



Skills Funding  
Agency

# Annual Report and Accounts 2012-13

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# The Skills Funding Agency Annual Report and Accounts for **2012–13**

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

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# Contents

Chief Executive's Review	2
What We Do	5
Performance in the Financial Year 2012-13	6
Our Achievements in the Academic Year 2011/12	7
Our Management Team	22
Programme Assurance	24
Reporting of Personal Data-related Incidents	27
Financial Commentary	28
Sustainability Report	32
Remuneration Report	37
Statement of Chief Executive of Skills Funding's Responsibilities	44
Governance Statement	46
Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	55
Statement of Comprehensive Net Expenditure	57
Statement of Financial Position	58
Statement of Cash Flows	59
Statement of Changes in Taxpayers' Equity	60
Notes to the Accounts	61
Glossary and Further Information	89
Glossary of Financial Terms	96

# Chief Executive's Review

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2012 was a year of significant progress for further education (FE) and skills and we, the Skills Funding Agency, were proud to be a part of it.

The scale of FE is truly impressive, serving over three million adult learners, of which an overwhelming majority go on to employment or further learning and tell us that they were at least satisfied or more than satisfied with their experience of further education. 140,000 employers and their employees benefited from government-funded training. The wide range of skills training delivered reached every part of the country and every sector of the economy.

For us, it was a year of change as we moved several steps closer to becoming a conventional executive agency of the Department for Business, Innovation and Skills (BIS). During the year, the National Apprenticeship Service (NAS) also moved to become an integral part of the Skills Funding Agency whilst continuing its focus on increasing the number of high-quality apprentices in England.

The year was also defined by changes of leadership at both the Skills Funding Agency and BIS. We delivered our first three months of work under the leadership of Geoff Russell, before I took up the post of Chief Executive in August 2012. I would like to thank Geoff for all his good work in the Agency and his support during the transition. Shortly after that, the Prime Minister appointed Matthew Hancock to the role of joint Parliamentary Under Secretary

of State for Skills (BIS) and the Department for Education (DfE), replacing John Hayes as the Minister for Further Education and Skills. Throughout these changes we worked towards implementing the Government's plans, as set out in *Skills for Sustainable Growth* and latterly in *New Challenges New Chances*. In these plans the Government prioritised investment in high-quality education and training, focused on apprentices, young adults, the low-skilled and the unemployed.

Our Apprenticeship programme in England went from strength to strength, resulting in a record 520,000 people starting an Apprenticeship in 2011/12\*, with 40 per cent of those starting advanced-level or higher Apprenticeships. And this year we had the most successful National Apprenticeship Week ever, with 900 events and activities taking place across the country, generating the highest level of media coverage ever achieved during the campaign's six-year history.

The Chancellor's *Autumn Statement* and the *Funding Policy Statement* were a vote of confidence in further education and in us. They described a national, efficient and effective agency, enabling a flourishing skills system to meet local and sector demands through its sustained dialogue with colleges, training organisations and employers.

We made good progress in strengthening the skills system so that it provides the highly skilled workforce that we know is vital for economic recovery. The introduction of the single Adult Skills Budget (ASB), and incentives to guide the further education and skills sector, reflected the Government's commitment to free colleges and training organisations so that they could better respond to their communities.

\* The Agency manages its finances on the basis of the financial year (April to March), and delivers its programmes on the basis of the academic year (August to July). Throughout this report we refer to the financial year in the format '2012-13' (hyphen) and the academic year in the format '2012/13' (oblique).

The funding system moved closer to one that is employer-owned, so that employers are supported to access the training they need to become globally competitive. We are committed to this principle and look forward to supporting the implementation of the Richard Review in the coming year.

Throughout the year, we worked to develop a new funding system that is fair, assures the proper use of public funds and provides real value for money for taxpayers. Our new, simpler funding system, to be implemented in August 2013 following a year of shadow arrangements, is a very important milestone in our journey. We gave the FE sector information earlier than ever before – including the *Funding Rules 2013/2014*, the funding rates and the loan facilities – to make sure that the sector could plan in good time. Our *Funding Rules 2013/2014* was awarded the Plain English Campaign's Crystal Mark for clarity, a particularly difficult task in this highly technical aspect of our work.

We continued to develop our approval processes for colleges, training organisations and employers, and reopened The Register of Training Organisations. The register provides assurance on the organisations we fund and plays an important role in identifying those wanting to compete for future funding. To ensure that our provider base is dynamic, we have worked on innovative funding systems, in particular those that support employer ownership of skills. We also continued to fund capital projects using a needs-based, well-controlled allocation system, to support the quality of the FE infrastructure and estate.

In response to Government's 'transparency agenda' we have placed greater importance on being impartial at every level of our organisation, on making our decisions clear, and on sharing information with the FE sector, employers and individuals. The year also saw the very successful launches of both the Personal Learning Record (PLR) and the Unique Learner Number (ULN). These will be essential tools in enabling learners to track learning and training throughout their lives. Our Information Management (IM) Services division played a

crucial role in these developments as they do in all our business systems in an increasingly digitalised environment.

The Government's vision for a further education system that puts learners and customers at its very heart is supported by our National Careers Service. This offers a responsive, up-to-date service to learners and employers. As its first year came to a close, we evaluated and celebrated its achievements. Of particular note was the National Careers Service receiving **matrix** accreditation. This is the FE sector's quality standard for all contractors and organisations that provide careers information, advice and guidance services.

Alongside BIS Local we developed our relationships and work with Local Enterprise Partnerships (LEPs), Core Cities and 'whole place areas'. This ensured that skill development supported growth in localities, enabling local stakeholders to benefit from the contribution that further education makes both economically and socially. In line with the Government's growth strategies and the Heseltine Report, our work in each locality continues to reflect an evolving role for the Agency at local level. We await the Government's final response to the Heseltine Report this summer.

One of the landmark FE events of the year was the first Skills Show, which took place in November at the NEC in Birmingham. This annual skills and careers event is the largest in the UK and in 2012 it had almost 71,000 visitors. At WorldSkills Europe in Spa, Belgium, in October 2012, 34 young people were selected to represent the UK at the next WorldSkills International skills competition in Leipzig in 2013.

In 2012, we were recognised for our outstanding financial management within the public sector when the Chartered Institute of Public Finance and Accountancy (CIPFA) rated our financial management to be the best of more than 30 organisations it had reviewed in recent years. As in previous years, in 2012-13 we managed our budgeted resource to within 1 per cent, and delivered our annual audited accounts earlier than last

year. Other major achievements of 2012 included receiving an award from the New Engineering Foundation for our Innovation Code, which enables colleges and other training organisations to respond to the needs of business where the qualification system is seen to be a barrier.

Throughout the year, we continued to consolidate as an organisation and to demonstrate our technical expertise. Importantly, we continued to improve our reputation across the FE sector by listening and responding to the views of the Government, colleges, training organisations, employers and other stakeholders. To ensure that the Agency is responsive to its customers we launched our second annual Provider Survey in July 2012. More than 71 per cent of respondents agreed that the freedoms and flexibilities we had introduced enabled colleges and training organisations to manage funding more effectively.

I have found my new role to be enjoyable and stimulating. There will be continued challenges and work to do in this rapidly changing area of government. I intend to develop the Skills Funding Agency as an outstanding, responsive and modern public service.

I would like to express my gratitude to all staff at the Agency for their continuing hard work and to our Advisory Board and the Audit and Risk Committee for their invaluable support and challenge. And as 2012/13 comes to a close, I would like to give my sincere thanks to colleagues throughout the sector, for the strength of your commitment to further education and for the warmth of welcome you gave me in my first year as Chief Executive of Skills Funding.



**Kim Thorneywork**

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

6 June 2013



# What We Do

Our job is to fund and promote adult FE and skills training in England for over three million learners, including apprentices

We are a partner organisation of the Department for Business, Innovation and Skills (BIS). Our job is to fund and promote adult FE and skills training in England for over three million learners, including apprentices, in a way that supports economic growth. We are responsible for making sure that funding follows the demands of learners and employers in the most cost-effective way. Our direction was set by the Coalition Government's skills strategy, set out in *Skills for Sustainable Growth* in 2010, and it has been refreshed by the publication of *Rigour and Responsiveness in Skills* in April 2013.

Each year the Government specifies its policy priorities for the FE and skills sector in a Skills Funding Statement, and sets out the overall level of funding available to meet those priorities. Our task is to introduce these priorities in line with the Chief Executive of Skills Funding's statutory duty to promote and secure reasonable further education for adults in England. To achieve this, we influence and support the capacity and quality of the FE and skills sector so we can fund, within the published budget, the demand for high-quality skills training.

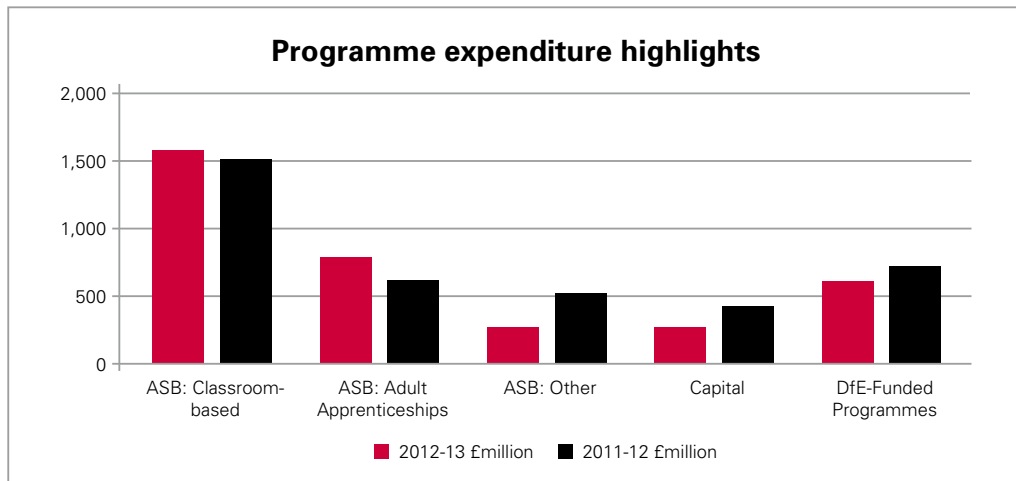
To make the FE and skills sector work, we contract with a diverse range of organisations, including colleges, higher education institutions, private training organisations, local authorities and large employers. In addition, our direct contractors have supply chains that enable FE and skills to reach into every area of the country and every sector of the economy.

We are a co-financing organisation for the European Social Fund (ESF). We have a range of provision that includes Community Learning and the Offender Learning and Skills System (OLASS), which funds learning for offenders who are in prison or being supervised in the community.

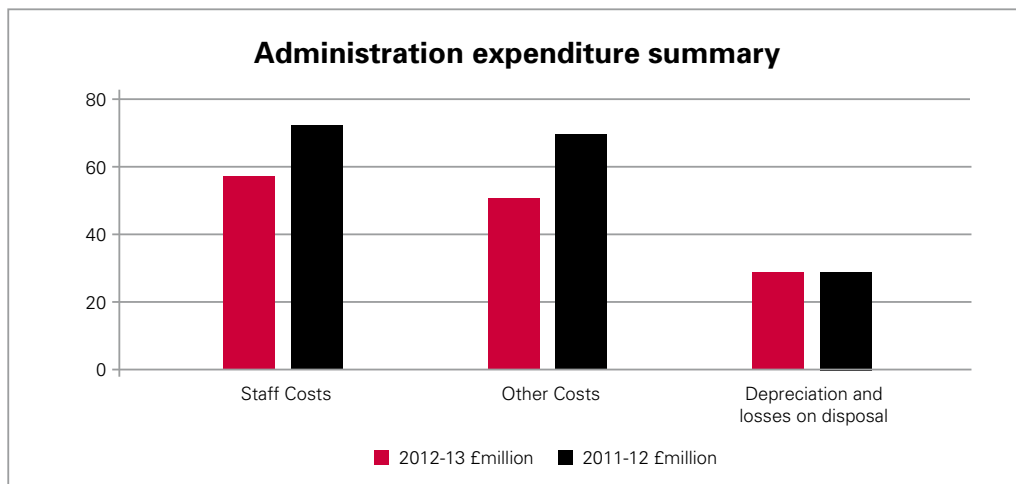
We manage more than £4 billion of funding each year to deliver high-quality skills and learning. The priority is to channel funding specifically to young adults, the low-skilled and the unemployed – all groups that have a vital contribution to make to the economy and to society.

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# Performance in the Financial Year 2012-13



- Total programme expenditure fell by 4.9 per cent to £4.39 billion and the chart above shows the relative impact on selected areas.
- Within this overall movement some programmes have enjoyed a rise in expenditure, most notably for the Adult Apprenticeships element of the ASB.
- Others have seen a reduction in expenditure such as Capital, although more funding has been made available for investment over the next two years.



- After allowing for a reclassification of staff costs last year, and excluding the Learning and Skills Improvement Service's (LSIS) grant costs, the Agency reduced expenditure on administration by 13 per cent. This means that we cost the taxpayer almost £19 million less this year.
- Depreciation also fell, although this is offset by the cost of removing some items from the Agency's asset register.
- The Agency continued to build on the recognition from CIPFA in 2012 that our financial management is outstanding by delivering another underspend against the administration budget.

# Our Achievements in the Academic Year 2011/12

## Simple, single and streamlined funding

The *Skills Funding Statement 2012/2015*, published by the Department for Business, Innovation and Skills in December 2012, confirmed that for the 2013/14 academic year we would implement a single, demand-led funding system for adult skills. Over the past two years, we have worked closely with the FE sector to review and simplify all aspects of the current funding system – rates, formula and earnings method. The new funding system has provided a clearer and more transparent way of funding adult learning. Colleges and private training organisations have used the ‘shadow funding’ software to run the new funding system alongside existing ones for 2011/12 and 2012/13, to prepare for the new funding system coming into force in August 2013.

In response to feedback from the sector, we published our funding rules in a new format. We wrote them in plain English to make them as clear as reasonably possible for the intended audience, and for the first time received the Crystal Mark from the Plain English Campaign. This was a significant achievement.

The *Funding Rules 2013/2014* contain the rules on the Innovation Code, with its renewed focus on helping the unemployed find work and improving working relationships with local organisations. The Innovation Code was introduced in April 2012 to allow colleges and private training organisations to deliver programmes that respond to the needs of local employers and learners, in situations where there is no qualification currently available. By using the Innovation Code, colleges and private training organisations can respond more quickly to local demand. At the same time, they can

### Case Study

Karen Woods

Karen didn't do well at school, so it wasn't until she was nearly 40 that her writing ability began to show. She was working as a cleaning supervisor and enrolled on an initiative to improve literacy and numeracy skills. Her literacy tutor was immediately struck by her drive and academic potential, but realised she'd lacked confidence and life opportunities. Karen gained Adult Literacy Levels 1 and 2 and, during this time, she revealed that she'd always wanted to write a novel. With encouragement from her tutor, she completed her first novel, *Broken Youth*, within weeks. Karen continued writing and is now a published author of seven novels. She has written a script for *Broken Youth* and it will premiere at Manchester's Lowry Theatre in 2013.

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work with awarding bodies to develop a qualification to recognise learners' learning and skills.

### What we funded

At the start of the 2012/13 academic year we entered into contracts with 1,045 colleges and private training organisations to deliver £4.1 billion of FE and skills training. £2.6 billion was contracted through the ASB and £860 million through 16-18 Apprenticeships. We contracted £210 million through Community Learning and £109 million through the OLASS. The European Social Fund (ESF) is not contracted for each year, but we estimate that in 2012/13 colleges and private training organisations will provide FE and skills training to a value of £163 million.

Most of the funding we provided (around 85 per cent), came from the ASB. This allowed approximately 2.5 million learners to take part in learning. Around £750 million of this funded learners aged over 19 in Apprenticeships, supporting more than 600,000 learners. In 2011/12, 390,000 learners over the age of 19 started an

## 1,045 colleges and training organisations deliver £4.1 billion of FE and skills training

Apprenticeship programme. More than 180,000 apprentices over the age of 19 successfully completed their programme in 2011/12, an increase of 54 per cent on the previous year. Slightly more than 70 per cent of learners who started an Apprenticeship successfully completed it.

Approximately 320,000 learners undertook workplace learning in small- and medium-sized businesses. Although this is a reduction from the previous year, it is in line with the Government's priorities to focus funding for workplace learning through Apprenticeships.

The Government recognises that focusing funding on young adults will produce long-term economic benefits. Twenty-four per cent of all adult learners were aged

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between 19 and 24, and this increased to 44 per cent in Apprenticeships.

English and maths are essential for people to play a role in society, progress into vocational learning and employment, and work more productively. Over one million learners took part in basic maths and English learning, which is a 13 per cent increase on the previous year.

As part of the Government's commitment to help unemployed people into work, we fully funded learning for people receiving Jobseeker's Allowance and Employment and Support Allowance. In 2011/12, we supported 212,000 unemployed learners, a 44 per cent increase on the previous year.

In 2012/13, pilot Community Learning Trusts worked in new ways to maximise the use of public funding to improve the social and economic well-being of people, families and communities. Each year we spend £210 million on Community Learning (previously known as Adult Safeguarded Learning), supporting around 680,000 learners.

The aim of OLASS is to enable offenders who are in prison or supervised in the community to gain skills and qualifications

they need to hold down a job and play a role in society. Our funding supports around 90,000 offenders each year.

We hold delegated responsibility for delivering 16-18 Apprenticeships on behalf of the National Apprenticeship Service (NAS) and the Department for Education (DfE). In 2011/12, 130,000 young people started an Apprenticeship and 78,000 learners successfully completed their Apprenticeship.

In 2012/13, our funding will be £3 billion. The *Skills Investment Statement* indicated that the ASB might support 2.9 million learners, of which 650,000 could be apprentices aged 19 or above.

