

# Annual Report and Accounts **2010–11**





# The Skills Funding Agency Annual Report and Accounts for 2010–11

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and Learning Act 2009

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# Chief Executive's Review

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This first year for the Skills Funding Agency has been one of transition yet also tremendous progress alongside the beginning of transformation for the further education sector. It has also been a year where the pivotal contribution of skills to driving economic growth has become more evident and valued.

Further education has a critical role to play in ensuring that the country has the skills we need to help build a stronger, evenly balanced and more vibrant economy. Skills are integral to accelerating economic prosperity; creating competitive business advantage in a challenging global environment and empowering individuals to change their own lives for the better. Skills are also crucial to delivering the Government's aspirations for boosting social mobility and greater inclusion.

I am proud to lead the people in the Agency. They are passionate about the skills mission and are at the forefront of efforts to deliver the radical and dynamic changes that are needed to take further education to its rightful place at the centre of the education landscape. The ambition and vision for the sector have been articulated compellingly in the **Skills for Sustainable Growth** strategy and by ministers. The Agency must enable and support that vision to be realised.

And what could be a better example of how we can help skills make a difference than apprentices? No one can fail to understand both the high priority and esteem the Government has for Apprenticeships. The work of the National Apprenticeship Service has had a tremendous impact in making Apprenticeships integral to the workforce development plans of employers and has substantially increased the number of Apprenticeship places available. The sector too has responded to the Government's aspirations for Apprenticeships, and is fully engaged in increasing Apprenticeship numbers and driving up quality.

But Apprenticeships also show very clearly that the ambition of a highly skilled country can only be delivered by the key players working together. It is employers' responsibility to invest in the skills of their workforce to increase the capability of their business; it is for learners to contribute appropriately to their professional and personal development; and it is the Agency's job to focus public funding on those entitled to learning, where others will not fund in a way that generates the skills outcomes that communities and sectors need. So to raise the skills of the nation is a joint endeavour and the funding system must adapt to recognise and support this collaboration.

There are three significant changes that we are pursuing in order to free colleges and training providers to deliver what the economy and society need in a tighter fiscal environment. The Agency will continue to invest some £3.5 billion of public funding in 2011–12 to support over 3 million learners. But we are changing the way that investment in skills and training is shared, seeking fairer contributions from learners and employers, reflecting the benefits they will gain.

Secondly, we are moving the focus away from funding inputs and outputs towards an outcome-led funding system. These outcomes will include qualifications or parts of qualifications; gaining work or progressing in work; and progression into higher level further education or higher education.

Finally, we are changing the way we fund and monitor colleges and training providers to enable them to work more dynamically and creatively, directly with their customers. As part of this, we will radically reduce the complexity of the funding rules and rates system.

These changes will bring a more market-based, customer-driven system that will bring benefits including greater innovation, responsiveness and cost savings. But this year has already seen a significant shift of culture and behaviour with new freedoms and flexibilities for providers. Demand is no longer mediated through a central bureaucracy. Decision making is now firmly in the hands of the customer

with all types of providers able to use a single adult skills budget to respond directly to demands from customers.

Colleges and training providers will have to engage closely with employers and stakeholders in the local communities and sectors they operate in so that they can understand the demand for skills and deliver what learners need to fill that demand.

The increasing simplicity of the funding system has meant that the Agency has been able to shrink its size and cost. By the end of 2011 we will have reduced our headcount by nearly 40 per cent. In our first year of operation we reduced our operational costs by 12 per cent of the budget and we will further reduce running costs by at least 33 per cent over the next few years. Further benefits of simplification will accrue in future as systems and processes become established and embedded. And supporting the changes being made are a host of other enabling workstreams.

On the customer side, in the last year we have launched and promoted the Next Step service, offering careers advice to learners and enabling them to play their role as informed consumers in the skills system. With accurate information and impartial advice, learners are able to choose provision that is right for them. And we will progressively launch the National Careers Service to do this even better, alongside Lifelong Learning Accounts to engage online learners.

For our suppliers, we have been successful in establishing new ways of organising our contracting and performance management arrangements. We have streamlined our systems and established more objective and reliable methods of ensuring that we deliver the maximum impact from public investment.

And for stakeholders, we have enjoyed fruitful working relationships with partners across the further education sector including the Association of Colleges, the 157 Group, the Association of Learning Providers, the UK Commission for Employment and Skills and many other significant bodies.

We have also benefited from close relationships with members of our Advisory Board. This was established during the year and has met regularly to offer advice and counsel on policy implementation. I would like to extend my thanks to its members in helping to shape our thinking to the benefit of learners, employers and the sector.

It has been an exciting year for the Agency and we can face the challenges ahead with confidence that the direction of travel for the whole sector will be of tangible and valuable benefit to learners, employers, the economy and society as a whole.

Last, but by no means least, I must express my profound gratitude to the people in the Agency. Amidst seemingly never-ending external and internal change, including a significant process of downsizing, their professionalism, good nature and focus on the mission never fails to move me.



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

12 July 2011

# What We Do and What We Have Achieved in Our First Year

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## Background

The Skills Funding Agency (the Agency) was formally launched on 1 April 2010 when its activities and resources were separated from those of the Learning and Skills Council (LSC). The transition from the LSC to the new Agency business model, structure, locations and ways of working was achieved seamlessly. While the general election that followed a month later created uncertainty, this was not allowed to interfere in the operations and improvement programmes managed during the year.

