

The Rt Hon Vince Cable MP

Secretary of State for Business  
Innovation & Skills

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I am writing to notify you of the funding and core priorities for the Skills Funding Agency for the financial year 2011-12, and indicative funding for 2012-13. This letter reflects the ambitions and investment plans for further education and skills set out in *Skills for Sustainable Growth* and *Investing in Skills for Sustainable Growth* published in November 2010; and clarifies the Agency's administrative budget.

The total funding for the Skills Funding Agency in 2011-12 is £3,923m. Full details of the programme and administration budgets are at Annex 1.

#### Delivery priorities

The core delivery priorities for the Skills Funding Agency in 2011-12 are set out below. These reflect the overall potential participation volumes and Apprenticeship plans in the Skills Investment Strategy, and the DfE planning assumption for young people's apprenticeships. Key delivery priorities include:

- Funding colleges and training providers in line with *Investing in Skills for Sustainable Growth* so that those adults who meet the entitlement criteria can access learning in 2011/12; and encouraging progression into higher levels of training, HE and other economic outcomes.
- Work closely with BIS, DfE and the National Apprenticeship Service to deliver the Government's apprenticeship commitments for both young people and adults, including expanding the numbers of adult Apprenticeships and contributing to raising the participation age by expanding apprenticeships for 16-18 year olds. Budget 2011 announced an additional £177m to deliver a package of measures for Apprenticeships. This includes support for SMEs to set up advanced and higher level apprenticeship training schemes and to support capacity building in higher apprenticeships. Taken together with the funding announced at the Spending Review, this means that I will expect at least 250,000 more adult apprentices to be funded over the next 4 years.

- With effect from August 2011, paying calculated 16-18 grants to FE colleges and training providers on behalf of DfE.
- Also on behalf of DfE, allocating funding for the training of 230,000 apprentices aged 16-18 years old in 2011/12; and monitoring the risks around quality, financial health and efficiency of those FE colleges and training providers delivering 16-18 education and training, as agreed with the Young People's Learning Agency. DfE will consult the Agency on any proposed in year changes to 16-19 apprenticeships funding plans and any changes will be reflected in a revised delivery target. You must notify DfE immediately of any changes that might impact on the delivery of 16-18 learning, and ensure that any potential risk to YPLA funds in General FE colleges is drawn to the attention of the YPLA's Accounting Officer as soon as this is identified.
- Work closely with the UK Commission on Employment and Skills to raise employer aspiration for and investment in skills for their employees.

Other core activities to be delivered in partnership with the Department include:

- Embedding the qualifications and credit framework;
- Encouraging vocational learning, including through UK Skills and through sponsorship of WorldSkills London 2011;
- Implementing Lifelong Learning Accounts;
- Supporting the introduction of FE Fee Loans for Level 3 and above provision for those aged 24 and over;
- Securing a high performing Next Step careers service for adults and making a full contribution to the establishment of an all-age careers service.

I also expect you to proactively manage the capital budget to ensure that it delivers value for money; implement the Growth and Innovation Fund to support employer-led initiatives; and support the needs of local communities and those at most disadvantage, including through adult safeguarded learning.

In meeting these priorities, it is vital that public funding is used as effectively as possible, and that the Agency controls unit costs and retains sufficient flexibility to meet any cost pressures that may arise.

Your business processes should support a simplified funding and performance management system, which recognises our commitment to free colleges and training organisations, reduce bureaucracy and the costs for the sector, and enables colleges and training organisations to be held to account by the communities they operate in. I expect you to work effectively with the FE sector to:

- facilitate the development of a diverse sector that provides choice for the learner; and transform access to high quality information about what colleges and training organisations are delivering and to what standard in order to enable individuals and businesses to make the right choices;

- increase the sector's own efficiency, including supporting the development of cross sector shared services and front line collaboration, and encouraging a variety of new business models to deliver better for less; and
- support sector-led improvement strategies. The Agency may make an agreed level of funding available to LSIS for this purpose through a Financial Memorandum. The focus and distribution of funds may be agreed by the elected LSIS Council. A small ILT capital fund for IT-related developments to support priorities in the FE and Skills sector may also be provided by the Agency.

You will be expected to work closely with the Young People's Learning Agency (YPLA) to implement the single points of contact strategy for General Further Education Colleges, Sixth Form Colleges and other providers, and to continue to align the functions of the YPLA and Skills Funding Agency to streamline systems and processes for the sector. I also expect you to ensure that shared services provided to the YPLA are provided as efficiently as possible and that any staff changes consequent on your organisational restructuring do not adversely affect the standard of service.

