



Skills Funding
Agency

Annual Report and Accounts **2013 to 2014**



Skills Funding Agency Annual Report and Accounts **2013 to 2014**

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to the Apprenticeships, Skills, Children and Learning Act 2009

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Chief Executive's Review



This was a year of real reform for further education (FE). Enterprise and employer ownership were at the heart of that reform, which put money for skills firmly in the hands of employers and

ensured that funding would follow the learner and encouraged colleges to become social enterprises.

At the Skills Funding Agency we supported this ambitious FE reform agenda. We continued to put policy into practice, responding to new political and practical challenges to deliver £4 billion of training. As always, we worked closely with the sector but increasingly with employers, keeping our focus firmly on the skills that the UK will need for the future economy.

2013 was also a significant time of reform for the Skills Funding Agency, with further changes in our leadership. Kim Thorneywork CBE led the Agency through significant achievements in the first part of the year, whilst I picked up responsibility in November on the announcement that Kim would be away from the business for some time due to ill-health. I would like to thank Kim for her efforts and substantial achievements in laying the foundations for reform, which gave me the springboard from which to meet the next stage of the year's challenges.

The Agency restructure was our response to the civil service reform agenda and the changing skills funding landscape and will be complete by the time of the next spending review in the financial year 2015 to 2016. We took time to consider how best to become a single Agency that operates consistently

across the country, tailoring its service to Local Enterprise Partnerships (LEPs) and local stakeholders. I can confidently say we made significant headway with our reform, improving organisational performance and providing a better technical service to those for and with whom we work.

The National Apprenticeship Service (NAS) is now within the Agency, bringing formal responsibility for the funding and delivery of the Agency's programmes together under the one Chief Executive of Skills Funding. David Way CBE left the Skills Funding Agency in August 2013, having led the work and development of NAS for five years. This was a period of considerable growth and reform for Apprenticeships, and we were grateful for his expertise and leadership during this time.

This year the Skills and Enterprise Minister, Matthew Hancock, appointed Paul Dreschler as the chair of our Advisory Board, where he is helping us to strengthen and develop the role of the board.

During the course of the year, the Chancellor George Osborne announced that from April 2015 LEPs would have influence over the Single Local Growth Fund, driving a dynamic of local training for individual employers. We responded to this to ensure that FE and skills were organised to best meet local need. We reflected particularly on the way we structured our Apprenticeship programme. This demonstrated our ongoing commitment and ability to work closely with the sector, aligning the government's investment in skills to the demands of local communities and the skills gaps identified by employers.

Rightly, employers were at the centre of the skills dynamic in 2013 to 2014. We knew that by investing strategically in learning and training provision, employers could set career pathways through Traineeships,

Apprenticeships and workplace training to create seamless links into further and higher education. Throughout the year our message to colleges and other training organisations was that their engagement with employers was critical. We advised them to be responsive, effective and commercial in their approach and we offered them the tools they needed (such as Apprenticeship Grant for Employers (AGE) and Traineeships) to market their offer to employers.

We continued to deliver yet more high-quality Apprenticeship and Traineeship opportunities, raising standards across vocational training with a particular focus on English and maths.

This closer working reaped huge benefits, as shown in our seventh year of National Apprenticeship Week, the most successful to date. We worked with the sector to celebrate Apprenticeship talent, skills, achievements and successes and the positive impact they have on individuals and businesses. There was strong support from the great household names behind Apprenticeships and Traineeships, including Jaguar Land Rover, the BBC and BT, to name a few. But we also saw support coming through from small businesses, with many of the greatest 2013 success stories of Apprenticeship Week coming from small and medium-sized organisations.

Throughout this time of change and reform we continued to work in support of the government's skills priorities as set out in 'Rigour and Responsiveness in Skills', published jointly by the Department for Business, Innovation and Skills (BIS) and the Department for Employment (DfE) in April 2013. Our focus was to fund high-quality Apprenticeship and Traineeship opportunities, raise standards across vocational training, with a particular focus on English and maths. We reviewed qualifications to improve the standards of vocational courses and intervened when provision failed to meet our expectations.

The year saw many highlights and it is hard to do justice to them all in this short review. But once again, the landmark FE event was The Skills Show, and the 2013 event took skills excellence to new levels. It was a truly memorable occasion that highlighted the very best that FE, skills and Apprenticeships have to offer. I am proud to say that the Agency played a key role in making the second Skills Show a resounding success, even stronger than its predecessor in 2012.

Another annual highlight of the FE year was Adult Learners' Week 2013. Once again, this event highlighted how learning transforms lives and encouraged adults to take part in the many activities during the week and beyond.

In the autumn, in response to the government's Information and Communications Technology (ICT) Strategy, we introduced the Hub to streamline our digital services by bringing together in one place services, information and tools for colleges and other training organisations behind one 'front door'. Provider Access, the Data Collections and Funding Transformation (DCFT) Programme and the services provided by the Learner Records Service came together under the Hub and illustrate how the Agency can offer better public services for less cost.

Listening to what the sector wants, including the way we communicate with them, is important to us. So we listened to feedback from colleges and other training organisations, and in June 2013 we launched a new monthly electronic 'Communications Update'. This provides marketing materials for communications and business development colleagues within Agency-contracted training organisations, as well as stakeholders with an interest in promoting Agency products and services.

We made great progress in our commitment to make FE and skills data more accessible to the public and were commended by the Skills and Enterprise Minister Matthew Hancock for our work in this area.

The Agency also received the rarely-achieved 'green status' from the Office of Government Commerce Gateway for its FE Capital Investment Programme. This programme exists to allocate funds to FE colleges to improve their estate and therefore better support learners and the communities they serve. For the financial year 2013 to 2014 £362 million capital was granted to 166 colleges and nine other training organisations.

2013 to 2014 was a year of significant achievements and I know that none of this would have been possible without the hard work and commitment of our staff at the Agency and the support of our Advisory Board. Echoing Kim Thorneywork's words from last year, I would like to express my gratitude to all staff at the Agency for their continuing hard work, to members of our board for their support and to all colleagues in the sector for their commitment to further education.

A handwritten signature in black ink that reads "Barbara Spicer". The signature is written in a cursive style with a large initial 'B'.

Barbara Spicer

Chief Executive of Skills Funding
Skills Funding Agency
3 June 2014

What We Do

Our job is to fund and promote adult FE and skills training in England, including high-quality Apprenticeship and Traineeship opportunities, raising standards across vocational training

The Skills Funding Agency is a partner organisation of BIS. We fund skills training for FE in England, supporting over 1,000 colleges, private training organisations and employers with £4 billion of funding each year. We are responsible for giving colleges, training organisations and employers the right funding to help young adults, the unemployed and people with low skill levels to get the skills they need for employment. To do this we operate nationally and responsively to meet the needs of individual employers and Local Enterprise Partnerships (LEPs).

We convert government policy into practice, ensuring that learners are able to access the right level and kind of skills that employers need to help the economy grow. We also provide advice on how policy affects colleges, training organisations and employers.

Using our funding rules, we buy the best quality training provision, intervening when colleges, training organisations, employers or the training provision fail to meet our requirements, to give every assurance that public money is properly spent. The Skills Funding Agency is supported by an Advisory Board and the following four advisory groups:

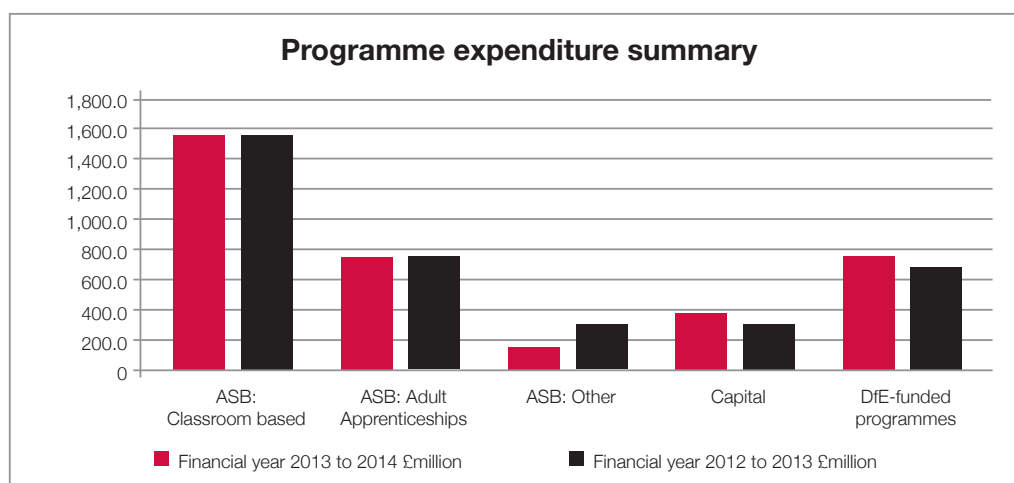
- the Funding External Technical Advisory Group (FETAG)
- the Qualifications Advisory Group (QAG)
- Learning Records Service (LRS) Customer Service Group
- Personal Learning Records (PLR) Implementation Group

Within the Skills Funding Agency, there are two customer-facing services: NAS, which is responsible for increasing the number of Traineeship and Apprenticeship opportunities, and the National Careers Service, which provides impartial careers information and advice. We have contributed to the Further Education Learning Technology Action Group (FELTAG), as well as to the minister's response to FELTAG. We will continue to support colleges and other training organisations as they make greater use of technology to improve learning.

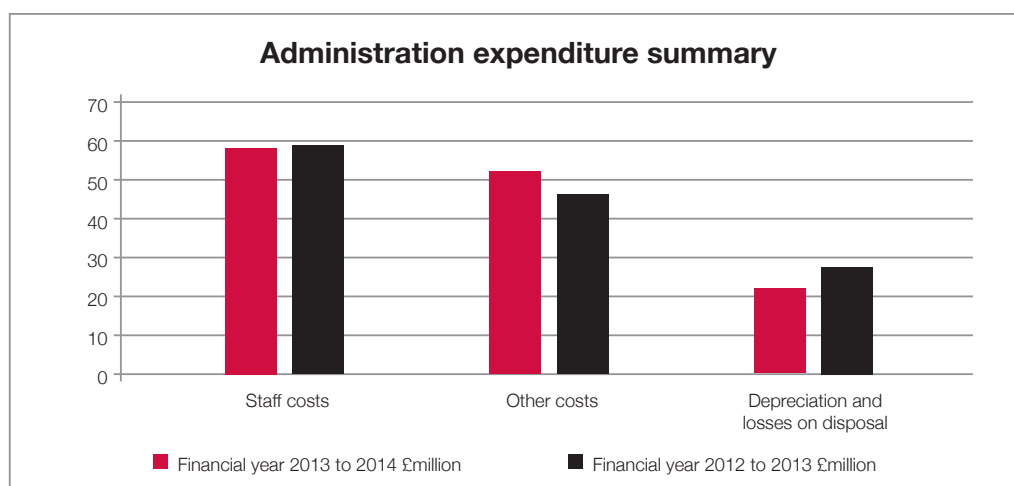
FE and training develops skills which contribute to growth and prosperity. Our role is to support the government's skills priorities through high-quality Apprenticeship and Traineeship opportunities. Our job is to raise standards across vocational training, with a particular focus on English and maths, and to review FE qualifications, not only to raise the standards of vocational courses but also to make a more coherent skills system.

We fund skills training for FE in England, supporting over 1,000 colleges, private training organisations and employers with £4 billion of funding each year.

Performance in the Financial Year 2013 to 2014



- Total programme expenditure fell very slightly compared to last year, reducing by just 0.06%. The chart above shows the movements in expenditure for some selected areas.
- Within this overall movement, expenditure on some programmes has increased. Most notably, spending on capital has increased in line with the extra budget made available this financial year.



- After allowing for the costs provided for reorganisation of £10.6 million, the Agency's underlying expenditure on administration reduced by £8.3 million, or 6.3% on the previous year.
- The Agency continued to demonstrate outstanding financial management by securing another underspend against the administration budget. For this financial year it was £300,000 representing 0.3% of the budget.
- The Agency's Finance team was again recognised externally, winning 'Finance Team of the Year' at the Government Finance Profession Awards in November 2013.

Our Achievements

At the heart of skills reform

The 'Skills Funding Statement 2013 to 2016', which BIS published in January 2014, put the Skills Funding Agency at the heart of skills reform, confirming the move to a simplified funding system with new levels of co-operation, transparency and sector-led thinking. It spelt out the ongoing reforms that government is implementing to the skills system to make it more learner-focused and employer-led.

Throughout 2013 to 2014 we continued to deliver the government's skills priorities as set out in 'Rigour and Responsiveness in Skills', which BIS and the Department for Education (DfE) published jointly in April 2013. Our priority was to develop a coherent skills system that was more flexible and responsive, allowing everyone to develop their potential. We reviewed our qualifications to raise the standards of vocational courses, and through the new FE Commissioner intervention regime intervened when provision failed to meet our expectations.

In the knowledge that the landscape for colleges, training organisations and employers must change, we continued to develop an accountable skills system, which connected learners to the new job market. We funded more high-quality Apprenticeship and Traineeship opportunities than before and provided impartial careers information, advice and guidance through our National Careers Service.

The 'Funding Rules 2014 to 2015' set out the rules for funding and associated evidence needed for the funding year 2014 to 2015. For the second year running the Plain English Campaign gave us permission to use their Crystal Mark, in recognition of the clarity of the document. For the first time, the document included the rules for Offender Learning and Skills Service (OLASS) training provision, which means that all our funding

rules and evidence requirements are in one place. We reviewed the document, using feedback, so it was clearer for employers with whom we have a direct contract and also for training organisations.

Case Study

Nana Bonsu

Nana was studying for a degree when she decided to take a new direction and pursue her vocation. "I decided to leave university



so that I could concentrate on my real passion, which is fashion and beauty," she explains. "I chose to do an Apprenticeship because I can learn and gain skills much more quickly in a working environment."

Nana began an Intermediate Apprenticeship in Fashion and Textiles at the City of Westminster College and was employed by Anthony Vrahimis, a company designing and manufacturing bespoke leather products.

Nana feels that her Apprenticeship is helping her become a part of the industry she has always admired. "I'm learning so much from both my time at City of Westminster College and simultaneously working to excel in my craft, garment construction," she says. "I have gained confidence from watching my hard work become part of the industry I want to get into. It's a liberating feeling."

The simplified funding system came into force from 1 August 2013. The new funding system is now working well, and we have resolved the early issues relating to data collection that caused problems in estimating funding. We continued to support a small number of colleges, training organisations and employers that had transition issues during the first full year of operation.

During 2013 to 2014 our Central Delivery Service (CDS) continued to evolve, operating as a new first point of contact service centre for colleges, training organisations and employers. The service is introducing a multi-channel query-handling approach, using instant messaging, online chat and direct email from the Hub, alongside the more traditional email and telephone contact. CDS provides an end-to-end contract management service, including contract compliance, performance management, operational procurement and risk management.

Case Study

James Mellor



James applied for a Higher Apprenticeship in IT with BT in London. "I liked the idea of doing a foundation degree as well as earning money," he said.

After a successful assessment day, including an interview,

James was accepted onto the Apprenticeship and employed at BT while studying with Stafford University.

James's job involves working on BT Sport, three new sport channels the company launched in August 2013.

"My Apprenticeship has been extremely important to my career – before, I never had a focus, never thought about options and the future. I was just plodding along and not applying myself. My Apprenticeship has really shaped me into an adult and made me realise what I want in life."

As part of changes to improve and simplify governance in vocational education (VE) policy in 2013, BIS brought decisions about data collected from the sector into the Department. Before this, the board of the independent, sector-led organisation *the information authority* made these decisions, but this body was subsequently abolished.

A new Data Board was put at the centre of the VE data governance arrangements for BIS to provide overall strategic management and accountability. The VE Data Board now makes all decisions regarding the collection, storage and dissemination of VE data including the Individualised Learner Record (ILR) to support the BIS VE directorate and Skills Funding Agency operations.

The VE Data Board's remit encompasses system development, as well as the collection of data. Any proposals regarding the design and development of systems relating to data collection, quality, transformation and dissemination are subject to scrutiny by the data expert groups and to decisions by the board.

What we funded

In the academic year 2013 to 2014 we entered into contracts with over 1,000 colleges and other training organisations to provide £4 billion of FE and skills training. £2.3 billion was contracted through the Adult Skills Budget (ASB) and over £750 million through 16-18 Apprenticeships. We contracted £211 million through Community Learning and £132 million through OLASS. The European Social Fund (ESF) is not contracted for each year, but we estimate that in the academic year 2012 to 2013 colleges and other training organisations provided FE and skills training to a value of £140 million.

