Payables and Other Current and Non-current Liabilities

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Amounts falling due within one year		
Trade payables	1,564	706
FE college payables	464	973
Workplace Training payables	1,451	106,680
Tax and social security	997	1
ESF and other payables	8,988	2,710
	13,464	**111,070**
ESF and other deferred income	68,332	25,785
Workplace Training accruals	164,821	32,006
Other accruals	147,591	230,256
	380,744	**288,047**
Subtotal payables, deferred income and accruals	**394,208**	**399,117**
Capital payables	9,872	9,009
Total payables and other current liabilities	**404,080**	**408,126**
Amounts falling due after one year		
Other Accruals	0	15,907
Total non-current liabilities	**0**	**15,907**
Total payables, other current liabilities and non-current liabilities	**404,080**	**424,033**

12b Trade Payables and Other Current Liabilities: Analysed by type of organisation

The following note provides an analysis of the payables, deferred income and accruals detailed above by type of organisation:

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Local authorities	547	2,575
NHS trusts	11	55
Public corporations and trading funds	48	810
Other central government bodies	53,869	27,316
Balances with other government bodies	**54,526**	**30,756**
Balances with non-government bodies	349,605	393,277
Total payables by organisation type	**404,080**	**424,033**

13 Provisions for Liabilities and Charges

2011–12	Early Retirement £'000	Career Development Loans £'000	Property £'000	Total £'000
Provision balance at 1 April 2010	4,753	2,748	2,165	9,666
Additional charge in year	0	2,163	1,675	3,838
Provision utilised in year	(4,753)	(1,337)	(1,105)	(7,195)
Provision unused and reversed during the year	0	(934)	(781)	(1,715)
Balance of provision at 31 March 2011	**0**	**2,640**	**1,954**	**4,594**
Provision balance at 1 April 2011	0	2,640	1,954	4,594
Additional charge in year	0	2,255	6,196	8,451
Reclassification	12,349*	0	0	12,349
Provision utilised in year	(788)	(1,888)	(3,624)	(6,300)
Provision unused and reversed during the year	0	(358)	(1,019)	(1,377)
Balance of provision at 31 March 2012	**11,561**	**2,649**	**3,507**	**17,717**
Indicative timing of outflows required to settle obligation				
Within one year	3,468	1,282	1,539	6,289
Between two and five years	6,574	1,367	1,968	9,909
Greater than five years	1,519	0	0	1,519
	11,561	**2,649**	**3,507**	**17,717**

* **Note:** This is a reclassification of a balance disclosed as a non-current liability in 2010–11.

Early Retirement

This covers the Skills Funding Agency's additional pension contributions for all early retirements up to October 2011 that were charged against programme expenditure. These are defined by and made to the scheme administrator for the period up to normal retirement age for individuals that retired early.

Career Development Loans

The Skills Funding Agency has a liability to cover interest payments that occur under this programme while the learners are in learning. This provision reflects the probable outflow of funds in relation to the cost of covering interest driven liabilities while the recipients of the loans complete their course.

Property

The Skills Funding Agency has some property that either has vacant space or will be disposed of in the near future. This provision reflects the probable cost of retaining the space or disposing of the property.

14 Financial Guarantee: Career Development Loans (Defaults)

	Career Development Loans (Defaults) £'000
Opening balance at 1 April 2010	31,408
Increase in the year	10,598
Expenditure in the year	(10,462)
Balance at 31 March 2011	**31,544**
Opening balance at 1 April 2011	31,544
Increase in the year	8,313
Expenditure in the year	(8,453)
Balance at 31 March 2012	**31,404**

Exposure to Risk
The PCDL programme operates by providing loans to learners to enable them to complete a course of study. High street banks provide the loans to learners at a rate of interest below what might ordinarily be offered to them in such circumstances. The Agency has a liability for the cost of default on such loans and for the interest costs of the loans while the learners are in learning. The majority of the liability is for the default on the loans that is classified as a financial guarantee in accordance with IAS39.

Credit Risk: Exposure at end of period
The majority of the liability arises from the credit risk that learners will not repay the loans and the values above show the expected value of this liability at the end of the reporting period. The values have been estimated as 15 per cent of the total forecast value of loans outstanding at the end of the reporting period.

The exposure to credit risk is mitigated by the application of credit and other checks before the loan is granted by the commercial banks operating PCDL schemes.

In accordance with the terms of the agreement with the banks, the maximum possible value of the guarantee to cover the cost of defaults is capped at 15 per cent of the total loan portfolio advanced since the beginning of the programme, and it is estimated to be £38 million.

Liquidity Risk
As an Agency funded by BIS, it is unlikely that the Skills Funding Agency will encounter any difficulty meeting its obligations under this financial guarantee. The rate of interest on the loans is fixed (currently at 9.9 per cent) so it is unlikely that the future cash flows to settle the obligation will change as a result of changes in the market interest rate.