## Driving up the quality of what we fund

We strengthened and enforced our commitment to driving high-quality provision across the FE sector through 'minimum levels of performance'. Using comprehensive risk assessment and management intervention, we made sure that colleges and other training organisations continued to deliver above the recognised thresholds for the FE sector.

To provide further assurance on the reliability of the FE and skills sector, we established a rigorous due diligence process. This means that every college and private training organisation, including subcontractors delivering publicly funded training provision costing £100,000 or more, must successfully complete the Due Diligence Assurance Gateway and go on the register of Training Organisations, which replaced the Approved College and Training Organisations Register (ACTOR) with a less bureaucratic process. The process is intended to make sure that all organisations involved in delivering publicly funded training can manage public money and provide high-quality learning services.

The Whole College and Provider View programme was put in place, in partnership with the Education Funding Agency (EFA),

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## Case Study

Debbie Stanley-Jones

Debbie was made redundant from her job as an Inventory Support and Process Manager with Woolworths after more than 30 years' service. She saw this as an opportunity to embark on a new career and enrolled on a six-week taster course in plumbing at Filton College, Bristol. After successfully completing the taster course, Debbie progressed to a Level 2 basic plumbing course and qualified in September 2009. She then gained some hands-on experience, which led to her setting up her own business, 'Plumbher'. In 2010, Debbie also was named as the winner of the Alfred Telling Award – 'Bristol's Entrepreneur 2010'.

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## Our communication with the FE sector has improved with over 80.9 per cent agreeing that our communications are written in plain English

to identify and assess the cost of the bureaucratic burdens placed on colleges and other training organisations. The programme was based on detailed reviews at four participating colleges. The colleges were asked to specify what they thought were the most costly or frustrating bureaucratic burdens placed on them. A further four colleges were asked to form a comparison group and, during 2012, the programme was extended to include a number of other colleges and private training organisations, as well as other representatives from the FE sector.

The IM Services division led on Agency work in response to the Government's Digital Strategy. Working closely with Government Digital Services it positioned the NAS as an exemplar service, with a strategy and implementation plan tailored

around self-service and a simple online journey. The IM Services division also supported the BIS open data strategy, and ensured that we published data so that others could reuse it.

The second annual Provider Survey was carried out, which received 448 responses, 75 per cent more responses than last year. There was a strong improvement in our relationship with the FE sector, with a 20 per cent increase in colleges and private training organisations agreeing that they understood the roles and responsibilities of our staff. More than 18 per cent of those responding to the survey agreed that we are effective in our role as a funding and promoting body. More than 71 per cent also agreed that the freedoms and flexibilities we have introduced enabled colleges and private training organisations to manage funding more effectively. The way we communicate with the FE sector has also improved, with 80.9 per cent of those responding to the survey agreeing or strongly agreeing that our communications are written in clear, plain English.

### Working with employers through Apprenticeships

Over the past year, the NAS continued to concentrate on increasing the number of employers offering Apprenticeships, as well

as increasing the number of young people starting an Apprenticeship. A record 520,000 people started an Apprenticeship in 2011/12, with 40 per cent of those starting advanced-level or higher Apprenticeships.

Over 100,000 employers now offer Apprenticeships, in 200,000 locations. Last year over 7,000 employers were supported directly by National Apprenticeship Service's employer account managers, or the online and telephone-based Small Business Team, to create over 70,000 Apprenticeships.

## Case Study

**Chris Thompson**

Chris trained at the Grimsby Institute on the Vocationally Related Qualification (VRQ) Professional Cookery Programme and he now works as a commis chef at Gordon Ramsay's Maze Grill, a Restaurant in Grosvenor Square, London. As soon as he completed his training, he was employed to work at the Grove Hotel in Hertfordshire, which has been voted one of the best hotels in the UK, and quickly worked his way up within five months to chef de partie. Chris then left the hotel and became a private chef, working for the Football Association and cooking for Premier League footballers, for the crew of X Factor and even for Hollywood legend, Tom Cruise.

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Through the Higher Apprenticeship Fund, the NAS supported the development and launch of 29 higher Apprenticeship frameworks.

The number of Apprenticeship places available continued to grow, with more than 1.4 million people applying for Apprenticeships through the NAS. Over 100,000 started an Apprenticeship through this route. Apprenticeships are increasingly popular with employers, with more than 17,000 places available at its peak.

We and the National Apprenticeship Service worked closely with Jason Holt (the Chief Executive of the Holts Group of Companies) to implement the recommendations from his review to get small- and medium-sized businesses more involved in Apprenticeships. We helped 30,000 smaller businesses to recruit apprentices aged 16 to 24, as well as making Apprenticeships more accessible by extending Group Training Agencies and Apprenticeship Training Agencies.

Raising the quality of Apprenticeships was an important focus, and important changes made sure that Apprenticeships continued to be thought of highly. These changes included publishing a new Apprenticeship definition and the main characteristics behind the delivery of a high-quality Apprenticeship, and introducing a minimum duration for all Apprenticeships.

The NAS worked throughout the year to promote Apprenticeships to young people. Highlights of that work included the most successful National Apprenticeship Week ever, with 900 events and activities taking place across the country, generating the highest level of media coverage ever achieved during the campaign's six-year history.

### Skills for growth

During 2012/13, as part of government support for localities, we continued our work with local communities, employers and stakeholders to increase delivery of skills to support local and national growth. Our work on skills with the Core Cities, Whole Place Community Budget Areas and Wave 2 Cities



accelerated this process, including piloting new approaches to skills, alongside our day-to-day working with Local Enterprise Partnerships (LEPs) on skills priorities in each area. Work to support localities understand the contribution that FE can make to growth will continue throughout 2013.

Through our City and Enterprise Zone Skills Fund, we have supported the Core Cities and Enterprise Zones to identify their short-, medium- and longer-term priorities (published from April 2013). Through the consultation and joint action planning also enabled through the Fund, colleges and private training organisations have played a key role leading local partnerships and consortia to engage with LEPs and develop action plans to address these skills needs for 2013/14 and beyond.

### **Our programmes and services**

In April 2012, the National Careers Service was launched to provide high-quality careers information, advice and guidance online, by telephone or face-to-face. The service is intended to help people realise their

## **We launched the National Careers Service to provide high-quality careers information, advice and guidance**

potential and get the skills they need to succeed in life and work. Careers advisers provide advice face-to-face or over the telephone, and encourage people to use the National Careers Service website to get a wealth of information about vacancies for Apprenticeships, skills tools and learning and work opportunities.

The service is delivered through 13 contractors and 350 subcontractors employing 2,500 careers advisers in nearly 3,000 different venues across England, including in Jobcentre Plus offices, community venues, colleges and even places of worship. In 2012, the service was available in 96 per cent of Jobcentre Plus offices and 171 colleges.



Within the National Careers Service are Lifelong Learning Accounts (LLAs), which provide a secure online location to store records of learning achievements, action plans, skills assessments, CVs and details of training courses. The age at which National Careers Service customers can register for an account has changed to 16, and currently around 630,000 individuals hold a Lifelong Learning Account.

In 2011/12, the number of Personal Learning Records (PLRs), which are integral to the LLAs, totalled 11.8 million. There are now over 140 awarding organisations committed to uploading achievement records of individual learners to PLRs, to the benefit of both learners and colleges and training organisations.

The Learning Records Service has worked with colleagues in the DfE and BIS to make wider use of the Unique Learner Number (ULN) in English schools for several years. In September, the DfE Schools Star Chamber approved the compulsory use of the ULN in English schools for pupils from age 14, with effect from January 2014. In support of the Welsh government, the ULN is now fully embedded in the schools and

FE systems in Wales. While in Northern Ireland, the schools minister has asked for a pilot of the ULN in schools, following on from its successful use in FE.

In 2012/13, we updated our scores for the 'success rate', 'learner destinations', 'learner satisfaction' and 'employer satisfaction' performance indicators on the FE Choices website. These updates will play a critical role in the future of the FE sector, and on keeping our customers informed.

## 24+ Advanced Learning Loans

We led on all activities with colleges and private training organisations for developing and implementing the 24+ Advanced Learning Loans policy. This included publishing a detailed policy overview and a frequently asked questions document covering funding rules and maximum funding rates. We made sure that the information was available as early as possible to give colleges and private training organisations as much time as possible to prepare for the introduction of 24+ Advanced Learning Loans in the 2013/14 academic year.

## Case Study

### Gregg Williams

Gregg is a former plumbing apprentice at Sussex Downs College, who previously attended Beacon Community College in Crowborough. He is now a partner in his own plumbing business – and even employs his own apprentice through Sussex Downs. Gregg's Plumbing and Heating is entering its second year of trading and attracts business from all over East Sussex, as well as customers in Kent, West Sussex and Surrey. Gregg is in no doubt that his time at college helped him on his way: *"I completed a full four years at the Eastbourne campus of Sussex Downs. My Apprenticeship helped me in many ways: I have learnt valuable skills in a trade...and valuable life skills, such as mixing with different groups and learning to help one another."*

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We also worked in partnership with the Student Loans Company, BIS and HM Revenue & Customs to develop materials and products for colleges and private training organisations to use with learners. A dedicated site was also created to store all the information published by the various partners in one easily accessible place. We also provided 'readiness support', which included holding events, and providing specific communications and toolkits for colleges and private training organisations to use.

The feedback that colleges, private training organisations and representative bodies have given us on our communications and readiness support has been positive. The most recent survey carried out by BIS reported that 94 per cent of those responding to the survey had heard about 24+ Advanced Learning Loans through our communication channels.

At the end of 2011, new proposals for Community Learning were announced. The proposals included piloting different locally based Community Learning Trust models in 2012/13 to channel Community Learning funding and guide the planning of local provision in cities, towns and rural settings.

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## Over £207 million capital funding was granted to 148 colleges

Fifteen proposed models were chosen to become pilot Community Learning Trusts across England, with the potential to develop local, innovative and effective ways of working. An evaluation of the pilots is due to be published in July 2013.

### Further investment in skills and improving quality

We continued to be involved closely with the UK Commission for Employment and Skills (UKCES) in implementing the Employer Ownership Investment Fund. This enabled employers to design, develop and commission training to meet their business needs. The fund will be £340 million over four years from 2012/13.

The UKCES asked employers to provide innovative proposals to tackle skills shortages and establish programmes to help businesses grow and be more efficient. We are responsible for financial profiling and reporting, performance management, account management and payments.

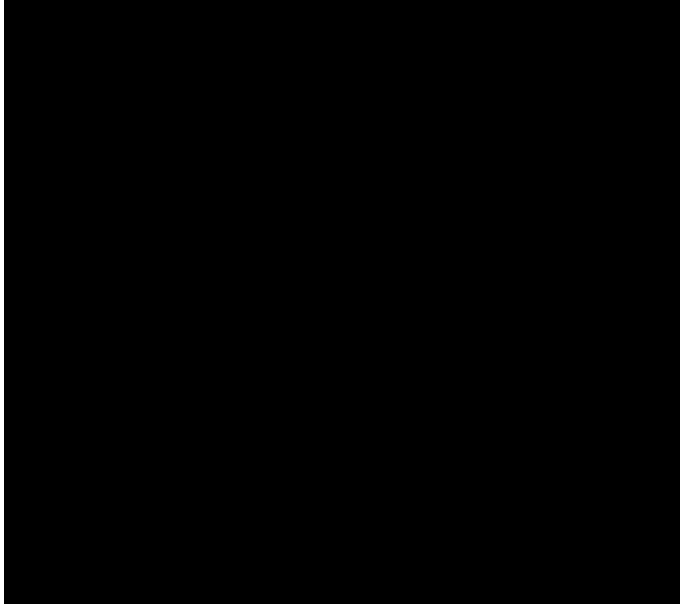
### Capital funding for the FE estate

Further funds were made available to continue investing in FE sites and to improve the facilities that are critical for the FE sector to respond to learners', employers' and communities' learning needs.

We worked closely with the FE sector to set criteria for choosing from a wide range of projects that would have the greatest effect on learning opportunities. In total, over £207 million was granted to 148 colleges.

Renewal Grant and Enhanced Renewal Grant phase 3 allocations were given to projects for the 2012-13 and 2013-14 financial years. With co-investment from colleges, we expect these projects to represent an

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We know that there is more to do. In Apprenticeships, we need to do more to attract people from black and ethnic minority backgrounds, as well as learners with learning difficulties or disabilities.

We worked with the Association of Employers and Learning Providers (AELP), along with 15 college and private training organisations, to support unsuccessful applicants who have been through the Apprenticeship vacancy system. The programme included tough equality and diversity objectives, to support disadvantaged applicants.

investment of £655 million through to September 2014. Also, three National Skills Academies received £3.7 million towards projects with a total value of £7.3 million.

Together with BIS, we launched the FE College Capital Investment Strategy in December 2012. The strategy confirmed that £270 million would be made available to colleges in 2013-14, and £280 million would be made available in 2014-15. This funding will be targeted at those colleges in greatest need of investment – colleges with buildings in poor condition and inefficient estates, and projects that provide high value for money and can support growth in the economy. Project development funding of £9.9 million has already been paid to 98 colleges to help them develop their land and buildings, and projects that can either be funded by the colleges or implemented when government funding becomes available. It is also intended that we will make some targeted funding available.

### Equality and diversity within our programmes

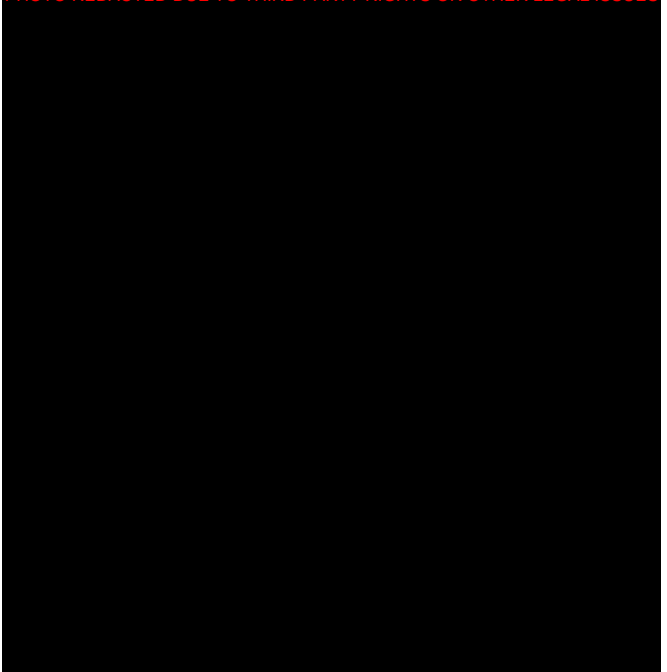
Working with the Learning and Skills Improvement Service (LSIS), we provided funding to 47 colleges and private training organisations for projects that met the needs of their learners and communities and helped the FE sector improve its own equality practice.

## Case Study

Edward Frost

Edward enrolled on a two-year National Diploma in Agriculture course after leaving school. His parents and grandparents completed their agriculture training at Moulton College, so he represented the third generation. He chose to take a vocational course as he wanted to do something enjoyable and relevant to his career aims. The National Diploma in Agriculture has enabled him to gain the additional competency-based qualifications mentioned above and improved his ability and knowledge of farming – he now works at home on a mixed farm. Ultimately, he aims to manage the family farm.

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## Our buildings

We continue to cut our accommodation costs. We now occupy space in 14 locations, holding only seven of those as direct leaseholds. We have taken the opportunity to sell nine leasehold properties and move the teams from these into accommodation with other government bodies, in line with Cabinet Office policy. This has contributed £5.75 million to the overall savings of £11 million made from selling properties over the last year.

## Our people

We continue to manage our staff numbers and costs within the targets set by the Comprehensive Spending Review. We have increased staff numbers by 4.67 per cent, but we have offset this by relying less on the number of contingent workers covering

vacant posts. As a result, we have reduced our base of contingent workers by 42 per cent during the year (from 137 to 79), through a combination of posts being filled by permanent staff and ending temporary contracts. We also have an ongoing commitment to our Apprenticeship programme and throughout the year we have recruited new apprentices ourselves, across a range of roles. At 31 March 2013, our employee staff numbers were 1,322 employees (31 March 2012: 1,263), whose hours were equivalent to having 1,292 full-time employees (note 2c to the accounts on page 68 relate to the average number of staff employed).

## Training our people

It is essential that our own staff have the skills, knowledge and abilities needed to help us follow our ambitious plans. In terms of

development and training, we have made full use of the Civil Service Learning resource, providing access to a wide range of training courses, e-learning and online resources.

We recruited over 50 apprentices, undertaking qualifications in business administration, finance and IT. A comprehensive development programme supplemented their Apprenticeship, helping them along their career paths.

We continued to demonstrate our commitment to developing our staff by comparing ourselves against the Investors in People standard.

### **Our own commitment to equality and diversity**

In 2012/13, we agreed a calendar of equality and diversity events. We also rewrote our equality and diversity policy to make sure it is in line with our commitment to the Single Equality Act 2010. As part of our duty under the Act, we produced a workforce data report for 2012, including a breakdown of employees' characteristics protected by law (age, sex, race and so on).

As part of the Single Equality Scheme, we set ourselves a series of equality goals aimed at developing and maintaining a fair, inclusive and diverse working environment for our staff. We have made significant progress towards meeting these goals.

We offered our staff free access to an employee assistance programme, which is a 24-hour counselling and support service offering confidential advice on life issues. All our staff must complete an online introduction to equality and diversity each year, and the Civil Service Learning Portal provides access to career development for staff from black and ethnic minority backgrounds.

Our performance on equality in the workforce has also been recognised by us achieving the 'two tick' disability symbol, which demonstrates our commitment to employ, keep and develop the abilities of disabled staff. We consider high-quality internal communication to be important and have several channels for giving staff information and consulting them.