Approximately 90% of adult funding was routed through the ASB, of which around £712 million funded 19+ Apprenticeships. This enabled around 2.57 million learners to participate in learning. In the academic year 2012 to 2013, 396,000 19+ learners started an Apprenticeship programme. More than 192,000 19+ apprentices achieved their programme in the academic year 2012 to 2013, a 6% increase from the previous year. Slightly more than seven out of 10 learners who started an Apprenticeship achieved their programme.

In small and medium-sized workplaces, 182,000 learners undertook workplace learning at Level 2 or above. Although this is a 43% reduction from the previous year, it was in line with the government's priorities to focus funding for workplace learning through Apprenticeships.

The government recognises that focusing funding on young adults yields long-term economic benefits. Of all ASB learners, 25% were aged between 19 and 23 and this increased to 38% in Apprenticeships.

English and maths skills are essential to enable people to function in society, progress into vocational learning and employment, and to operate more productively in work. Over one million learners participated in basic maths and English learning.

As part of the government's commitment to support unemployed people into work, we fully fund learning for people in receipt of Jobseeker's Allowance and Employment and Support Allowance. In the academic year 2012 to 2013 we supported 705,000 unemployed learners, which is an increase of 35% on the previous year.

In the academic year 2012 to 2013 Community Learning Trust pilots worked in new ways to maximise the use of public funding to improve the social and economic well-being of individuals, families and communities. Each year we spend £210 million on Community Learning (formally known as Adult Safeguarded Learning), supporting around 685,000 learners.

The aim of OLASS is to enable offenders in prisons and those supervised in the community to gain skills and qualifications they need to hold down a job and have a positive role in society. Our funding supports around 90,000 offenders each year.

The Agency holds delegated responsibility for 16-18 Apprenticeships on behalf of NAS and DfE. In the academic year 2012 to 2013, 115,000 young people started an Apprenticeship and 61,000 learners achieved their Apprenticeship.

Over one million learners participated in basic maths and English learning.

Case Study

Maria Philbin

Within two days of being made redundant Maria Philbin received support from a



European Social Fund (ESF) convergence supported project, Skills Support for Redundancy (SSR). Within three weeks she had a new job with surf lifestyle chain, Ann's Cottage. On top of that, her new employers benefited from training for a further 27 employees.

Maria had been working for three-and-a-half years as a pattern cutter for a shoe manufacturer, and when she was made redundant went to the National Careers Service for advice. Two days later she had an appointment at Truro and Penwith College and was offered training in IT, Team Leading and Employability Skills at Newquay Open Learning Centre (OLC).

Maria said, "I was thrilled when I was offered a role I originally wanted, as stockroom supervisor with Ann's Cottage. Due to the Skills Support for Redundancy funding that I was on, I was encouraged to continue any training that I had already started and I continued to study at home for my IT qualification and have managed to go back to the OLC recently so I can complete some exams. My motivation and confidence have improved, especially now I have gone back into work."

The European Social Fund

We have six main European Social Fund (ESF) projects to support adults and young people:

1. Skills Support for the Workforce (SSW) meets the local skills needs identified by LEPs. SSW aims to help employees in small and medium-sized enterprises to move on to higher levels of learning or on to Apprenticeships. We have designed our SSW contracts to be responsive, so colleges and other training organisations can adapt their ESF provision for emerging skills needs.
2. Skills Support for the Unemployed (SSU) provides skills support to unemployed individuals on benefits who are looking for work but are unable to get a job because of a lack of skills. SSU makes sure adults have the right level of skills and employability support that they need to improve their chances of finding work (including starting an Apprenticeship).
3. Skills Support for Redundancy (SSR) responds to redundancies and the employment and economic conditions in local areas. SSR offers training opportunities for individuals who:
 - are under consultation or notice of redundancy
 - are told by their employer that they may be directly affected by the company closing or becoming smaller
 - have become unemployed recently
4. Workplace learning offers work-related skills training to employed people with low skills. This support helps to raise their qualification levels, which means they can improve their employment status and move on to higher levels of training. Workplace learning focuses on people who are more vulnerable to future unemployment, with barriers to achieving sustainable employment. This includes people aged 19 to 24 who are not in education, employment or training and people who are recently unemployed.
5. Community grants is a project that gives grants to small community organisations, which would not normally be able to access ESF. These grants support activities that help people in the hardest to reach communities to enter the labour market. We appoint grant co-ordinating bodies to administer community grants for us in each region (except in London, where London councils administer community grants). They publicise how and when community organisations can apply for grants. They also give help and advice to successful applicants. From 2014, grant co-ordinating bodies will give grants of up to £15,000.
6. Support for young people who are aged 14-19 and not in employment, education or training, with barriers to learning may also need a different type of training and support, to engage them in learning and keep them engaged. We use ESF to fund tailored training to young people, which will help them into education or employment with training.

Workplace learning offers work-related skills training to employed people with low skills.

We also use ESF to support The Skills Show, the National Careers Service and to add enhanced training provision to our mainstream programmes. For example, ESF can help to train people before they start an Apprenticeship or help them move into other workplace learning.

Managing the quality of what we fund

The Agency has a rigorous due diligence process that tests the probity and financial standing of organisations we fund directly, organisations in our supply chain that are significant subcontractors, as well as those organisations we would consider contracting with in the future. This means that every college, all independent training organisations

(including local authorities and the third sector), large employers and subcontractors with aggregate contract values of £100,000 or more must successfully enter the Register of Training Organisations. The process confirms all organisations that deliver our publicly funded training are suitable to do so to the required standard. We only fund those organisations that represent the lowest risk and demonstrate good value for money.

Where there was poor quality provision and/or poor financial health or management, we worked with the minister, BIS and the Education Funding Agency (EFA) to assess this. If required, we instigated the new intervention regime, led by the new FE Commissioner, ensuring rapid and rigorous action to secure improvement.

During 2013 we ran our third annual college and training organisation survey, which generated 700 responses: a year-on-year increase of 75% from last year's survey. The feedback showed that we continue to strengthen our relationship with the FE sector by reducing the bureaucratic burden placed on colleges and other training organisations through a more simplified and streamlined funding system.

Our ability to secure the right funding provision for colleges and other training organisations improved significantly, with an increase of 8.6% in our approval rating over the last 12 months. Over the same period we also saw an increase in our approval rating for the information and data we provide to colleges and other training organisations to help them make effective business decisions. Feedback on our business-critical communications channel to the sector confirmed that this is also highly valued, with an approval rating of over 93%.

The survey findings show we are well placed to meet the challenges of moving to a more demand-led funding system that better meets the needs of learners and employers alike.

Case Study

Weymouth College



Weymouth College, one of three major centres in the UK to provide specialist education in stonemasonry, is achieving international recognition through its highly skilled stonemasonry students. The college regularly enters its students into skills competitions, and its stonemasonry students, many of them apprentices, have achieved medals at WorldSkills competitions over the past four years.

“Our teaching team have great pride in their high standards of masonry and accuracy, so they fully support skills competitions,” says Rex Witts, Director of Construction and Engineering. “They identify students with potential early on, and work with them to make sure their skills are honed.”

“We want to do all we can to drive up participation in skills competitions,” explains Rex. “It’s good practice because of the employability skills that it brings, and the training and mentoring that WorldSkills gives to competitors – not just in their skill but also the mental capacity and ability to deal with pressure – is really second-to-none.”

“As well as being a fantastic opportunity for the competitors, taking part in skills competitions is a huge benefit to training providers like us. The whole organisation gets behind it, boosting morale. The competitions are also a good way of showcasing the top quality training that we provide.”

Further investment in skills and improving quality

We continued to provide close support to the UK Commission for Employment and Skills (UKCES) in relation to the Employer Ownership Pilots, working with BIS to implement the Employer Ownership Investment Fund. This enabled employers to design, develop and commission training to meet their business needs. The fund (including the pilots) was initially £340 million over four years from the academic year 2012 to 2013 and was incorporated into the Skills Funding Statement. Employers were asked to provide proposals to tackle skills shortages and establish programmes to help them grow and become more efficient. The Agency was responsible for issuing the grant, financial profiling and reporting, performance management, account management and payments.

Raising standards through competitions

The Skills Show 2013

The Skills Show and its national finals of skills competitions are now an established and critical part of the skills landscape. Last year the Agency played a key role in making the second Skills Show a resounding success.

The Skills Show took place at the NEC in Birmingham in November 2013, attracting more than 80,000 young people, employers, parents and teachers. Visitors were able to watch over 700 competitors take part in the 69 national competition finals, which demonstrated how competitions can develop and recognise the skills of talented young people from across the UK.

The Skills Show demonstrated how competitions have a significant part to play in raising the performance and standards of FE, skills and Apprenticeships across the whole FE sector. Once again it provided a vast range of opportunities for experience, information and advice on vocational training to inform and inspire young people, adults and educators. Visitors could try new skills in over 45 'Have a Go' activities, learn about

the latest in skills and training from employers and training organisations through the 102 Spotlight sessions, and find out all about training and career options from 11 specialist advice hubs, which the National Careers Service ran with support from NAS and partners, including Jobcentre Plus.

WorldSkills finals at The Skills Show placed the UK tenth in rankings.

Evaluation of The Skills Show indicates that it is helping to change perceptions: almost 90% of young people who attended enjoyed the event and 63% said they would consider pursuing a skills-based education.

Alongside The Skills Show, there was also a country-wide programme of Skills Show Experiences, with the best of The Skills Show travelling to help more young people access information, advice and experiences around vocational training and career and Apprenticeship opportunities.

The WorldSkills UK National Competitions hold their finals at The Skills Show and many of the competitors who excelled there secured a place in Team UK for WorldSkills Leipzig 2013, which showcased the skills of apprentices and young people in this country. After four days of intense competition, Team UK secured two gold medals (bricklaying and cabinet making), one silver medal (stonemasonry) and three bronze medals (autobody repair, aircraft maintenance and electrical installations). Team UK also achieved 17 Medallions of Excellence, presented when a competitor achieves the world-class standard in their skill. This result placed the UK tenth in the WorldSkills rankings, ahead of countries including Germany and India.

Skills for growth: meeting local skills priorities

It was an important year for the Agency's work to provide training that responds to the skills needs of local employers and communities. The first wave of 'City Deals'

in England's eight largest cities is now well into its first year of implementation, with new models of training provision to meet local skills needs in partnership with local colleges and other training organisations.

During the academic year 2013 to 2014 a further 18 cities agreed new 'City Deals', with many including additional flexibilities that we support. Alongside the development of the three skills incentive pilots in Stoke and Staffordshire, the North East and West of England LEPs, successful implementation of the local action begun in the academic year 2013 to 2014 will provide a wealth of evidence during the next 12 months to inform future policy direction.

Our work with LEPs in particular expanded throughout this year. In response to the new role for LEPs in European Structural Funds, the Agency implemented a service for LEPs to ensure the efficient procurement and management of training provision to meet short and long-term skills priorities.

In September 2013, the Agency made available a full set of current and historic data on learner take-up of skills for every LEP area. This enabled LEPs to analyse trends and work is now progressing on the first of a regular release of data to enable LEPs and local colleges and other training organisations to target action and identify successful practice throughout the year.

Working with employers to offer high-quality Apprenticeship and Traineeship opportunities

In the autumn of 2013, Skills and Enterprise Minister Matthew Hancock announced the launch of 'The Future of Apprenticeships in England: Implementation Plan', which set out the reform of Apprenticeships so they become more rigorous and responsive to the needs of employers. We have been supporting the reform with our 'Trailblazers', made up of employers and professional bodies drawn from growth sectors in the economy.

Case Study

The Port of Tilbury

Traineeships are helping The Port of Tilbury to discover skilled individuals and potential apprentices.

It is the UK's third largest port, handling over 41 million tons of commodities including wood, paper and liquids.

Based in Thurrock, the port has a Traineeship programme in partnership with training organisation Ixion, aimed at local 18- to 23-year-olds. The company has a long tradition of offering Apprenticeships, and views Traineeships as a similar means to invest in the future and mitigate the problem of an ageing workforce. The port's Traineeship programme was one of the first to launch in the country, beginning with 20 young people in 2013, but increasing rapidly.

Alan Appleyard, Head of Academy at The Port of Tilbury, says: "Traineeships are an essential component of our recruitment strategy. They enable us and the individual to see if they are right for employment in this sector."



Already more than 60 organisations, representing more than 13,000 apprentices, have signed up to the 'Implementation Plan'. The Agency has worked with the minister on the Apprenticeship reform, 'Future of Apprenticeships in England', and has supported the first phase of Trailblazers with the first Apprenticeship standards expected in the academic year 2014 to 2015.

Through the Agency's direct employer engagement in the academic year 2013 to 2014, we supported more than 100,000 Apprenticeship opportunities and direct grant starts, of which 72,000 were for 16- to 24-year-olds. This was well in excess (20%) of the Agency's target of supporting 60,000 starts at the end of March 2014.

The Agency's focus on supporting small to medium-sized employers resulted in over 25,000 enquiries, generating 11,000 new Apprenticeship opportunities, which were 3,000 above the predicted indicator of 8,000. We launched an online advisory service for employers, to inform, advise and guide them, and also launched the 'provider search tool', which employers used over 100,000 times.

The number of Apprenticeship vacancies available continued to grow, with a 28% increase in the number of vacancies advertised and more than 1.75 million applications made through 'Apprenticeship vacancies' from April 2013 to March 2014. Vacancies peaked during June 2013 at over 20,000.

Raising the quality of Apprenticeships continued to be an important focus and in December 2013 we published a revised quality statement. We recognise that the quality statement has impacted negatively on the Apprenticeship programme and success rates but anticipate that this will stabilise.

Highlights of our marketing and communication campaigns throughout the year resulted in the most successful National Apprenticeship Week ever, with over 1,100 events and other activities taking place across England.

Provisional data indicates that 196,200 people started an Apprenticeship in the first

six months of the academic year 2013 to 2014, with 30% of these starting an advanced level or higher Apprenticeship.

Traineeships

A Traineeship is a flexible education and training programme with work experience that supports a targeted group of young people to become 'work ready' and move into a job or an Apprenticeship, by providing the skills and experience that employers are looking for.

Traineeships were introduced from August 2013. The Traineeship programme has been implemented smoothly and successfully in its first year. This is despite the rapid pace at which it was developed and launched, following the publication of the 'Skills Funding Statement 2012-2015' (November 2012), which first set out the plan to develop a new pre-employment offer for unemployed but motivated young people seeking a route into Apprenticeships, work or learning.

Provisional data (published on 27 March 2014) shows that Traineeships are off to a good start, with 3,300 reported so far. As of 2 March 2014, the Apprenticeship vacancies service is advertising almost 3,000 Traineeship opportunities. Hundreds of colleges and other training organisations have indicated that they will offer Traineeships in its first year (the academic year 2013 to 2014).

Hundreds of employers, including household names such as Virgin Media, Siemens and the BBC are already on board and Barclays recently announced plans to offer 1,200 Traineeships. We encourage more employers to get involved by contacting their local college or training organisation or by visiting the NAS website at apprenticeships.org.uk/employers/traineeships.

NAS is working with large employers and has launched a new marketing and PR campaign to promote Traineeships alongside ongoing activity through stakeholders and existing channels. This complements the work of training organisations locally and builds on the strong backing that Traineeships have already received from employers and other stakeholders.

An early evaluation exercise in November/December 2013 showed that employers, colleges, training organisations and young people are positive about Traineeships.

Case Study

Anne Clarke
Associates



Traineeships are enabling this training organisation to show people a clear route out of unemployment.

Anne Clarke Associates is a training organisation based in Downham Market, Norfolk, which provides vocational training, including Apprenticeship training, for a variety of business types, such as health and social care, retail and hospitality. The organisation also offers employability courses to jobseekers and through doing so began to offer Traineeships.

“We were already working with jobseekers, so it seemed natural to offer Traineeships and support people to gain valuable work experience, training and eventually employment,” explains Adrian Grove, Employer Recruitment Manager.

“Traineeships can also be a very effective recruitment tool for employers.”

The company targets local employers with direct marketing to inform them about the potential of Traineeships. Nearby freight and logistics business Bartrums was approached in this way and responded with interest, becoming the first company to work with Anne Clarke Associates on a Traineeship programme.

“We provide a lot of support for both employers and trainees,” says Adrian. “Trainees are visited by our Traineeship co-ordinator as well as the assessor, and if either party have any issues they can come to us for help.”

Our programmes and services

National Careers Service

The National Careers Service continued to provide inspiring and expert careers advice through its network of professional advisers, offering the service in the community, over the telephone and through web chat. In the financial year 2013 to 2014 the service supported approximately 812,000 new customers, with 74% progressing in work or learning. The percentage of customers who thought highly of the overall quality of the National Careers Service stood at 94%, and 50% attributed their progression to the advice they received. For those under 20, this figure was even higher at 63%.