#### Administration budget

As part of the Spending Review settlement, we are introducing a single ring-fenced administration budget for BIS and its partner organisations. The Agency's share of this budget reflects its contribution to the Department's overall efficiencies target and the requirement for it to become a smaller organisation, focused on its key remit of encouraging and securing adult FE and apprenticeships of all ages through dispensing funding effectively and simply to the FE sector, and monitoring FE delivery and financial data. It is our joint expectation that the Skills Funding Agency will reduce its administration costs by 2014-15 by 33%, with savings over 24% being released into front-line participation. I recognise that this is a challenging goal, and that the achievement of savings beyond 24% will be subject to managing effectively a number of risks.

I expect you and your staff to continue to work closely with BIS officials to achieve the required savings, including through implementation of the next stage of the Commercial Strategy. This will require the Skills Funding Agency to engage effectively in the new governance structure being introduced across BIS and its partners; and while delivering effective performance, to be active in realising the efficiencies to be secured through more strategic procurement and shared services including Next Generation HR. Spending controls must remain in place on communications, estates, ICT, consultancy, recruitment, travel and procurement; as well as through restraint on staff pay and bonuses, consistent with your Accounting Officer duties. You need to be aware that not complying with certain controls, in particular those over communications and ICT may be regarded as irregular expenditure by the NAO.

I also expect the Agency to continue to play its full part in implementing the Government's commitment to greater transparency, including ensuring transparency in the publication of performance and operational data about the Agency. Our expectations in this area will also be set out in the wider governance framework being developed for BIS partner organisations. This will include a requirement to have a corporate plan in place which fully aligns with the Department's overall strategy and plans, and includes details of your efficiency plans and other key areas within scope of the Cabinet Office controls. You should also note the requirement to have a new governance document agreed and in place by September 2011.

More detail of the requirements that apply to both programme and administration costs are set out in Annex 2, including the management of risks.

### Other operating controls

The framework within which Departments and partner organisations have to operate has changed as a result of the fiscal situation with factors such as the introduction of spending controls by the Cabinet Office and BIS, and Clear Line of Sight and of the administrative cost limits. We understand the need to ensure that these tight central controls do not adversely affect your operational ability and, with the Skills Funding Agency's early and positive engagement, will work with the Skills Funding Agency to seek exemptions where required and to obtain increased flexibility where possible. The Skills Funding Agency should have due regard for the following in particular:

- Cabinet Office and BIS controls on spend and reporting requirements. Whilst details of some changes to controls have now come from Cabinet Office, we need time to consider how to translate these to how BIS operates, which is being done in consultation with the Critical Friends Group of BIS partner organisations. So please continue with the existing controls until we provide details of changes. These cover spend on marketing and advertising, ICT, advisory consultancy, estates as well as recruitment and pay freezes and the movement of procurement to collaborative contracts.
- The ambition and developing plans for shared corporate services across BIS and all appropriate partner organisations. This would involve consolidation of supporting ICT systems.
- The approaches being developed to reduce procurement expenditure across BIS and its partner organisations in specific categories: including facilities management, travel, recruitment, professional services and ICT.
- The need to conclude a corporate plan at the earliest possible time. Although work is underway to develop consistent standards for corporate plans in the context of the wider governance framework for BIS and partner organisations, this should not delay the preparation of your plan.

- Ensuring that your corporate plan includes an ICT plan for services, systems and ICT contracts that is in line with both BIS ICT strategy and Government ICT strategy.
- Ensuring that the BIS Senior Pay Oversight Committee is consulted as appropriate as part of the process of recruiting, appointing and rewarding senior staff including non-executive chairs and directors.
- Cash Management - To comply with Treasury forecasting requirements, if you operate a GBS account you will need to provide forecasts by the 8th working day of each month, for the total value of your expected payments and receipts incl the expected value of your grant claim for the following month. This should be broken down into how payments will be made i.e. CHAPS, BACS, POs, GBS transfers, and receipts received. In either case, to enable the Department to accurately manage its cash requirement, your claim must be received 5 working days before the end of the month to be paid on the first day of the following month.
- We will ask you to carefully monitor the legal financial commitments you enter into during the SR and provide regular information on commitments made to the Department. Further guidance has been issued on this.
- Management Accounts - Provide accurate and timely actual figures and forecasts of income and expenditure broken down to an agreed level on a monthly basis; and profiling and other financial exercises to an agreed timetable;
- On Clear Line of Sight (CLOS), you will be aware that that BIS is required to publish consolidated resource accounts for 2011-12, which will also require us to produce a dry run set of accounts for 2010-11. Most bodies that are receiving this letter will be included in the BIS departmental accounting (consolidation) boundary, but if in doubt please liaise with your sponsor team. CLOS will require those bodies within the boundary, to provide, on a timely basis, both draft accounts information and final audited data, as well as details of counter party transactions in a pre determined format - further details will be provided in due course.
- Transparency is a key operating principle for BIS and it is expected that partner organisations should also meet the commitment to embed greater transparency as a core operating principle and to provide assurance to BIS on initiatives and policies in place to support this.
- Cross-government policy set by ERG on the delivery of public services and the use of channels (web, contact centres/helplines and face to face), including: reporting management information, meeting technical and usability standards, and consolidating onto common channels and systems.