We revitalised our health-and-safety provision following the significant organisational changes that took place over the previous period. We continued to consult staff through the National Health and Safety Committee, and our investment in online health and safety training has continued to be useful in terms of providing easily accessible learning. We continue to be a low-risk working environment, with a low level of accidents. There was only one incident that needed a detailed investigation.

As well as adapting to organisational changes, we have also had to adapt to a changing estate, which follows a model of

## Case Study

### Gabriele Power

Gabriele is part of the apprentice scheme at Channel 4, where she is working towards a qualification and, in her words, "getting to know the ins and outs behind the scenes at Channel 4". Channel 4's apprentice scheme recognises raw talent over qualifications or work experience, and gives a voice to people who wouldn't ordinarily have one in this field. Gabriele takes part in programming planning and delivering content to young audiences.

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## The Skills Show inspired more than 70,000 young people, employers, parents and teachers

sharing accommodation with other BIS partner organisations or other government bodies. In an environment where services are provided to buildings rather than organisations, there is a requirement for a collaborative approach to health and safety.

### Environmental, social and community issues

In our work as a funding body we have played a significant role in developing communities. Note 4 in the accounts on pages 71 to 73 shows the range of programmes that we funded in 2012-13. We have continued to implement policies to reduce waste and improve our use of resources (please refer to our Sustainability Report on page 32). Our staff and their friends and families routinely took part in many charitable fundraising events that we celebrated through in-house communications.

### Raising the profile of further education

We have played a key role in bringing together organisations in the FE sector, including the Association of Colleges, the AELP and the UKCES, to deliver an imaginative campaign to promote the benefits of FE and skills and to 'Tell the FE story'. The campaign has celebrated the success of people and employers who have been involved in FE, has given a better understanding of what FE has to offer, and has already created a sense of pride in the sector, making sure that its reputation matches the reality.

We have emphasised how important skills competitions are in providing an environment to develop and recognise the skills of talented young people from across the UK, as well as raising the performance and standards of FE, skills and Apprenticeships

across the whole FE sector. We were central in helping to make the first ever Skills Show a resounding success.

In November 2012, The Skills Show, where over 500 competitors took part in skills competitions, took place at the NEC in Birmingham. This show provided information on vocational training to inspire more than 70,000 young people, employers, parents and teachers. Visitors could try a new skill in over 60 'Have a Go' activities and watch more than 60 WorldSkills UK national skills competitions take place. Evaluation of The Skills Show indicated that it is helping to change perceptions, with 74 per cent of young people agreeing that it has changed their impression of vocational education for the better, and two-thirds of attendees saying it has helped to improve their knowledge of vocational education.

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# Our Management Team

## Executive Officers of the Skills Funding Agency



**Kim Thorneywork\***

Interim Chief Executive of Skills Funding (from 1 August 2012)  
(previously Executive Director, Delivery until 31 July 2012)

**Richard Field**

Chief Information Officer

**Verity Hancock**

Executive Director, Capacity and Infrastructure  
(until 31 December 2012)

**Paul McGuire**

Chief Operating (and Financial) Officer

**Marinos Paphitis**

Executive Director, Provider Management (South)

**Julie Robson**

Executive Director, Growth (Midlands and North)

**Keith Smith**

Executive Director, Funding and Programmes  
(from 1 November 2012)



**Sally Stewart**

Executive Director, People

**David Way CBE\*\***

Interim Chief Executive, NAS

\* Geoff Russell retired as Chief Executive of Skills Funding on 31 July 2012 and Kim Thorneywork was appointed as Interim Chief Executive of Skills Funding from 1 August 2012. This appointment is on an interim basis pending the transition of the Skills Funding Agency to an executive agency.

\*\* Simon Waugh left as Chief Executive of the NAS on 31 March 2012 and David Way was appointed Interim Chief Executive of the NAS on 1 April 2012. This appointment was on an interim basis pending the full integration of the NAS into the Skills Funding Agency from 1 April 2013, when David Way became Executive Director, NAS.

## 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 the effectiveness of their delivery, as well as providing a feedback mechanism for employers, learners and stakeholders.

The Advisory Board met four times during 2012-13 and the minutes from each meeting are available on the Agency's website.

**Kim Thorneywork (Chair)**

Interim 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, Construction Skills

**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

**Sue Husband**

McDonalds Restaurants and Confederation of British Industry

**John Longworth**

Director General, British Chambers of Commerce

**Terry Moran**

Chief Operating Officer, Employers and Stakeholders Director, Jobcentre Plus

**Toni Pearce**

Vice-President for Further Education, National Union of Students

**Ian Pryce**

Principal, Bedford College and Vice-Chair, 157 Group

**Rachel Sandby-Thomas**

Solicitor and Director General, Legal, Business and Skills, Department for Business, Innovation and Skills

**Les Walton OBE**

Chair, Northern Education Trust and Education Funding Agency

**Tim Ward**

Chief Executive, Learning Curve and Third Sector National Learning Alliance

**Tom Wilson**

Director unionlearn, Trades Union Congress

## 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**

Chief Executive, Construction Skills

**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 Interim Chief Executive of Skills Funding, the Interim Chief Executive of the NAS, the Chief Operating (and Financial) Officer, the Chief Internal Auditor, an observer from the BIS Internal Audit Team, and an observer from the National Audit Office (NAO).

The Audit and Risk Committee meets three times each year. In 2012-13 all three independent members attended two of the meetings and two independent members were present for the other meeting.

# Programme Assurance

This section explains how we make sure that the public funding we give to colleges and other training organisations is used properly.

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

To gain assurance about the proper use of public funds by colleges and private training organisations, 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 audit and other work to secure this assurance. The Agency's Audit and Risk Committee scrutinises the outcomes of this work.

### **Overview**

The approaches used to obtain assurance depend on the risks associated with colleges and private training organisations and funding streams, and they are designed to minimise bureaucracy.

Where grant funding is provided, such as to FE colleges, the Agency places assurance on the audit work carried out by the organisation's auditors. The Agency's PFA Audit Team reviews the findings of internal and external auditors to ensure that they provide the required assurance. Assurance is also provided by audit visits from the PFA Audit Team, the EFA and local authorities working with the Agency under the Joint Audit Code of Practice (JACOP).

The Higher Education Funding Council for England (HEFCE) funds higher education institutions that are often significant providers of 16–18 and adult learning. HEFCE provides assurance to the Agency on funding provided to higher education institutions as part of the

mutual assurance arrangements between HEFCE and the Agency.

For private sector and other training organisations funded under contract, the PFA Audit Team undertakes direct assurance work, delivering a programme of audits to ensure that they apply funds properly in the delivery of those contracts.

The Agency's PFA Audit Team carried out audit visits 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, the PFA Audit Team carried out responsive audit work to cover known risk areas.

Where required, the Agency's PFA Audit Team has also carried out financial management and control reviews at FE colleges and significant training organisations.

### **Assurance on grants**

Included in these financial statements are grants to FE colleges and other training organisations that the Agency has paid for the academic years ending 31 July 2012 (four months) and 31 July 2013 (eight months).

The mismatch between the accounting periods means that we will only receive certain formal assurances on entitlement and the proper use of the funds from these colleges and other training organisations in line with their own annual accounts reporting timetables, which extend beyond that for these financial statements. Therefore, we have put in place alternative arrangements to provide interim assurance as at 31 March 2013. The overall picture is described in the section below.

## FE colleges and other training organisations

During the financial year 2012-13, the Agency paid grants of £2.11 billion (2011-12: £2.27 billion) to FE colleges and other training organisations. All colleges are required to return a year-end funding claim certified by the Principal. A total of 52 colleges received an audit of their 2011/12 final classroom learning claim, under the funding assurance approach. The work 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.

Agency's risk and intervention processes, or to close monitoring as a precursor to this action.

The Agency takes assurance from the EFA under the JACOP and from HEFCE on grant funding paid to institutions within their financial oversight arrangements.

### Assurance on funding under contracts: private sector and other training organisations

The PFA Audit Team audited private sector and other training organisations to ensure that the funds provided under contracts have been applied properly for the purpose intended. For the 2012-13 financial year, audit work was delivered under the Agency's

**Table 1: Position of FE colleges in the 2011/12 academic year, representing £2.12 billion in grant funding (2010/11: £1.97 billion)**

	Due	Received	Outstanding
<b>Audited final funding claims</b>	52	52	0
<b>Financial statements audits</b>	250	250	0
<b>Final regularity opinions</b>	250	250	0

For most colleges, the primary sources of assurance for the Agency's 2012-13 financial statements are the audit opinions on their own financial statements for the academic year ended 31 July 2012, and the regularity audit opinions. 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.

The position in respect of the 2011/12 academic year is shown in Table 1.

Where we have not received financial statements audit opinions or regularity audit opinions, the colleges are subject to escalated account management through the

funding assurance approach of statistically valid random sampling and responsive work to cover known risk areas. Where the Agency identified that funds were at risk, we took action to recover those funds

## Notices of Concern

Under *New Challenges New Chances* (the Government's strategy on FE and skills), the Agency issues 'Intervention Notices' at Stages 1, 2 and 3, replacing the previous 'Notices to Improve'.

At Stage 1, the Agency can issue a 'Notice of Concern' (to colleges and grant-funded training organisations) or 'Breach' (to training organisations funded under the Contract for Services – Education and Training) if:

- there is an Ofsted inspection judgement of inadequate for 'Overall Effectiveness of Provision'
- provision of education and training falls below the required post-19 minimum level of performance (MLP).

The Agency can also issue an FE college with a 'Notice of Concern' if it is judged inadequate for 'Financial Health and/or Control'.

The college or training organisation must develop an improvement plan to address the underperformance in a 'Notice of Concern' or 'Breach'. We will lift the Notice once the college or training organisation meets the conditions set out in the Notice.

If the college or training organisation does not meet the conditions of the Notice, the Agency can move to Stage 2 of the intervention process and issue 'Notices to Withdraw' post-19 funding (colleges and grant-funded training organisations), or a 'Notice of Termination of Contract' for failure to remedy a serious breach (training organisations funded under contract).

A Stage 3 Notice would confirm the withdrawal of post-19 funding from a college or grant-funded training organisation.

With training organisations funded under contract, the Agency can also terminate the contract with three months' notice. These are not included in the table below.

**Table 2: Number of colleges and training organisations currently under a Provider Risk and Assessment Management Intervention Notice (April 2013)**

Intervention	FE colleges and grant-funded training organisations	Training organisations funded under a Contract for Service – Education and Training <sup>2</sup>	Total
Stage 1 Notice	23	4	27
Stage 2 Notice <sup>1</sup>	2	0	2
Stage 3 Notice <sup>2</sup>	0	n/a	0
<b>Totals</b>	<b>25</b>	<b>4</b>	<b>29</b>

<sup>1</sup> A Notice of Withdrawal of Post-19 Funding (colleges and grant-funded training organisations) or a 'Notice of Termination of Contract' for failure to remedy a serious breach (training organisations funded under the contract above).

<sup>2</sup> FE colleges only at Stage 3.

# Reporting of Personal Data-related Incidents

We have prepared the following tables 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 2012-13**

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.				
<b>Further information on information risk</b>	The Chief Executive of Skills Funding continues to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.			

Incidents that the Data Controller considers 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. We do not record centrally small, localised incidents and they are not cited in these figures.

**Table 2: Summary of other protected personal data-related incidents in 2012-13**

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

# Financial 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.

## Going concern

2. The Statement of Financial Position at 31 March 2013 shows net assets of £51.9 million (2011-12: £7.9 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. Parliament has approved these estimates and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. We expect Parliament to enact the final legal changes to make us an executive agency of BIS from April 2014, but we do not expect this to impact on the estimate.
4. Therefore, it is appropriate under the Government's *Financial Reporting Manual* (FRoM) to prepare this set of accounts on a going concern basis.

## Year-end position

5. The net book value of non-current assets at 31 March 2013 was £61.3 million, which is a reduction of £9.2 million on the previous year. Most of this reduction is in the Agency's investment in systems under

construction. This is because there is less emphasis on the development of new systems to support the delivery of programmes than in recent years.

6. At 31 March 2013, the Agency had receivable balances of £165.3 million (31 March 2012: £159.8 million). This moderate rise disguises notable underlying movements in the composition of the overall value. There has been an increase in advances of funds to colleges that is partly offset by slight falls in European Social Fund (ESF) and Workplace Training balances.
7. At 31 March 2013, the Agency held cash balances of £175 million (31 March 2012: £230.8 million), including funds drawn down from the ESF. This reduction reflects some natural variability in the level of payments that the Agency made, together with a reduction in the amount of ESF income received relative to the previous year.
8. At 31 March 2013, the Agency had payable balances of £301.3 million (31 March 2012: £404.1 million). This downward movement is mainly due to reduced accruals for 16-18 Apprenticeships, reflecting the lower expenditure on this programme in the financial year. It also reflects the reduced level of funding available to the Agency across a range of programmes and a reduction in deferred ESF income.
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 to 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 and 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 2012-13 is as described in note 14 to the accounts.
11. Additional significant credit risk to the Agency arises from the non-payment of debts owed by private sector training organisations contracted to provide training services. The financial impact of this is largely attributable to insolvency of private training organisations and the overall financial impact is currently not material (see note 21 to the accounts).
12. The Agency operates an unfunded multi-employer defined benefit pension, provided by the Principal Civil Service Pension Scheme (PCSPS). The Skills Funding Agency paid employer contributions of £10.41 million (2011-12: £12.03 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 the Civil Service Pensions website.
17. 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 2012-13, the Agency paid 96.6 per cent of its invoices within 30 days (2011-12: 96.1 per cent) and 75.1 per cent of its invoices within five days (2011-12: 74.9 per cent). It incurred no interest charges in respect of late payments for 2012-13 (2011-12: £18.75).
18. During the year, 8,958 days were attributable to sickness absence (2011-12: 13,537). Using the average number of payroll staff employed over the year (note 2 to the accounts) this equates to approximately 7.2 days sickness for each employee each year (2011-12: 10 days).
19. The Agency paid no political or charitable donations in the financial year (2011-12: nil).
20. Note 20 to the accounts shows the related party interests of the Agency and its senior staff.

## Development and performance

13. The accounts cover the period from 1 April 2012 to 31 March 2013.
14. BIS funds the Agency and in 2012-13 it provided £4.41 billion (2011-12: £4.53 billion). The largest source of income was the ESF, which contributed £141.7 million (2011-12: £113.3 million).
15. The results for 2012-13 show net expenditure of £4.36 billion (2011-12: £4.64 billion), which is derived from the comparison of expenditure against income for the year.
16. Capital expenditure on additions in the year, mainly on computer systems, was £17.9 million (2011-12: £20.4 million).

## Main trends and factors underlying development and performance

21. Overall programme expenditure decreased relative to the previous year, with total expenditure on programmes now at £4.39 billion, down 4.8 per cent on the previous year total of £4.61 billion. The ongoing pressure on public finance continues to impact on the funding available for the Agency's programmes.
22. However, the Agency continues to work with BIS and the wider FE sector to deliver the world-class skills system as described in *New Challenges, New Chances*, that is simpler but still effective. Freedoms and flexibilities for colleges and private training organisations continue to be a key theme for the Agency. The Agency

trusts the FE sector to tailor its offerings to the diversity of adult education and skills requirements, to deliver a high-quality educational package that reflects learners' and employers' needs.

23. Although the Agency has contributed to improvements in the FE sector, there is always more to do. The 2013/14 academic year will see the introduction of a single funding system with single contracts. At the heart of this is a vastly simplified funding calculation that has been operating on a shadow basis during the current academic year.
24. Also on the horizon for 2013-14 is the introduction of 24+ Advanced Learning Loans, which will transfer the responsibility for funding learning into learners' hands. The future significance of this approach is expected to increase.
25. The Agency continues to drive down its own administration costs, as shown in notes 2a and 3a to the accounts. The Comprehensive Spending Review for 2011-15 gave the Agency administration budget savings target of £120 million (33 per cent cumulative) over four years. The administration spending figures reported in these accounts demonstrate a continued underspend of £0.8 million or 0.8 per cent (2011-12: £3.1 million or 2.9 per cent), thereby confirming that the Agency and the NAS remain on course to achieve the overall saving target in the Government's Comprehensive Spending Review.

### **National Apprenticeship Service**

26. 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 had its own Accounting Officer who has specific responsibility for the administration budget of the NAS. Note 9 to the accounts provides a summary of the income and expenditure that relates specifically to the NAS. Since 1 April 2013, the NAS became fully integrated into the Agency and now

operates as a distinct division headed by a director. As part of this change, the Interim Chief Executive of Skills Funding became Accounting Officer for the whole of the Agency, including the NAS."

27. Apprenticeship programme expenditure is lower than in 2011-12, following tougher economic conditions that reduced the demand for Apprenticeships, and the introduction of policy changes aimed at improving the quality of the Apprenticeship offer.
28. Total expenditure net of income on administration of the NAS was £9.8 million (2011-12: £13.7 million) and was within the budget that BIS set.

### **Auditor**

29. The accounts are audited by the Comptroller and Auditor General, who is appointed by statute and whose Certificate and Report appears on page 55. The notional audit fee is £160,000 (2011-12: £170,000) and no other services were provided during the year.
30. 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.



### **Kim Thorneywork**

Interim Chief Executive of Skills Funding Agency  
Skills Funding Agency  
A partner organisation of the Department for Business, Innovation and Skills  
6 June 2013



# Sustainability Report

## Overview

1. From 2011-12, all public sector bodies reporting in accordance with the Government's FReM are required to produce a sustainability report.
2. For the purposes of comparison, we will use 2011-12 as a base year from which to monitor performance. We will compare the data for three years as it becomes available.
7. We have reduced the number of stationery deliveries to the Agency's national office at Cheylesmore House, Coventry through less frequent orders. This should reduce carbon emissions from product delivery.