This was a period characterised by rapidly increasing financial pressures associated with the economic downturn and with rising unemployment. Initially, the Agency's priorities for skills and training reflected the policies of the previous administration, especially its Public Service Agreement (PSA) targets and its direction in response to the Leitch Report. In May 2010 the new Coalition Government radically changed the policy direction, in particular in relation to funding and regulation of the further education (FE) sector, putting more resources and responsibilities closer to the front line, that is to providers and customers, and

in support of the economic recovery. The Agency provided the Department for Business, Innovation and Skills (BIS) with significant support in adapting and developing policies for the new administration and in negotiating the spending settlement for the Spending Review period.

## Performance 2010–11\*

In the first year of operation, the Agency's work was defined primarily by regard for:

- existing targets
- *Skills for Growth – the National Skills Strategy*, White Paper (November 2009)
- Coalition priorities (May–June 2010)
- BIS Funding Letter from the Secretary of State: 2010–11 (17 June 2010)
- *Skills Funding Agency Delivery Plan 2010/11* (September 2010).

A summary review of performance against the priorities in these various guidance sources is provided under sections below covering

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\* 2010–11 denotes the financial year; 2010/11 denotes the academic year.

Apprenticeships, Learning and skills programmes, Capacity and infrastructure and Delivery processes.

## Apprenticeships

**Participation in and the quality of Apprenticeships have continued to rise and this increase includes early achievement of the target to deliver an additional 50,000 Adult Apprenticeships starts.**

1. The Apprenticeships programme has **grown continuously** in recent years. There were 279,700 learners who started Apprenticeships (starts) in the academic year 2009/10, compared with 239,900 the previous year, an increase of 17 per cent. In the first nine months of 2010/11 there were 326,700 starts, which is 117 per cent of the whole of the previous year.
2. **Apprenticeships for young people aged 16–18 have been a particular success** due to the number of unemployed people joining the programme. In 2009/10 the National Apprenticeship Service (NAS) successfully delivered the programme to support employers to recruit unemployed young people. Together with the work to drive up demand, this resulted in a 17.5 per cent increase in starts compared with the previous year, bringing the total to 116,800. Forty-two per cent of the 2009/10 total starts were aged 16–18. In the first nine months of 2010/11 this age group made up 31 per cent of starts (102,900 16- to 18-year-old apprentices).
3. As an indication of the contribution of Apprenticeships to **lowering the number of young people not in education, employment or training (NEET)**, total starts for those aged under 19 or 19–24 increased from 184,100 in 2008/09 to 230,600 in 2009/10. In the first nine months of 2010/11 there were 205,700 starts. These age groups will remain a high priority in the financial year 2011–12.
4. An **additional 50,000 adult starts** were funded through refocusing the Train to Gain budget and this target was substantially exceeded with the sector achieving 103,000 additional starts in 2010–11. Total adult starts in 2009/10 were 162,900, with 223,800 starting in the first nine months of 2010/11.
5. There were 171,500 **Apprenticeship framework achievements** in 2009/10, compared with 143,400 in the previous year, an increase of 20 per cent. In the first nine months of 2010/11 there have been 122,800 completions, which is 72 per cent of the previous year. The target was 130,000 full framework completions by 2010/11.
6. **Success rates** for Apprenticeship completions have risen dramatically since 2004/05, more than doubling to 73.8 per cent in 2009/10, including a 10 percentage point increase over the last two years. The target was a 65 per cent success rate by 2008/09.
7. NAS, supported by the Agency, led the development of 17 **Diversity in**

**Apprenticeships** pilots, funded over two years. These are expected to benefit over 5,000 learners in under-represented sections of society.

8. Action plans are being developed to increase participation on **Intermediate, Advanced and Higher Apprenticeships**. NAS is working towards an increase in the proportion of starts at Advanced and Higher Apprenticeship levels from the current 32 per cent (2009/10) towards over 50 per cent by the end of 2013/14. These plans will also focus on improving progression through and from Apprenticeships.

## Learning and skills programmes

**Funding has continued to provide opportunities for high volumes of adult learners to participate in a wide range of programmes, with continuing high success rates.**

9. Over **3.5 million adult learners participated** in some form of government-funded FE in 2009/10. This was a slight decrease on 2008/09, though the number of achievers (2.6 million) was close to that of the previous year.
10. A priority in and after 2009/10 was to secure **provision for unemployed people**. This included a range of training programmes which supported over 307,000 people to enrol on over 318,000 courses up to March 2011, 93 per cent of whom completed their programme. Almost 22,000 people have been reported by providers as re-entering employment but we will only get a true picture of the total impact of the programmes by comparing learning data against benefit off-flows. This work will be undertaken with colleagues in the Department for Work and Pensions.
11. Some 752,800 people participated in **Adult Safeguarded Learning** in 2009/10, marginally fewer than the 755,000 in the previous year, but 6 per cent higher than the 709,200 learners in 2007/08. Indicative figures for the first nine months of 2010/11 show 542,300 learners, demonstrating that performance is being maintained despite no increases in funding.
12. There is continued good progress in achieving previously set **adult learner** targets, with progress by 2009 as follows:
  - 75.6 per cent of working-age adults achieved at least full Level 2 (2010/11 target: 79 per cent)
  - 55.9 per cent of working-age adults achieved at least full Level 3 (2010/11 target: 56 per cent)
  - 3.25 million learners achieved basic skills qualifications (2010/11 target: 2.23 million).
13. FE **college success rates** reached 80.6 per cent in 2008/09, ahead of the PSA target of reaching 80 per cent by 2010/11. In 2009/10 the overall success rate for all FE provision was 80.7 per cent, with

provision for 16- to 18-year-olds reaching 81.1 per cent.