The National Careers Service continued to be available in nearly 3,000 venues across England, including a physical presence in 96% of Jobcentre Plus offices in England with a joined-up service to Jobcentre Plus customers. We had a presence in 176 probation offices and 119 prisons, where we provided nearly 177,000 sessions to people in custody. Our website tools were available in over 2,000 secure terminals in more than 90% of prisons in England. This brought guidance directly to offenders, supporting them in assessing their skills and developing an action plan to help equip them for life outside prison.

Our website remained popular with customers, with nearly 1.3 million visitors each month and over 15,000 followers on Twitter. The number of website visitors who reported progress in their career, learning or added personal value within three months of using the website was 86%. Our job profiles and CV Builder were the highest rated of our website tools, with over half of users surveyed finding them very useful. The service helped customers make informed choices about jobs and learning, by working with LEPs to identify the employment prospects in each region of England. In July 2013, we started to present this information on the website by LEP area and sector, making it easier for customers to find the information they need.

By the end of the financial year 2013 to 2014 the number of Lifelong Learning Accounts opened was over a million, including Skills and Next Step accounts. This online facility allows customers to access their jobsearches, CVs and other tools at the click of a button.

Careers Hubs were integral to The Skills Show national event in Birmingham in November 2013. National Careers Service advisers were available to help inspire young people to explore FE, skills and Apprenticeships through the hands-on experiences and wealth of information and advice available at the show.

Case Study

Lyndsey McClements



Lyndsey has renewed confidence thanks to a new job she secured with the help of the National Careers Service. With her team facing redundancy from their jobs as Substance Misuse Practitioners, she contacted the National Careers Service. Due to the number of redundancies taking place at her company, an adviser visited the organisation to run a workshop on interview techniques.

Lyndsey says: "I was really worried about my impending unemployment, having worked all my adult life. The workshop was really informative and gave me lots of useful tips to think about, like how to give concise answers, and how to avoid freezing up."

She had an interview following the workshop and was offered and accepted the job.

In April 2013 we started to develop the National Careers Service to fulfil the Skills and Enterprise Minister's 'Inspiration Vision'. This included repurchasing all of the existing key elements (local face-to-face guidance for adults, the telephone helpline and a new website) using the latest technology to ensure that it is as responsive and flexible as possible.

The National Careers Service will continue to provide an improved service with a payment-by-results system that means that we target public money efficiently.

In the academic year 2012 to 2013 we updated the FE Choices performance indicator data for success rates, learner destinations, learner satisfaction and employer satisfaction on the FE Choices comparison site. We gathered information from over 360,000 learners and more than 50,000 employers. We also integrated the FE Choices performance indicator data for learner destinations, learner satisfaction and employer satisfaction with the National Careers Service course directory.

Through the FE Choices comparison site and the integration work undertaken with the National Careers Service, the FE Choices performance data is viewed in excess of 150,000 times a month – helping learners and employers to make better, more informed choices about where to study or train.

In January, the Unique Learner Number (ULN) became mandatory in schools in England for pupils from age 14. This followed the full implementation and use of the ULN and Personal Learning Record (PLR) across the post-14 schools, FE and awarding organisation sector over the past few years. Over 95% of schools in England have now registered for the Learning Records Service to get the ULN for their pupils.

The PLR is a free, secure, online, verified record of what individuals have studied and achieved since age 14, allowing them to access their current achievements and exam results online through the National Careers Service website. As long as the individual does not opt out, they can share

achievement records with schools, colleges, training organisations and universities, employers or careers advisers. By February 2014 the number of PLRs held through the Learning Records Service totalled 13.5 million, with over 140 awarding organisations committed to uploading achievement records of individual learners to PLRs, to the benefit of learners, colleges and other training organisations.

24+ Advanced Learning Loans

The academic year 2013 to 2014 saw the launch and full implementation of 24+ Advanced Learning Loans in partnership with the Student Loans Company (SLC).

We continued to lead on all activities with colleges and other training organisations to implement the 24+ Advanced Learning Loans policy. This included a 24+ Advanced Learning Loans convention in July 2013, providing over 540 delegates from colleges, training organisations and National Careers Service advisers the opportunity to engage in a range of activities including training and information sharing.

Alongside our funding rules we continued to communicate with colleges and other training organisations to give as much clarity as possible. We received positive feedback from colleges, private training organisations and representative bodies on how we implemented the funding rules, our communications around them, and the support we offered. BIS's most recent survey reported 94% of respondents to the survey had heard about 24+ Advanced Learning Loans and any changes or updates through our regular communication channels. We continued to work in partnership with SLC, BIS and HM Revenue and Customs to develop and refine materials and products for colleges and other training organisations to use with learners.

We initially allocated £258 million (including Loans Bursary) and provided 792 colleges and other training organisations with a 'loans facility', enabling them to offer loans-funded training to individuals starting learning from

August 2013. Since April 2013, when the SLC began accepting applications, more than 65,000 learners have submitted loans applications.

Following the announcement in the Skills Funding Statement that apprentices aged 24 and over who are following advanced or higher-level frameworks will no longer be funded through a 24+ Advanced Learning Loan, we worked with SLC to develop and implement a solution to reinstate funding for those apprentices with loans and remove any liability for repayment. We developed and issued guidance to colleges and other training organisations to explain these changes.

Case Study

Michael Day



Michael Day left the army after 24 years' service. He started work as a Nightshift Manager for a retail company but felt that he was not using his skills to their full potential.

Consequently, he contacted the National Careers Service and his adviser helped him update his CV and prepare him for an interview. He got the job and is now working as a Technical Trainer at leading global engineering company, Siemens, where he trains technicians to service wind turbines effectively.

"The careers advice I received gave me the encouragement I needed to leave a job I felt did not suit my skills and lifestyle," he said. "It helped me to think outside the box and to move to a position where I am now using my presentation, delivery and training skills to the maximum."

Capital funding for the FE estate

Over £362 million capital was granted to 166 colleges and nine other training organisations from the budget for the financial year 2013 to 2014.

The Agency continued its implementation of the 'Capital Investment Strategy' (December 2012) through the allocation of FE capital funding aimed at renewing and modernising FE facilities. This was critical to enable the FE sector to support growth in the economy and meet the needs of learners, employers and communities.

We worked closely with the FE sector to set criteria for choosing from a wide range of projects. We targeted investment at those colleges in the greatest need of capital investment, for example those with buildings in poor condition and inefficient estates, and projects which demonstrated high value for money and supported growth in the economy.

The College Capital Investment Fund (CCIF) was the principal investment route for the Agency, with Project Development Fund (PDF) grant support available to colleges to assist with project development costs. CCIF allocations were made to 95 projects for the financial years 2013 to 2014 and 2014 to 2015. Total grant support allocated was over £432 million; with co-investment from the sector this will result in over £821 million of investment in the sector.

Skills infrastructure capital funding (SICF) totalling £4.6 million was awarded to 10 colleges and six other training organisations for smaller-scale capital projects.

We gave 114 colleges with estates in a poor condition grant support of £48 million, enabling a total investment of £108 million to tackle poor estate condition.

Equality and diversity within our programmes

The Agency is committed to embedding and promoting equality across the business, placing it at the heart of what we do. Our objectives are to use relationship

management to advance equality, to build equality into our decisions and activities, to support equality self-improvement and promote good practice, and develop a fair, inclusive and diverse working environment for our staff.

In 2014 we published a progress report on our Single Equality Scheme which set out what we had achieved against these objectives. We funded 41 colleges and other training organisations to deliver Equality and Diversity Innovation Fund projects, to meet the needs of their learners and communities and help the FE sector improve its own equality practice. We also published 46 case studies from the equality projects we funded in the academic year 2012 to 2013.

We published guidance for colleges and other training organisations on engaging people with learning difficulties and disabilities in workplace learning. We also published research into under-representation by gender and race in Apprenticeships and discussed equality with our colleges and other training organisations to assure ourselves that they were helping us to advance equality in learning.

Our buildings

In the financial year 2013 to 2014 we continued to cut our occupied space and accommodation costs and reduced this to 14 locations, of which only five were direct leaseholds. We disposed of one leasehold at its expiry and moved to less expensive premises with another government body, which generated a net accommodation cost saving of £1.65 million annually. We disposed of one further property with significant time remaining on the lease term, and staff co-located into a BIS hub, with a saving of £4.5 million in future lease liability or a net accommodation cost saving of £500,000 annually. Additionally, six leaseholds were included in a BIS disposal programme for the academic year 2013 to 2014, with these liabilities managed out to a third-party specialist and removed over the next 12 to 24 months.

The Agency is committed to embedding and promoting equality across the business.

Estates rationalisation saved approximately £5.78 million in the academic year 2013 to 2014, against a baseline of the academic year 2009 to 2010. As outlined in our Sustainability Report on page 33 we continued to implement policies to reduce waste and improve our use of resources.

Our people

We continued to manage our staff numbers and costs within the administration budget and targets agreed with BIS. Our base of contingent workers was also reduced through a combination of posts being filled by permanent staff and ending temporary contracts. At 31 March 2014, our staff numbers were 1,278 employees (31 March 2013: 1,322), of which 751 were female and 527 were male. Their hours were equivalent to having 1,244.39 full-time employees (note 2c to the accounts on page 69 relate to the average number of staff employed).

Training our people

It is essential that our own staff and managers have the skills, knowledge and abilities needed to help us follow our ambitious

plans. We managed this through our national organisational development group.

In terms of development and training, we continued to make full use of the civil service learning resource, providing access to a wide range of training courses, e-learning and online resources.

We launched our leadership and management development frameworks to help build manager capability, and refreshed our performance management process for all staff, leading to greater dialogue and development planning.

We continued to support our apprentices undertaking qualifications in business administration, finance and IT, industrial placements and the Agency also supports graduates with entry-level roles, to develop their skills in a working environment.

Our own commitment to equality and diversity

As part of our ongoing commitment to the Single Equality Scheme and in line with the Single Equality Act 2010, the Agency is committed to embedding and promoting equality across the business, placing it at the heart of what we do.

We committed to focus on a number of achievable objectives within our remit, through which we could make a real difference to

Case Study

Benjamin Lamb



Benjamin Lamb, 21, from Loughborough initially went to university after gaining A-levels in Maths, Biology and PE while at college, but didn't feel it was the right option for him.

He wanted to gain a well-rounded qualification where he would attain both practical and theoretical skills while gaining experience in the engineering sector, and decided an Apprenticeship would suit him better. In September 2011, Benjamin, then aged 19, began an Advanced Apprenticeship in Manufacturing Engineering with Jaguar Land Rover in Coventry.

He gains on-the-job experience in the workplace and gains theoretical knowledge through training delivered by Warwickshire College. When he completes his Apprenticeship in August 2015, Benjamin hopes to complete a full degree, either through a Higher Apprenticeship or through company sponsorship.

"Ultimately I want to progress as high as possible within the engineering sector," Benjamin says. "My ambition is to experience all realms of vehicle testing, hopefully experiencing performance testing at famous race circuits."

equality. These were to use relationship management to advance equality, build equality into our decisions and activities, support equality self-improvement and promote good practice, and to develop a fair, inclusive and diverse working environment for our staff. We put in place an action plan to outline exactly how we would meet the objectives and ensure detailed measures of success.

We carried out regular equality impact assessments for new and revised policies and key decisions. We reviewed data regularly following any key activities, such as pay review and performance management, to ensure there was no negative impact on individuals with protected characteristics.

We continued to offer our staff free access to an employee assistance programme, a 24-hour counselling and support service offering confidential advice on life issues.

All our staff are required to complete an e-learning package on equality and diversity each year, whilst the civil service learning portal provided access to career development support for staff from black and ethnic minority backgrounds.

Our performance on equality in the workforce was recognised by us achieving the 'two tick' disability symbol, which demonstrates our commitment to employ, keep and develop the abilities of disabled staff.

The Agency also continued to place importance on quality internal communication and used several channels to give staff information and to consult them.

We reviewed our health and safety provision and continued to invest in online health and safety training, which was useful in terms of providing easily accessible learning. We continued to be a low-risk working environment, with a low level of accidents and there were no incidents requiring any detailed investigations in 2013 to 2014.

As well as adapting to organisational changes, we also adapted to a changing estate, a model of sharing accommodation with other BIS partner organisations or other government bodies. In an environment where

services are provided to buildings rather than organisations, this meant there was 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 73 to 75 shows the range of programmes we have funded in the financial year 2013 to 2014. Meanwhile, our staff and their friends and families took part routinely in many charitable fundraising events that we celebrated through in-house communications.

Case Study

Zoe Haycocks



Zoe Haycocks, from Milton Keynes, had obtained a National Diploma in Engineering at college and was keen to further her studies while

earning at the same time. Zoe applied for an Apprenticeship with Red Bull Racing Technology, based in Milton Keynes, who design, engineer and build Formula One cars. Over several interview and test stages she fought off competition from more than 700 applicants to become one of 10 apprentices taken on by the company.

Aged 19, Zoe began her Advanced Apprenticeship in Engineering Manufacture, employed by Red Bull Technology while studying at Milton Keynes College. Her varied job gives her an excellent understanding of all aspects of the trade.

"I am on rotation around manufacturing departments, including the machine shop, inspection and composite departments," explains Zoe. "This is so I get a good understanding of the manufacturing processes involved in producing a Formula One car."

"I have benefited a lot from this environment as I feel I have learned more through practical than theory work," she continues. "Of course, I still attend college but it's very useful to put what I learn into practice at work."



Our Management Team

Executive Officers of the Skills Funding Agency



Barbara Spicer*
Chief Executive
of Skills Funding
(from 25 November 2013)



Paul McGuire
Chief Operating Officer



Keith Smith
Director of Funding and
Programmes



Kim Thorneywork CBE*
Chief Executive
of Skills Funding
(until 22 November 2013)

Julie Robson

Executive Director, Growth
(Midlands and North)
(until 20 January 2014)

Sally Stewart

Executive Director, People
(until 20 January 2014)

David Way CBE

Executive Director, NAS
(until 18 October 2013)

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 the financial year 2013 to 2014 and the minutes from each meeting are available on the Agency's website. Paul Drechsler was formally appointed as Chair of the Advisory Board on 1 November 2013. Prior to this date, meetings were chaired by Mark Farrar, Chief Executive, Association of Accounting Technicians.

Sue Husband has been appointed as Director of Apprenticeships and Delivery and will take up her post at the Agency from 12 May 2014.

The following were also Executive Officers of the Skills Funding Agency from the beginning of the financial year 2013 to 2014 to the dates shown, where their duties as an Executive Officer ceased:

Richard Field

Chief Information Officer
(until 5 January 2014)

Marinos Paphitis

Executive Director, Provider Management
(South)
(until 20 January 2014)

Paul Drechsler (Chair)

Chairman, Teach First
(from 1 November 2013)

Barbara Spicer*

Chief Executive of Skills Funding
(from 25 November 2013)

Kim Thorneywork CBE*

Chief Executive of Skills Funding

Michael Davis

Chief Executive, UK Commission for Employment and Skills

Martin Doel OBE

Chief Executive, Association of Colleges

Mark Farrar

Chief Executive, Association of Accounting Technicians

Professor Ruth Farwell

Vice-chancellor, Buckinghamshire New University

Jon Graham

Managing Director, Commercial and Operations, Chartered Institute of Public Finance and Accountancy

Sue Husband

McDonalds Restaurants and Confederation of British Industry

Ian Pryce

Principal, Bedford College and Vice-chair, 157 Group

Rachel Sandby-Thomas

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

Stewart Segal

Chief Executive, Association of Employment and Learning Providers (from 1 August 2013)

Joe Vinson

Vice-president for Further Education, National Union of Students (from 1 August 2013)

Rob Wall

Head of Education and Skills, Confederation of British Industry (from 1 May 2013)

Les Walton CBE

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

The following were also members of the Skills Funding Agency Advisory Board from the beginning of the financial year 2013 to 2014 to the dates shown, where their membership ceased:

Derrick Anderson CBE

Chief Executive, Lambeth Council (until 31 December 2013)

Neil Couling

Work Services Director, Jobcentre Plus (until 30 June 2013)

Ian Forward

Head of Community Learning and Skills, Kent County Council and member of Local Education Authorities Forum for the Education of Adults (until 31 December 2013)

James Fothergill

Head of Education and Skills, Confederation of British Industry (until 31 May 2013)

Graham Hoyle OBE

Chief Executive, Association of Employment and Learning Providers (until 31 August 2013)

John Longworth

Director General, British Chambers of Commerce (until 31 December 2013)

Toni Pearce

President, National Union of Students (until 31 August 2013)

Members of the Audit and Risk Committee

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

Mark Farrar (Chair)

Chief Executive, Association of Accounting Technicians

Martin Doel OBE

Chief Executive, Association of Colleges

Jon Graham

Managing Director, Commercial and Operations, Chartered Institute of Public Finance and Accountancy

Other attendees are the Chief Executive of Skills Funding, the Chief Operating Officer, the Chief Internal Auditor, an observer from BIS, and an observer from the National Audit Office (NAO).