## Summary of performance

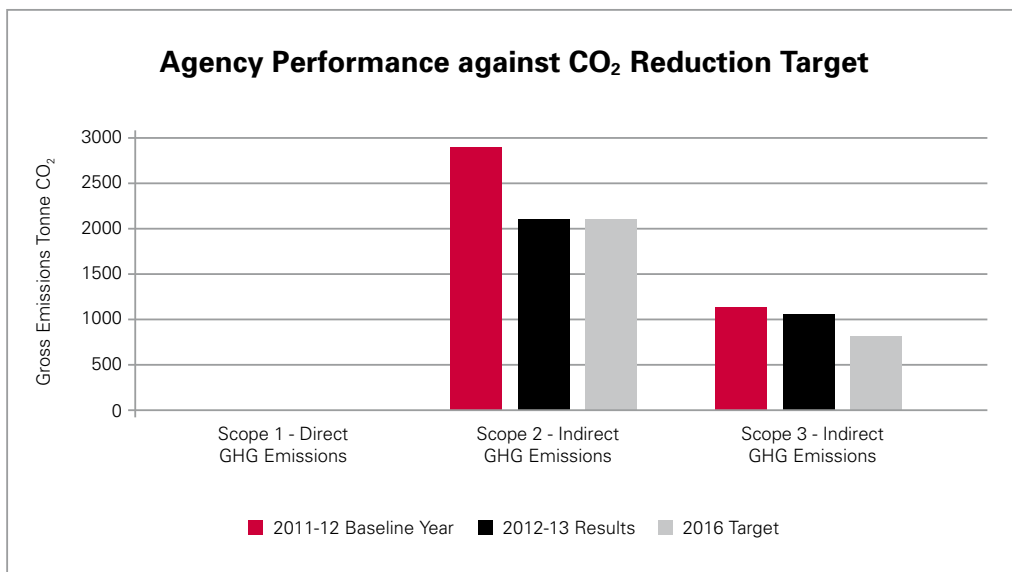
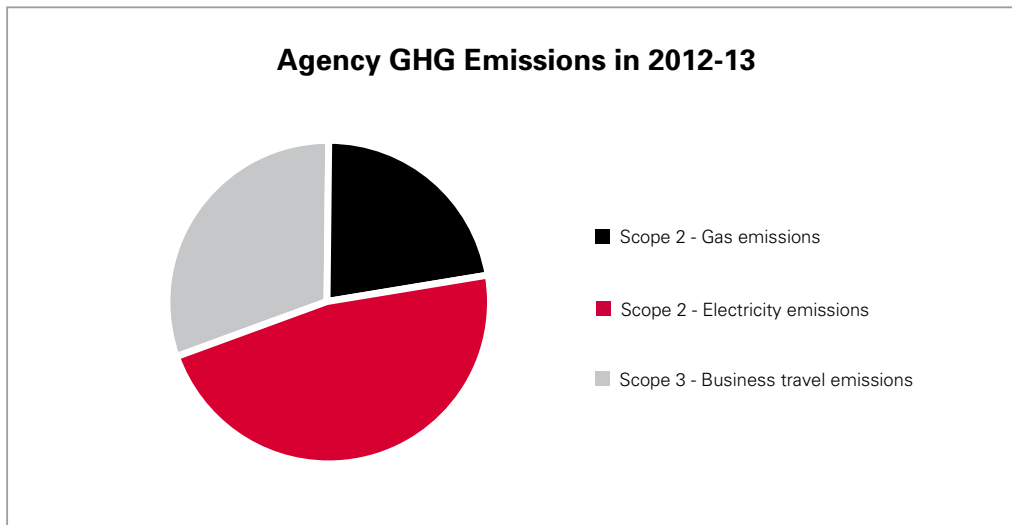
3. The Agency has made significant progress towards meeting its target of a 25 per cent reduction in CO<sub>2</sub> emissions by 2016. Information relating to performance in specific areas is included under the relevant data section.
4. The main direct impacts upon the Agency relate to its electricity and gas consumption and business travel. There are no greenhouse gas emissions that occur from sources that the Agency owns or controls.
5. We have put in place national contracts to allow the measurement of Scope 3 emissions. However, the Agency's 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. As a result, where landlords provide the Agency with electricity, gas and water supply in return for a service charge, we have estimated the cost.
6. The Agency encourages its staff to register on the car-share website and find a car-share companion. This should reduce carbon emissions from staff commuting.

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## Performance analysis: non-financial data

### Greenhouse Gas (GHG) Emissions

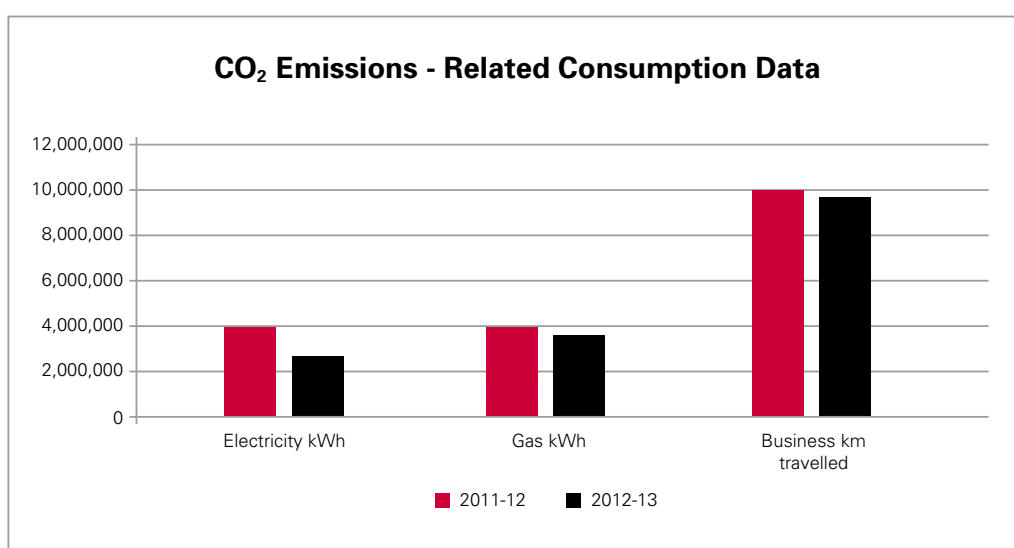
		2012-13	2011-12
<b>Gross Emissions Tonne CO<sub>2</sub></b>	Scope 1 – Direct GHG Emissions (including sources that the Agency controls).	Nil	Nil
	Scope 2 – Indirect GHG Emissions (including electricity supply and gas consumption).	2,135	2,844
	Scope 3 – Indirect GHG Emissions (including business travel that the Agency pays for directly).	1,048	1,124



8. Estate rationalisation has contributed to reduced emissions: from September 2011 to March 2013, the number of Agency offices has reduced from 21 to 16. Of these, a small number of vacated offices remain under lease and are therefore included in calculations.

### GHG Emissions-related Consumption Data

		2012-13	2011-12
<b>Scope 2</b>	Electricity kWh	2,738,227	3,887,740
	Gas kWh	3,506,228	3,963,050
<b>Scope 3</b>	Business km travelled	9,567,932	9,965,401

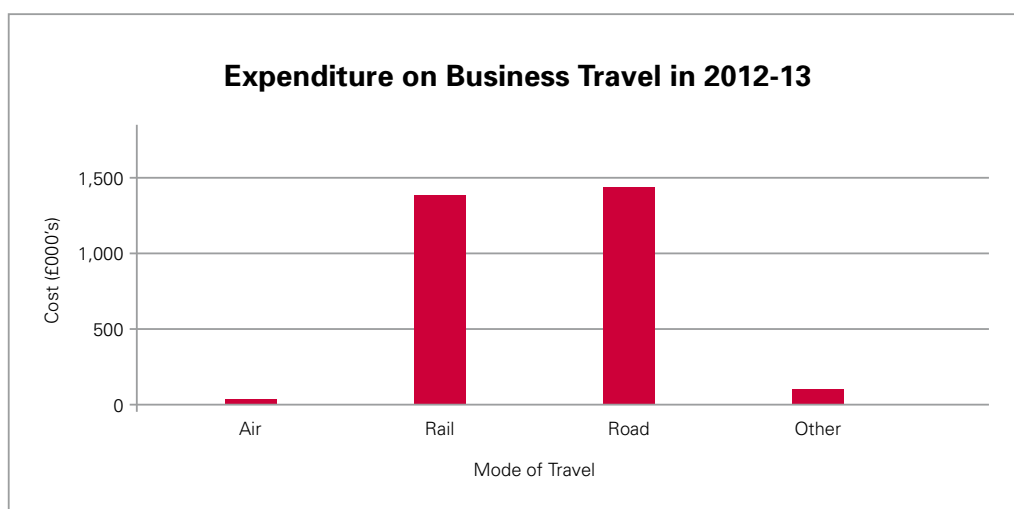


9. In line with the reduction in CO<sub>2</sub> emissions, the Agency's gas and electricity consumption has reduced significantly in the last year. Business travel has also decreased. The Agency promotes the use of video and telephone conferencing facilities to minimise the need to travel for internal and external meetings.

## Performance analysis: financial data

### Financial Indicators

		2012-13	2011-12
<b>Scope 2</b>	Energy expenditure – Electricity	£340,551	£494,854
	Energy expenditure – Gas	£117,799	£163,484
	CRC-related expenditure	£31,752	–
<b>Scope 2</b>	Expenditure on Business Travel	£2,899,122	£2,511,998



10. The Agency expenditure on gas and electricity has reduced.
11. The Carbon Reduction Commitment (CRC) expenditure shown relates to resources consumed in 2011-12, but was not paid until 2012-13 due to the timings of this scheme. We expect to purchase CRC allowances for 2012-13 consumption in the summer of 2013 and surrender them shortly afterwards.

### Waste minimisation and management

		2012-13	2011-12
<b>Non-financial indicators (tonnes)</b>	Total waste	933	2,667
	Total diverted	894	Not known
	Total incinerated to energy	7	Not known
	Total sent to landfill	32	Not known
<b>Financial indicators</b>	Waste disposal expenditure	£28,151	£47,989

12. This year a facilities management contract for waste management came into force. This has allowed us to report in greater detail than our baseline year of 2011-12.
13. Figures for Total Waste for 2011-12 were estimated at 99.7 per cent, which has dropped to just 15 per cent for waste handling and 16 per cent for waste costs in 2012-13.

### Finite Resource Consumption:

		2012-13	2011-12
<b>Non-financial indicators</b>	Estates water Consumption M <sup>3</sup>	11,253	12,586
	Estates water cost	£30,189	£52,367

## Biodiversity action planning

14. The Agency has a minimal external estate and therefore has not been involved in biodiversity action planning.

## Sustainable procurement

15. There are national contracts covering the following areas:
  - a) Rail, air and accommodation
  - b) Car hire
  - c) Conferencing
  - d) Desktop stationery
  - e) Government Procurement Card.
16. All of the national contracts were awarded through centralised, pre-tendered frameworks owned by the Government Procurement Service (GPS). Therefore, all aspects of sustainability will have been controlled as part of the tender exercises.
17. We are investigating the use of 'closed loop' copier paper through our Facilities Management programme. This is where we receive recycled paper, which is recycled back into reusable paper after use and then put back into the paper supply chain.
18. We have also implemented a range of 'free to use' meetings and events facilities, which are free to use for public sector entities; we also offer our in-house meeting rooms on the same basis for general use when available.

## Summary of future strategy

19. The Agency is in the process of formalising its sustainability strategy. This sets out its environmental policy objectives and a series of environmental improvement projects based on earlier work with the Carbon Trust.
20. Increasingly the Agency's staff are co-located in premises occupied with

BIS staff and staff from other BIS partner organisations, such as the Advisory, Conciliation and Arbitration Service (ACAS) and The Insolvency Service or from other government bodies. In these premises the Agency works collaboratively with its partners and it is for this reason that we will closely align our policy objectives with those of BIS, which is driving the development of a single estate strategy.

### Notes

1. We prepared the above report in accordance with the guidelines laid down by HM Treasury in the document *Public Sector Annual Reports: Sustainability Reporting Guidance 2012-13*.
2. We used conversion rates from the Department for Environment, Food and Rural Affairs (Defra) to account for carbon.
3. The proportion of estimated values in the figures quoted above is as follows:

	Proportion estimated (per cent)
Electricity emissions	15
Electricity costs	9
Gas emissions	37
Gas costs	26
Water consumption	10
Water costs	15
Total waste	15
Waste disposal costs	16

These are estimates relating to offices where we pay a service charge to the landlord in place of actual metered usage. We have included waste estimates for offices where waste information is not yet available.

4. We have made further estimates for the consumption and cost data for the final period of the year, as not all costs were known before the Agency compiled this Sustainability Report. We made estimates on a straight-line basis using the Agency's actual data for all other periods in the year



# Remuneration Report

## Introduction and components of remuneration

1. Throughout this remuneration report, please assume that references to the Skills Funding Agency also include the NAS. Although the NAS had its own Accounting Officer for the period to 31 March 2013, all employees of the NAS are employees of the Chief Executive of Skills Funding.
  2. 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 scheme. Bonus payments are contractual but not guaranteed and are subject to affordability and successful performance.
  3. In instances where the Agency may pay a bonus, we have structured the bonus plan 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.
- Change Leadership – to provide strong and effective leadership in implementing, communicating and embedding the organisation's change activities.
  - People Management – to manage the performance of individuals robustly.
6. The Chief Executive of Skills Funding is responsible for assessing performance over the course of the year.
  7. 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. When setting individual executive pay and bonuses, the Agency will comply with any rules and guidance issued by Cabinet Office, HM Treasury, and BIS relating to senior civil service pay and take into account relevant information from external market data (for example, Hay Group and Towers Watson) relating to pay and bonus levels.

## General

4. The Skills Funding Agency sets base salaries at the market median and recognises achievement through the bonus scheme (subject to affordability).
5. 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 improve the delivery of operational performance through delivery of the business plan measures.
8. The reward packages for the Interim Chief Executive of Skills Funding and the Interim 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 2012-13 neither the Interim Chief Executive of Skills Funding, Kim Thorneywork, nor the Interim Chief Executive of the NAS, David Way CBE received a pay increase. However, both received increases in pay to reflect the increased responsibilities of their interim positions. The former Chief Executive of Skills Funding,

Geoffrey Russell, who left on 1 July 2012, did not receive any increase in pay or a bonus during the financial year.

9. Neither Chief Executive role receives an automatic salary progression award.

### **Base pay changes 2012-13**

10. Base pay for Directors of the Agency did not increase in 2012-13, as this group of employees was covered by the Government's pay freeze.

### **Executive Management Team members and other senior staff**

11. All members of the EMT and other senior staff are employed under contracts of employment requiring 12 weeks written notice by either party.
12. The Interim Chief Executive of Skills Funding, Kim Thorneywork was appointed on an interim basis from 1 August 2012. The Interim Chief Executive of the NAS, David Way CBE,

was appointed on an interim basis for the period 1 April 2012 to 31 March 2013. As part of the integration of the NAS into the Agency, the post of Chief Executive of the NAS was removed from the organisational structure, with effect from 1 April 2013.

13. There are no specific termination clauses in EMT members' employment contracts and there were no termination payments in the 2012-13.

### **Highest-paid director and relation to median pay**

#### **Audited information**

14. The annualised total remuneration of the highest-paid director was £135,000 for David Way CBE (2011-12: Geoffrey Russell, £151,000) and this is 3.3 times (2011-12: 3.5 times) greater than £41,489 (2011-12: £43,125), which is the median salary of Agency employees at the end of March 2013.

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# Remuneration Tables

## Audited Information

### Chief Executives

**Year ended**      **Year ended**  
**31 March 2013**   **31 March 2012**  
**£'000**              **£'000**

The emoluments of the Interim Chief Executive of Skills Funding, Kim Thorneywork\*, for the period (from 1 August 2012, previously Executive Director, Delivery):

Basic salary and other emoluments	78	0
Taxable benefit in kind	0	0
Pension contribution (opted to join Premium pension scheme)	17	0
Bonus	0	0
	<b>95</b>	<b>0</b>
Full year equivalent salary	106	

The emoluments of the Chief Executive of Skills Funding, Geoffrey Russell\*, for the period (to 31 July 2012):

Basic salary and other emoluments	58	151
Taxable benefit in kind	0	0
Pension contribution (opted to join Nuvos pension scheme)	12	37
Bonus	0	0
	<b>70</b>	<b>188</b>
Full year equivalent salary	150	

The emoluments of the Interim Chief Executive of NAS, David Way CBE\*\*, for the period from 1 April 2012):

Basic salary and other emoluments	124	0
Taxable benefit in kind	0	0
Pension contribution (opted to join Classic pension scheme)	30	0
Bonus (related to previous year)	11	0
	<b>165</b>	<b>0</b>

The emoluments of the Chief Executive of NAS, Simon Waugh\*\*, for the period (to 31 March 2012):

Basic salary and other emoluments	0	107
Taxable benefit in kind	0	0
Pension contribution (opted to join Nuvos pension scheme)	0	26
Bonus (paid on behalf of BIS)	0	0
	<b>0</b>	<b>133</b>

\* Geoff Russell retired as Chief Executive of Skills Funding on 31 July 2012 and Kim Thorneywork was appointed as Interim Chief Executive of Skills Funding from 1 August 2012. This appointment is on an interim basis pending the transition of the Skills Funding Agency to an executive agency.

\*\* Simon Waugh left as Chief Executive of the NAS on 31 March 2012 and David Way was appointed Interim Chief Executive of the NAS on 1 April 2012. This appointment was on an interim basis pending the full integration of the NAS into the Skills Funding Agency from 1 April 2013, when David Way became Executive Director, NAS.

