

Skills Funding Agency Accounts 2014-15

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

Introduction

1. The Skills Funding Agency (the Agency) is an Executive Agency of the Department for Business, Innovation and Skills (BIS). It assumed Executive Agency status on 25 May 2015, having previously being designated as a Corporation Sole. The Agency's main role is to provide £4 billion for skills training to support around 3.3 million learners aged 19-and-over in the Further Education sector. In addition, the Agency administers the College Capital Investment Fund (CCIF) to provide Further Education (FE) colleges funding for capital projects.

The purpose of my report

2. My report sets out the facts that have resulted in my qualification on the grounds of the irregularity of expenditure included in the Agency's accounts for the year-end 31 March 2015. I am required to examine, certify and report on the financial statements of the Agency. This involves satisfying myself that, in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by Parliament and conform to the authorities which govern them (regularity). Regularity in the central public sector is defined and governed by HM Treasury's *Managing Public Money*, which establishes the principles for propriety and regularity.

3. During the course of my audit, I identified payments totalling £49.9 million from the Agency to 17 FE colleges that I consider to be 'payments in advance of need'. These payments do not comply with *Managing Public Money*, which specifically prohibits payments in advance unless in exceptional circumstances, since this leads to unnecessary financing costs for the Exchequer. If exceptional circumstances arise that mean such payments are necessary, *Managing Public Money* requires organisations to seek approval from HM Treasury in advance.

4. The Agency did not seek approval before making these payments. It subsequently sought retrospective approval from HM Treasury and this was refused on the grounds that the Agency had not sufficiently demonstrated the benefit or value for money from making these payments.

Overall Conclusion

5. £49.9 million of payments made in advance of need do not comply with *Managing Public Money* and therefore the authorities which govern the Agency. Accordingly, I have qualified my audit opinion on the grounds of a material irregularity.

Payments in advance of need to Further Education colleges

6. The CCIF is the Agency's capital funding mechanism established as a part of the FE College Investment Strategy in December 2012. 2014-15 was the final funding round and 95 colleges were awarded funding to support approved capital projects. In 2014-15, the Agency incurred capital expenditure of £296 million (compared with £387.1 million in 2013-14).

7. From 1 April 2015, responsibility for public funding of capital projects at FE colleges passed from the Agency to local enterprise partnerships, which are sponsored by the Department for Communities and Local Government (DCLG). Ahead of this transfer of responsibility, the Agency decided to distribute the remaining capital funds for the remaining projects to colleges by 31 March 2015. At the time of the decision the colleges' assessed that the funds would be utilised in year.

The Agency paid out £143 million in capital grants to FE colleges in February and March 2015. I have concluded that £49.9 million of these grants were paid in advance of need. The Agency has recognised prepayments of this amount in the accounts. Evidence of slippage in the capital programme was already evident in December 2014. However, the Agency did not challenge the

revised expenditure profiles submitted by colleges sufficiently before deciding to make the remaining capital grant payments in February and March 2015.

8. As a consequence of the grants being paid in advance of need and HM Treasury's refusal to provide retrospective approval, the grant expenditure will score against the 2015-16 capital budget rather than 2014-15. The Agency will have to secure resources equivalent to this amount for 2015-16.

Action Planned by the Skills Funding Agency

9. The Agency's Chief Executive, as Accounting Officer, will be commissioning a review by the Government Internal Audit Service of the financial management and control arrangements relating to the CCIF which will report jointly to the Chief Executive and the BIS Director General, Finance and Commercial. The Chief Executive is also commissioning his programme assurance team to review the compliance by colleges with the financial programme management arrangements for the CCIF. If this review identifies that colleges claimed funds in advance inappropriately, the Agency will seek to recover those funds.

**Sir Amyas C E Morse
Comptroller and Auditor General
9 July 2015**

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