14. In 2009/10, the **Offenders' Learning and Skills Service** saw 113,500 learners engaged in learning and skills provision in custody and in the community, undertaking 352,100 learning aims and achieving 220,100 outcomes (62 per cent achievement rate). This represents a participation rate in learning by 40.1 per cent of prisoners.

## Capacity and infrastructure

**The Agency has made strong progress on initiatives to support learners and employers to be more empowered, informed and involved in learning and skills decisions and activities.**

15. In light of the much tighter fiscal circumstances, the Agency has successfully conveyed to the sector the importance of considering **new business models and collaborations** in order to maintain and improve the capability of the sector. The introduction of minimum contract levels for private providers has been a significant step in this agenda.
16. The **Next Step careers and skills service** was launched on schedule in August 2010, providing integrated online, phone and face-to-face services. It has shown a steady increase in customer sessions and interventions with 806,000 customers, of whom 639,000 are priority group customers. Some 232,000 online accounts have been created and the website has had nearly 2 million visits. Preparations are well under way to launch the National Careers Service in April 2012. The interim September 2011 milestone of integrating the young people and adult helpline channels under one free phone number is on target for delivery.
17. Plans are on track for the launch of **Lifelong Learning Accounts** online in September 2011. The online service is built around the existing Next Step website and will use customer information to provide more bespoke and personalised advice. Further development will follow the launch, with major updates due in April 2012.
18. The transfer of **UK Skills** into the Agency was effectively managed and significant progress has been made in leveraging the synergies between the two organisations. This aims to ensure UK success in the skills competitions to be held at **WorldSkills London 2011**.
19. The **Framework for Excellence comparison website** was launched in December 2010, providing a summary of performance for each college and provider, with the facility to compare providers. Information published includes success rates, learner destinations (including into further and higher education and into employment), and the views of learners and employers.
20. Alongside this provider performance data, the quarterly Statistical First

Release, which has been continually enhanced during 2010–11, provides key information about the **sector's performance**.

21. Six **Joint Investment Programmes** were implemented during 2010–11. Over the two years 2010–11 and 2011–12, the Agency is co-investing with 470 employers to deliver over 9,000 learning aims, including Apprenticeships, with training delivered by over 50 providers.
22. The newer **Growth and Innovation Fund** has been launched to help employers be more ambitious about raising skills in their sectors as a key to realising their growth potential. There has already been significant interest in these investment funds.
23. Train to Gain funding of £50 million was refocused to fund **capital improvements to colleges**. Subject to affordability, colleges will be co-funding at least two-thirds of the cost of the investment and all projects will be complete by September 2011. The total grant was allocated to 154 colleges to support improvement projects with a value of £231 million.
24. During 2010–11 the Agency began the process of focusing funding on vocational qualifications in the new **Qualifications and Credit Framework (QCF)**. Some 8,600 qualifications were available by June 2011, of which 4,500 (52 per cent) have been confirmed for Agency funding. From 1 August 2011 providers will have a comprehensive QCF offer to select

from, with vocational qualifications reflecting up-to-date employment standards. At the same time, the Agency has been supporting providers to deliver the flexibilities of the QCF with over 5,000 publicly funded enrolments on the QCF. In April 2011 the Agency delivered the full functionality of the QCF Personal Learning Record for the recording and accumulation of QCF units and qualifications.

25. During the past year, the Agency provided rapid support in over 140 instances of local **economic shocks and large redundancies**, joining taskforces to provide tailored and immediate support. This included the Agency brokering partnerships between colleges, local authorities and employers making large-scale redundancies to reskill and re-employ workers.

## Delivery processes

**A range of simplified and more automated business processes have been introduced in 2010/11 to improve efficiency and reduce bureaucracy for providers.**

26. The Agency has streamlined the way **funding is managed and also simplified the allocations process** to enable providers to better plan their delivery programme. In November 2010 the Agency published details of the funding and allocations methodology and informed over 1,200 providers of their indicative

allocation for the 2011/12 academic year. This was the earliest that providers have ever been informed of their initial allocation.

27. From the start of 2010/11 there has been a **single adult skills budget** for FE colleges, with just one payment profile, giving colleges greater flexibility to choose how they spend their funds, and making them more responsive to local needs. From 2011/12 this will be extended to all providers.
28. A **single account management** approach has been introduced, in partnership with the Young People's Learning Agency (YPLA), giving all providers just one contact, regardless of the size or spread of their delivery. This ensures national consistency, reduced bureaucracy and more straightforward relationships. The system will be further developed and embedded during 2011–12.
29. From 2010/11 FE colleges no longer have any in-year performance management or reconciliation; instead, a year-end **reconciliation** recovers any underspend and this is taken into account for future allocations.
30. The Agency introduced a **new semi-automated performance management process** in November 2010, allowing maximum use of available funding by moving funds from underperforming providers to those with clear evidence of employer demand. FE colleges have also been able to request additional money where they could prove additional demand.
31. Arrangements for **procurement and contracting** have been simplified through the implementation of the Approved College and Training Organisation Register. This eliminates the need for multiple tendering processes, improving efficiency and reducing bureaucracy for providers. It also ensures that all providers meet standards of quality and financial management.
32. Other progress towards simplification and improving sector efficiency includes introducing minimum contract levels, which has encouraged more cost effective collaboration for small providers and simplified contract management by using Agency resources more efficiently and proportionately; **reducing audit** requirements by introducing a new two-part assurance approach that reduces the overall number of audits without any reduction in the level of assurance; and work to simplify **data collection** and to simplify processes for **employers**.
33. Working in close partnership with the YPLA, a range of **shared services**, including human resources and information management, have been effectively introduced over the past year to provide efficient and professional support to the YPLA.