# Senior Management Group Emoluments

## Audited Information

	Salary £'000	Bonus* £'000	Benefits in kind (to nearest £100)	Redun- dancy £'000	Year ended 31 March 2013 Total £'000	Salary £'000	Bonus* £'000	Benefits in kind (to nearest £100)	Redun- dancy £'000	Year ended 31 March 2012 Total £'000
<b>National Directors</b>										
<b>David Cragg CBE</b>										
National Director, Development (to 31 December 2011)	0	0	0	0	0	65-70	0	0	90-95	155-160
Full year equivalent						80-85				
<b>Richard Field</b>										
Chief Information Officer	120-125	0	0	0	120-125	120-125	10-15	0	0	135-140
<b>Verity Hancock</b>										
Executive Director, Capacity and Infrastructure (to 31 December 2012)	85-90	0	0	0	85-90	115-120	0	0	0	115-120
Full year equivalent	115-120									
<b>David Hughes</b>										
National Director, College and Learning Provider Services (to 31 August 2011)	0	0	0	0	0	50-55	0	0	0	50-55
Full year equivalent						125-130				
<b>Paul McGuire</b>										
Chief Operating (and Financial) Officer	110-115	10-15	0	0	120-125	110-115	10-15	0	0	125-130
<b>Marinos Paphitis</b>										
Executive Director, Provider Management (South)	110-115	0	0	0	110-115	110-115	0	0	0	110-115
<b>Chris Roberts</b>										
National Executive Director, North (to 30 June 2011)	0	0	0	0	0	30-35	0	0	95-100	125-130
Full year equivalent						115-120				
<b>Julie Robson</b>										
Executive Director Growth (Midlands and North)	110-115	0	0	0	110-115	110-115	0	0	0	110-115
<b>Keith Smith</b>										
Executive Director Funding and Programmes (from 1 November 2012)	40-45	5-10	0	0	50-55	0	0	0	0	0
Full year equivalent	105-110									
<b>Sally Stewart</b>										
Executive Director, People	110-115	0	0	0	110-115	110-115	0	0	0	110-115
<b>Kim Thorneywork</b>										
Executive Director, Delivery (from 1 May 2011 to 31 July 2012)	35-40	10-15	0	0	45-50	95-100	10-15	0	0	105-110
Full year equivalent						105-110				
<b>David Way CBE</b>										
Chief Operating Officer, NAS (to 31 March 2012)	0	0	0	0	0	115-120	10-15	0	0	130-135

\* 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 2013 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31 March 2013 £'000	CETV at 31 March 2012** £'000	Real increase in CETV £'000
<b>Chief Executives:</b>					
<b>Kim Thorneywork</b>					
Interim Chief Executive of Skills Funding (from 1 August 2012, previously Executive Director, Delivery)	45–50	0–2.5	811	742	24
<b>Geoffrey Russell</b>					
Chief Executive of Skills Funding (to 31 July 2012)	10–15	0–2.5	180	157	12
<b>David Way CBE</b>					
Interim Chief Executive, NAS (from 1 April 2012)	55–60 and lump sum 170–175	2.5–5 and lump sum 10–12.5	1,334	1,193	73
<b>National Directors:</b>					
<b>Richard Field</b>					
Chief Information Officer	15–20	2.5–5	314	252	42
<b>Verity Hancock</b>					
Executive Director, Capacity and Infrastructure (to 31 December 2012)	15–20 and lump sum 50–55	0–2.5 and lump sum 0–2.5	265	249	9
<b>Paul McGuire*</b>					
Chief Operating (and Financial) Officer	30–35	2.5–5	427	377	25
<b>Marinos Paphitis</b>					
Executive Director, Provider Management (South)	35–40 and lump sum 115–120	0 – 2.5 and lump sum 0–2.5	791	741	6
<b>Julie Robson</b>					
Executive Director Growth (Midlands and North)	25–30 and lump sum 85-90	0–2.5 and lump sum 0–2.5	543	504	9
<b>Keith Smith</b>					
Executive Director Funding and Programmes (from 1 November 2012)	20–25 and lump sum 65–70	2.5–5 and lump sum 7.5–10	291	243	33
<b>Sally Stewart*</b>					
Executive Director, People	35–40	2.5–5	560	490	39

\* Opted to join Premium.

\*\* The actuarial factors used to calculate 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

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

- gross salary payable
- other allowances
- overtime payable.

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

## Benefits in kind

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

## Civil Service pensions

18. 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 Consumer Price Index. New entrants after 31 July 2007 may choose to join either Nuvos or a good-quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

19. The current reforms of the PCSPS introduced variable employee contribution rates from 1 April 2012, based on full-time equivalent salary. These range from 1.5 per cent to 3.9 per cent for Classic members and 3.5 per cent to 5.9 per cent for Premium, Classic Plus and Nuvos members. 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). Classic Plus 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.

20. The Nuvos scheme is a career-average defined-benefit scheme where 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.

21. 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).

22. Further details of the Civil Service pension arrangements are available at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

## Cash equivalent transfer values

23. 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 that a pension scheme or arrangement makes 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.

24. 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.

## Real increase in CETV

25. This reflects the increase in CETV that the employer effectively funds. It takes account of the increase in accrued pension due to inflation, and contributions that the employee has paid (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.



### **Kim Thorneywork**

Interim Chief Executive of Skills Funding  
Skills Funding Agency

A partner organisation of the Department  
for Business, Innovation and Skills

6 June 2013

# 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.
  - 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.
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 for Business, Innovation and Skills with the consent of HM Treasury.
3. Under the Accounts Direction issued by the Secretary of State for Business, Innovation and Skills, the accounts must be prepared on an accruals accounting basis. They 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 for Business, Innovation and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies consistently
  - make judgements and estimates reasonably
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 HM Treasury's document *Managing Public Money*.
6. In addition, the principal Accounting Officer for BIS designated the Interim Chief Executive of the NAS as the Accounting Officer for those budgets relating directly to the NAS. This Accounting Officer designation ended on 31 March 2013, when the NAS became fully integrated into the Skills Funding Agency. To discharge his Accounting Officer responsibilities, the Interim Chief Executive of the NAS and his staff worked under the Agency's framework of internal control. The Agency and the NAS were also party to an operational service-level agreement that defined each side's expectations and responsibilities. Since 1 April 2013 the Interim Chief Executive of Skills Funding has been Accounting Officer for the whole of the Agency, including the NAS.





# Governance Statement

## The purpose of the Governance Statement

1. This statement explains how I, as Chief Executive of Skills Funding, and the Skills Funding Agency have put in place arrangements for good corporate governance and reviews the effectiveness of these arrangements to ensure compliance with HM Treasury's *Corporate Governance Code*.

## 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* and the requirements of the *Corporate Governance Code*.
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 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 policy objectives
  - evaluate the likelihood of those risks being realised and their potential impact

- take reasonable steps to manage the risks efficiently, effectively and economically.

4. The system of internal control has been in place in the Agency for the financial year ending 31 March 2013 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. The Chief Executive of Skills Funding performs the functions of the office on behalf of the Crown and has the statutory duty to secure and promote post-19 education and skills training and Apprenticeships for people aged 16 and over. In discharging those duties, the Chief Executive of Skills Funding makes funding decisions independent of Ministers, but under 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 office of the Chief Executive of Skills Funding and the staff appointed by the holder of that post and it is not a legal entity.
6. Within the Agency, the Interim Chief Executive of the NAS had delegated responsibility for the funding of apprentices of all ages until 31 March 2013, when the post was removed. The NAS is an integral part of the Agency and has worked 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 was governed by a Ministerial Direction issued in July 2011 (and this has now been rescinded as part of the full integration of the NAS into the Agency). The Agency manages the post-19 Apprenticeship budget 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 2012 the Advisory Board has met four 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 has agreed a risk management policy. 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 that the EMT uses to report delivery against our objectives and associated risks. The same document is shared with BIS and Ministers, and provides the basis on which the Agency is formally held to account. Specific management

arrangements support these reporting 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 our intranet where we record immediately early warning of possible issues from across the business. I review this weekly and agree mitigating actions with EMT members.

## Significant risks and mitigation

### Public spending and status change

9. In last year's Governance Statement we focused on the risks relating to our proposed change to a conventional executive agency, and what this might mean for closer integration with our sponsoring Department, BIS. The legislative change needed to make us an executive agency is now anticipated in April 2014. While any such change comes with risks, I am pleased that the work we have done in working more closely with both BIS and the NAS during 2012-13 has minimised the risk. Additionally, the work to secure the smooth integration of the NAS into the Agency by March 2013 is now reaping dividends for the delivery of our shared objectives going forward.
10. However, the wider public policy environment, and particularly the continued constraints on public spending, present ongoing risks for the Agency. The next Comprehensive Spending Review is anticipated in the summer of 2013 and this, along with the implementation of the recommendations of the Heseltine Review (focusing government spending decisions more locally to encourage growth), will present challenges to the Agency.
11. The Agency will mitigate these risks by continuing to work closely with BIS, the DfE, HM Treasury and our partners to influence change and to manage this for

the benefit of learners and the wider economy. We have in place strong management and consultative processes that allow us to work with our staff to manage change and to maintain the required degree of flexibility to take developments forward.

### **Working with the FE and skills sector**

12. The Agency has continued to develop and operate freedoms and flexibilities for the FE and skills sector. This has produced benefits for the sector and progress in reducing bureaucracy. A notable next step in this journey will be the introduction of funding simplification from August 2013.
13. However, while the Agency is committed to supporting colleges and private training organisations to focus on achievement and deliver the needs of employers, learners and their local communities, there are a number of underlying risks that need managing. These include the continual need to ensure that public funds are used for the purposes intended; raising the quality of delivery; managing colleges and private training organisations in financial difficulties associated with the current economic conditions; and the use of subcontracting within the sector.
14. The Agency continues to mitigate these risks by simplifying our funding policy and our associated contracting documents and processes, and the guidance that we provide for colleges and private training organisations. We continue to strengthen our contract management and intervention processes, including the ongoing development of the Register of Training Organisations, this is the list of colleges and private training organisations approved to receive funding.

### **Information management supply chain**

15. The Agency provides a complex set of information management systems that service not only our own needs but also that of the wider FE and skills sector,

including provision of The Data Service, the Learning Records Service and *the information authority*. The work of our IM Services division is complex, involving a number of strategic private sector partners, multiple partners within the FE sector and cutting-edge technology. It balances the multiple needs of partners against tight cost constraints, while supporting the development of the freedoms and flexibilities agenda. It also supports the Government's aim of moving to small/medium-sized enterprises (SMEs) as suppliers.

16. As well as the general risk of delivering complex needs in a complex environment, there are particular risks around the future of the partnership with our main supply partners. There are also particular risks in working with BIS and the Cabinet Office to secure spending approval for the range or complex information management projects that we deliver, including supporting the delivery of Apprenticeships and the National Careers Service.
17. The Agency continues to mitigate these risks by maintaining strong controls over our information management programme and project management processes. We continue to work closely with our strategic supply partners, colleagues in BIS and the Cabinet Office who supervise the spending approval process (in which we have a strong track record of approval for most of the proposals that we submit), and our partners in the FE and skills sector.

### **Audit and Risk Committee**

18. A properly constituted Audit and Risk Committee is established and has met three times during the year. It comprises non-executive Advisory Board members and other attendees, including from BIS, the National Audit Office (NAO) and the Agency's Internal Audit Team. Its terms of reference are regularly reviewed.

19. 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 Provider Financial Assurance Audit Team on colleges' and private training organisations' systems of control and 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.
20. The Committee has recommended to the Chief Executive of Skills Funding that this statement is an appropriate report on the risks the Agency faces and the processes and controls around them to manage those risks.

### Executive Management Team

21. The EMT comprises the Interim Chief Executive of Skills Funding and the Agency's seven senior officers (six since January 2013) and meets weekly to consider:
- performance and associated risks that face the Agency
  - progress in taking these matters forward
  - mitigating and/or corrective action, where necessary.
22. 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

23. The Agency maintains a professional and independent internal audit service, which provided monthly reports on audit findings, including progress against the internal audit plan. Internal audit work

was targeted towards the higher-risk areas.

24. The Internal Audit Team reports directly to the Interim 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 to BIS's Chief Internal Auditor. The Internal Audit Team also conducts a number of audits jointly with BIS Internal Audit. The Chief Internal Auditor receives all EMT papers and may attend any EMT meeting.
25. 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.
26. Taking account of the significant strategic risks and mitigations identified earlier, for 2012-13 the Chief Internal Auditor has concluded that the Agency has maintained sound systems of governance, internal control and risk management. However, he has identified some weaknesses that we need to rectify. In his Annual Report, the Chief Internal Auditor identified the following significant operational issues:
- **Employer Ownership Pilot** – the risks and issues of the pilot are not discussed formally at the stakeholder meeting; a formal Board should be established to consider and formally deal with risks, actions and operational concerns more strategically.
  - **Business Continuity Management (BCM)** – although the Agency has made significant progress, its BCM arrangements have become complex and potentially unwieldy and are unlikely to be carried forward without an effective plan of action.

- **Records Retention** – is not fully embedded into normal business processes. In addition there is no strategy in place to manage records within the Agency, in particular for electronic records.

- **Physical Security and Counter-terrorism** – the Agency does not have in place a response level system to provide it with a broad indication of the level of protective security readiness required. A response level system is a fundamental part of counter-terrorism measures.

27. 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 and I take into consideration the findings in Internal Audit reports when assessing the performance of EMT members.

28. An evaluation by the Internal Audit Team informed each of the personal Statements on Internal Control received from the EMT.

### Counter-fraud strategy

29. The Agency, in conjunction with the NAO, has reviewed its approach to fraud prevention and the recovery of funds. We found some weaknesses with our processes around quality assurance and information sharing and, as a result, we have taken steps to strengthen our governance and business processes, particularly in relation to investigations into potential financial irregularity. This includes integrating the Investigations function into the Strategic Intervention Team and ensuring that the Provider Enquiry Group considers all decisions relating to investigations and that these decisions are taken at the appropriate level of delegation.

30. The Agency continues to promote a zero-tolerance approach to instances of potential fraud. To this end it has an Investigations function that has operated throughout the year, although there have been changes to line management and

structure during the year as a result of a review. All of our staff receive training on identifying potential fraud and error as part of our programme of essential learning.

31. Forty-one allegations were brought forward from 2011-12 and 52 new allegations were made to March 2013. Fifty-seven cases were closed after vetting and 12 were closed after investigation. At the end of March 2013 there were 21 cases still being investigated and 19 allegations in the vetting stage of the process.

### Financial management

32. As Accounting Officer I was responsible for ensuring that there were effective systems to manage and monitor all funds granted to me. I have received assurances from all of my direct reports that effective systems are working in their individual areas of responsibility.

33. During 2011-12, the Agency commissioned an independent review of its financial management arrangements to assure ourselves of our financial management processes. The Chartered Institute of Public Finance and Accountancy (CIPFA) report was produced in June 2012 and 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.

34. The Agency is a co-financing organisation for the management of European Social Funds. During the year, we received funding of £142 million from this source (note 5 to the accounts). The Annual Control Report for 2012 from the ESF Audit Authority identified £5.69 million of funding for repayment by the Agency, as its use could not be evidenced sufficiently by the Agency’s providers. We have included this amount in the accounts for 2012-13, although we continue to work with the ESF Audit Authority to reduce the figure.

35. I can confirm that there were effective systems 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 for Business, Innovation and Skills.

### **Provider Financial Assurance Audit Team**

36. As Accounting Officer I am required to be satisfied that those organisations that the Agency funds make proper use of public money. The Agency has established a Provider Financial Assurance (PFA) function, with responsibility for co-ordinating and carrying out a programme of audits designed to gain assurance over colleges' and private training organisations' use of Agency funds.

37. The scope of the PFA Audit Team's work also covered the NAS's and the EFA's funding. The latter was in accordance with the JACOP, where it was agreed with the EFA that, with the exception of ESF funding, just one government agency will normally audit a college or private training organisation and give assurance over both Agency and EFA funds.

38. In 2012-13 the PFA Audit Team's work included sampling across funding streams in their entirety. The results of such work include, but are not biased towards, higher-risk areas, and therefore provide a statistically representative picture of the level of error in colleges' and private training organisations' funding data. The PFA Audit Team also carried out audits at higher-risk colleges and private training organisations and areas based on known risks.

39. The result of this work is that the residual error rate within most of the Agency's funding streams is around 1 per cent. Errors are mainly data error and are not indicative of fraud. Any

suspected fraud is referred to the Agency's Strategic Investigation Team.

40. The PFA Audit Team considers further sources of assurance for colleges funded under a financial memorandum, including the results of work carried out by colleges' and private training organisations' financial statement auditors, internal auditors and funding auditors.

### **Tax compliance**

41. As required by the Alexander tax review, the Agency reviewed the tax arrangements of individuals who, as at 31 January 2012, provide it with services at a cost of £58,200 or more each year, but do not have PAYE and national insurance contributions deducted at source by the Agency. Such individuals are described as 'off payroll' and at the time of the review, 79 individuals fell within the review's parameters. All of these individuals have either provided detailed records to demonstrate their tax arrangements or they have provided the Agency with assurance from a suitably qualified person, such as an accountant, that they comply with tax legislation.

### **Review of effectiveness**

42. As Accounting Officer I am responsible for reviewing the effectiveness of the Agency's system of governance, risk management and internal control. My review of the effectiveness of the systems is informed by the work of the Agency's internal auditors and the EMT, who were responsible 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. The Audit and Risk Committee, the EMT and the Internal Audit Team have advised me on the implications of the result of my review of the effectiveness of the system of internal control, and there is a plan to remedy weaknesses and ensure continuous improvement of the system.