## Monitoring and reviewing the performance of the Agency

It will be vital to manage expenditure closely throughout the spending review period, reflecting Cabinet Office and BIS controls and reporting requirements. Accurate forecasting and rigorous value for money assessments will be critical. You will also need to have in place strong arrangements for controlling, managing and monitoring volumes and funding, including for 16-18 apprenticeships; and for monitoring and reporting on delivery by the FE sector.

I expect you to continue to provide robust and regular information about the performance of the Agency; and report progress against performance indicators, agreed with the Department which, at a minimum, demonstrate the Agency's effectiveness in managing and allocating the budget and delivering value added; delivering the agreed efficiency savings; and in reducing burdens on the FE sector.

## Conclusion

This is a critical time for the country. The Government recognises that increased skills are essential to developing sustainable growth, extending social inclusion and building the big society, but that this must be done within an increasingly tight budget. The Skills Funding Agency has an essential role to play in this. As an important partner organisation of BIS, you and your staff have a clear role in supporting the economic growth agenda and I have no doubt that the Agency will rise to the challenges that our ambitious reform agenda requires of it.

A handwritten signature in black ink, appearing to read 'V Cable', written over a horizontal line.

**VINCE CABLE**

## Annex 1

### Programme and Administration budget

	<b>CSR Baseline in 10-11 prices (£000s)</b>	<b>Budget (£000s)</b>	<b>Indicative Budget (£000s)</b>
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
<b>Teaching and Learning:</b>			
Adult Skills Budget	2,835,871	2,869,542	2,720,969
<i>of which Apprenticeships<sup>5</sup></i>	<i>360,810</i>	<i>679,000</i>	<i>683,000</i>
OLASS	134,828	133,600	131,800
Adult Safeguarded Learning	210,747	210,747	210,747
<b>Total Teaching and Learning<sup>1</sup></b>	<b>3,181,446</b>	<b>3,213,889</b>	<b>3,063,516</b>
<b>Student /Learner Support</b>	<b>227,206</b>	<b>232,414</b>	<b>248,206</b>
Learner Support	144,398	151,398	163,768
Information Advice & Guidance	82,808	81,016	84,438
<b>Skills Infrastructure</b>	<b>137,264</b>	<b>66,922</b>	<b>66,446</b>
<b>Total SFA programme</b>	<b>3,545,916</b>	<b>3,513,225</b>	<b>3,378,169</b>
<b>Capital Grants<sup>2</sup></b>	-	304,724	278,658
<b>Administration<sup>3 4</sup></b>	-	105,422	102,374
<b>Total Skills Funding Agency</b>	<b>3,545,916</b>	<b>3,923,371</b>	<b>3,759,201</b>

<sup>1</sup> LSIS programme and admin funding (subject to LSIS Council endorsement) is 1% of the Teaching and Learning total for 2011-12 and the same indicatively for 2012-13.

<sup>2</sup> SR10 took a zero based approach to the Capital budget.

<sup>3</sup> New rules on the definition of administration budgets were introduced as part of the Spending Review 2010. As a result some elements of programme funding in 10-11 will be classed as administration funding in future years. This means the administration budget for 10-11 of £75m is not directly comparable with future year's allocations.

<sup>4</sup> The administration budget does not include funding for depreciation or capital purchases. It also excludes the administration budgets for LSIS and UK Skills which have yet to be agreed.

<sup>5</sup> Budget 2011 announced £177m to deliver at least 50,000 additional apprenticeship places on top of the previous Spending Review commitment, over the next four years. Within this total funding £10m in 11-12 and £15 in 12-13 has been allocated to support SMEs to set up advanced and higher level apprenticeship training schemes and to support capacity building in higher apprenticeships. The table above reflects these additions to apprenticeship participation and the skills infrastructure budget line for 2011-12 and 2012-13.

## Annex 2

### REQUIREMENTS APPLYING TO BOTH PROGRAMME AND ADMINISTRATIVE COSTS

- Your funding is issued on a full resource basis and is net of any income (i.e. receipts). If your income falls short of the expected profile, you will need to manage this budget shortfall within your funding. If you receive more income than anticipated, please refer to your sponsor before relying on the additional income, as Treasury rules are complex on this matter.
- The Administration cost budget is ring-fenced and no virement will be allowed between it and other budgets.
- The Department will not be holding any central contingency fund. Therefore there will be no additional funding available if you over-commit your budget. This means that in delivering your objectives you will have to manage your own finances, commitments and risks and ensure you can accommodate any unexpected costs within your own budget.
- If you generate any capital income from assets disposal (above the agreed targets) this will have to be surrendered to Treasury unless we can make an exceptionally strong case for retaining it. Please seek advice from your sponsor team.
- Funding is provided subject to the separate letter from the Department on the control of the use of funds.