During the year, the Agency accurately made some £7 billion of payments to YPLA-funded institutions on their behalf.

## Equality and diversity

34. In June 2010, the Agency published a **draft Single Equality Scheme**, and consulted widely with its staff, learners, providers and stakeholders. Respondents broadly welcomed the principles, objectives and actions set out in the draft. Many of the actions are already being taken forward, and the Agency is planning to finalise the scheme once the change process is complete and the Government has published specific public sector equality duties. The draft objectives are to:

- continue to ensure equality in provider account management and in all of our decisions and activities
- support provider self-improvement and promote good practice
- develop a fair, inclusive and diverse working environment.

### Equality and diversity for our workforce

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

in ensuring that all employees understand equality issues and all policies contribute to our equality objectives. Progress towards our workforce goals is being delivered through a range of activities with input from stakeholders including BIS, a range of internal experts, the Staff Consultative Forum and the Public and Commercial Services Union (PCS).

36. As part of our proactive support for employees we have put in place programmes such as Employee Assist which aid and promote individual wellbeing. We also have a comprehensive mandatory employee development programme entitled Everyone Counts which has updated staff on legislative changes and good practice in equality and diversity.
37. The Agency's performance on workforce equality has also been recognised through the achievement of the two tick disability symbol which demonstrates our commitment to employ, keep and develop the abilities of disabled staff.
38. In the coming year the Agency will continue to work with colleagues in BIS and other Government bodies to build on the good practice we have in place and to ensure that our learning and development offerings provide our staff with the skills they need.

## Equality and diversity in the learning we fund

39. In 2010/11, we made substantial progress in promoting equality of opportunity in the learning we fund. In particular, we included stretching requirements in contracts with our providers; funded substantial programmes of provider-led projects; and commissioned research, resources and events for the sector.

40. Working in partnership with the Learning and Skills Improvement Service (LSIS), we funded 14 colleges and providers to deliver projects meeting the needs of their learners and communities. The projects had a very diverse range of equality aims, and were selected for their potential to catalyse wider improvements across the sector. For example, learners at Lewisham College produced a DVD and resource pack on preventing sexual bullying and gender conflict; Amersham and Wycombe College conducted research into engaging the Pakistani community; and Hull Adult Education Service conducted research, training and promotion to improve disability declaration rates.

41. We are also working with NAS to fund 16 pilots testing new ways of engaging more individuals from under-represented groups in Apprenticeships. Examples of these pilots include Rathbone, which is working in Oldham, Leicester and Bradford to encourage more black,

Asian and other minority groups to become apprentices; and Zodiac Training in the North East, which is breaking down stereotypes by addressing the under-representation of men in health, social care and childcare.

42. In 2010/11, the Agency commissioned two highly successful equality projects from the National Institute for Adult and Continuing Education:

- a set of **briefing guides** and events on effective practice in the delivery and co-ordination of provision for adults with learning difficulties and/or disabilities
- a **virtual community of mental health practitioners**, learners and service users, including resources and a discussion forum.

43. We also commissioned research into the experiences of lesbian, gay, bisexual and transgender learners, in order to inform our equality objectives and provide evidence to the sector. Over 400 learners took part. The majority of these reported that FE is a welcoming environment, although a significant minority felt that more needs to be done to address homophobia and transphobia.

44. Finally, we worked with LSIS to deliver a project to improve the sector's capacity to respond to the needs of deaf and hearing-impaired learners. This included a learner

voice conference, led by nine deaf learners and attended by over 100 sector representatives; a set of effective practice case studies; and a pilot network for teachers of British Sign Language.

## Environmental, social and community issues

45. The Agency continues to implement policies developed under the LSC to reduce waste, improve use of resources and support local communities.
46. The Agency has played a significant role in the development of the learning and skills of the nation. Note 4 to the accounts on pages 67 to 71 shows the range of programmes that were funded in 2010–11.
47. Agency staff and their friends and families routinely took part in many charitable fund-raising events and were duly celebrated in in-house communications.

## Looking forward

48. The Agency's priorities for the year ahead are set out in its 2011–12 Business Plan which includes a set of performance measures against which progress and achievements are regularly monitored. The headline indicators for performance link to the strategic objectives in the Business Plan and reflect the ambitions described in the Chief Executive's Review above, supporting BIS in achieving its goals.

Key indicators include the following:

- Further **simplification of the funding and performance management system** to reduce burdens on the FE sector and to ensure that public funds are increasingly focused on the outcomes needed by the communities and sectors in which providers operate. This will include enabling colleges and training providers to work more responsively with their customers; preparing to introduce a radically simpler funding methodology in 2012/13; piloting outcome incentive payments for employment outcomes; and working with BIS in preparing to introduce FE fee loans as part of the goal to increase co-investment in skills and learning.
- Continued **expansion of Apprenticeships** with 50,000 starts (in the academic year 2011/12) more than the previous Government's plans and contributing to an additional 250,000 Adult Apprenticeships over the next four academic years. For 16- to 18-year-olds, available funding is expected to deliver 131,200 Apprenticeship starts in 2010/11 and 133,500 in 2011/12.
- Effective **management and allocation of the Agency's programme budget** by further improving business processes, including developing and

introducing service standards, making additional efficiencies and refining the process of performance managing the single adult skills budget.