The Audit and Risk Committee meets three times each year. In the financial year 2013 to 2014 one independent member missed one meeting.

* During the financial year 2013 to 2014 Kim Thorneywork CBE was on extended leave due to ill health; Barbara Spicer was appointed as Chief Executive from 25 November 2013 for a period of nine months to cover this absence.

Programme Assurance

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

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

To gain assurance about the proper use of public funds that colleges and other training organisations receive, the Agency has a national Provider Financial Assurance (PFA) Audit team. As set out in the Accounting Officer's Governance Statement, the PFA Audit team is responsible for planning, co-ordinating and carrying out audit and other work to secure this assurance. The Agency's Audit and Risk Committee scrutinises the outcomes of this work.

Overview

The approaches we use to obtain assurance depend on the risks associated with colleges, training organisations and funding streams; we have designed them to minimise bureaucracy.

Reviews that the PFA Audit team, the Education Funding Agency (EFA) and local authorities working with the Agency under the Joint Audit Code of Practice (JACOP) carry out provide us with assurance.

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 higher education institutions' funding as part of the mutual assurance arrangements between HEFCE and the Agency.

Where we provide grant funding to organisations, such as to FE colleges, the Agency places assurance on the audit work that its auditors carry out. The Agency's PFA Audit team reviews the findings of internal

and external auditors to ensure that they provide the required assurance.

For private sector and other training organisations funded under contract, the PFA Audit team undertakes direct assurance work, consisting of reviews to ensure that they apply funds properly.

The Agency's PFA Audit team carries out reviews under the Agency's funding assurance approach. We carry out these reviews on a sample of FE colleges and other training organisations, which allow the Agency to understand the most likely underlying level of errors across its key funding streams, and the nature of those errors. During the year we have reviewed and refined our methods to improve awareness of the underlying errors. In addition, the PFA Audit team carried out responsive work to cover known risk areas.

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 2013 (four months) and 31 July 2014 (eight months).

The mismatch between financial and academic year accounting periods means that we only receive certain formal assurances on entitlement and the proper use of the funds from these colleges and other training organisations after the financial year end. The overall picture is described in the section below.

FE colleges and other training organisations

During the financial year 2013 to 2014, the Agency paid grants of £2.18 billion (2012 to 2013: £2.11 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 56 colleges received a review of their final classroom learning funding claim for the academic year 2012 to 2013, which the Agency's PFA Audit team completed jointly with a number of contracted audit firms. As a result of the reviews, one college received a qualified opinion on its funding claim because of control weaknesses and has agreed improvement plans to address the underlying issues.

For most colleges, a key source of assurance for the Agency's financial statements for the financial year 2013 to 2014 are the audit

opinions on their own financial statements for the academic year ended 31 July 2013, and the regularity audit opinions. The regularity audit at colleges considers whether expenditure and income have been applied for 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.

Table 1 below shows the position in respect of the academic year 2012 to 2013:

Table 1: Position of FE colleges in the academic year 2012 to 2013, representing £2.08 billion in grant funding (2011 to 2012: £2.12 billion)

	Due	Received	Qualified	Outstanding
Audited final funding claims	56	56	0	0
Financial statements audits	245	243	1	2
Final regularity opinions	245	244	2	1

There are two colleges that have their final financial statements audit opinion outstanding; one of those also has its regularity opinion outstanding. We are pursuing the outstanding returns.

The Agency takes assurance from EFA under 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 has reviewed private sector and other training organisations to ensure that they have properly claimed the funds provided by the Agency under their contracts and for the purpose intended. For the financial year 2013 to 2014 we selected our reviews of private sector and other training organisations using random sampling and targeted (responsive) reviews of known risk areas. Where we have identified errors from those reviews, we have taken action to recover the funds.

Statistical sampling and extrapolation methodology

The Agency aims to gain assurance that funding claimed by colleges and other training organisations has been claimed in accordance with our funding rules. We gain assurance through our systems and processes, including contract and performance management, along with a programme of direct audit / assurance reviews and reliance on the work of other auditors, where appropriate.

Sampling methodology for direct assurance work

Provider level

The Agency selects colleges and other training organisations for review on mainstream funding on both a random and a risk basis. As part of the agreed simplification and bureaucracy reduction programme the selection of colleges is biased more towards a risk-based sample, to take into account the other information the Agency holds and the other assurance available.

The selection of private training organisations is biased more towards a random sample but with coverage of those identified as at higher risk.

Carrying out random sampling of colleges and other training organisations allows us to estimate the underlying error based on an assumption that the results of the sample are representative of the whole population

Learner level

The work carried out at each college or training organisation includes the following:

- a review of data exception reports and testing arising from that review
- testing of a random sample of individual learner files and transactions to ensure that there is evidence that the funding has been claimed correctly

Where we find errors, we seek to establish whether they are isolated or systematic. Where errors are systematic we carry out further work to identify the full extent of that type of error at the college or training organisation.

Extrapolation methodology

The extrapolation methodology aims to estimate the full extent of the error across all colleges and other training organisations. Isolated errors are extrapolated at the college or training organisation and across others; systematic errors are known at a particular college or training organisation, but are extrapolated across others. Errors found from examining exception reports are treated as known errors and not extrapolated.

The results of the testing at colleges and other training organisations also produces a recovery of funding that is used to adjust the total estimated level of error.

The Agency tests a sample of colleges and other training organisations and a sample of learner files and transactions within them. Using statistical techniques the most likely level of error is estimated, as well as

confidence intervals associated with the volume of testing undertaken.

The nature of errors

Almost all of the errors from testing relate to misapplication of our funding rules, or insufficient evidence to support the application of the funding rule, rather than ineligible learners or funding claimed where there is no learner.

We have improved our funding rules with the sector by clarifying both the rules and evidence requirement, which should reduce the future incidence of this type of error. We also provide a data self-assessment toolkit to enable colleges and other training organisations to review their data and self-correct errors.

Intervention

The Agency regularly reviews the performance of colleges and other training organisations. This is to assess the risk of them failing to provide training that makes efficient and effective use of public funds.

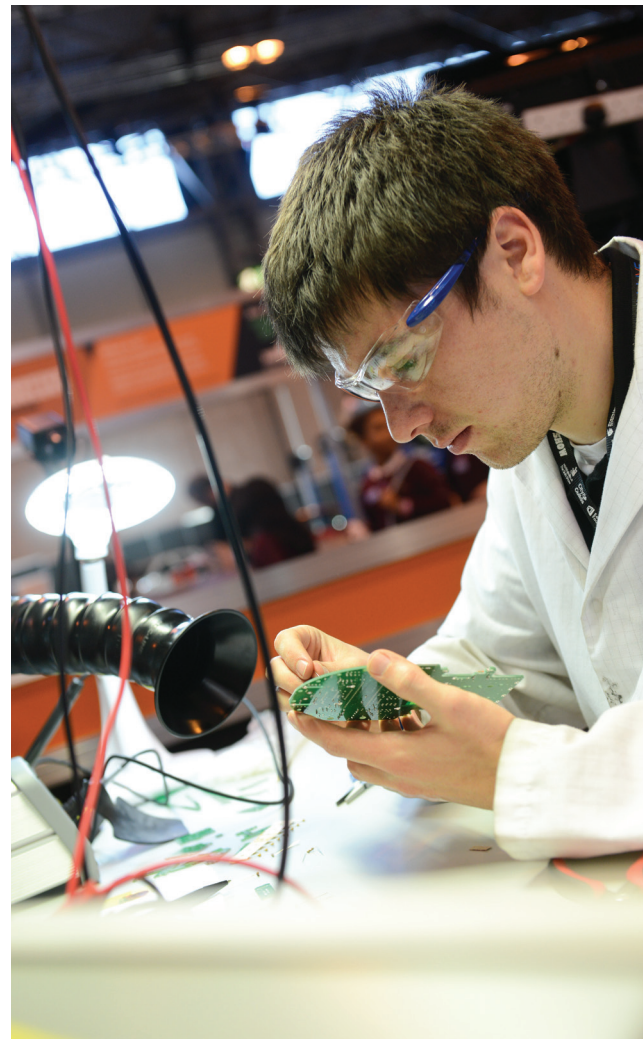
The document 'Rigour and Responsiveness in Skills' sets out the policy for intervention with colleges, training organisations and other bodies that we fund.

If formal intervention is triggered in an FE college, local authority maintained institution, or specialist designated institution, we will issue a 'Notice of Concern'. The notice will set out the matters that need rectifying, the timescale to remedy them, the conditions under which we would lift the notice and any additional conditions of funding during the notice period. Failure to comply with the terms of a notice may lead to further intervention.

The Agency will consider whether to refer cases to the FE Commissioner for review and advice at any point where intervention has been triggered. The triggers for formal intervention are:

- notification to the college or training organisation of failure to meet Minimum Standards
- notification to the college or training organisation of failure to meet the Agency’s criteria for financial health or control
- notification to the college or training organisation from Ofsted of an inadequate grade at inspection

With training organisations funded under a contract for services, the Agency may terminate the contract with three months’ notice. In exceptional circumstances we will issue a ‘Notice of Breach’, setting out the conditions the training organisation must meet to continue to receive public funds. Failure to meet the conditions in the notice may lead to termination of the contract.



Number of FE colleges and other training organisations currently under a notice.

FE college, local authority maintained institution, or specialist designated institution	50
Training organisations funded under a contract for services	18
Total	68

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 2013 to 2014

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

Table 2 below sets out incidents recorded centrally within the Department but that the Data Controller considers not to fall within the criteria for reporting to the Information Commissioner's Office. We do not record small, localised incidents centrally and we do not cite them in these figures.

Table 2: Summary of other protected personal data-related incidents in 2013 to 2014

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

Financial Commentary

Accounts direction and statutory background

1. We have prepared these accounts under an accounts direction issued by BIS 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 2014 shows net assets of £69.4 million (31 March 2013: £51.9 million net assets).
3. Funding from BIS and DfE, taking into account the amount required to meet the Skills Funding Agency's liabilities falling due in the year, has already been included in the Departments' estimates for that year. Parliament has approved these estimates, and there is no reason to believe that the Departments' future sponsorship and future parliamentary approval will not be forthcoming.
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 2014 was £63.6 million, which is a slight increase of £2.4 million on the previous year. Most of this increase is investment in IT systems to support the Agency's operations.
6. The Agency's receivable balances rose to £180.6 million (31 March 2013: £165.3 million) mainly due to a rise in accrued ESF income.
7. At 31 March 2014, the Agency held cash balances of £149.9 million (31 March 2013: £175 million), including funds

drawn down from ESF. This decrease mostly reflects a slight decrease in the amount of cash actually received from ESF in the year, although this is just a timing difference as the overall value of ESF income has increased.

8. At 31 March 2014, the Agency had payable balances of £269.6 million (31 March 2013: £301.3 million). Despite a rise in accruals relation to workplace training programmes (including Apprenticeships) reflecting training delivery that has not been paid for yet, accruals for other programmes fell by almost £22 million.
9. International Financial Reporting Standards (IFRS 7) require organisations to disclose information on the significance of financial instruments to their financial position and performance, and we show this in notes 8 and 13 of the accounts.
10. The most significant credit risk to the Agency arises from the failure of learners to repay loans provided to them under the Professional 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; we describe the situation for the financial year 2013 to 2014 in note 13.
11. Additional significant credit risk to the Agency arises from the non-payment of debts owed by private sector training organisations that are contracted to provide training services. The financial impact of this is largely attributable to training organisations insolvency and the overall financial impact is currently not material – see note 19 to the accounts.
12. The Skills Funding Agency operates an unfunded multi-employer defined benefit

pension that is provided by the Principal Civil Service Pension Scheme (PCSPS). The Agency paid employer contributions of £10.49 million (financial year 2012 to 2013: £10.41 million) during the year, but we are unable to identify our share of the underlying assets and liabilities. Further information is available in note 2 to the accounts and at civilservice.gov.uk/pensions.

Development and performance

13. The accounts cover the period from 1 April 2013 to 31 March 2014.
14. The Agency is funded by BIS and in the financial year 2013 to 2014 it provided £4.36 billion (2012 to 2013: £4.41 billion). The largest source of income was ESF, which contributed £159.5 million (financial year 2012 to 2013: £141.7 million).
15. The results for the financial year 2013 to 2014 show net expenditure of £4.35 billion (2012 to 2013: £4.36 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 £26 million (financial year 2012 to 2013: £17.9 million) as the Agency invested in the DCFT system.
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 the Treasury for payment to suppliers within 30 days is 95%. In the financial year 2013 to 2014, the Agency paid 96.9% (2012 to 2013: 96.6%) of its invoices within 30 days and 75.9% of its invoices within five days (2012 to 2013: 75.1% of its invoices within five days). We incurred £41.40 of interest charges in respect of one late payment for the financial year 2013 to 2014 (2012 to 2013: £nil).
18. During the financial year 8,550 days (2012 to 2013: 8,958 days) in total were attributable to sickness absence. Using the average number of payroll staff employed over the year (see note 2 of the accounts) this equates to about 6.8 days (financial year 2012 to 2013: 7.2 days) sickness for each employee each year.
19. The Agency paid no political or charitable donations in the financial year 2013 to 2014 (2012 to 2013: £nil).
20. Note 18 to the accounts shows the related party interests of the Agency and its senior staff.

Main trends and factors underlying development and performance

21. In relation to its own administration costs, the Agency continues to be subject to the savings target of £120 million, which we need to achieve between the financial years 2011 to 2012 and 2014 to 2015. We remain on target to achieve this by once again spending less than the budget provided by £300,000 or 0.3% (financial year 2012 to 2013: £800,000 or 0.8%).
22. Overall programme expenditure of £4.38 billion is very similar to the previous year total of £4.39 billion, although within this there has been some changes in the composition of spend on particular programmes. A slight decrease in the spend on the ASB was offset by an increase in expenditure on Capital and other programme areas – see note 4 to the accounts for further information.
23. The ASB continues to operate under the new freedoms and flexibilities with the key principle of employer ownership of the skills agenda underpinning developments. The Apprenticeships programme remains a key element of the skills system.
24. We are committed to improving quality and value for money in the skills system, while ensuring that the offer to young adults is tailored to the future needs of employers and thereby supports economic growth. Traineeships will

give young people the skills and work experience needed to compete effectively for an Apprenticeship or other job. The Apprenticeship Trailblazers programme is focused on some key economic areas, such as aerospace and digital services. Employers from these sectors will lead a group of key stakeholders to develop new, simpler Apprenticeship standards for their industry.

25. The programme of reform for Adult Skills will continue to impact on the Agency in future years. A model to fund employers directly for Apprenticeships is in development that will use Her Majesty's Revenue and Customs' (HMRC) systems and processes. Local Enterprise Partnerships (LEPs) submitted their plans in March 2014 and are now working with the sector and the Agency to address local skills priorities through the 'growth deals' process.
26. Currently, we are working through a reorganisation programme to centralise processes and reduce in size while becoming more technical in nature by focusing on our core funding role. This will ensure we are well positioned to perform our role in ensuring learners can access the right kind and level of skills that employers need to help the economy grow.

Auditor

27. 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 £150,000 (2012 to 2013: £160,000) and no other services were provided during the year.

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
- 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



Barbara Spicer

Chief Executive of Skills Funding
Skills Funding Agency
3 June 2014



Sustainability Report

Overview

1. All public sector bodies reporting in accordance with the government's 'Financial Reporting Manual' (FReM) are required to produce a sustainability report.
2. This is the third year the Agency has monitored its environmental impact, which will be compared against the baseline of the financial year 2011 to 2012.

Summary of performance

3. The Agency has made significant progress towards meeting its target of a 25% reduction in CO₂ emissions by 2016. We have included information relating to performance in specific areas in the relevant data section.
4. 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.
5. The main direct impacts for the Agency are in its electricity and gas consumption and business travel. No greenhouse gas emissions occur from sources that we own or control.

Summary of future strategy

6. The Agency is continuing to develop its sustainability strategy: the estate management function has moved to the Property Asset Management shared service. The Agency's environmental policy objectives and environmental improvement projects will align with those of BIS, which is developing a single estates strategy.
7. Increasingly the Agency's staff are co-located in premises that are occupied together with BIS staff and those from other BIS partner organisations, such as the Advisory, Conciliation and Arbitration Service (ACAS) and The Insolvency Service (INSS) or other government bodies.