## Internal control issues

43. As Accounting Officer I am satisfied that the Agency's governance, risk management and internal control were compliant with *Managing Public Money* requirements during 2012-13.
44. The following significant internal control issues should nevertheless be highlighted as areas that will be improved:

### Information assurance and protective security

45. Our ongoing internal review and assurance processes indicated that the inherent overlap and interdependence of each aspect of protective security was not being managed as efficiently as possible, resulting in unnecessary duplication of effort and consequent risk. Consequently, the Senior Information Risk Officer (SIRO) role within the Agency now, in addition to information assurance, includes responsibility for Business Continuity Management, Personnel Security, Physical Security and Counter-terrorism. Additionally, the Agency's Information Security Team has been repositioned into the Chief Executive's Office and its remit expanded to provide support to the SIRO in all aspects of Protective Security risk and associated resilience management. We have implemented these changes so that the Agency can improve its internal controls over information assurance and protective security.
46. Our assurance processes highlighted that our Business Continuity Management (BCM) processes had focused upon planning a response to potential significant incidents, and not focused sufficiently upon the identification and pre-incident treatment of risks to the provision of the Agency's key products and services. Consequently, the Agency has just completed its first detailed organisation-wide BCM risk assessment. Furthermore, a schedule of physical security and counter-terrorism assessment of the Agency's estate has begun. The subsequent BCM analysis

report will be delivered during the first quarter of 2013-14 and we plan to complete the office physical security assessments by the end of the second quarter of 2013-14.

47. In respect of the Security Policy Framework the Agency is compliant, with 102 out of the 148 monitored control items. My belief is that, while there is still room for improvement, this compares well against similar organisations.
48. The EMT, under the direction of our SIRO, will continue to seek improvements in the areas of highest risk. Furthermore, I am satisfied with the actions taken to reduce security-related risks in the past year and that the reorganisation of our protective security resources will enable accelerated progress during 2013-14.
49. The protective security process is a judgement about the balance of risks versus costs. These are monitored monthly. I believe that our current position represents an appropriate trade-off of risk and resource, and our SIRO, with EMT support, will continue to keep this area under review in 2013-14.

## Conclusion

50. I believe that the risks the Agency faced in 2012-13 were managed effectively, albeit not without some level of impact on either the Agency or the FE 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 still more to do and change continues.



### Kim Thorneywork

Interim Chief Executive of Skills Funding  
Skills Funding Agency

A partner organisation of the Department  
for Business, Innovation and Skills

6 June 2013







# Certificate and Report 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 2013 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 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.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Skills Funding Agency's affairs as at 31 March 2013 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared 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 the "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

I have no observations to make on these financial statements.

### Amyas C E Morse

Comptroller and Auditor General

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

11 June 2013

# Statement of Comprehensive Net Expenditure

for the Year to 31 March 2013

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
<b>Administration costs</b>			
Staff costs	2a	58,064	75,590
Other costs	3a	46,094	67,075
Depreciation, impairment and losses on disposal	3b	27,059	26,951
<b>Total Administration costs</b>		<b>131,217</b>	<b>169,616</b>
<b>Programme costs</b>			
ASB	4.01	2,619,288	2,693,186
Community Learning	4.02	210,449	209,902
Offender Learning	4.03	146,129	148,770
Learner Support Funds	4.04	144,397	129,953
National Careers Service	4.05	73,617	68,808
Skills Infrastructure	4.06	84,886	84,270
Capital	4.07	281,814	387,474
DfE Funded Programmes	4.08	678,881	764,370
ESF Programmes	4.09	140,803	112,359
Other Non-BIS Funded Programmes	4.09	6,131	11,024
<b>Other Non-BIS Funded Programmes</b>		<b>4,386,395</b>	<b>4,610,116</b>
<b>Income</b>			
EU Income	5	(141,742)	(113,279)
Other Income	5	(13,315)	(24,540)
<b>Total Income</b>		<b>(155,057)</b>	<b>(137,819)</b>
<b>Net Expenditure</b>		<b>4,362,555</b>	<b>4,641,913</b>

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

The notes on pages 61 to 88 form part of these accounts.

# Statement of Financial Position

as at 31 March 2013

	Note	As at 31 March 2013 £'000	As at 31 March 2012 £'000
<b>Non-current assets</b>			
Property, plant and equipment	6	1,923	2,907
Intangible assets	7	59,332	67,569
<b>Total non-current assets</b>		<b>61,255</b>	<b>70,476</b>
<b>Current assets</b>			
Trade and other receivables	10a	165,294	159,822
Cash and cash equivalents	11	175,007	230,839
<b>Total current assets</b>		<b>340,301</b>	<b>390,661</b>
<b>Total assets</b>		<b>401,556</b>	<b>461,137</b>
<b>Current liabilities</b>			
Trade and other payables	12a	(301,282)	(404,080)
<b>Total assets less current liabilities</b>		<b>100,274</b>	<b>57,057</b>
<b>Non-current liabilities</b>			
Provisions	13	(15,665)	(17,717)
Financial Guarantee	14	(32,736)	(31,404)
<b>Assets less liabilities</b>		<b>51,873</b>	<b>7,936</b>
Represented by			
<b>Taxpayers' equity</b>			
General fund		51,873	7,936
<b>Total Taxpayers' equity</b>		<b>51,873</b>	<b>7,936</b>

The notes on pages 61 to 88 form part of these accounts.



## Kim Thorneywork

Interim Chief Executive of Skills Funding  
Skills Funding Agency  
A partner organisation of the Department  
for Business, Innovation and Skills  
6 June 2013

# Statement of Cash Flows

for the Year to 31 March 2013

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
<b>Cash flows from operating activities</b>			
Net expenditure		(4,362,555)	(4,641,913)
Notional Audit fee	3a	160	170
Depreciation charges	3b	19,094	21,612
Other asset adjustment	3b	6,479	0
Loss on disposal of non-current assets	3b	1,486	5,339
(Increase)/Decrease in receivables – excludes capital receivables	10a	(5,469)	18,763
(Decrease) in total payables – excludes capital payables	12a	(99,537)	(20,816)
Increase/(Decrease) in use of provisions for liabilities and charges	13	(2,052)	13,123
Increase/(Decrease) in use of financial guarantees	14	1,332	(140)
<b>Net cash outflow from operating activities</b>		<b>(4,441,062)</b>	<b>(4,603,862)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	6	(48)	(1,202)
Purchase of intangible assets	7a and 12a	(21,085)	(18,361)
Proceeds of disposal of property, plant and equipment	3b 10a and 12a	31	40
<b>Net cash outflow from investing activities</b>		<b>(21,102)</b>	<b>(19,523)</b>
<b>Cash flows from financing activities</b>			
Financing from BIS		4,406,332	4,529,814
<b>Net cash inflow from financing activities</b>		<b>4,406,332</b>	<b>4,529,814</b>
Net increase in cash and cash equivalents in the period	11	(55,832)	(93,571)
Cash and cash equivalents at the beginning of the period	11	230,839	324,410
<b>Cash and cash equivalents at the end of the period</b>		<b>175,007</b>	<b>230,839</b>

The notes on pages 61 to 88 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the Year to 31 March 2013

	Note	As at 31 March 2013 £'000	As at 31 March 2012 £'000
<b>Balance at 1 April</b>		<b>7,936</b>	<b>119,865</b>
Retained deficit		(4,362,555)	(4,641,913)
Reversal of notional audit fee	3a	160	170
<b>Total recognised income and expense for the year</b>		<b>(4,362,395)</b>	<b>(4,641,743)</b>
Financing from BIS		4,406,332	4,529,814
<b>Balance at 31 March</b>		<b>51,873</b>	<b>7,936</b>



# 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 Government's *Financial Reporting Manual* (FReM) 2012-13. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, that judged the 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, including the expected legal changes to confirm our status as an executive agency in April 2014. 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 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 2013 using indices prepared by the Office for National Statistics (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 fixed 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.

Most intangible fixed 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 – property, plant, equipment and intangibles

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
<b>Property, plant and equipment</b>	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
<b>Intangible assets</b>	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 Impairment – property, plant, equipment and intangibles

Property, plant, 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.

### 1.7 Leases

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

### 1.8 Receivables – programme expenditure

Programme receivables derive from various programmes. Mostly, they 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 colleges and private training organisations and recorded in the Skills Funding Agency's accounts. In most cases these amounts are offset against future payments to colleges and private training organisations so 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 colleges and private training organisations, 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 colleges and private training organisations.

### 1.9 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.

### 1.10 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 and details are disclosed in accordance with the provisions of IFRS 7.

### 1.11 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.

## 1 Statement of Accounting Policies (continued)

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.

### 1.12 Programme accounting basis

The main groups of programme expenditure are Recurrent Programmes and Capital Programmes. Recurrent Programmes includes Teaching and Learning (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: 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 organisations 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'.

###### *Apprenticeships*

Apprenticeships programme expenditure is accounted for on the basis of actual delivery (subject to contract value) in the financial year concerned, except when the expenditure is made to colleges. In that 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 that 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*

###### *Offender learning*

Offender learning expenditure is accounted for on the basis of an agreed profile of delivery.

## 1 Statement of Accounting Policies (continued)

### *Community Learning*

Community Learning programme expenditure is accounted for on the basis of the use 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 use 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 (or specific guidance for newer programmes). 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.

### **1.13 Employee benefits**

#### *Pension and superannuation costs*

Present and past employees are covered by the provisions of the PCSPS, 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 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.

## 1 Statement of Accounting Policies (continued)

### Other employee benefits

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

### 1.14 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.

### 1.15 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).

### 1.16 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.

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 78.

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.

### 1.17 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.

### 1.18 Accounting developments

#### Accounting standards: issued but not effective

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee 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, we will adopt these 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
<b>IAS 32</b> Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) Presentation changes to clarify offsetting.	December 2011	1 January 2014	No Impact expected.
Mandatory Effective Date of <b>IFRS 9</b> and Transition Disclosures (Amendments to <b>IFRS 9</b> and <b>IFRS 7</b> ). Includes relief from restating comparatives.	December 2011	1 January 2015	No impact expected.
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).	October 2012	1 January 2014	No impact expected.

## 2a Staff Costs

Information in respect of Senior Employees emoluments and pension entitlements is provided in the Remuneration Report on pages 37 to 43.

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
The aggregate payroll costs for the Skills Funding Agency were as follows:		
Salaries	54,221	65,048
Social security	4,999	6,175
Pension costs	10,644	12,122
Redundancies and payment in lieu of notice	534	12,293 *
	<b>70,398</b>	<b>95,638</b>
Other staff (includes agency/contract/seconded staff)	13,948	3,507
Recoveries in respect of outward secondments	(448)	(775)
	<b>83,898</b>	<b>98,370</b>
Staff costs related to programmes	(25,834)	(22,780)
	<b>58,064</b>	<b>75,590</b>

### Notes:

\* This represents a reclassification of an accrual made in 2010-11 to a provision in 2011-12 and did not represent additional expenditure to the Agency. See note 4.

Of the total, £422,953 (2011-12: £963,704) relates to the EFA.

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

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS 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 are available in the resource accounts of the Cabinet Office: Civil Superannuation at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

For 2012-13, employers' contributions of £10,406,954 were paid to the PCSPS by 31 March 2013 (2011-12: £12,030,292) 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. (Note 2a contains an accrual for compensated absences.)

The contribution rates are set to meet the cost of the benefits accruing during 2012-13 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 £65,291 (2011-12: £88,618) 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 £5,054 (2011-12: £6,068) 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 2013 and 31 March 2012.

## 2c Average Number of Staff Employed

Year to March 2013	Permanent		Inward Seconded Staff Number	Other Agency/ Temporary Staff Number	Year ended 31 March 2013 Total Staff Number
	Senior Management Staff Number	Payroll Staff Number			

The average number of staff employed during the year, including the Chief Executive was:

Group	Senior Management Staff Number	Payroll Staff Number	Inward Seconded Staff Number	Other Agency/ Temporary Staff Number	Year ended 31 March 2013 Total Staff Number
Capacity and Infrastructure	1	65	0	0	66
Chief Executive's Office	1	17	0	0	18
Delivery	1	179	0	0	180
Finance	1	157	0	0	158
IM Services	1	168	0	7	176
NAS	1	321	2	0	324
Human Resources and Facilities	1	25	0	0	26
Marketing and Communications	0	30	0	0	30
Relationships	2	279	0	0	281
	<b>9</b>	<b>1,241</b>	<b>2</b>	<b>7</b>	<b>1,259</b>

Year to March 2012	Senior Management Staff Number	Payroll Staff Number	Inward Seconded Staff Number	Agency/ Temporary Staff Number	Year ended 31 March 2012 Total Staff Number
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The average number of staff employed during the year, including the Chief Executive was:

Group	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
IM Services	1	141	0	10	152
NAS	2	328	0	2	332
Human Resources and Facilities	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
	<b>10</b>	<b>1,343</b>	<b>0</b>	<b>15</b>	<b>1,368</b>



## 2d Civil Service Compensation Scheme Analysis

Value	Compulsory Redundancies		Other Departures		Total Departures	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
< £10,000	0	0	0	58	0	58
£10,000-£24,999	2	0	0	157	2	157
£25,000-£49,999	1	0	1	137	2	137
£50,000-£99,999	0	0	2	73	2	73
£100,000-£149,999	0	0	1	2	1	2
£150,000-£200,000	0	0	0	0	0	0
£200,000+	0	0	0	0	0	0
<b>Total number of exit packages</b>	<b>3</b>	<b>0</b>	<b>4</b>	<b>427</b>	<b>7</b>	<b>427</b>
<b>Total resource cost of exit packages (£'000)</b>	<b>61</b>	<b>0</b>	<b>305</b>	<b>13,110</b>	<b>366</b>	<b>13,110</b>

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 PCSPS. Ill-health retirement costs are met by the pension scheme and are not included in the table above.

### 3a Other Costs

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

The 'Total Agency administration costs' line at the foot of the table shows the cost of administration for the Agency.

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Staff expenditure – travel, training and other	3,815	3,522
Publications, printing and publicity	1,878	1,287
Telecoms	1,429	2,349
Audit costs (Non-cash)	160 *	170
Other supplies and services	375	67
Computing**	61,867	74,206
Premises	13,136	17,950
General administration and other costs	6,009	13,802
LSIS Administration Grant	5,030	12,198
<b>Total Other costs</b>	<b>93,699</b>	<b>125,551</b>
Non-pay costs to programmes	(47,605)	(58,476)
<b>Total Agency administration costs</b>	<b>46,094</b>	<b>67,075</b>

\* The Agency was charged a notional audit fee of £160,000.

\*\* The most significant element of this cost relates to systems that support Agency-delivered programmes. Of the total, £4.28 million relates to EFA costs (2011-12: £5 million).

### 3b Depreciation, Impairment and Losses on Disposal

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Property, plant and equipment (Note 6)		
Depreciation charge for period	1,012	1,467
(Profit)/Loss on disposal	(14)	981
Intangible fixed assets (Note 7)		
Depreciation charge for period	18,082	20,145
Other adjustment*	6,479	0
Loss on disposal	1,500	4,358
<b>Total charged for period</b>	<b>27,059</b>	<b>26,951</b>

\* Following a review of its asset register, the Agency removed items with a net value of £6.5 million. These items have been charged to expenditure within the 2012-13 financial year.

## 4 Programme Expenditure

Overall, expenditure on programmes has decreased in line with the reduced funding available. However, the growth in Adult Apprenticeships (4.01) reflects the increasing budget for this particular area, as shown in the Skills Funding Statement 2012-15. Capital funding (4.07) has reduced in line with the CSR, although it will increase next year. The reduction in expenditure on 16–18 Apprenticeships (4.08) is a consequence of reduced learner numbers and the application of minimum durations to Apprenticeships as part of the drive to improve quality.

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
<b>4.01 ASB</b>		
Classroom-based	1,563,680	1,521,871
Adult Apprenticeships	756,046	624,602
Other Workplace Training	297,965	526,663
City Deals	1,533	0
Growth and Innovation Fund (GIF)	64	20,050
<b>Total ASB</b>	<b>2,619,288</b>	<b>2,693,186</b>
<b>4.02 Community Learning</b>		
PCDL Safeguard (ACL Providers)	121,158	120,887
Neighbourhood Learning in Deprived Communities	20,839	20,831
Family Language Literacy and Numeracy	24,708	24,653
Family Learning	12,006	11,864
PCDL Safeguard (FE Providers)	31,738	31,667
<b>Total Adult Safeguard Learning</b>	<b>210,449</b>	<b>209,902</b>
<b>4.03 Offender Learning</b>		
Offender Learnings	146,129	148,770
<b>Total Offender Learning</b>	<b>146,129</b>	<b>148,770</b>
<b>4.04 Learner Support Funds</b>		
19+ Hardship	50,209	52,354
19+ FE Learners in Higher Education Institutions	0	187
19+ Residential Bursaries	2,599	2,343
20+ Childcare	75,111	54,958
Residential Support Scheme	272	1,387
Adult Learning Grant	324	13,342
Career Development Loans	2,453	2,471
Adult Bursary	2,910	2,911
Dance and Drama	4,247	0
Loans Development	6,272	0
<b>Total Learner Support Funds</b>	<b>144,397</b>	<b>129,953</b>

## 4 Programme Expenditure (continued)

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
<b>4.05 National Careers Service</b>		
Next Step Face-to-Face	49,470	45,371
Next Step Helpline	12,020	13,381
National Careers Service IM Development	6,819	2,493
Next Step Development	448	(9)
National Careers Service Development	3,660	7,417
Lifelong Learning Accounts	158	155
National Careers Service Face-to-Face	1,042	0
<b>Total Information Advice and Guidance</b>	<b>73,617</b>	<b>68,808</b>
<b>4.06 Skills Infrastructure</b>		
NAS BIS Non-Participation	31,445	15,863
FE Choices	2,414	2,459
LSIS	34,070	20,436
Equality and Diversity	1,604	4,357
UK Skills	0	3,221
Learning Records Service	2,308	9,926
<i>the information authority</i>	878	718
Data Services	7,098	6,367
National Skills Academies	6,237	10,787
EFA Recharge Recurrent	(1,213)	(588)
Voluntary Severance	0	(13,599)
Voluntary Early Severance (VES)	0	10,726
VES NAS	0	2,384
Discontinued and other programmes	45	11,213
<b>Total Skills Infrastructure</b>	<b>84,886</b>	<b>84,270</b>
<b>4.07 Capital</b>		
FE Capital Buildings	242,786	349,091
Regional Skills Capital Development	(24)	2,154
Skills Capital Projects Fund	4,216	7,250
National Skills Academies – Capital	6,372	7,104
ASL Capital Buildings	15	467
Systems Development	22,051	15,251
NAS Systems	328	0
Integrated Adult Careers Service IT Build	0	(27)
Local Education Authority Loan Liabilities	3,402	3,538
Qualifications and Credit Framework – Capital	414	247
PCDL Default Expenditure	8,289	8,642
PCDL Receipts	(1,940)	(3,124)
EFA Recharge Capital	(4,095)	(3,119)
<b>Total Capital</b>	<b>281,814</b>	<b>387,474</b>

## 4 Programme Expenditure (continued)

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
<b>4.08 DfE Funded Programmes</b>		
16–18 Apprenticeships	643,730	758,966
NAS DfE Non-Participation	4,667	3,009
Young People's Helpline	4,003	2,395
Apprenticeship Grant for Employers (AGE) 16–18	25,029	0
16–18 Employer Ownership Programme	1,452	0
<b>Total DfE Funded Programmes</b>	<b>678,881</b>	<b>764,370</b>
<b>4.09 ESF and Other Non-BIS Funded Programmes</b>		
ESF	129,179	98,175
Train to Gain ESF Response to Redundancy	545	1,757
Next Step ESF Response to Redundancy	11,079	12,427
Other Funding	6,131	11,024
<b>Total ESF and Other Non-BIS Funded Programmes</b>	<b>146,934</b>	<b>123,383</b>
<b>Total Programme Costs</b>	<b>4,386,395</b>	<b>4,610,116</b>

**Note:** The descriptions and classification of some programmes have been changed in 2012-13 to reflect the Funding Letter and reporting requirements of BIS for the same year. For 2012-13 the Agency has updated the analysis above to ensure that ASB is reflected consistently with how it is reported internally and managed by colleges and training organisations, who now have the freedom to spend their ASB allocation to best meet learners' needs. Comparatives for 2011-12 have been amended so as to ensure consistency. There is no financial impact as the change represents a re-analysis of the same programmes.