Market Risk
The rate of interest on the loans is fixed (currently at 9.9 per cent) so it is unlikely that the future cash flows to settle the obligation will change as a result of changes in the market interest rate. Changes in the general level of market prices or changes in foreign exchange rates are unlikely to impact on the value of the outstanding liability.

15 Operating Lease Commitments

Total future minimum lease payments due under operating leases are given in the table below within each of the following periods:

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Obligations under operating leases at 31 March comprise:		
a) Land and buildings		
Not later than one year	6,995	6,645
Later than one year and not later than five years	22,420	21,934
Later than five years	18,042	20,643
	47,457	**49,222**
b) Others		
Not later than one year	175	66
Later than one year and not later than five years	599	80
Later than five years	0	0
	774	**146**

16 Capital Commitments

The Agency had no commitments for capital expenditure as at 31 March 2012 (31 March 2011: Nil).

17 Commitments to Make Grants to Colleges

Commitments to make grants to colleges at 31 March 2012 for Adult Skills related to the remaining period of the academic year April to July, together with capital commitments were as follows:

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Payable within one year		
Adult Skills (Colleges)	667,580	554,246
FE capital	132,622	175,967
	800,202	**730,213**
Payable between two to five years		
FE capital	127,864	334,441
	127,864	**334,441**

18 Contingent Liabilities

The Agency had no contingent liabilities as at 31 March 2012 (31 March 2011: Nil).

19 Related Party Transactions

The Skills Funding Agency is a partner organisation and consolidated into the resource account of BIS, which is regarded as a related party.

During this period the main entities that the Agency has had material transactions within government and the BIS group are:

- BIS (provision of grant funding to the Agency)
- DWP (provision of ESF funding to the Agency)
- ConstructionSkills (provision of funding by the Agency)
- Ufi Ltd (provision of funding by the Agency).

The Agency also entered into transactions with organisations that can be considered as related because of the nature of the involvement of the Agency's Executive Directors or their close family members.

As explained on page 15, the Agency has various advisory members. Some are related parties of organisations that receive funding from the Agency. As these members are employed in an advisory capacity, they have no influence over the Agency's funding decisions and allocations.

The table below details the most material transactions and the relationship of the organisations to the Skills Funding Agency. All transactions were in the normal course of business and were conducted at arm's length.

Agency Director/ Close Family Member	Agency Role/ Relationship	Related Organisation Role/ Relationship	Related Organisation	Transaction(s)	Value (£'000)	Amounts owed to related party (£'000	Amounts owed by related party (£'000)	Bad Debts (£'000)
Simon Waugh	Chief Executive, NAS	Non-Executive Board Member	World Skills London 2011 (The Skills Show Ltd from 29 February 2012)	The Agency provided funding	622	0	0	0
Simon Waugh	Chief Executive, NAS	Non-Executive Board Member	World Skills London 2011 (The Skills Show Ltd from 29 February 2012)	The Agency received income	166	0	0	0
Paul McGuire	Executive Director, Finance	Treasurer	WorldSkills Europe Ltd.	Membership Fee	10	0	0	0

20 Losses and Special Payments

20a Losses Statement

The Skills Funding Agency incurred the following significant cash losses in the period to 31 March 2012. The losses have been charged to the relevant programme in note 4 or other costs in note 3a.

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Description		
Workplace Training, including Train to Gain		
Cases above £250,000 individually	2,541	2,574
Cases below £250,000 individually	680	521
	3,221	**3,095**
ESF		
Cases above £250,000 individually	535	0
Cases below £250,000 individually	509	127
	1,044	**127**
Other Programme Provision		
Cases above £250,000 individually	0	0
Cases below £250,000 individually	47	8
	47	**8**
Administration expenditure		
Cases above £250,000 individually	0	0
Cases below £250,000 individually	9	1
	9	**1**
Balance at 31 March 2012	**4,321**	**3,231**

At 31 March 2012 there were 51 cases, of which four were above the reporting threshold of £250,000 individually. The four cases above the reporting threshold were as follows:

Organisation	**£'000**
Skills and Enterprise Development (two cases)	1,685
Key Skills Training	1,071
Maxforce Services UK Ltd	320

20a Losses Statement (continued)

The majority of these losses are the result of errors found following an audit of programme funding. The losses listed above relate to cases where the Skills Funding Agency has been unable to recover these overpayments, usually as the providers have gone into liquidation. These losses are subject to approval from the relevant authority below:

The Chief Executive of Skills Funding has delegated authority to approve the write-off of cash losses with an item value of up to £10,000 and subject to a limit of £250,000 in any one year. BIS and HM Treasury have approved the other cases within their respective authorities as summarised below:

Authority	Item value	31 March 2012 Number of cases	31 March 2012 Loss £'000
Agency	Up to £10,000	25	101
BIS	£10,000 to £250,000	22	1,144
BIS	£250,000 to £2,000,000	4	3,076
HM Treasury	Over £2,000,000	0	0
Total Losses		**51**	**4,321**

20b Special Payments

The Skills Funding Agency incurred no special payments in the period to 31 March 2012 (31 March 2011: Nil).