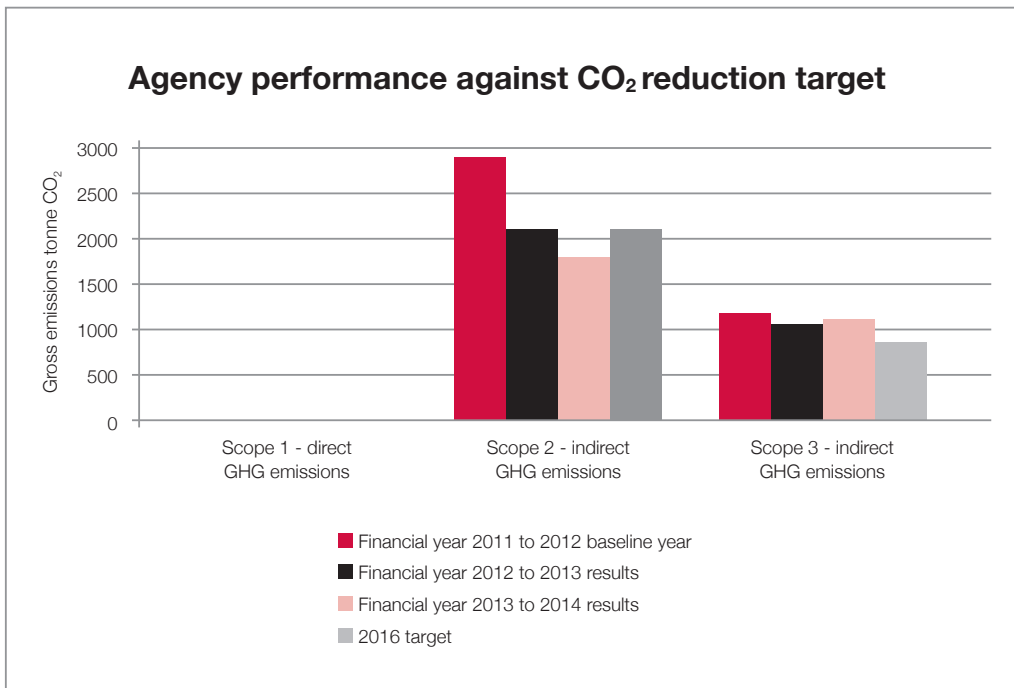
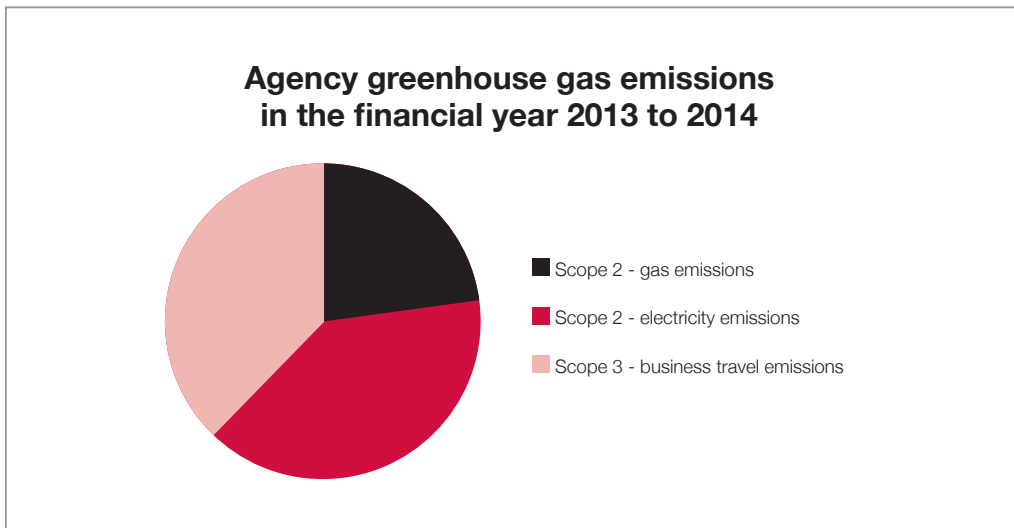
Targets and direction of organisation

8. Currently the Agency only has a single target, which is to reduce CO₂ emissions by 25% by 2016.



Performance data

Greenhouse gas (GHG) emissions		2013 to 2014	2012 to 2013	2011 to 2012
Gross emissions tonne CO ₂	Scope 1 – direct GHG emissions (including sources that the Agency controls).	Nil	Nil	Nil
	Scope 2 – indirect GHG emissions (including electricity supply and gas consumption). * See note 3.	1,768	2,100 *	2,475 *
	Scope 3 – indirect GHG emissions (including business travel that the Agency pays for directly).	1,063	1,048	1,124

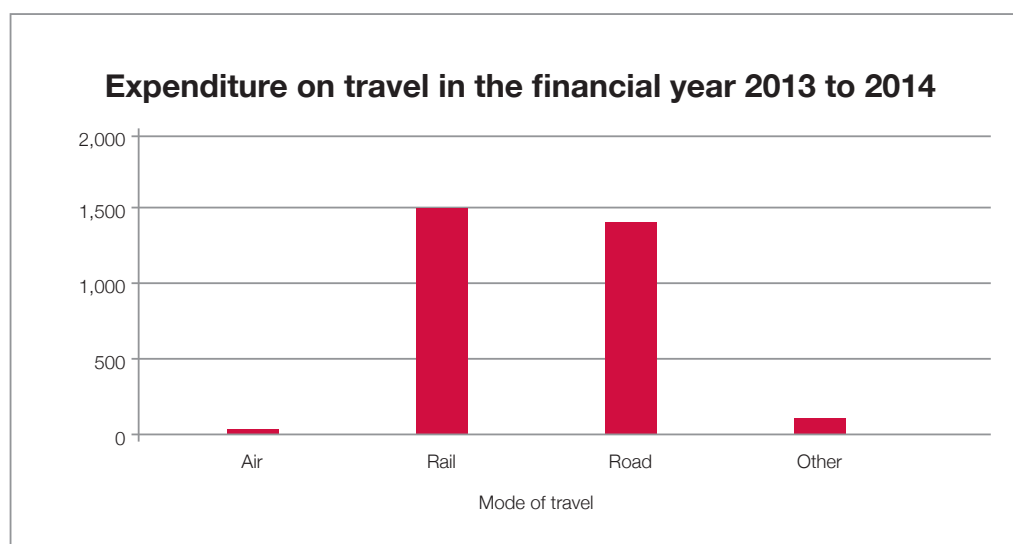


9. The Agency has met its target to reduce its scope 2 emissions by 25% from the baseline year. We have achieved this principally through estate rationalisation, which has been one of our major projects. As at 31 March 2014, the Agency is located in 14 buildings; a small number of vacated offices remain under lease and therefore we have included them in our calculations.

GHG emissions-related consumption data	2013 to 2014	2012 to 2013	2011 to 2012
Electricity kWh	2,540,158	2,738,227	3,887,740
Electricity kWh for each full-time equivalent member of staff	2003	2175	2842
Gas kWh	3,507,714	3,506,228	3,963,050
Gas kWh for each full-time equivalent member of staff	2766	2785	2897
Business km travelled	9,544,067	9,567,932	9,965,401
Business km travelled for each full-time equivalent member of staff	7,527	7,600	7,285

10. In line with the reduction in CO₂ emissions, we have reduced our gas and electricity consumption in the last year and the amount of business travel. The Agency promotes the use of video and telephone-conferencing facilities to minimise the need to travel for internal and external meetings.

Financial indicators	2013 to 2014	2012 to 2013	2011 to 2012
Energy expenditure – electricity	£325,587	£340,551	£494,854
Energy expenditure – gas	£112,195	£117,799	£163,484
Carbon reduction commitment related expenditure	£23,866	£31,752	-
Expenditure on business travel	£2,967,863	£2,899,122	£2,511,998



11. We have reduced our expenditure on gas and electricity. Expenditure on business travel has increased slightly during the year.
12. The carbon reduction commitment (CRC) expenditure shown relates to resources consumed in the financial year 2012 to 2013, but allowances were not purchased until the financial year 2013 to 2014 as required by the scheme. We expect to buy CRC allowances for consumption in the financial year 2013 to 2014 in the summer of 2014 and surrender them shortly after.

Waste minimisation and management		2013 to 2014	2012 to 2013	2011 to 2012
Non-financial indicators (tonnes)	Total waste arising	344	933	2,667
	Waste recycled / reused	261	894	Not known
	Waste incinerated / energy from waste	61	7	Not known
	Waste sent to landfill	22	32	Not known
	Total waste arising for each full-time equivalent member of staff	0.27	0.74	1.95
Financial indicators	Waste disposal expenditure	£26,945	£28,151	£47,989

13. We have reduced the total amount of our waste and the related cost per the table above. Of the actual (non-estimated) cost of waste disposal for the financial year 2013 to 2014, £20,839 was for recycling and £3,787 for general waste. The remaining value forms part of an estimate for buildings where the actual cost is not available.

Finite resource consumption: water		2013 to 2014	2012 to 2013	2011 to 2012
Non-financial indicators	Estates water consumption M ³	8,215	11,253	12,586
	Estates water consumption M ³ for each full-time equivalent member of staff	6.48	8.94	9.20
Financial indicators	Estates water cost	£26,567	£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.

- c) conferencing
- d) desktop stationery
- e) government procurement card

Sustainable procurement

15. There are national contracts covering the following areas:

- a) rail, air and accommodation
- b) car hire

16. All 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 have implemented 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 established a range of 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.

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.

- 5 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 we 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.

The Agency has met its target to reduce its scope 2 emissions by 25% from the baseline year.

Notes

- 1 We prepared the above report in accordance with the guidelines ‘Public sector annual reports: sustainability reporting guidance 2013-14’.
- 2 We used conversion rates from the Department for Environment, Food and Rural Affairs (Defra) to account for carbon.
- 3 We have restated our carbon footprint for electricity for all years, to account for material changes to the conversion factors that Defra provided for all company reporting purposes.
- 4 The proportion of estimated values in the figures quoted above is as follows:

	Proportion estimated (%)
Electricity emissions	23
Electricity costs	14
Gas emissions	44
Gas costs	26
Water consumption	25
Water costs	22
Total waste arising	9
Waste disposal costs	9

Remuneration Report

Introduction and components of remuneration

1. The Chief Executive of Skills Funding and members of the Executive Management Team (EMT, which comprises the 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.
2. 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.
5. The Chief Executive of Skills Funding is responsible for assessing performance over the course of the year.
6. We do not operate a remuneration committee; the Chief Executive of Skills Funding has statutory authority to determine the remuneration of the Agency's staff. When setting individual executive pay and bonuses, the Skills Funding Agency will consider guidance issued by Cabinet Office, HM Treasury, BIS and relevant information from external market data (for example Hay Group and Towers Watson) relating to pay and bonus levels.

General

3. We set base salaries at the market median and recognise achievement through the bonus scheme (subject to affordability).
4. We use a range of methods to assess the performance of our EMT, which include (but are not necessarily limited to) the following:
 - Business Performance and Corporate Risk Management – to improve operational performance through achieving the business plan measures.
 - Change Leadership – to provide strong and effective leadership in implementing, communicating and embedding the organisation's change activities.
 - People Management – to manage the performance of individuals robustly.
7. The Skills and Enterprise Minister, Matthew Hancock appointed Barbara Spicer as Chief Executive of Skills Funding to cover the extended absence of Kim Thorneywork CBE.
8. The reward package for the Chief Executive of Skills Funding contains 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. The Chief Executive's role does not attract an automatic salary progression award.
9. During the financial year 2013 to 2014 the Chief Executive of Skills Funding, Barbara Spicer, did not receive a pay increase or a bonus payment. She was appointed on an interim basis for the period 25 November 2013 to 24 August 2014.

10. During the financial year 2013 to 2014 the Chief Executive of Skills Funding, Kim Thorneywork CBE did not receive a pay increase but did receive a bonus payment of £14,000 relating to the previous performance year. She was appointed on an interim basis for the period 1 August 2012 to 31 July 2013, which BIS has extended to 31 July 2014 and is dependent upon the appointment of a permanent Chief Executive of Skills Funding.

Base pay changes for the financial year 2013 to 2014

11. Base pay for directors of the Agency was increased in the financial year 2013 to 2014 in line with government guidance to keep the overall increase across the group of employees within 1%.

Executive Management Team members and other senior staff

12. All members of the EMT and other senior staff are employed under contracts of employment requiring 12 weeks' written notice by either party.

13. There are no specific termination clauses in EMT members' employment contracts.

Highest paid director and relation to median pay

Audited information

14. The annualised remuneration of the highest paid director was £140,000 for Barbara Spicer (financial year 2012 to 2013: David Way CBE, £135,000) and this is 3.0 times (2012 to 2013: 3.3 times) greater than £42,070 (2012 to 2013: £41,489), which is the median remuneration of Agency employees at the end of March 2014.

15. No Agency employee received remuneration in excess of the highest-paid director in either the financial year 2013 to 2014 or the previous year. Remuneration ranged from £12,022 to £140,000 (2012 to 2013: £11,500 to £135,000).



Remuneration tables

Audited information

Chief Executives

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
--	--------------------------------------	--------------------------------------

The emoluments of the Chief Executive of Skills Funding, Barbara Spicer, for the period (from 25 November 2013):

Basic salary and other emoluments	49	0
Taxable benefit in kind	0	0
Pension benefits (opted to join Premium pension scheme)	0	0
Bonus	0	0
	49	0
Full year equivalent salary	140	

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

Basic salary and other emoluments	117	78
Taxable benefit in kind	0	0
Pension benefits (opted to join Premium pension scheme)	0	20
Bonus	14	0
	131	98
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	0	58
Taxable benefit in kind	0	0
Pension benefits (opted to join Nuvo pension scheme)	0	20
Bonus	0	0
	0	78
Full year equivalent salary		150

The emoluments of the Interim Chief Executive of NAS, David Way CBE for the period (from 1 April 2012 to 1 April 2013):

Basic salary and other emoluments	0	124
Taxable benefit in kind	0	0
Pension benefits (opted to join Classic pension scheme)	0	73
Bonus (relates to previous year)	0	11
	0	208

Senior management group emoluments

Audited information

	Salary £'000	Bonus* £'000	Pension benefits	Year ended 31 March 2014 Total Remuneration	Salary £'000	Bonus* £'000	Pension benefits	Year ended 31 March 2013 Total Remuneration
National Directors								
Richard Field								
Chief Information Officer (until 5 January 2014)	95 - 100	0	25	120 - 125	120 - 125	0	50	170 - 175
Full year equivalent	120 - 125							
Verity Hancock								
Executive Director, Capacity and Infrastructure (until 31 December 2012)	0	0	0	0	85 - 90	0	16	100 - 105
Full year equivalent					115 - 120			
Paul McGuire								
Chief Operating Officer	110 - 115	10 - 15	27	150 - 155	110 - 115	10 - 15	44	165 - 170
Marinos Paphitis								
Executive Director, Provider Management (South) (until 20 January 2014)	85 - 90	0	0	85 - 90	110 - 115	0	8	115 - 120
Full year equivalent	110 - 115							
Julie Robson								
Executive Director Growth (Midlands and North) (until 20 January 2014)	85 - 90	0	5	90 - 95	110 - 115	0	13	120 - 125
Full year equivalent	110 - 115							
Keith Smith								
Director Funding and Programmes (from 1 November 2012)	105 - 110	10 - 15	104	225 - 230	40 - 45	5 - 10	26	75 - 80
Full year equivalent					105 - 110			
Sally Stewart								
Executive Director, People (until 20 January 2014)	85 - 90	0	22	110 - 115	110 - 115	0	52	165 - 170
Full year equivalent	110 - 115							
Kim Thorneywork CBE								
Executive Director, Delivery (from 1 May 2011 to 31 July 2012)	0	0	0	0	35 - 40	10 - 15	10	55 - 60
Full year equivalent					105 - 110			
David Way CBE								
Executive Director, NAS, (from 1 April 2013 to 18 October 2013), previously Chief Executive, NAS (until 31 March 2013)	65 - 70	0	0	65 - 70	0	0	0	0
Full year equivalent	120 - 125							

* Bonus payments relate to previous year, unless stated otherwise.

Notes:

No member of senior management received any benefits in kind in the 2013 to 2014 financial year (2012 to 2013: £nil).

In addition to the remuneration detailed above for the 2013 to 2014 financial year, the Agency also incurred the following redundancy costs rounded to the nearest £1,000:

- David Way CBE £94,000
- Richard Field £128,000
- Sally Stewart £155,000

The redundancy payments noted above were made under the standard terms of the Civil Service Compensation Scheme and include compensation in lieu of notice. The payment to Sally Stewart also includes a special element that was separately approved by HM Treasury.