Grants to the private sector totalling £1.155 billion (2011-12: £1.182 billion) are included in the values above.

## 5 EU and Other Income

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Other funding for activities		
ESF 2003/06	2,312	1,201
ESF 2007/13	127,409	97,894
Train to Gain ESF Response to Redundancy Income	12,021	14,184
Other programme income	6,134	10,747
	<b>147,876</b>	<b>124,026</b>
Income from activities		
Subletting of part of premises	892	421
Other activities income	6,289	13,372
	<b>7,181</b>	<b>13,793</b>
<b>Total EU and other income</b>	<b>155,057</b>	<b>137,819</b>

### EFA shared services

Following the closure of the Learning and Skills Council 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, 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 financial year 2011-12. The above income figures include sums paid by the EFA (the YPLA became the EFA on 1 April 2012) to the Skills Funding Agency for a reduced range of shared services (information management) provided during 2012-13.

## 6 Property, Plant and Equipment

As at 31 March 2013	Furniture and Fittings £'000	Plant and Machinery £'000	Computers and Other IT £'000	Total purchased £'000
<b>Cost or Valuation</b>				
At 1 April 2012	11,321	216	3,709	15,246
Additions	2	45	1	48
Disposals	(496)	(94)	(376)	(966)
<b>At 31 March 2013</b>	<b>10,827</b>	<b>167</b>	<b>3,334</b>	<b>14,328</b>
<b>Depreciation</b>				
At 1 April 2012	(9,035)	(213)	(3,091)	(12,339)
Disposals	476	94	376	946
Charge for period	(851)	(2)	(159)	(1,012)
<b>At 31 March 2013</b>	<b>(9,410)</b>	<b>(121)</b>	<b>(2,874)</b>	<b>(12,405)</b>
<b>Net book value (NBV)</b>				
At 1 April 2012	2,286	3	618	2,907
<b>Total NBV tangible non-current assets at 31 March 2013</b>	<b>1,417</b>	<b>46</b>	<b>460</b>	<b>1,923</b>

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

## 7a Intangible Assets

As at 31 March 2013	IT AUC £'000	IT Systems £'000	IT Software £'000	Total purchased £'000
<b>Cost or Valuation</b>				
At 1 April 2012	18,369	108,247	1,010	127,626
Transfer from Assets Under Construction (AUC)	(20,571)	20,571	0	0
Additions	17,799	0	25	17,824
Disposals	0	(9,840)	0	(9,840)
Other adjustment*	(1,984)	(6,480)	0	(8,464)
<b>At 31 March 2013</b>	<b>13,613</b>	<b>112,498</b>	<b>1,035</b>	<b>127,146</b>
<b>Depreciation</b>				
At 1 April 2012	0	(59,059)	(998)	(60,057)
Disposals	0	8,340	0	8,340
Other adjustment*	0	1,985	0	1,985
Charge for period	0	(18,070)	(12)	(18,082)
<b>At 31 March 2013</b>	<b>0</b>	<b>(66,804)</b>	<b>(1,010)</b>	<b>(67,814)</b>
<b>Net book value (NBV)</b>				
At 1 April 2012	18,369	49,188	12	67,569
<b>Total NBV tangible non-current assets at 31 March 2013</b>	<b>13,613</b>	<b>45,694</b>	<b>25</b>	<b>59,332</b>

\* Following a review of its asset register, the Agency removed items with a net value of £6.5 million. These items have been charged to expenditure within the 2012-13 financial year.



## 7b Intangible Assets

As at 31 March 2012	IT AUC £'000	IT Systems £'000	IT Software £'000	Total purchased £'000
<b>Cost or Valuation</b>				
At 1 April 2011	9,984	113,068	1,694	124,746
Transfer from AUC	(18,781)	18,781	0	0
Additions	19,218	0	6	19,224
Disposals	(26)	(15,628)	(690)	(16,344)
<b>At 31 March 2012</b>	<b>10,395</b>	<b>116,221</b>	<b>1,010</b>	<b>127,626</b>
<b>Depreciation</b>				
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)
<b>At 31 March 2012</b>	<b>0</b>	<b>(59,059)</b>	<b>(998)</b>	<b>(60,057)</b>
<b>Net book value (NBV)</b>				
At 1 April 2011	9,984	62,817	47	72,848
<b>Total NBV tangible non-current assets at 31 March 2012</b>	<b>10,395</b>	<b>57,162</b>	<b>12</b>	<b>67,569</b>

## 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 organisations are subject to quality and financial status reviews before we award contracts. We reconcile provision of funding to earned values on a monthly basis, with future payments adjusted to minimise the risk of accumulating debt. The overall financial impact of such instances is not material, as shown in notes 10 and 21.

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 it does have its own Accounting Officer who is solely responsible for the administration budget.

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 NAS contained within the balances in other notes.

Agency Accounts note	Page	NAS element £'000 As at 31 March 2013 £'000	NAS element £'000 As at 31 March 2012 £'000
<b>2 Staff Costs</b>	67		
Salaries		13,787	15,715
Social security		1,261	1,459
Pension costs		2,715	2,948
		<b>17,763</b>	<b>20,122</b>
Other staff (includes agency/contract/seconded staff)		830	190
		<b>18,593</b>	<b>20,312</b>
Staff costs related to programmes		(9,764)	(7,417)
		<b>8,829</b>	<b>12,895</b>
Of the total, £97,380 (2011-12: £43,041) relates to the EFA.			
<b>3a Other administrative costs</b>	70	<b>£'000</b>	<b>£'000</b>
Staff expenditure - travel, training and other		868	641
Publications, printing and publicity		202	116
Telecoms		41	113
Other supplies and services		(6)	14
Computing		2	9
Premises		4	14
General administration and other costs		1	2,358
		<b>1,112</b>	<b>3,265</b>
Non-pay costs to programmes		(121)	(76)
		<b>991</b>	<b>3,189</b>
<b>4 Programme expenditure</b>	71	<b>£'000</b>	<b>£'000</b>
19+ Apprenticeships – Colleges		155,514	101,981
19+ Apprenticeships – Training Organisations		217,971	237,331
25+ Apprenticeships – Colleges		140,307	57,248
25+ Apprenticeships – Training Organisations		226,818	228,042
AGE (19–24)		13,276	0
19+ Employer Ownership Programme		2,160	0
<b>Total Adult Apprenticeships</b>		<b>756,046</b>	<b>624,602</b>

## 9 The NAS Summary (continued)

Agency Accounts note	Page	NAS element £'000 As at 31 March 2013 £'000	NAS element £'000 As at 31 March 2012 £'000
NAS BIS Non-participation		28,514	15,863
UK Skills		0	3,221
VES NAS		0	2,384
<b>Total Skills Infrastructure</b>		<b>28,514</b>	<b>21,468</b>
NAS Systems Development		328	0
<b>Total Capital</b>		<b>328</b>	<b>0</b>
16–18 Apprenticeships		643,730	758,966
NAS DfE Non-participation		4,667	3,009
AGE (16–18)		25,029	0
16–18 Employer Ownership Programme		1,452	0
<b>Total DfE Funded</b>		<b>674,878</b>	<b>761,975</b>
ESF		0	28
Other Funding		21	336
<b>Total ESF and Other Non-BIS Funded Programmes</b>		<b>21</b>	<b>364</b>
<b>Total Programme</b>		<b>1,459,787</b>	<b>1,408,409</b>
<b>5 EU and Other Income</b>	74	<b>£'000</b>	<b>£'000</b>
Other funding for activities			
ESF		0	(15)
Other programme income		21	338
		<b>21</b>	<b>323</b>
Income from activities			
Subletting of part of premises		0	9
Other activities income		25	2,331
		<b>25</b>	<b>2,340</b>
<b>Total EU and other income</b>		<b>46</b>	<b>2,663</b>
<b>Net NAS Expenditure for the year</b>		<b>1,469,561</b>	<b>1,421,830</b>

## 10a Trade Receivables and Other Current Assets

	As at 31 March 2013 £'000	As at 31 March 2012 £'000
<b>Amounts falling due within one year Trade and other receivables</b>		
Advances and other FE college receivables	64,506	47,676
Workplace training receivables	7,659	14,374
Trade receivables	205	41
ESF and other receivables	1,606	19,788
	<b>73,976</b>	<b>81,879</b>
<b>Prepayment and accrued income</b>		
ESF and other accrued income	85,770	75,851
FE college prepayments	3,515	0
Administration cost prepayments	2,027	2,089
	<b>91,312</b>	<b>77,940</b>
Capital receivables (sale proceeds of non-current assets)	6	3
<b>Total receivables and other current assets</b>	<b>165,294</b>	<b>159,822</b>

**Note:** Receivables include a provision for doubtful debts of £17 million at 31 March 2013 (£11.2 million at 31 March 2012).

## 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 2013 £'000	As at 31 March 2012 £'000
<b>Current receivables</b>		
Local authorities	1,557	2,115
NHS trusts	20	153
Public corporations and trading funds	0	2
Other central government bodies	55,866	53,527
<b>Balances with other government bodies</b>	<b>57,443</b>	<b>55,797</b>
Balances with non-governmental bodies	107,851	104,025
<b>Subtotal current receivables</b>	<b>165,294</b>	<b>159,822</b>
<b>Non-current receivables</b>		
Balances with non-governmental bodies	0	0
<b>Total receivables by organisation type</b>	<b>165,294</b>	<b>159,822</b>

## 11 Cash and Cash Equivalents

	As at 31 March 2013 £'000	As at 31 March 2012 £'000
Balance at 1 April 2012	230,839	324,410
Net change in cash and cash equivalent balances	(55,832)	(93,571)
<b>Balance at 31 March</b>	<b>175,007</b>	<b>230,839</b>

### The following balances at 31 March were held at:

Government Banking Service	175,007	230,839
Commercial banks and cash in hand	0	0
Short-term investments	0	0
<b>Balance at 31 March</b>	<b>175,007</b>	<b>230,839</b>

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

	As at 31 March 2013 £'000	As at 31 March 2012 £'000
<b>Amounts falling due within one year</b>		
Trade payables	115	1,564
FE college payables	136	464
Workplace training payables	1,364	1,451
Tax and social security	341	997
ESF and other payables	6,216	8,988
	<b>8,172</b>	<b>13,464</b>
ESF and other deferred income	46,979	68,332
Workplace training accruals	111,153	164,821
Other accruals	128,367	147,591
	<b>286,499</b>	<b>380,744</b>
<b>Subtotal payables, deferred income and accruals</b>	<b>294,671</b>	<b>394,208</b>
Capital payables	6,611	9,872
<b>Total payables and other current liabilities</b>	<b>301,282</b>	<b>404,080</b>
<b>Total payables, other current liabilities and non-current liabilities</b>	<b>301,282</b>	<b>404,080</b>

## 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 2013 £'000	As at 31 March 2012 £'000
Local authorities	2,450	547
NHS trusts	0	11
Public corporations and trading funds	91	48
Other central government bodies	39,883	53,869
<b>Balances with other government bodies</b>	<b>42,424</b>	<b>54,475</b>
Balances with non-government bodies	258,858	349,605
<b>Total payables by organisation type</b>	<b>301,282</b>	<b>404,080</b>

## 13 Provisions for Liabilities and Charges

	Early Retirement £'000	PCDL £'000	Property £'000	Total £'000
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)
<b>Balance of provision at 31 March 2012</b>	<b>11,561</b>	<b>2,649</b>	<b>3,507</b>	<b>17,717</b>
Provision balance at 1 April 2012	11,561	2,649	3,507	17,717
Additional charge in year	0	1,764	2,713	4,477
Provision utilised in year	(2,787)	(2,058)	(1,539)	(6,384)
Provision unused and reversed during the year	0	(126)	(19)	(145)
<b>Balance of provision at 31 March 2013</b>	<b>8,774</b>	<b>2,229</b>	<b>4,662</b>	<b>15,665</b>

### Indicative timing of outflows required to settle obligation

Within one year	2,557	1,160	2,676	6,393
Between two and five years	5,677	1,069	1,986	8,732
Greater than five years	540	0	0	540
	<b>8,774</b>	<b>2,229</b>	<b>4,662</b>	<b>15,665</b>

\* **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 are 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 under the former LSC's reshaping programme.

### Professional and 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: Professional and Career Development Loans (Defaults)

	PCDL (Defaults) £'000
Opening balance at 1 April 2011	31,544
Increase in the year	8,313
Expenditure in the year	(8,453)
<b>Balance at 31 March 2012</b>	<b>31,404</b>
Opening balance at 1 April 2012	31,404
Increase in the year	8,283
Expenditure in the year	(6,951)
<b>Balance at 31 March 2013</b>	<b>32,736</b>

### 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. Most 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

Most of the liability arises from the credit risk that learners will not repay the loans; 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. This is estimated at £44 million.

### Liquidity Risk

As it is 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 2013 £'000	Year ended 31 March 2012 £'000
Obligations under operating leases at 31 March comprise:		
a) Land and buildings		
Not later than one year	5,250	6,995
Later than one year and not later than five years	16,508	22,420
Later than five years	13,558	18,042
	<b>35,316</b>	<b>47,457</b>
b) Others		
Not later than one year	160	175
Later than one year and not later than five years	401	599
Later than five years	0	0
	<b>561</b>	<b>774</b>

## 16 Capital Commitments

The Agency had no commitments for capital expenditure as at 31 March 2013 (31 March 2012: nil).

## 17 Commitments to Make Grants to Colleges

Commitments to make grants to colleges at 31 March 2013 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 2013 £'000	As at 31 March 2012 £'000
<b>Payable within one year</b>		
Adult Skills (Colleges)	594,384	667,580
FE capital	218,306	132,622
	<b>812,690</b>	<b>800,202</b>
<b>Payable between two to five years</b>		
FE capital	7,500	127,864
	<b>7,500</b>	<b>127,864</b>

## 18 Commitments to make grants to LSIS

In accordance with the 2013-14 funding agreement, the Agency has committed to provide the LSIS with total grants of £10.96 million (2011-12: £45.49 million), covering both programme and administration costs until the cessation of the LSIS's activities.

## 19 Contingent Liabilities

The Agency had no material contingent liabilities as at 31 March 2013 (31 March 2012: nil).

## 20 Related Party Transactions

The Skills Funding Agency is a partner organisation of BIS, which is regarded as a related party.

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

- BIS (provision of grant funding to the Agency)
- Department for Work and Pensions (provision of ESF funding to the Agency)
- ConstructionSkills (provision of funding by the Agency)
- LSIS (provision of grant funding by the Agency).

During the year, none of the Agency's Executive Directors or their close family members has undertaken any material transactions with organisations that can be considered as a related party.

As explained on page 22, the Agency has various advisory members, some of whom 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.

## 21 Losses and Special Payments

### 21a Losses statement

The Skills Funding Agency incurred the following material cash losses in the period to 31 March 2013. The losses have been charged to the relevant programme in note 4 or other costs in note 3a.