- **Financial planning and management** of our funding to ensure that the Agency does not overspend the funding control total and that it maximises expenditure to within 2 per cent of the total final annual funding of £3,923 million, subject to decisions out of the Agency's control.
- Management of **organisational development** and restructuring which delivers the agreed efficiencies in the administration budget of £105.4 million, while managing the business professionally and effectively.

# Our Management Team

## Executive officers of the Skills Funding Agency

### **Geoffrey Russell**

Chief Executive of Skills Funding

### **Simon Waugh**

Chief Executive,  
National Apprenticeship Service

### **Verity Bullough**

National Director,  
Employer and Learner Services

### **Mary Conneely**

National Director, Projects  
(left 30 June 2010)

### **David Cragg OBE**

National Director, Development

### **Richard Field**

Chief Information Officer and  
National Director,  
Information Management Services

### **David Hughes**

National Director, College and Learning  
Provider Services

### **Paul McGuire**

National Director, Strategic Finance

### **Marinos Paphitis**

Executive Director, South

### **Chris Roberts**

Executive Director, North

### **Julie Robson**

Executive Director, Central

### **Sally Stewart**

National Director, Human Resources

### **David Way CBE**

Chief Operating Officer,  
National Apprenticeship Service

## Members of the Skills Funding Agency Advisory Board

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

The Advisory Board meets five times a year and the minutes from each meeting are made available.

### **Geoffrey Russell** (Chair)

Chief Executive of Skills Funding

### **Derrick Anderson CBE**

Chief Executive, Lambeth Council

### **Shane Chowen**

Vice-President for FE, National Union of Students

### **Michael Davis**

Chief Executive, UK Commission for Employment and Skills

### **Martin Doel OBE**

Chief Executive, Association of Colleges

**Mark Farrar**

Chief Executive, ConstructionSkills

**Ruth Farwell**

Vice Chancellor,  
Buckinghamshire New University

**Ian Forward**

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

**James Fothergill**

Head of Education and Skills, CBI

**David Frost CBE**

Director General,  
British Chambers of Commerce

**Jon Graham**

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

**Graham Hoyle OBE**

Chief Executive,  
Association of Learning Providers

**Jacinda Humphry**

Business, Planning, Employers and  
Stakeholders Director, Jobcentre Plus

**Scott Johnson**

Member, CBI SME Council

**Frances O'Grady**

Deputy General Secretary,  
Trades Union Congress

**Ian Pryce**

Principal, Bedford College and  
Vice-chair, 157 Group

**Philip Rutnam**

Director General, BIS

**Isobel Stephen**

Strategy, Planning, Employers and  
Stakeholders Director, Jobcentre Plus

**Les Walton**

Chairman,  
Young People's Learning Agency

**Tim Ward**

Chief Executive, Learning Curve and  
Third Sector National Learning Alliance

**Members of the Audit and Risk Committee**

The Committee is comprised of the Chief Executive, the Director of Strategic Finance, the chief internal auditor, an observer from BIS internal audit, an observer from the National Audit Office and three independent, non-Agency employees, including an independent Chair.

**Mark Farrar (Chair)**

Chief Executive, ConstructionSkills

**Martin Doel OBE**

Chief Executive, Association of Colleges

**Jon Graham**

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

# Programme Assurance

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

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

### **Overview**

The approaches used to obtain assurance depend on the risks associated with providers and funding streams, and are designed to minimise bureaucracy for providers. In broad terms, where grant funding is provided to other public bodies, such as FE colleges, the Agency places assurance on the audit work carried out by the public bodies' auditors. The Agency's PFA audit team reviews the findings of internal and external auditors to ensure that the required assurance has been gained. Assurance is also provided by audit visits from the PFA audit team and the YPLA and local authorities working with the Agency

under the Joint Audit Code of Practice (JACOP). The Higher Education Funding Council for England (HEFCE) funds higher education institutions that are often significant providers of 16–18 and adult learning, and mutual assurance between HEFCE and the Agency, and onwards to the YPLA, is obtained as set out in the JACOP. For private sector and other training providers funded under contract, the PFA audit team undertakes direct assurance work, delivering a programme of audits to ensure that funds have been properly applied in the delivery of those contracts.

### **Assurance on grants**

Included in these financial statements are grants to FE learning providers that the Agency has paid for the academic years ending 31 July 2010 (four months) and 31 July 2011 (eight months).

The mismatch between the accounting periods means that certain formal assurances on entitlement and the proper use of the funds will only be received from these providers in line with their own annual accounts reporting timetables, which extend beyond that for these financial statements. Alternative arrangements have therefore been put in place to provide interim assurance as at 31 March 2011. These arrangements are described in the section below.

## Colleges and other further education providers

During the financial year 2010–11, the Agency paid grants of £2,094 million (2009–10: £2,477 million) to colleges and other providers of FE. All colleges are required to return a year-end funding claim certified by the Principal. A total of 81 colleges received an audit of their 2009/10 final learner responsive funding claim, which was completed jointly by a combination of the Agency’s PFA audit team and contracted audit firms. As a result of the audit work, five colleges received qualified opinions and have agreed improvement plans to address the underlying control weaknesses.