20c Constructive Losses

The Agency made payments of £2 million to purchase early release from two onerous property leases during 2011–12. The payments were made on the basis of value for money cases demonstrating future cost savings.

21 Events after the Statement of Financial Position Date

There have been no events between the Statement of Financial Position date and the date the accounts were authorised for issue requiring an adjustment to the financial statements.

The date the accounts were authorised for issue is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

Glossary and Further Information

This is a brief guide to the main strategies, initiatives, partners and programmes which are mentioned in this report.

Adult Safeguarded Learning
The Agency maintained a national programme of leisure and occupational courses for adults through local FE colleges. The Agency also provided extra funding for other projects such as family and neighbourhood learning.

Adult Skills Budget
As part of the new streamlined funding system for adult skills, a single Adult Skills Budget (ASB) is allocated to fund the delivery of education and training services. The single ASB provides the freedoms and flexibility for providers to meet the needs of learners and employers.

Apprenticeships
An Apprenticeship is a work-based training programme, designed around the needs of employers, which leads to nationally recognised qualifications. There are almost 200 Apprenticeship frameworks, suitable for hundreds of job roles. The Government helps to fund the training elements of Apprenticeships and the frameworks are designed and developed by Sector Skills Councils to ensure that the training is industry relevant.
www.apprenticeships.org.uk

Association of Colleges
The Association of Colleges (AoC) is a not-for-profit organisation that represents and promotes the interests of colleges and provides members with professional support services. The membership includes general and tertiary FE colleges, sixth-form colleges and specialist colleges in England.

Association of Employment and Learning Providers
The Association of Employment and Learning Providers (AELP) is a national membership organisation and is the recognised voice of independent providers who engage in government funded skills training and employability programmes throughout England.

Department for Business, Innovation and Skills
www.bis.gov.uk

Department for Education
www.dfe.gov.uk

Department for Work and Pensions
www.dwp.gov.uk

Education Funding Agency
Under the Education Act 2011, the responsibilities of the former Young People's Learning Agency (YPLA) transferred to the Education Funding Agency (EFA) on 31 March 2012.

Enhanced Renewal Grants
Enhanced Renewal Grants (ERG) are additional capital funding granted to colleges through a challenge fund process assessed against set criteria. The grants are up to a maximum (including the Renewal Grant) of £2 million, with matched expenditure from the college (of at least twice the grant sum requested).

FE Choices
A publication of four performance indicators previously published under the Framework for Excellence, published as part of the FE Public Information framework. This publication updates the information available on Success Rates, Learner Satisfaction and Employer Satisfaction.
fechoices.skillsfundingagency.bis.gov.uk

Financial Reporting Manual
The Financial Reporting Manual (FReM) is the technical accounting guide that complements guidance on the handling of public funds published separately by the relevant authorities. The Manual is prepared following consultation with the Financial Reporting Advisory Board and it is issued by the relevant authorities in England and Wales, Scotland and Northern Ireland.

Further Education
There are two streams of education for people over 16: further education (FE) and higher education (HE). FE covers learning opportunities up to A-level and NVQ Level 3 standard.

Higher Education
Higher education (HE) includes courses above A-level or NVQ Level 3 standard. Examples include degree courses, postgraduate courses and Higher National Diplomas (HNDs).

Higher Education Funding Council for England
The Higher Education Funding Council for England (HEFCE) distributes public money for teaching and research to universities and colleges, and aims to promote high-quality education and research that meet the needs of students, the economy and society.

Jobcentre Plus
A government agency supporting people of working age from welfare into work, and helping employers to fill their vacancies.

Learning and Skills Improvement Service
The Learning and Skills Improvement Service (LSIS) is a sector-owned body formed from the Quality Improvement Agency and the Centre for Excellence in Leadership. Focusing on learners, it aims to develop excellent and sustainable FE provision across the sector, implementing the Government's reforms for learning and skills.
www.lsis.org.uk

Lifelong Learning Accounts
A Lifelong Learning Account (LLA) is a free, online service aimed at adults aged over 19 throughout England. Available on the National Careers Service website it gives individuals access to a range of information and tools, to match their personal circumstances and needs – the results of which can be saved in a secure, private and easily accessible space.
direct.gov.uk/lifelonglearningaccount

Local Authorities
Local authorities are responsible for meeting the learning needs of all young people up to the age of 18. They develop strategic commissioning plans for their area, working with neighbouring authorities, assessing demand for and required supply of 16-18 provision, including the academic route, Diplomas, Apprenticeships and the Foundation Learning Tier.