Senior management group pension entitlements

Audited information

	Accrued pension and related lump sum at age 60 as at 31 March 2014 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31 March 2014 £'000	CETV at 31 March 2013** £'000	Real increase in CETV £'000
Chief Executives					
Barbara Spicer					
Chief Executive of Skills Funding (from 25 November 2013)	0 - 5	0	13	13	0
Kim Thorneywork CBE					
Chief Executive of Skills Funding (from 1 August 2012)	50 - 55	0 - 2.5	865	811	0
National Directors					
Richard Field					
Chief Information Officer (until 5 January 2014)	20 - 25	0 - 2.5	367	316	23
Paul McGuire*					
Chief Operating Officer	35 - 40	0 - 2.5	475	427	14
Marinos Paphitis					
Executive Director, Provider Management (South) (until 20 January 2014)	40 - 45 and lump sum 120 - 125	0 - 2.5 and lump sum 0 - 2.5	838	786	0
Julie Robson					
Executive Director, Growth (Midlands and North) (until 20 January 2014)	30 - 35 and lump sum 90 - 95	0 - 2.5 and lump sum 0 - 2.5	584	543	4
Keith Smith					
Director Funding and Programmes	25 - 30 and lump sum 85 - 90	2.5 - 5 and lump sum 10 - 15	370	291	56
Sally Stewart*					
Executive Director, People (until 20 January 2014)	35 - 40	0 - 2.5	616	560	19
David Way CBE					
Executive Director, NAS (from 1 April 2013 to 18 October 2013)	55 - 60 and lump sum 170 - 175	0 and lump sum 0	1,340	1,324	0

Note: For Marinos Paphitis and Julie Robson the numbers reported above are based on data covering the period to 31 March 2014; for Sally Stewart the numbers reported above are based on data covering the period to 31 January 2014. Therefore, they slightly over-estimate some of the benefits disclosed. However, the Agency has reviewed the impact of this and concluded that the values quoted above are substantially correct and therefore present a fair reflection of each individual's pension entitlements.

* 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 analysis, 'salary' includes the following, where applicable:
- gross salary payable
 - other allowances
 - overtime payable
16. We report bonuses and compensation or redundancy payments separately.

Benefits in kind

17. The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument.

Civil service pensions

18. Pension benefits are provided through the Principal Civil Service Scheme (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. From 1 April 2013 these range from 1.5% to 6.25% for Classic members and 3.5% to 8.25% 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. Nuvos is a career-average defined-benefit scheme, where pension benefits build up at the rate of 2.3% of pensionable earnings each year and the option is available at retirement to convert up to 25% 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% and 12.5% (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% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% 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 civilservice.gov.uk/pensions.

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 made by a pension scheme or arrangement to secure pension benefits in another

pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

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 include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the civil service pension arrangements. This applies where 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. This does 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.



Barbara Spicer

Chief Executive of Skills Funding
Skills Funding Agency
3 June 2014

Statement of Accounting Officer'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.
 - make judgements and estimates reasonably
 - 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 (BIS) with the consent of HM Treasury.
3. Under the Accounts Direction issued by the Secretary of State for BIS, 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 BIS, including the relevant accounting and disclosure requirements, and apply suitable accounting policies consistently
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'.



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'. I was appointed in November 2013. Before then, Kim Thorneywork CBE and her Executive Management Team (EMT) maintained the arrangements for the corporate governance of the Agency. Since that date I have reviewed and maintained these arrangements, including seeking assurance from my EMT that our arrangements for corporate governance have been in operation throughout the whole year. I have undergone civil service Accounting Officer training.

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 the HM Treasury 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, in order to achieve policy aims and objectives. Therefore, it can 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 aims and objectives
 - evaluate the likelihood of those risks being realised and their potential impact
 - take reasonable steps to manage them efficiently, effectively and economically
4. The system of internal control has been in place in the Agency for the financial year ending 31 March 2014 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 Apprenticeships, Skills, Children and Learning 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 adult FE. 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 available 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. It is not a legal entity.
6. Within the Agency, the National Apprentice Service (NAS) is integral, working under the Agency's system of

internal control governed and supported by its corporate services and contracting capabilities. The Agency manages the post-19 Apprenticeship budget as part of a single ASB.

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. We have nevertheless established an Advisory Board with external non-executive members to provide support and challenge to the Agency in relation to how it implements policy. We have established an Audit and Risk Committee, drawn from members of the Advisory Board; the Advisory Board has met four times since 1 April 2013 and the Audit and Risk Committee on three occasions.

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; EMT has reviewed and 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.
9. The Agency's key management document, the 'Performance and Risk Report', forms the platform which the EMT uses to report progress against our objectives and risks. We share the same document with BIS, ministers and our Advisory Board. 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.

Significant risks and mitigation

Significant risk 1: Reorganisation and status change

10. The change of status of the Agency to that of a conventional Executive Agency is now planned for late 2014 or early 2015. In the meantime, like all public bodies facing tightening administration resources, we are in the process of completing a restructuring exercise that will see our staffing reduce by 32% to around 925 posts. This significant exercise, which will continue until the end of June 2014, raises considerable risks around the transition programme and how the newly-configured Agency will manage its strategic objectives and expanding relationships.
11. The Agency continues to mitigate these risks by working closely with all of our key partners (BIS, colleges and other training organisations, employers and learners) to communicate our key objectives and constraints. The Agency also has strong management and consultative processes to allow us to work with our staff to manage change and build a stronger organisation.

Significant risk 2: Working with the FE and skills sector

12. The same resource and public spending constraints continue to affect the whole FE and skills sector. The Agency remains committed to supporting colleges and other training organisations to focus on the needs of employers, learners and their local communities. As always, there is a need to focus on the risks around using public funds for the purpose intended: raising the quality of training provision and managing colleges and other training organisations in financial difficulties.

13. There were a small number of high-profile cases during the year where the governance and performance of some colleges and other training organisations were called into question. The Agency will again continue to mitigate these risks by focusing on our simplified funding policy, and processes and systems that help colleges and other training organisations to manage their publicly-funded training provision. This includes working closely with BIS and the Student Loans Company on the further development of FE loans within the FE and skills system.

Significant risk 3: Our information management supply chain

14. To achieve our objectives we develop and manage a complex set of information technology systems for our internal needs and the wider information needs of the whole FE and skills sector. The successful working of these complex systems is a matter of partnership between our suppliers, the Agency and our partner colleges and other training organisations. Wider government policy has shifted away from single, large, strategic supply partnerships, toward partnering with multiple, more agile, small to medium-sized firms. The Agency is at the forefront of this IT supply chain transformation and there are inherent risks.

15. We mitigate these risks by maintaining strong controls over our information management programme and project management processes. We continue to work closely with existing and prospective suppliers, BIS and Cabinet Office colleagues to achieve our objectives. A further key element of our strategy is always to maintain good communications with the colleges and other training organisations that use our systems, so that they can plan for change and development. This has been the case with our DCFT programme, which has seen delays during the year.

Audit and Risk Committee

16. A properly constituted Audit and Risk Committee is established and has met three times during the year. It consists of non-executive Advisory Board members and other attendees, including a representative from BIS, the Agency's Internal Audit team and from the National Audit Office (NAO). Its terms of reference reflect best practice and are regularly reviewed. In addition, the committee has assessed its own effectiveness using an NAO questionnaire during the year 2013 to 2014. The assessment results were positive.

17. 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 the systems of control and use of public funds in colleges and other training organisations. 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.

18. The committee has recommended to the Chief Executive 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

19. EMT comprises the Chief Executive of Skills Funding and three senior Agency officers (seven before January 2014) who meet every two weeks to consider:

- performance and risks that face the Agency
- progress
- mitigating and/or corrective action, where necessary

Internal audit

20. We maintain a professional and independent internal audit service, which provides monthly reports on audit findings, including progress against the internal audit plan. Internal audit work was targeted towards the higher-risk areas.

21. The Internal Audit team reported directly to the Chief Executive of Skills Funding up to January 2014, and from then to the Director of Finance and Chief Operating Officer, whilst maintaining direct access to the Chief Executive. The Chief Internal Auditor also has direct access to the Chair of the Audit and Risk Committee as well as the BIS Chief Internal Auditor. The Internal Audit team also conducts a number of audits jointly with BIS internal audit. The Chief Internal Auditor receives all EMT papers and may attend any EMT meeting.

22. I (and previously Kim Thorneywork CBE) met at least monthly with the Chief Internal Auditor and received an annual report on findings, which included a professional opinion as to the level of control assurance that was applicable to the Agency.

23. For the financial year 2013 to 2014 the Chief Internal Auditor has concluded that, overall, the Agency has maintained sound systems of governance, internal control and risk management, but that there were some weaknesses to rectify. In his annual report, the Chief Internal Auditor identified the following significant issues:

- **IT Technical Network/Information Security** – there remain risks and issues in this area that the Agency continues to work through. These risks relate to the need for the Agency to be able to evidence that its IT systems security is to the required standard
- **Supply Chain Transformation (SCT)** – the Agency continues to develop its IT and systems whilst implementing new government policy on IT

procurement. This changes the emphasis of our supply chain from one major supply partner to numerous small to medium-sized suppliers, with the accompanying issues of change and co-ordination.

- **European Social Funds (ESF)** – while the Internal Audit team found that overall the risks around ESF were being managed adequately, there is increased risk associated with the development of partnerships with Local Enterprise Partnerships (LEPs).

- **Travel expenses** – the Internal Audit team also commented on risk areas relating to staff driver declarations and the payment of expenses to one specific team involved in international travel. In these two areas, internal control processes identified particular issues early and enabled us to take appropriate action before they were allowed to become serious.

24. Through his reports, all of which I have read, the Chief Internal Auditor alerted me to where improvements were necessary. I took a personal interest in the implementation of improvement plans and asked for specific performance reports on their implementation. I take into consideration the findings in internal audit reports when assessing the performance of EMT members and deputy directors.

25. An evaluation by the Internal Audit team informed each of the personal statements on internal control received from EMT.

Counter-fraud strategy

26. Towards the end of the financial year 2012 to 2013 the Agency reviewed its approach to fraud prevention and the recovery of funds. This included asking the NAO to look at and report upon this area. Following this work the Agency took further steps to strengthen its governance and business processes, particularly in relation to investigations into potential financial irregularity, which crossed into

the current year. This included integrating the investigations function into the Strategic Intervention team and ensuring that all decisions relating to investigations are considered by the Provider Enquiry Group and taken at the appropriate level of delegation.

27. 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 structural changes to the team. We have now filled all investigations' posts and implemented the new process. All Agency staff receive mandatory training on identifying potential fraud and error as part of our programme of essential learning, and area office staff also receive briefings on the new investigations process.
28. During the period 1 April 2013 to 31 March 2014, the Agency received 132 allegations of financial irregularity. A significant number of these related to a single case. Therefore, the total number of new cases considered during the period was 108. There were 40 cases (of which 21 were investigations) brought forward from the financial year 2012 to 2013 and a further six allegations brought forward that had not been entered into the vetting and assessment process as at 1 April 2013. During the financial year 2013 to 2014, 37 investigations were closed and, as at 31 March 2014, there were 18 investigations ongoing and 22 cases at the vetting and assessment stage.
29. As Accounting Officer I had responsibility to ensure that there were effective systems to manage and monitor all funds granted to me. I have received assurances for all of my direct reports that effective systems are working in their individual areas of responsibility.
30. 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.
31. The Agency has complied with all Cabinet Office spending controls, receiving approvals where required, except one submission to the Cabinet Office of £6.2 million (excluding VAT), which did not receive approval from the minister concerned. The reason for the refusal was that insufficient progress had been made in considering alternative suppliers for the provision of ICT and that the current arrangements did not offer good value for money. We continued to make this payment to enable us to update the system for the new funding rules and therefore continue to fund FE colleges and other training organisations. However, we are currently working on our ICT transition plan and contractual arrangements to address the minister's concerns.

Provider Financial Assurance Audit team

32. 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 other training organisations' use of public funds.
33. The scope of the PFA Audit team's work also covered Education Funding Agency (EFA) funding. The latter was in accordance with the Joint Audit Code of Practice (JACOP), where it was agreed with EFA that, with the exception of ESF funding, just one government agency will

normally audit a training organisation and give assurance over both Agency and EFA funds.

34. In the financial year 2013 to 2014 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 training organisations' funding data. The PFA Audit team's work also undertook audits at higher-risk organisations and areas based on known risks.
35. The result of this work is that the residual error rate within most of the Agency's funding streams is 1%. Errors are mainly data error and are not indicative of fraud. We refer any suspected fraud to the Agency's Investigations Unit.
36. The PFA Audit team's work considers further sources of assurance for colleges funded under a financial memorandum, including the results of work carried out by training organisations' financial statement auditors, internal auditors and funding auditors.

Tax compliance

37. As required, the Agency has reviewed the tax arrangements of individuals who 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 (that is, by the Agency). Such individuals are described as 'off payroll' and at 31 March 2014, 69 individuals fell within the parameters for review (31 March 2013; 79). All 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

38. As Accounting Officer I have responsibility for reviewing the effectiveness of the Agency's system of governance, risk management and internal control. My review of the effectiveness of our systems is informed by the work of the internal auditors and the EMT within the Agency, who had responsibility for the development and maintenance of the internal control framework, together with comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Committee, EMT and the Internal Audit team, and we have a plan to rectify weaknesses and ensure continuous improvement of the system.

Internal control issues

39. As Accounting Officer I am satisfied that the Agency's governance, risk management and internal control were compliant with 'Managing Public Money' requirements during the financial year 2013 to 2014. Nevertheless, the following significant internal control issues are identified as areas for improvement.

Information assurance and protective security

40. A restructuring of the Protective Security team has taken place during 2013 to 2014. We have recruited a permanent head of team and reduced dependence on contingent workers significantly. A permanent information assurance manager started during 2013 to 2014 and the team will be entirely permanent by the close of the financial year.
41. Protective security governance has also improved with the introduction of the Protective Security Governance Board (PSGB) to oversee risk management and security initiatives, with attendance by senior members of each division.

The Agency's Senior Information Risk Officer (SIRO) chairs the PSGB, which is supported by a variety of lower-level divisional security working groups that deal with lower-level risk and escalate to the PSGB when required. Consequently, the SIRO role within the Agency now includes responsibility for business continuity management, personnel security, physical security and counter-terrorism, in addition to information assurance.

42. We have made significant progress in developing the Agency's business continuity plans. We have removed our dependency on contingent workers in this area and a permanent member of staff in the Information Compliance and Security team has taken on the role of co-ordinating the plans. The business continuity planning process is managed through the Business Continuity Oversight Forum (BCOF), which sits quarterly and the SIRO chairs. Each division has produced a business continuity plan which incorporates a business impact analysis and the relevant divisional director owns this plan.
43. The Agency conducted a business continuity test, closing its national office in July 2013, and the report revealed a number of lessons to learn, which has resulted in policy adjustments and identified training needs; we plan to carry out further tests. The Agency has had its progress assessed by external consultants and current progress indicates that we can comply with the ISO22301 standard by summer 2014. Furthermore, a schedule of physical security and counter-terrorism assessment of the Agency's estate took place in 2013 and the 2014 annual reviews have just begun, with early indications showing that physical security is commensurate with the sensitivity of information that the Agency handles.
44. In respect of the security policy framework the Agency is compliant, with 127 out of the 148 monitored control items. This represents an improvement on the figure for the financial year 2012 to 2013, which was 108 out of 127. Through the PSGB, active risk management will focus on improving the level of compliance in the outstanding 21 areas and also improving the standards achieved against control items, which are currently scored as a pass mark but not at the highest level.
45. EMT, under the direction of our SIRO, will continue to seek improvements in the areas of highest risk. The Supply Chain Transformation Programme during the financial year 2014 to 2015 presents an opportunity to reduce security-related risks and the Protective Security team is involved in ensuring that new suppliers will be equipped to resolve these issues.
46. The protective security process is a judgement about the balance of risks versus costs. We monitor these regularly through PSGB meetings and various divisional security groups, and the current approach is set to provide an informed, co-ordinated and proportionate response to information risk.

Conclusion

47. I believe that the risks the Agency faced in the financial year 2013 to 2014 were managed effectively. I do not believe that there were any material adverse effects on our learners or the taxpayer. The Agency's processes and practices have been enhanced but, as always, there is more still to do and change and improvement continues.



Barbara Spicer

Chief Executive of Skills Funding
Skills Funding Agency
3 June 2014



The 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 2014 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 Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Skills Funding Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Skills Funding Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2014 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 sections entitled 'Our Management Team', 'Financial Commentary' and 'Sustainability 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.

Sir Amyas C E Morse

Comptroller and Auditor General
17 June 2014

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

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2014

	Note	2013 to 2014 £'000	2012 to 2013 £'000
Administration costs			
Staff costs	2a	57,967	58,064
Other costs	3a	51,947	46,094
Depreciation, impairment and losses on disposal	3b	23,592	27,059
Total administration costs		133,506	131,217
Programme costs			
ASB	4.01	2,475,291	2,619,288
Community Learning	4.02	210,729	210,449
Offender Learning	4.03	144,693	146,129
Learner Support Funds	4.04	154,581	144,397
National Careers Service	4.05	92,541	73,617
Skills infrastructure	4.06	32,312	84,886
Capital	4.07	381,752	281,814
DfE-funded programmes	4.08	728,049	678,881
ESF programmes	4.09	158,805	140,803
Other non-BIS funded programmes	4.09	4,863	6,131
Total programme costs		4,383,616	4,386,395
Income			
EU income	5	(159,515)	(141,742)
Other income	5	(11,891)	(13,315)
Total income		(171,406)	(155,057)
Net expenditure		4,345,716	4,362,555

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

The notes on pages 61 to 89 form part of these accounts.