For the majority of colleges, the primary sources of assurance for the Agency’s 2010–11 financial statements are the audit opinion on their own financial statements for the academic year ended 31 July 2010, and the regularity audit opinion. The regularity audit at colleges 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. Three colleges received qualified regularity opinions.

The position in respect of the 2009/10 academic year is shown in Table 1.

**Table 1: Position of FE colleges in the 2009/10 academic year, representing £2,296 million in grant funding (2008/09: £2,364 million)**

	Due	Received	Outstanding
<b>Audited final funding claims</b>	81	81	0
<b>Financial statements audits</b>	258	255	3
<b>Final regularity opinions</b>	258	255	3

There are three colleges that have both their financial statements and their regularity opinions outstanding. The outstanding returns are being pursued by the Agency.

Audits of final learner responsive funding claims for 2009/10 were also completed on three non-college providers, all of which received unqualified auditors' reports. A total of £165 million (2008/09: £228 million) of learner responsive funds was received by non-college providers.

Assurance from the YPLA will be received at the year end.

### **Assurance on funding under contracts: private sector and other providers**

Private sector and other training providers were audited by the PFA audit team to ensure that the funds provided have been properly applied to the purpose intended. For the 2010–11 financial year, audit work was delivered under the following approaches:

- PFA audit work in the period 1 April 2010 to 31 July 2010 applied the LSC's assurance approach for providing assurance.
- PFA audit work in the period 1 August 2010 to 31 March 2011 has been undertaken using the Agency's new funding assurance approach (Skills Funding Agency PFA strategy).

This work provides the core assurance underpinning the 2010–11 assurance statements. Statistically valid samples are selected for each of the Agency's significant funding streams, allowing underlying error rates to be identified. In addition, responsive work is undertaken to cover known risk areas.

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

### **Ufi Ltd**

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

## Notices to Improve

During 2010–11 the Chief Executive of Skills Funding did not exercise his powers of intervention to appoint or dismiss FE college governors. During the year 73 providers received a total of 80 Notices to Improve.

**Table 2: Notices to Improve issued 2010–11**

Trigger	Number of adult learning providers	Number of colleges	Total
Analysis of success rates compared with minimum levels of performance	37	23	60
Ofsted judgement 'inadequate' for overall effectiveness	n/a	2	2
Financial health	n/a	12	12
Financial control	n/a	6	6
<b>Total</b>	<b>37</b>	<b>43</b>	<b>80</b>

# Reporting of Personal Data-related Incidents

The tables that follow have been prepared in response to Cabinet Office guidance on reporting personal data-

related incidents in the management commentary section of resource accounts.

**Table 3: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office in 2010–11**

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

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office but recorded

centrally within the Agency are set out in Table 4. Small, localised incidents are not recorded centrally and are not cited in these figures.

**Table 4: Summary of other protected personal data-related incidents in 2010–11**

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
II	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	Nil
IV	Unauthorised disclosure	Nil
V	Other	Nil

# Financial Commentary

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## Accounts direction and statutory background

1. These accounts have been prepared under an Accounts Direction issued by BIS in accordance with Schedule 4 to the Apprenticeships, Skills, Children and Learning Act 2009.

## Going concern

2. The Statement of Financial Position at 31 March 2011 shows net assets of £119.9 million (2009–10: £31.7 million net liabilities).
3. Funding from BIS, 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 BIS estimates for that year. These estimates have been approved by Parliament, and there is no reason to believe that BIS future sponsorship and future Parliamentary approval will not be forthcoming.
4. Therefore, it is appropriate under the Government's *Financial Reporting Manual* (FReM) to prepare this set of accounts on a going-concern basis.

## Year-end position

5. The net book value of fixed assets at 31 March 2011 was £77.0 million. This fell by £14.8 million over the prior

year, as the Agency disposed of systems that were no longer required to support delivery of its aims.

6. At 31 March 2011, the Agency had receivables of £178.6 million (31 March 2010: £220.2 million), reflecting the clearance of European Social Fund (ESF)-related receivables.
7. At 31 March 2011, the Agency held cash balances of £324.4 million (31 March 2010: £151.0 million), including funds drawn from ESF as well as funding from BIS.
8. At 31 March 2011, the Agency had payables of £424.0 million (31 March 2010: £453.6 million), with the decrease mainly being driven by a reduction in the amounts payable in relation to the Train to Gain programme.
9. International Financial Reporting Standard (IFRS) 7 requires organisations to disclose information on the significance of financial instruments to their financial position and performance, and this is shown in notes 9 and 14 to the accounts.
10. The most significant credit risk to the Agency arises from the failure of learners to repay loans provided to them under the Professional

and Career Development Loan programme. In such circumstances, the Agency has an obligation to fund the cost of the default to the bank that provided the loan. The situation for 2010–11 is as described in note 14 to the accounts.