Description	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Workplace training and Apprenticeships, including Train to Gain		
Cases above £250,000 individually	5,725	2,541
Cases below £250,000 individually	152	680
	<b>5,877</b>	<b>3,221</b>
European Social Fund Provision (ESF)		
Cases above £250,000 individually	0	535
Cases below £250,000 individually	313	509
	<b>313</b>	<b>1,044</b>
Other Programme Provision		
Cases below £250,000 individually	0	47
	<b>0</b>	<b>47</b>
Administration expenditure		
Cases below £250,000 individually	2	9
	<b>2</b>	<b>9</b>
<b>Total Cash Losses</b>	<b>6,192</b>	<b>4,321</b>

At 31 March 2013 there were 23 cases, of which four cases were above the reporting threshold of £250,000 individually. The total amounts for those organisations that had individual cases above £250,000 were as follows:

Organisation	£'000
UK E-Learning Limited (two cases)	2,253
Mymar Training Limited (one case)	1,585
Apprenticeship Training Limited (one case)	1,289
Real Time Training Limited (two cases)	862

## 21a Losses Statement (continued)

Most 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 organisations 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 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 2013 Number of cases	31 March 2013 Loss £'000
Agency	Up to £10,000	13	18
BIS	£10,000 to £250,000	6	449
BIS	£250,000 to £2,000,000	3	3,609
BIS	£2,000,000 to £10,000,000 (insolvency cases)	1	2,116
HM Treasury	Over £2,000,000	0	0
<b>Total Losses</b>		<b>23</b>	<b>6,192</b>

## 21b Special Payments

The Skills Funding Agency incurred no special payments in the period to 31 March 2013 (31 March 2012: nil).

## 22 Events after the Date of the Statement of Financial Position

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 of Further Information

## **16–18 Apprenticeships**

Apprentices earn a wage and work alongside experienced staff to gain job-specific skills. Off the job, usually on a day-release basis, apprentices receive training to work towards nationally recognised qualifications. Anyone living in England, over 16-years-old and not in full-time education can become an apprentice.

## **16–18 Employer Ownership Programme**

Funding available in a bid to design the vocational training programmes needed to grow and create tens of thousands of opportunities for young people.

## **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.

## **Adult Apprenticeships**

Each year tens of thousands of adults gain the skills and qualifications they need to progress and increase their earning power by becoming an Adult Apprentice.

## **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 colleges and training organisations to meet the needs of learners and employers.

## **Apprenticeship Training**

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.

## **Apprenticeship Training Agencies**

Apprenticeship Training Agencies (ATAs) support the delivery of a high-quality Apprenticeship programme, with a focus on small employers who wish to use the services of an ATA to source, arrange and host their Apprenticeships.

## **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 the recognised voice of independent training organisations that engage in government-funded skills training and employability programmes throughout England.

## **Awarding bodies**

Organisations that award vocational qualifications.

## **Business as usual**

The normal execution of operations within an organisation.

## **Cabinet Office**

The Cabinet Office is a department of the Government of the United Kingdom responsible for supporting the Prime Minister and Cabinet of the United Kingdom.

## Glossary of Further Information (continued)

### Capital Handbook

This handbook updates the arrangements for the administration, assessment and determination of applications to the Agency. New capital programmes have specific guidance.

### Capital Grant Funding

Grants which provide capital funding to colleges across England.

### Carbon Management Plan

Sets out a clear strategy and action plan to reduce carbon emissions

### Carbon Reduction Management

Aims to improve carbon management and help the transition towards a low-carbon economy in the UK.

### Chancellor's Autumn Statement

The Chancellor of the Exchequer delivers his Autumn Statement to Parliament to announce the government's economic strategy for the coming year.

### Chartered status

A status of professional competency.

### City Deals

Agreements between government and a city that give the city control to take charge and responsibility of decisions that affect their area, do what it believes is best to help businesses grow, create economic growth and decide how to spend public money.

### Civil Service Compensation Scheme

Sets out the level of compensation that departments can pay their staff if they leave under voluntary or compulsory redundancy.

### Civil Service Learning portal

Provides courses and learning resources for developing skills common to all civil servants.

### Civil Service Learning resource

Civil servants website to access e-learning, view online resources and book onto face-to-face courses for all generic learning.

### Civil Superannuation Vote

Covers the payment and associated non-cash items of pensions and other benefits to those covered by the Principal Civil Service Pension Scheme (PCSPS). Also covers certain other statutory schemes, including schemes for civil servants made under the Superannuation Act 1972.

### Co-financing organisation

The Agency uses the European Social Fund (ESF) to provide additional investment to support and enhance its mainstream activity, to enable disadvantaged people to access and benefit from employment and skills opportunities.

### Community Learning Trusts

In August 2012, BIS introduced new community learning policy objectives and launched 15 Community Learning Trust pilots to test different approaches in the planning, delivery and funding of community learning.

### Comprehensive Spending Review

The HM Treasury-led process that allocates public expenditure.

### ConstructionSkills

ConstructionSkills are tasked by government to ensure the UK's construction industry has the skilled workforce it requires.

### Contract for Services – Education and Training

The annual update of the Main Terms and Conditions of Provider Agreements.

### Core Cities Agenda

Cities will be given new powers to raise and spend capital for local development - in exchange for less support from government.

### Corporate Governance

The system of rules, practices and processes by which a company is directed and controlled.

### Corporate Social Responsibility

A form of corporate self-regulation integrated into a business model.

### Carbon Reduction Commitment Allowances

Organisations that decrease their emissions can lower their costs under the Carbon Reduction Commitment (CRC).

### Demand-led funding system

Funding formula used to calculate enrolment, learner and allocation funding values for learning.

### Due Diligence Assurance Gateway

Organisations are required to pass a Due Diligence Assurance Gateway in order to be included on the Register of Training Organisations.

### Due diligence process

The process of getting on to the Due Diligence Assurance Gateway.

## Glossary of Further Information (continued)

### 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.

### Employer Ownership Investment Fund

The Employer Ownership Pilot Fund offers all employers direct access to public investment.

### Employer Ownership Pilot

Employer ownership of skills is the UK Commission's long-term vision for skills in England.

### End-to-end intervention process

The end-to-end intervention process is the assessment and management of risk associated with colleges and other training organisations in receipt of funding for education and training from the Chief Executive of Skills Funding.

### Enhanced Renewal Grant

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).

### Enterprise partnerships

A voluntary partnership between local authorities and businesses formed in 2011 by the Department for Business, Innovation and Skills.

### Error rates

A common metric of the performance of a speech recognition or machine translation system.

### European Social Fund

The European Social Fund (ESF) is the European Union's main financial instrument for supporting employment in the member states of the European Union.

### Family Learning

Helping parents to help children learn.

### FE Campaign

Leading sector organisations have pledged to work together to promote further education and skills through a new campaign that will tell the FE story.

### FE Choices website

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.

### FE College Capital Investment Strategy

Outlines the Government's capital investment plans for the remainder of Parliament, sets out key priorities and an outline delivery plan, and announces the creation of the College Capital Investment Fund (CCIF).

### Financial management and control reviews

The self-assessment process that colleges and private training organisations use.

### Financial oversight arrangements

These arrangements enable asset-rich public sector service organisations to raise private finance.

### Funding Policy Statement

This statement sets out how spending is allocated.

### 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.

### Guild for further education institutions

Chartered status scheme for further education institutions.

### Government's Investment Strategy

An investment strategy for the further education system.

### Government procurement card

Purchasing cards and corporate cards designed to satisfy government efficiency targets.

### Growth and Innovation Fund

The fund was established to support new initiatives to increase the contribution skills make to enterprise, jobs and growth.

### Heseltine Report (The)

A series of recommendations in all aspects of government policy that affect economic growth.

### Higher Apprenticeship Fund

Supports the expansion of Apprenticeships up to degree equivalent in companies, particularly small- and medium-sized enterprises.

### Higher education

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

## Glossary of Further Information (continued)

### 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.

### Industrial Strategy

To help the UK economy and business compete and grow.

### Integrated Adult Careers Service

The former Next Step service, which the National Careers Service replaced in April 2012.

### Intervention notices

To ensure that where learners' and employers' needs are not being met and/or performance is poor, the Government will intervene quickly and effectively to restore high-quality provision. Notices will be issued.

### Innovation Code

Ensures skills funding can benefit learners and those communities that need it most.

### Investors in People Standard

Specialises in transforming business performance through people.

### IM Services division

Information Management (IM) Services is a shared service that supports the Skills Funding Agency and the Education Funding Agency.

### Jobcentre Plus

A government agency that supports people of working age to progress from welfare into work and helps employers to fill their vacancies.

### Joint Audit Code of Practice

Changes to streamline and simplify the 16–19 funding and allocations system.

### 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](http://www.lsis.org.uk)

### Learning Records Service

The Learning Records Service (LRS) supports learners at all levels to access, manage and use their own achievement information as they progress through education, training and lifelong learning.

### 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](http://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. The NAS works 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/](http://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](http://nationalcareersservice.direct.gov.uk)



## Glossary of Further Information (continued)

### **National Health and Safety Committee**

This committee works with 19 public service organisations on health and safety.

### **National Skills Academies**

National Skills Academies are employer-led organisations with a leading role in developing the infrastructure needed to deliver specialist skills for key sectors and sub-sectors of the economy.

### **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](http://www.niace.org.uk)

### **Notices of Withdrawal of Post-19 Funding**

Allow the college a final opportunity to provide a clear and robust plan of action.

### **Notice of Termination of Contract**

A common termination clause will provide that the party who wishes to terminate the contract must notify the other party of his or her intent to do so in writing.

### **Notices to Improve**

Issued to colleges and training organisations identified as underperforming.

### **Personal Learning Records**

Offers access to verified participation and achievement records of individual learners.

### **Policy framework**

A logical structure that is established to organise policy documents into groupings and categories.

### **Principal Civil Service Pension Scheme**

The Principal Civil Service Pension Scheme (PCSPS) is a voluntary pension scheme, which members can join at any time during their employment within the Civil Service.

### **Professional and Career Development Loan**

The Professional and Career Development Loan (PCDL) programme offers financial assistance to improve prospects, and the Government pays the interest.

### **Professional qualifications**

Qualifications that are generally awarded by professional bodies in line with their charters.

### **Project development fund**

The project development fund provides funding to assist colleges with the implementation of their priority strategies and in developing capital projects.

### **Protective security**

Government departments and agencies are responsible for protecting their information, personnel and physical assets in accordance with protective security policies issued by the Cabinet Office.

### **Provider Enquiry Group**

The Provider Enquiry Group (PEG) is a group within the Agency that reviews policies, procedures and actual cases relating to colleges and other training organisations that we fund. The PEG exists to ensure the probity of our funding.

### **Provider Financial Assurance Audit Team**

The Provider Financial Assurance (PFA) Audit Team ensures that colleges and private training organisations use Agency funds for the intended purposes.

### **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 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](http://skillsfundingagency.bis.gov.uk/providers/programmes/register)

### **Relevant audit information**

Information that is relevant to an audit.

### **Renewal Grant**

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.

### **Response to Redundancy**

Short, sharp, job-focused interventions to redundancy will enable individuals to be ready to continue in, enter or re-enter sustainable employment, including Apprenticeships and self employment, and contribute positively to the local labour market.

### **Richard Review of Apprenticeships**

The Richard Review of Apprenticeships examined how Apprenticeships in England can meet the needs of the changing economy.

## Glossary of Further Information (continued)

### **Schools Star Chamber**

Assesses all DfE proposals for new data and research collections relating to children and young people.

### **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.

### **Security Policy Framework**

The standards, best practice guidelines and approaches that are required to protect UK government assets.

### **Single Equality Scheme**

The Scheme sets out institutions enhance their equality practices.

### **Skills Capital Projects Fund**

Funding for individuals to access the facilities, skills and opportunities they need to achieve their potential and thrive within their local community

### **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.

### **Statements of Internal Control**

A public accountability document that describes the effectiveness of internal controls in an organisation.

### **Strategic Intervention Team**

The team who deal with complaints about providers and those underperforming.

### **Sustainable procurement**

A spending and investment process typically associated with public policy.

### **The Data Service**

The single authoritative source of data for post-16 further education.

### ***the information authority***

Sets data standards and governs data collection and use for further education and training provision in England.

### **Train to Gain**

UK government funded initiative to deliver vocational training to employed individuals in the UK, primarily those in the 25+.

### **Training Quality Standards**

The Training Quality Standard represents a commitment to a journey of continuous improvement and innovation.

### **Transparency Agenda**

The transparency agenda is a pledge by the Coalition Government to make government more open.

### **UK Commission for Employment and Skills**

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

### **Unique Learner Number**

A Unique Learner Number (ULN) is a 10-digit reference number which is used alongside and to access the Personal Learning Record.

### **Voluntary early severance**

Voluntary early severance (VES) refers to a specific programme whereby costs of staff departure from the Agency are charged in full to the year of departure.

### **Whole College and Provider View programme**

A programme to understand what matters to the sector and what gets in the way of colleges delivering.

### **Workplace training**

Workplace training bridges the skills gap between education and employment.

### **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](http://worldskillsuk.apprenticeships.org.uk)

## Glossary of Further Information (continued)

### **Year-end**

The end of the financial year, which for the Agency runs from 1 April to the following 31 March.

### **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).

### **Zero-tolerance approach**

The Skills Funding Agency will take a zero-tolerance approach to any discrimination, victimisation, bullying and harassment.

# Glossary of Financial Terms

The definitions provided below are simplified to help individuals without a finance background to read the accounts. They are not a comprehensive statement of the full accounting meaning of each, and nor do they fully reflect accounting policy within the Agency. The definitions are not a substitute for accounting standards, practices, laws and government guidelines as relevant to the Agency. For further information, please refer to a suitably qualified finance professional or to the Agency directly.

## Alexander tax review

Chief Secretary to the Treasury Danny Alexander announced in January 2012 that the Government would hold a review into the tax arrangements of public sector appointees.

## Asset

Asset has a broad but specific meaning in accounting terminology. An asset is something that the Agency has control over that it can use as part of the process of delivering its objectives. It may be tangible such as an item of office equipment or it may be intangible such as a computer system. Receivable balances and cash balances are also assets.

## Asset adjustment

The Agency keeps a record of its intangible assets. Following a review of this record, we decided to remove some items and the value of this adjustment is disclosed separately in the accounts.

## Closing carrying value

This is the same as the net book value (NBV) at the end of the year.

## Contingent liabilities

Contingent liabilities are liabilities that are not yet certain because their existence can only be confirmed by a future event outside of the Agency's control. The Agency does not have any such liabilities.

## Default expenditure

Expenditure incurred as a consequence of students failing to repay loans under the PCDL programme.

## Deferred income

This is income that the Agency has received in the current financial year but relates to a future period.

## Depreciation, impairment and losses on disposal

Depreciation is explained below. The Agency does not have any impairment to report. A loss on disposal refers to the situation where an asset is disposed of before it has been fully depreciated and any sales proceeds do not outweigh this remaining value.

## Depreciation

Depreciation shows the value of an asset (such as a computer system) that we have used during the reporting period. For example, if the Agency bought a computer system for £1 million and expected it to be used for five years, the depreciation charge would be £200,000 each year.

## Depreciated historical cost

Depreciated historical cost is the depreciation charge worked out on the historical cost.

## EFA Recharge capital

This refers to the re-charge of costs to the EFA.

## Financial Guarantee

This is a type of liability but it is characterised by being less certain than other liabilities. The Agency has a liability under the PCDL programme to cover the cost of loans provided to students that default while the students are repaying. At the time of preparing the accounts, we do not know with certainty how much this will be, so we have estimated it.

## Financial Reporting Manual

The Government's Financial Reporting Manual (FRoM) 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.

## General fund

This is also known as the 'general reserve'. It is best thought of as the value held in the Skills Funding Agency that is owned by the taxpayer.

## Glossary of Financial Terms (continued)

### Historical cost

Historical cost is the cost that the item was when bought. If the Agency bought a computer system for £1 million two years ago, its historical cost would be £1 million.

### Historical cost convention

This is the convention that all costs are quoted on a consistent basis using historical cost.

### Intangible asset

Intangible asset has a specific meaning in accounting. It is an identifiable asset under the control of the Agency that is not money and does not have physical substance. An example of an intangible asset is computer system software.

### International Accounting Standards Board

The independent, accounting standard-setting body of the IFRS Foundation.

### International Financial Reporting Standards

International Financial Reporting Standards refers to the rules and practices as issued by the International Accounting Standards board. These have been adapted for use by government bodies in the UK, as explained in the Government's FReM and it is these rules that the Agency applies in the preparation of its accounts.

### Liabilities

Liabilities have a broad but specific definition in accounting terms. A liability is an obligation the Agency has that arises from past transactions or events. For example, if the Agency agrees to occupy a building for a certain period of time, it will have a liability to pay the rent. Liabilities are linked to the expenditure the Agency incurs and the value of liabilities in the accounts represents amounts that we have not yet paid. Payable balances, Provisions and Financial Guarantee balances are all liabilities.

### Net assets

This refers to the total assets, less the total liabilities under the Agency's control.

### Net book value

The net book value (NBV) of an asset is the original cost of the asset, less any depreciation that has been charged against it. For example, a computer system bought for £1 million and expected to last five years will have a net book value of £800,000 after the first year.

### Non-current assets

Non-current assets are assets that the Agency expects to use over more than one accounting period. For example, a computer system expected to last five years is a non-current asset.

### Non-current liabilities

Non-current liabilities are liabilities that are expected to be paid more than one year beyond the end of the financial year. For example, the Agency has an obligation to fund loan defaults in relation to the PCDL programme. This obligation is already in existence but not expected to require payment until sometime in the future.

### Operating segment

A component of an entity. For example, the NAS is part of the Agency.

### Payables

Payables refer to those balances that are payable by the Agency at the end of the reporting period. For example, where the Agency owes money to colleges and other training organisations for work they have delivered.

### Provisions

Provisions are a type of liability but they have the characteristic of being less certain than other liabilities, so they are disclosed separately.

### Receivables

Receivables refer to those balances that are receivable by the Agency at the end of the reporting period. For example, where the Agency has sent an invoice to the Department for Work and Pensions for it to provide funding to cover the costs of delivering the ESF programme.

### Segmental reporting

Giving separate accounts of a company's individual divisions, subsidiaries or other segments, for example the NAS is reported separately in the Agency's accounts.

### Workplace Training Balances

These are the amounts that the Agency recovers from training organisations in relation to delivering the ASB.







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