Local Enterprise Partnerships
Local enterprise partnerships (LEPs) are led by local authorities and businesses across natural economic areas. They provide the vision, knowledge and strategic leadership needed to drive sustainable private sector growth and job creation in their area. There are currently 39 agreed partnerships across England.

Minimum Contract Levels
The Skills Investment Strategy, *Skills for Sustainable Growth*, introduced a Minimum Contract Level (MCL) for the 2011/12 academic year of £500,000, and this threshold will continue for 2012/13.

National Apprenticeship Service
The National Apprenticeship Service (NAS) focuses on increasing the number of apprentices in England. They work with employers to help them introduce apprentices into their businesses, help those looking to start their careers find an Apprenticeship job opportunity, and contribute towards the costs of the training and qualifications within an Apprenticeship. The NAS engages with a wide range of partners to help design the Apprenticeship frameworks, and they implement all government policies aimed at improving the quality and quantity of Apprenticeships.
www.apprenticeships.org.uk/

National Careers Service
The National Careers Service (formerly Next Step) provides information, advice and guidance to help make decisions on learning, training and work opportunities. The service offers confidential, helpful and impartial advice, supported by qualified careers advisers.
nationalcareersservice.direct.gov.uk

National Institute of Adult Continuing Education
The National Institute of Adult Continuing Education (NIACE) is an independent charity which promotes adult learning across England and Wales.
www.niace.org.uk

Qualifications and Credit Framework
The Qualifications and Credit Framework (QCF) is a system for recognising skills and qualifications. It does this by awarding credit for qualifications and units; each unit has a credit value. The flexibility of the system allows learners to gain qualifications at their own pace along routes that suit them best.

Register of Training Organisations (The Register)
The Register of Training Organisations (formerly known as ACTOR) is a list of organisations that are eligible for funding from the Chief Executive of Skills Funding (the Agency) to deliver education and training services in England.
skillsfundingagency.bis.gov.uk/providers/programmes/register

Renewal Grants
Renewal Grants are capital grants of £100,000 that were issued to 244 eligible colleges in November 2011 and January 2012. A condition of this funding was that the college would also apply at least two-thirds of the project cost from its own resources and it would be used against set criteria.

Sector Skills Councils
Sector Skills Councils (SSCs) are independent UK-wide organisations representing groups of employers, and exist to improve skills and productivity in their sector.

Skills Investment Statement
On 1 December 2011, the Government published *New Challenges, New Chances: The Skills Investment Statement 2011–2014: Investing in a World Class Skills System*, setting out the Skills Investment Strategy, key policy objectives and operational drivers for the FE and skills sector for 2011–14.

UK Commission for Employment and Skills
The UK Commission for Employment and Skills (UKCES) is a non-departmental public body providing strategic leadership on skills and employment issues in the four nations of the UK.

WorldSkills
WorldSkills International is a not-for-profit membership association open to agencies or bodies which have a responsibility for promoting vocational education and training in their respective countries/regions. WorldSkills International operates worldwide and is politically and denominationally neutral.

WorldSkills UK
WorldSkills UK is a portfolio of skills competition activity managed by the National Apprenticeship Service in partnership with organisations from industry and education. WorldSkills UK is promoted through a range of organisations and is supported by a network of champions. The competition activity is designed to raise participation, esteem and standards in Apprenticeships and vocational training. Outstanding competitors, aged 18-25, who excel in WorldSkills UK competitions will be invited to compete for a place in the team that represents the UK at WorldSkills, the biennial international skills competition. The next international WorldSkills Competition will be held in Leipzig, Germany in 2013.
worldskillsuk.apprenticeships.org.uk

Young People's Learning Agency
The Young People's Learning Agency (YPLA) funded the FE provision for 16- to 19-year-olds in England, including education delivered by academies, FE colleges and sixth-form colleges. Under the Education Act 2011, the YPLA ceased to exist on 31 March 2012. As a result, the responsibilities of the YPLA have transferred to the Education Funding Agency (EFA).

24+ Advanced Learning Loans
24+ Advanced Learning Loans (previously known as FE Loans) will be introduced from the 2013/14 academic year and will provide support for learners aged 24 and over to access skills provision at Levels 3 and 4 (including advanced and higher Apprenticeships).

157 Group
The 157 Group is a membership organisation that represents 27 large, successful and regionally influential FE colleges in England. It is committed to excellence and achieving success for the sector, leading policy development, and improving the quality and reputation of FE.

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BIS | Department for Business Innovation & Skills

Published by the Skills Funding Agency

This publication is available in electronic form on the Skills Funding Agency website: www.bis.gov.uk/skillsfundingagency

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Skills Funding Agency – P – 120151

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ISBN 978-0-10-297916-9

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