11. Additional significant credit risk to the Agency arises from the non-payment of funding recoverable from private sector training providers that fail to deliver contracted training services. This is largely attributable to provider insolvency, but the overall financial impact is currently not material – see note 20a to the accounts.
12. The Agency operates an unfunded multi-employer defined benefit pension that is provided by the Principal Civil Service Pension Scheme (PCSPS). The Skills Funding Agency paid employer contributions of £13.951 million during the year, but is unable to identify its share of the underlying assets and liabilities. Further information can be found in note 2b to the accounts and at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).
13. The accounts cover the period from 1 April 2010 to 31 March 2011.
14. The Agency is funded by BIS, and in 2010–11 it provided £5,342.5 million (2009–10: £5,668.2 million).
15. The largest source of income was ESF, which contributed £298.3 million (2009–10: £239.7 million).
16. The results for 2010–11 show net expenditure of £5,191.1 million (2009–10: £5,564.1 million). This is derived from the comparison of expenditure against income for the year.
17. Capital expenditure on additions in the year, mainly on computer systems, totalled £26.0 million (2009–10: £40.8 million).
18. The Late Payment of Commercial Debts (Interest) Act 1998 requires Government bodies, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services, or the date on which the invoice was received. The target set by HM Treasury for payment to suppliers within 30 days is 95 per cent. In 2010–11, the Agency paid 90.7 per cent (2009–10: 96.5 per cent) of its invoices within 30 days and 49.5 per cent of its invoices within five days (2009–10: 81.3 per cent of its invoices within 10 days). It incurred £260.47 in interest charges in respect of late payments in 2010–11 (2009–10: £nil).
19. During the year, 11,253 days (2009–10: 14,246) were attributable to sickness absence. Using the average number of payroll staff employed over the year (per note 2c to the accounts) this equates to approximately 6.7 days (2009–10: 7.6 days) of sickness absence per employee in 2010–11.

## Development and performance

## Main trends and factors underlying development and performance

20. Overall programme expenditure decreased by 5.5 per cent on the previous year, with total expenditure on programmes now standing at just over £5.4 billion.
21. Some programmes were subject to decreased expenditure during the year. Notably, expenditure on the Train to Gain programme fell by 12.2 per cent and capital expenditure fell by 27.7 per cent as expenditure on these areas is reduced in line with future priorities.
22. Expenditure on Apprenticeships for both young people and adults increased over the year by 8.3 per cent on the former and 17.3 per cent on the latter due to the drive to deliver increased Apprenticeship numbers – particularly for adults, for whom the Government has provided funding for an additional 50,000 places.
23. Programmes for unemployed people also experienced a significant rise in expenditure, as this relatively short two-year programme matured this year to offer almost £62 million more stimulus to the economy than last year.
24. Administration costs fell overall, but within this total staff costs reduced in line with reductions in staff numbers. Although in this case care should be taken in interpreting changes, because of the different organisational structures under

which costs were incurred, the Agency continued to live within its administration budget, which was reduced on a 'like for like' basis over the previous year's budget.

## Auditor

25. The accounts are audited by the Comptroller and Auditor General, who is appointed by statute and whose Certificate and Report appear on pages 45 and 48. Total audit fee expenditure was £198,000, and no other services were provided during the year. The audit fee for 2010–11 is a notional fee.
26. As Accounting Officer I confirm that:
  - there is no relevant audit information 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 Agency auditors are aware of the information.



**Geoffrey Russell**  
**Chief Executive of Skills Funding**  
**Skills Funding Agency**  
**A partner organisation of**  
**the Department for Business,**  
**Innovation and Skills**  
12 July 2011

# Remuneration Report

## Components of remuneration

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

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

## General

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

The Agency uses a range of methods to assess performance of its Executive Management Team. These include, but are not necessarily limited to:

- corporate risk management – tracking identified business risks on a monthly basis and assessing each one using a rating system

- personal leadership – assessing performance through a range of input and output measures, including embedding performance management culture, reducing staff absence figures and delivering budget savings.

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

Salaries for Directors are benchmarked using a range of appropriate data sources, including the Association of Colleges' survey of principals' salaries, Hay Group management consultants and Senior Civil Service pay scales. If an individual's salary falls below 90 per cent of the pay benchmark, an adjustment will normally be made to bring it to that minimum level.

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

However, when setting individual executive pay and bonuses, the Agency will consider guidance issued by Cabinet Office, HM Treasury and BIS and relevant information from external market data (for example Hay Group and Towers Watson) relating to pay and bonus levels.

## **Chief Executive**

The reward package for the Chief Executive involves two key elements (base salary and bonus), which are determined by the BIS Permanent Secretary. Any potential bonus payment is assessed on achievement against corporate and personal targets. During 2010–11 the Chief Executive, Geoffrey Russell, received no pay increase.

Due to the nature of his role, the Chief Executive does not receive an automatic salary progression award.

## **Base pay changes 2010–11**

Base pay for Directors of the Agency was not increased in 2010–11, as this group of employees was covered by the Government's pay freeze.

## **Skills Funding Agency Executive Management Team members and other senior staff**

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

The current Chief Executive, Geoffrey Russell, is appointed on a permanent basis, which can be ended by the employer giving six months' written notice or the Chief Executive giving three months' written notice.

There are no specific termination clauses in Executive Management Team members' service contracts.

The tables in the next section of the Remuneration Report has been audited by the National Audit Office.

# Chief Executive Emoluments

Audited

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
The emoluments of the Chief Executive, Geoffrey Russell, for the period:		
Basic salary and other emoluments	157	209
Taxable benefit in kind	0	0
Pension contribution (opted to join nuvos pension scheme)	36	51
Bonus*	0	15
	<b>193</b>	<b>275</b>

\*The bonus payment relates to the previous year, but was paid in April 2010.