Statement of Financial Position

as at 31 March 2014

	Note	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Non-current assets			
Property, plant and equipment	6	1,348	1,923
Intangible assets	7	62,278	59,332
Total non-current assets		63,626	61,255
Current assets			
Trade and other receivables	9a	180,574	165,294
Cash and cash equivalents	10	149,884	175,007
Total current assets		330,458	340,301
Total assets		394,084	401,556
Current liabilities			
Trade and other payables	11a	(269,597)	(301,282)
Total assets less current liabilities		124,487	100,274
Non-current liabilities			
Provisions	12	(26,121)	(15,665)
Financial guarantee	13	(29,001)	(32,736)
Total non-current liabilities		(55,122)	(48,401)
Assets less liabilities		69,365	51,873

Represented by

Taxpayers' equity

General fund

69,365

51,873

Total taxpayers' equity

69,365

51,873

The notes on pages 61 to 89 form part of these accounts.



Barbara Spicer

Chief Executive of Skills Funding

Skills Funding Agency

3 June 2014

Statement of Cash Flows

for the year ended 31 March 2014

	Note	2013 to 2014 £'000	2012 to 2013 £'000
Cash flows from operating activities			
Net expenditure		(4,345,716)	(4,362,555)
Notional audit fee	3a	150	160
Depreciation charges	3b	20,914	19,094
Loss on disposal of non-current assets	3b	(12)	1,486
Other adjustment	3b	0	6,479
Loss on impairment	3b	2,690	0
(Increase) in receivables - excludes capital receivables	9a	(15,286)	(5,469)
(Decrease) in total payables - excludes capital payables	11a	(29,050)	(99,537)
Increase/(Decrease) in use of provisions for liabilities and charges	12	10,456	(2,052)
(Decrease)/Increase in use of financial guarantees	13	(3,735)	1,332
Net cash outflow from operating activities		(4,359,589)	(4,441,062)
Cash flows from investing activities			
Purchase of property, plant and equipment		(17)	(48)
Purchase of intangible assets		(28,593)	(21,085)
Proceeds of disposal of property, plant and equipment		18	31
Net cash outflow from investing activities		(28,592)	(21,102)
Cash flows from financing activities			
Financing from BIS		4,363,058	4,406,332
Net cash inflow from financing activities		4,363,058	4,406,332
Net increase in cash and cash equivalents in the period		(25,123)	(55,832)
Cash and cash equivalents at the beginning of the period	10	175,007	230,839
Cash and cash equivalents at the end of the period		149,884	175,007

The notes on pages 61 to 89 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2014

	Note	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Balance at 1 April		51,873	7,936
Retained deficit		(4,345,716)	(4,362,555)
Reversal of notional audit fee	3a	150	160
Total recognised income and expense for the year		(4,345,566)	(4,362,395)
Financing from BIS		4,363,058	4,406,332
Balance at 31 March		69,365	51,873

The notes on pages 61 to 89 form part of these accounts.

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 'FRoM' for the financial year 2013 to 2014 issued by HM Treasury. The accounting policies contained in the 'FRoM' apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the 'FRoM' permits a choice of accounting policy, we have selected the accounting policy judged most appropriate to the particular circumstances of the Skills Funding Agency for the purpose of giving a true and fair view. The particular accounting policies that we have adopted have been applied consistently in dealing with items that are considered material to the accounts and they are described below.

1.1 Going concern

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

We expect to formally become an Executive Agency of BIS during the 2014 to 2015 financial year. This change is not expected to have any impact on the status of the Agency as a going concern.

1.2 Accounting convention

We have prepared these accounts 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 we consider 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 our management.

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, we use 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 we can demonstrate all of the following criteria:

- Completion of the system is technically feasible and adequate resources are available to do so.
- An intention to complete the system for use.
- Ability to use the system.
- How the system can generate future economic benefits.
- Attributable development expenditure can be reliably measured.

Computer software licences 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
Property, plant and equipment	IT	Desktop IT	Straight line	Three years
		Other IT	Straight line	Five years
	Plant and machinery		Straight line	Three years
	Furniture and fittings	Furniture	Straight line	Five years
		Fitting out	Straight line	Lower of 10 years or the length of the building lease
Intangible assets	Internally developed systems		Straight line	Five years
	Software licences		Straight line	Life of the licence or three years where none given

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

1 Statement of accounting policies (continued)

1.6 Impairment – property, plant, equipment and intangibles

Property, plant and equipment and intangible assets are subject to impairment reviews to ensure they are carried at no more than recoverable amount; the higher of net selling price and value in use. For each financial reporting period, we will assess whether there are any internal or external indications of impairment in its assets and 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. They mostly reflect part of the normal operation of the reconciliation process of the respective programme, to ensure that only amounts earned on the basis of actual delivery are paid to colleges and other training organisations and recorded in the Skills Funding Agency's accounts. In most cases these amounts are offset against future payments to colleges and other training organisations, so we recover them over the short term.

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

- an actual amount that needs recovering from a college or private training organisation, or
- a data error that is extrapolated across the data population to determine an amount to recover from a college or private training organisation.

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, we recover the amounts through in-year data adjustments that result in reduced future payments to colleges and other training organisations.

1.9 Provisions

Provisions are recognised when it is probable that we 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 we 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 1.9%.

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 include teaching and learning (incorporating ASB) 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 effort to simplify funding arrangements, all organisations now receive a single ASB 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 ASB 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 other training organisations in line with an agreed profile for the academic year.

Sometimes, we pay 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 training 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 training delivery for accounting purposes; 16-18 Apprenticeship funding is all paid on actual training delivery.

Other workplace training

The workplace training programme is accounted for on profile for colleges and on actual training delivery for other organisations.

Other teaching and learning

Offender Learning

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

Community Learning

Community Learning programme expenditure is accounted for on the basis of the use of funds paid to local authorities. We will recognise a receivable at each year-end representing the 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. We may recover any unspent funds or may allow local authorities to use the unspent funds in the following year.

1 Statement of accounting policies (continued)

Recurrent support programmes

Discretionary Learner Support Funds

The expenditure for these programmes mostly represents grant payments to support learners either directly or indirectly through the private training organisation that 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

Expenditure on FE capital buildings is recognised in line with agreed profiles that reflect the underlying delivery and costs of the project. Projects are subject to quarterly reconciliation reviews to ensure profiles continue to keep pace with the colleges' own expenditure on the project.

The Agency reserves the right to recover funds and change profiles where costs are materially less than profiled. Also, the conditions of funding allow the Agency to bring forward profiled payments where they are based on evidenced capital expenditure. However, this will only be where we have the funds available to do so.

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

Other employee benefits

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

1.14 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 Statement of accounting policies (continued)

1.15 Other income: European Social Fund

The European Commission provides funding for certain projects. 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.

We managed our assets and liabilities at the entity level during the year and therefore we have not disclosed the distribution of assets and liabilities to those programmes and administration.

1.17 Accounting judgements and estimates

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

1.18 Accounting developments

Accounting standards: issued but not effective

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

Standard affected	Issued date	Future effective date	Impact on the Skills Funding Agency
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7). Includes relief from restating comparatives.	December 2011	1 January 2015	No impact expected.

2a Staff costs

Information in respect of senior employees' emoluments and pension entitlements is provided in the Remuneration Report on pages 38 to 44.

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
The aggregate payroll costs for the Skills Funding Agency were as follows:		
Salaries*	54,643	54,221
Social security	4,984	4,999
Pension costs	10,551	10,644
Redundancies and payment in lieu of notice	18,275	534
	88,453	70,398
Other staff (includes agency/contract/seconded staff)	9,854	13,948
Recoveries in respect of outward secondments	(450)	(448)
	97,857	83,898
Staff costs related to programmes	(39,890)	(25,834)
Total net staff costs	57,967	58,064

Note

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 to 2012. Of the total, £111,369 (financial year 2012 to 2013: £422,953) relates to the Education Funding Agency.

*The current year value contains £5.4 million relating to additional reorganisation provision.

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 civilservice.gov.uk/pensions.

For the financial year 2013 to 2014, employers' contributions of £10,488,134 were paid to the PCSPS by 31 March 2014 (2012 to 2013: £10,406,954) at one of four rates in the range 16.7% and 24.3% of pensionable pay (2012 to 2013: 16.7% and 24.3%), based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during the financial year 2013 to 2014 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 £62,102 (financial year 2012 to 2013: £65,291) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £4,806 (financial year 2012 to 2013: £5,054), representing 0.8% of pensionable pay, were payable to the 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 2014 and 31 March 2013.

2c Average number of staff employed

(i) Year to 31 March 2014

Group	Permanent		Inward seconded staff	Other Agency/ temporary staff	Year ended 31 March 2014 total staff
	Senior management staff	Payroll staff			
Apprenticeships	1	307	5	0	313
Chief Executive's Office	2	48	0	0	50
Finance and Operations	1	269	0	0	270
Funding and Programmes	1	124	0	0	125
Growth	1	154	0	0	155
Human Resources and Facilities	1	23	0	0	24
Information Management Services	1	162	1	4	168
Provider Management	1	161	0	1	163
	9	1,248	6	5	1,268

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

(ii) Year to 31 March 2013

Group	Senior management staff	Payroll staff	Inward seconded staff	Agency/ temporary staff	Year ended 31 March 2012 total staff
Chief Executive's Office	1	17	0	0	18
Delivery	1	179	0	0	180
Finance	1	157	0	0	158
Information Management Services	1	168	0	7	176
National Apprenticeship Service	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
	9	1,241	2	7	1,259

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

2d Civil Service Compensation Scheme analysis

Value	Compulsory redundancies		Other departures		Total departures	
	2013 to 2014	2012 to 2013	2013 to 2014	2012 to 2013	2013 to 2014	2012 to 2013
< £10,000	0	0	3	0	3	0
£10,000 to £24,999	0	2	40	0	40	2
£25,000 to £49,999	0	1	91	1	91	2
£50,000 to £99,999	0	0	90	2	90	2
£100,000 to £149,999	0	0	21	1	21	1
£150,000 to £200,000	0	0	2	0	2	0
£200,000+	0	0	0	0	0	0
Total number of exit packages	0	3	247	4	247	7

Total resource cost of exit packages (£'000)	0	61	13,279	305	13,279	366
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The figures above include actual and agreed departures up to 31 March 2014.

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 we have agreed early retirements, the Agency meets the additional costs, not the Principal Civil Service Pension Scheme. The pension scheme meets the costs of ill-health retirement costs, which 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 providing a shared service to EFA. Some costs are programme in nature because, in addition to funding provision in the sector, the Agency also provides some programmes directly.

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

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Staff expenditure – travel, training and other	3,922	3,815
Publications, printing and publicity	1,369	1,878
Telecoms	1,417	1,429
Audit costs (non-cash)	150*	160
Computing**	50,286	61,867
Premises***	20,170	13,136
General administration, professional services, other supplies and services and other costs	6,797	6,384
LSIS administration grant	2,499	5,030
Total other costs	86,610	93,699
Non-pay costs to programmes	(34,663)	(47,605)
Total Agency administration costs	51,947	46,094

* The Agency was charged a notional audit fee of £150,000.

** The most significant element of this cost relates to systems that support Agency-delivered programmes. Non-pay charges to EFA in the financial year 2013 to 2014 were £1.84 million (2012 to 2013: £4.28 million). The current year value contains £582,000 of provision movement.

*** The current year value contains £5.2 million relating to new reorganisation provision and £5.2 million relating to the additional and unused elements of the existing property provision as shown in note 12.

3b Depreciation, impairment and losses on disposal

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Property, plant and equipment (note 6)		
Depreciation charge for period	592	1,012
(Profit)/Loss on disposal	(12)	(14)
Intangible fixed assets (Note 7)		
Depreciation charge for period	20,322	18,082
Loss on disposal	0	1,500
Other adjustment*	0	6,479
Loss on impairment	2,690	0
Total charged for period	23,592	27,059

* Following a review of its asset register, the Agency removed items with a net value of £6.5 million. We have charged these items to expenditure within the financial year 2012 to 2013.

4 Programme costs

Overall, programme expenditure has remained at a similar level to last year. ASB expenditure (4.01) has fallen over the year in line with the government's comprehensive spending review and skills infrastructure expenditure (4.06) has decreased as LSIS ceased activities in the year. Notable increases in expenditure can be seen in capital (4.07) in line with the increased budget available in the current year and in DfE-funded programmes (4.08) where take up of the Apprenticeship Grant for Employers (AGE) exceeded expectations.

Expenditure within this note contains staff costs of £39.9 million in relation to staff that are involved in the delivery of programmes (as shown in note 2a). It also contains £34.7 million of other expenditure, mostly IT systems related (as shown in note 3a).

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
4.01 ASB		
Classroom-based	1,565,458	1,563,680
Adult Apprenticeships	759,082	756,046
Other workplace training	144,526	297,965
City Deals	6,225	1,533
Growth and Innovation Fund (GIF)	0	64
Total ASB	2,475,291	2,619,288
4.02 Community Learning		
Community Learning	210,729	210,449
Total Community Learning	210,729	210,449
4.03 Offender Learning		
Offender Learning	134,492	134,802
National Careers Service in custody	10,201	11,327
Total Offender Learning	144,693	146,129
4.04 Learner Support Funds		
Discretionary Learner Support	121,431	128,515
PCDL*	3,411	2,453
Adult Education Bursary	1,119	2,910
Dance and drama	7,859	4,247
Loans development	0	6,272
24+ Advanced Learning Loans Bursary	20,761	0
Total Learner Support Funds	154,581	144,397

4 Programme costs (continued)

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
4.05 National Careers Service		
Telephone Helpline	10,613	12,020
Operation	1,393	448
Development	4,863	3,660
Face-to-face	61,106	50,511
Infrastructure	809	158
Young People's helpline (formerly part of DfE-funded programmes)	4,165	0
IM Revenue	2,092	1,477
Learning Records Service	7,500	5,343
Total National Careers Service	92,541	73,617
4.06 Skills infrastructure		
Apprenticeships BIS non-participation	10,353	31,445
FE Choices	1,940	2,414
LSIS	2,826	34,070
Equality and diversity	1,765	1,604
Health and safety booklets	0	(3)
Learning Records Service	2,831	2,308
<i>the information authority</i>	877	878
Data services	6,994	7,098
National Skills Academies	2,675	6,237
EFA recharge	(816)	(1,213)
Discontinued programmes	2,867	48
Total skills infrastructure	32,312	84,886
4.07 Capital		
FE capital buildings	362,333	242,786
Skills capital projects fund	0	4,216
ASL capital buildings	0	15
Systems development**	17,114	20,083
NAS systems	0	328
Local education authority loan liabilities	3,183	3,402
Qualifications and Credit Framework – capital	0	414
PCDL default expenditure ***	3,102	8,289
PCDL receipts	(4,735)	(1,940)
EFA recharge capital	(2,545)	(4,095)
City Deals – capital	3,195	0
Specialisation fund	105	6,348
NCS systems development	0	1,968
Total capital	381,752	281,814

4 Programme costs (continued)

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
4.08 DfE-funded programmes		
16-18 Apprenticeships	650,759	643,730
Apprenticeships DfE non-participation	5,676	4,667
Young people's helpline (now part of National Careers Service)	0	4,003
AGE (16-18)	55,474	25,029
16-18 Employer Ownership Programme	11,342	1,452
16-18 Traineeships	4,798	0
Total DfE-funded programmes	728,049	678,881
4.09 ESF and other non-BIS funded programmes		
ESF	155,125	129,179
Train to Gain ESF response to redundancy	(1,373)	545
Next Step ESF response to redundancy	5,053	11,079
Other funding	4,863	6,131
Total ESF and other non-BIS funded programmes	163,668	146,934
Total programme costs	4,383,616	4,386,395

Note: We have changed the descriptions and classification of some programmes in the financial year 2013 to 2014 to reflect the funding letter and reporting requirements of BIS for the same year. We have amended comparatives for the financial year 2012 to 2013 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 £1.29 billion (financial year 2012 to 2013: £1.16 billion) are included in the values above.

* The current year total contains £1.8 million relating to the additional and unused elements of the provision, as shown in note 12.

** This relates to expenditure on systems that the Agency uses to deliver its programmes and is not paid out as grants.

*** The current year total contains £3.1 million relating to the additional and unused elements of the Financial Guarantee balance, as shown in note 13.

5 EU and other income

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Other funding for activities		
ESF academic years 2003 to 2006	827	2,312
ESF academic years 2007 to 2013	153,700	127,409
ESF response to redundancy income	4,988	12,021
Other programme income	4,863	6,134
	164,378	147,876
Income from activities		
Sub-letting of part of premises	504	892
Other activities income	6,524	6,289
	7,028	7,181
Total EU and other income	171,406	155,057

Note: Included above is £9.3 million (2012 to 2013; £11.4 million) relating to income from EFA for shared services (see also note 2a).

6 Property, plant and equipment

As at 31 March 2014

	Furniture and fittings £'000	Plant and machinery £'000	Computers and other IT £'000	Total £'000
Cost or valuation				
At 1 April 2013	10,827	167	3,334	14,328
Additions	17	0	0	17
Disposals	0	(24)	0	(24)
At 31 March 2014	10,844	143	3,334	14,321
Depreciation				
At 1 April 2013	(9,410)	(121)	(2,874)	(12,405)
Disposals	0	24	0	24
Charge for period	(452)	(15)	(125)	(592)
At 31 March 2014	(9,862)	(112)	(2,999)	(12,973)
Net book value (NBV)				
At 1 April 2013	1,417	46	460	1,923
Total NBV tangible non-current assets at 31 March 2014	982	31	335	1,348

As at 31 March 2013

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

7 Intangible assets

As at 31 March 2014

	IT AUC £'000	IT systems £'000	IT software £'000	Total £'000
Cost or valuation				
At 1 April 2013	13,613	112,498	1,035	127,146
Transfer from 'assets under construction' (AUC)	(27,963)	27,963	0	0
Additions	25,958	0	0	25,958
Disposals	0	0	(115)	(115)
Impairment	(2,568)	(1,718)	0	(4,286)
At 31 March 2014	9,040	138,743	920	148,703

Depreciation

At 1 April 2013	0	(66,804)	(1,010)	(67,814)
Disposals	0	0	115	115
Charge for period	0	(20,312)	(10)	(20,322)
Impairment	0	1,596	0	1,596
At 31 March 2014	0	(85,520)	(905)	(86,425)

Net book value (NBV)

At 1 April 2013	13,613	45,694	25	59,332
Total NBV intangible non-current assets at 31 March 2014	9,040	53,223	15	62,278

As at 31 March 2013

	IT AUC £'000	IT systems £'000	IT software £'000	Total £'000
Cost or valuation				
At 1 April 2012	18,369	108,247	1,010	127,626
Transfer from 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)	(6,840)	0	(8,464)
At 31 March 2013	13,613	112,498	1,035	127,146

Depreciation

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)
At 31 March 2013	0	(66,804)	(1,010)	(67,814)

Net book value (NBV)

At 1 April 2012	18,369	49,188	12	67,569
Total NBV intangible non-current assets at 31 March 2013	13,613	45,694	25	59,332

*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 financial year 2012 to 2013.

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 (note 13) the Skills Funding Agency is exposed to credit risk resulting from the non-payment of debts relating to private sector provision of training services; this is most usually attributable to insolvency. Private sector training organisations are subject to quality and financial status reviews before receiving contracts. Provision of funding is reconciled 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 9 and 19.

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.

9a Trade receivables and other current assets

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Amounts falling due within one year		
Trade and other receivables		
Advances and other FE college receivables	43,250	64,506
Workplace training receivables	697	7,659
Trade receivables	313	205
ESF and other receivables	2,378	1,606
	46,638	73,976
Prepayment and accrued income		
ESF and other accrued income	131,060	85,770
FE college prepayments	0	3,515
Administration cost prepayments	2,876	2,027
	133,936	91,312
Capital receivables (sale proceeds of non-current assets)	0	6
Total trade receivables and other current assets	180,574	165,294

Receivables include a provision for doubtful debts of £15.5 million at 31 March 2014 (£17.0 million at 31 March 2013).

9b Trade receivables and other current assets: analysed by type of organisation

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Current receivables		
Local authorities	2,240	1,557
NHS trusts	0	20
Public corporations and trading funds	0	0
Other central government bodies	132,854	55,866
Balances with other government bodies	135,094	57,443
Balances with non-governmental bodies	45,480	107,851
Total trade receivables and other current assets by organisation type	180,574	165,294

10 Cash and cash equivalents

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Balance at 1 April	175,007	230,839
Net change in cash and cash equivalent balances	(25,123)	(55,832)
Balance at 31 March	149,884	175,007

The following balances at 31 March were held at:

Government Banking Service	149,884	175,007
Commercial banks and cash in hand	0	0
Short-term investments	0	0
Balance at 31 March	149,884	175,007

11a Trade payables and other current liabilities

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Amounts falling due within one year		
Trade payables	147	115
FE college payables	52	136
Workplace training payables	1,391	1,364
Tax and social security	342	341
ESF and other payables	1,362	6,216
	3,294	8,172
ESF and other deferred income	23,829	46,979
Workplace training accruals	131,773	111,153
Other accruals	106,725	128,367
	262,327	286,499
Sub-total payables, deferred income and accruals	265,621	294,671
Capital payables	3,976	6,611
Total trade payables and other current liabilities	269,597	301,282

11b 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 2014 £'000	As at 31 March 2013 £'000
Local authorities	3,759	2,450
NHS trusts	0	0
Public corporations and trading funds	85	91
Other central government bodies	22,849	39,883
Balances with other government bodies	26,693	42,424
Balances with non-government bodies	242,904	258,858
Total trade payables and other current liabilities by organisation type	269,597	301,282

12 Provisions for liabilities and charges

	Re- organisation £'000	Supply chain trans- formation £'000	Early retirement £'000	PCDL interest £'000	Property £'000	Total £'000
Provision balance at 1 April 2012	0	0	11,561	2,649	3,507	17,717
Additional charge in year	0	0	0	1,764	2,713	4,477
Reclassification	0	0	0	0	0	0
Provision used in year	0	0	(2,787)	(2,058)	(1,539)	(6,384)
Provision unused and reversed during the year	0	0	0	(126)	(19)	(145)
Balance of provision at 31 March 2013	0	0	8,774	2,229	4,662	15,665
Provision balance at 1 April 2013	0	0	8,774	2,229	4,662	15,665
Additional charge in year	10,599	582	0	1,831	5,266	18,278
Provision used in year	0	0	(2,591)	(1,680)	(3,457)	(7,728)
Provision unused and reversed during the year	0	0	0	0	(94)	(94)
Balance of provision at 31 March 2014	10,599	582	6,183	2,380	6,377	26,121
Indicative timing of outflows required to settle obligation						
Within one year	6,474	582	2,255	1,680	1,474	12,465
From two to five years	3,093	0	3,928	700	4,903	12,624
Greater than five years	1,032	0	0	0	0	1,032
Balance of provision at 31 March 2014	10,599	582	6,183	2,380	6,377	26,121

Reorganisation

This covers the Skills Funding Agency's liabilities in relation to its current reorganisation programme that are charged against administration expenditure and includes elements relating to severance costs and surplus space in Agency properties.

Supply chain transformation

This relates to the Skills Funding Agency's liability for costs chargeable to administration that may be incurred by suppliers that make individuals redundant as a consequence of the Agency's supply chain transformation work. The Agency's SCT programme is reforming the way ICT is used in line with government objectives. One aspect of this work is to provide opportunities for SMEs to support and deliver ICT services to achieve value for money through competition and innovation.

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.

13 Financial Guarantee: Professional and Career Development Loans (Defaults)

	Professional and Career Development Loans (Defaults) £'000
Opening balance at 1 April 2012	31,404
Increase in the year	8,283
Expenditure in the year	(6,951)
Balance at 31 March 2013	32,736
Opening balance at 1 April 2013	32,736
Increase in the year	8,081
Expenditure in the year	(6,837)
Decrease in the year	(4,979)
Balance at 31 March 2014	29,001

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 and the values above show the expected value of this liability at the end of the reporting period. The values have been estimated as 12% 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% of the total loan portfolio advanced since the beginning of the programme; it is estimated to be £45 million.

Liquidity risk

As a partner organisation 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%) 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%) 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.

14 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 2014 £'000	Year ended 31 March 2013 £'000
Obligations under operating leases at 31 March comprise:		
a) Land and buildings		
Not later than one year	5,235	5,250
Later than one year and not later than five years	16,552	16,508
Later than five years	9,828	13,558
	31,615	35,316
b) Others		
Not later than one year	161	160
Later than one year and not later than five years	227	401
Later than five years	0	0
	388	561

15 Capital commitments

The Agency had no commitments for capital expenditure as at 31 March 2014 (31 March 2013: £nil).

16 Commitments to make grants to colleges

Commitments to make grants to colleges at 31 March 2014 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 2014 £'000	As at 31 March 2013 £'000
Payable within one year		
Adult skills (colleges)	576,142	594,384
FE capital	329,900	218,306
	906,042	812,690
Payable between two to five years		
FE capital	0	7,500
	0	7,500

17 Contingent liabilities

The Agency had no material contingent liabilities as at 31 March 2014 (31 March 2013: £nil).

18 Related-party transactions

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

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

- BIS (provision of grant funding to the Agency)
- Department for Work and Pensions (provision of ESF funding to the Agency)
- ConstructionSkills (provision of funding by the Agency)
- EFA (provision of shared services by the Agency)

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

As explained on pages 22 to 23, the Agency has various advisory members. Some are related parties of organisations that receive funding from the Agency. As these members are employed in an advisory capacity, they have no influence over the Agency's funding decisions and allocations.

19 Losses and special payments

19a Losses statement

The Skills Funding Agency incurred the following material cash losses in the period to 31 March 2014. The losses have been charged to the relevant programme in note 4 or other cost in note 3a.

Description	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Workplace training and Apprenticeships, including Train to Gain		
Cases above £300,000 individually	1,894	0
Cases below £300,000 individually	396	0
Cases above £250,000 individually	0	5,725
Cases below £250,000 individually	0	152
	2,290	5,877
ESF provision		
Cases below £300,000 individually	315	0
Cases below £250,000 individually	0	313
	315	313
Administration expenditure		
Cases below £300,000 individually	2	0
Cases below £250,000 individually	0	2
	2	2
Total cash losses	2,607	6,192

At 31 March 2014 there were 28 cases, of which four were above the reporting threshold of £300,000 individually. The four cases above the reporting threshold were as follows:

Organisation	£'000
Elmfield Training	720
First for Skills	469
Training For Travel Ltd	403
Success Training (Scotland) Ltd	302

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 private training 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 with no limit to the total amount (financial year 2012 to 2013: total limit £250,000) in any one year. BIS has approved the other cases within their respective authorities as summarised below:

Authority	Item value	31 March 2014 Number of cases	31 March 2014 Loss £'000
Agency	Up to £10,000	12	23
BIS	£10,000 to £300,000	12	690
BIS	£300,000 - £2,000,000	4	1,894
HM Treasury	Over £2,000,000	0	0
Total losses		28	2,607

19b Special payments

The Skills Funding Agency incurred one special payment in the period to 31 March 2014 (31 March 2013: nil) this related to a director of the Agency and was approved by BIS / HM Treasury.

19c Fruitless payments

The Skills Funding Agency incurred a fruitless payment of £158,000 in the period to 31 March 2014. This was in relation to the payment of arbitration costs for a private training organisation.

19d Constructive losses

The Skills Funding Agency incurred constructive losses of £1.3 million in the period to 31 March 2014 that relates to impairment costs for a capital project that was discontinued.

20 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 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. Impairment is where the value of an asset is reduced below its expected value. 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 recharge of costs to 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' (FReM) is the technical accounting guide that complements guidance on the handling of public funds published separately by the relevant authorities. The manual is prepared following consultation with the Financial Reporting Advisory Board and it is issued by the relevant authorities in England and Wales, Scotland and Northern Ireland.

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. For example, 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.

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.

Workplace training balances

These are the amounts that the Agency recovers from training organisations in relation to delivering the Adult Skills Budget (ASB).

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) were introduced during the academic year 2013 to 2014 and 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. We 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 other 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

The carbon management plan sets out a clear strategy and action plan to reduce carbon emissions.

Carbon reduction management

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

City Deals are agreements between the government and a city that give that city control to take responsibility for 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

The 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

The civil service learning portal provides courses and learning resources for developing skills common to all civil servants.

Civil service learning resource

The civil service learning resource is a website for civil servants to access e-learning, view online resources and book onto face-to-face courses for all generic learning.

Civil superannuation vote

The 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 (PCSPPS). It 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, the Department for Business, Innovation and Skills (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 Comprehensive Spending Review is the HM Treasury-led process that allocates public expenditure.

ConstructionSkills

ConstructionSkills are tasked by government to ensure that 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 agreements for colleges and other training organisations.

Core cities agenda

Under the core cities agenda, cities will receive new powers to raise and spend capital for local development, in exchange for less support from government.

Corporate governance

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled.

Corporate social responsibility

Corporate social responsibility is 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).

Data Collections and Funding Transformation Programme

The Data Capture and Funding Transformation (DCFT) Programme is our response to BIS's document 'New Challenges, New Chances (Skills Investment Statement 2011-14: Investing in a World Class Skills System)'. The programme aims to create an IT platform to enable the efficient delivery of the funding simplification and 24+ Advanced Learning Loans aspects of 'New Challenges, New Chances'. It will replace legacy systems with new systems that comply

Glossary of Further Information (continued)

with Cabinet Office's digital strategy and support changes to the funding rules for the academic year 2013 to 2014.

Demand-led funding system

The demand-led funding system refers to the funding formula used to calculate enrolment, learner and allocation funding values for learning.

Due Diligence Assurance Gateway

Organisations need 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 onto the Due Diligence Assurance Gateway.

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 Investment Fund

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

Employer Ownership Pilot

Employer ownership of skills is the UK Commission for Employment and Skills' 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 BIS.

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 its member states.

Family learning

Helping parents to help children learn.

FE campaign

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

FE Choices website

A publication of four performance indicators published as part of the FE Public Information framework, previously published under the Framework for Excellence. It updates the information available on 'success rates', 'learner satisfaction' and 'employer satisfaction'.

FE college capital investment strategy

The FE college capital investment strategy outlines the government's capital investment plans for the remainder of Parliament. It 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 other 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 FE institutions.

Government's investment strategy

An investment strategy for the FE 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.

Glossary of Further Information (continued)

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.

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. It aims to promote high-quality education and research that meet the needs of students, the economy and society.

Intervention notices

Intervention notices 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.

Innovation Code

The Innovation Code is a mechanism designed to help colleges and other training organisations respond quickly to local employer needs and emerging skills gaps. It ensures that skills funding can benefit learners and those communities that need it most.

Investors in People

Investors in People 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

The Joint Audit Code of Practice (JACOP) outlines changes to streamline and simplify the 16–19 funding and allocations system.

Learning and Skills Improvement Service

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

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 is a free, online service aimed at adults aged over 19 throughout England. Available on the National Careers Service website, it gives individuals access to a range of information and tools, to match their personal circumstances and needs – the results of which can be saved in a secure, private and easily accessible space.

direct.gov.uk/lifelonglearningaccount

Local authorities

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

Local Enterprise Partnerships

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

Minimum contract levels

The Skills Investment Strategy, 'Skills for Sustainable Growth', introduced a minimum contract level (MCL) for the academic year 2011 to 2012 of £500,000, and this threshold continued for the academic year 2012 to 2013.

National Apprenticeship Service

The National Apprenticeship Service (NAS) focuses on increasing the number of apprentices in England. NAS works with employers to help them introduce apprentices into their businesses, helps those looking to start their careers find an Apprenticeship job opportunity, and contributes towards the costs of the training and qualifications within an Apprenticeship.

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

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 that promotes adult learning across England and Wales.

niace.org.uk

Notices of Withdrawal of Post-19 Funding

These notices allow the college or private training organisation 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

We issue notices to improve to colleges and other training organisations identified as underperforming.

Personal Learning Records

Personal Learning Records (PLRs) offer 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 property 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 that Cabinet Office issue.

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. It exists to ensure the probity of our funding.

Provider Financial Assurance Audit team

The Provider Financial Assurance (PFA) Audit team ensures that colleges and other 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 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.

gov.uk/government/collections/sfa-register-of-training-organisations

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

The Schools Star Chamber assesses all Department for Education 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 Single Equality 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 the academic years 2011 to 2014.

Statements of internal control

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

Strategic Intervention team

The Strategic Intervention team deals with complaints about private training organisations and those underperforming.

Sustainable procurement

A spending and investment process typically associated with public policy.

The Data Service

The Data Service was the single authoritative source of data for post-16 further education.

the information authority

Previously, *the information authority* set data standards and governed data collection and use for FE and training provision in England.

Train to Gain

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

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 (PLR).

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 NAS, in partnership with organisations from industry and education. The competition activity is designed to raise participation, esteem and standards in Apprenticeships and vocational training.

worldskillsuk.apprenticeships.org.uk

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).



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