# Executive Management Team Emoluments

Audited

	Salary £'000	Bonus £'000	Benefits in kind (to nearest £100)	Year ended 31 March 2011 total £'000	Salary £'000	Bonus** £'000	Benefits in kind (to nearest £100)	Year ended 31 March 2010 total £'000
<b>National Directors</b>								
<b>Simon Waugh</b>								
Chief Executive, NAS (from 01/04/2010)	110–115	10–15*	0	120–125				
<b>David Way CBE</b>								
Chief Operating Officer, NAS (from 01/04/2010); Deputy Chief Executive, NAS (from 01/04/2009)	115–120	0	0	115–120	115–120	20–25	0	135–140
<b>Verity Bullough</b>								
National Director, Employer and Learner Services	115–120	0	0	115–120	105–110	10–15	0	120–125
<b>Sally Stewart</b>								
National Director, Human Resources	110–115	0	0	110–115	120–125	15–20	0	140–145
<b>David Hughes</b>								
National Director, College and Learning Provider Services	125–130	0	0	125–130	145–150	20–25	3,000	170–175
<b>Paul McGuire</b>								
National Director, Strategic Finance (from 01/04/2010)	110–115	0–5**	0	115–120				
<b>Richard Field</b>								
Chief Information Officer and National Director, Information Management Services (from 01/04/2010)	120–125	0	0	120–125				
<b>Chris Roberts</b>								
Executive Director, North	115–120	0	0	115–120	145–150	15–20	0	165–170
<b>Marinos Paphitis</b>								
Executive Director, South	110–115	0	0	110–115	115–120	20–25	0	135–140
<b>Julie Robson</b>								
Executive Director, Central (from 01/04/2010)	110–115	0	0	110–115				
<b>David Cragg OBE</b>								
National Director, Development	90–95	0	0	90–95	145–150	20–25	0	165–170
<b>Mary Conneely***</b>								
National Director, Projects (until 30/06/2010)	30–35	0	0	30–35	120–125	20–25	0	145–150

\*Bonus paid on behalf of BIS.

\*\*Bonus relates to the previous year.

\*\*\*Mary Conneely left under compulsory early retirement terms on 30 June 2010 and she received a compensation package of £303,000, which included an extra-contractual element approved by HM Treasury.

# Executive Management Team Pension Entitlements

Audited

	Accrued pension and related lump sum at age 60 as at 31 March 2011 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31 March 2011 £'000	CETV at 31 March 2010** £'000	Real increase in CETV £'000
<b>National Directors</b>					
<b>Geoffrey Russell</b> Chief Executive	5–10	2.5–5	99	55	35
<b>Simon Waugh</b> Chief Executive, NAS	5–10	2.5–5	77	46	25
<b>David Way CBE</b> Chief Operating Officer, NAS (from 01/04/2010); Deputy Chief Executive, NAS (from 01/04/2009)	50–55 and lump sum 150–155	0–2.5 and lump sum 0–2.5	1,141	1,056	3
<b>Verity Bullough</b> National Director, Employer and Learner Services	15–20 and lump sum 45–50	0–2.5 and lump sum 2.5–5	197	167	13
<b>Sally Stewart*</b> National Director, Human Resources	30–35	2.5–5	416	342	41
<b>David Hughes*</b> National Director, College and Learning Provider Services	20–25	0–2.5	239	205	12
<b>Paul McGuire*</b> National Director, Strategic Finance	25–30	5–7.5	289	207	61
<b>Richard Field</b> Chief Information Officer and National Director, Information Management Services	10–15	0–2.5	196	153	22
<b>Chris Roberts</b> Executive Director, North	45–50 and lump sum 145–150	0–2.5 and lump sum 0–2.5	1,125	1,061	10
<b>Marinos Paphitis</b> Executive Director, South	35–40 and lump sum 110–115	0–2.5 and lump sum 0–2.5	682	619	13
<b>Julie Robson</b> Executive Director, Central	25–30 and lump sum 80–85	5–7.5 and lump sum 17.5–20	446	321	95

	Accrued pension and related lump sum at age 60 as at 31 March 2011 £'000	Real increase in pension and related lump sum at age 60 earned in the year £'000	CETV at 31 March 2011 £'000	CETV at 31 March 2010** £'000	Real increase in CETV £'000
<b>David Cragg OBE (partially retired)</b>	25–30 (of which 25–30 has been paid)	0	672	683	0
National Director, Development	and lump sum 170–175 (of which 165–170 has been paid)	and lump sum 75–80			
<b>Mary Conneely</b>	20–25	0–2.5	315	301	6
National Director, Projects (until 30/06/2010)					

\*Opted to join premium.

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

## Note

The following section of the Remuneration Report is not audited.

## Salary

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

- gross salary payable
- other allowances
- overtime payable.

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. The benefits provided by the former LSC to Directors in 2009–10, disclosed on the previous pages, relate to lease cars.

## Civil Service pensions

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

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, nuvos and classic plus. Benefits in classic 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 premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, 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 premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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

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

a further 0.8 per cent of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

Further details of the Civil Service pension arrangements can be found at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

### Cash equivalent transfer values

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.

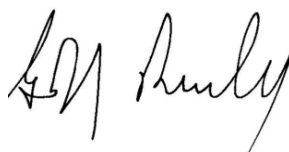
The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures (and, from 2003–04, the other pension details) include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the Civil Service pension arrangements and for which the Civil Service vote has received a transfer payment commensurate with the additional pension liabilities being assumed. The CETV figures also include any additional pension benefit accrued

to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reductions to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Please note that the factors used to calculate the CETVs were revised on 1 April 2010 on the advice of the scheme actuary. The CETV figure for 31 March 2010 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2011.

### Real increase in CETV

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



**Geoffrey Russell**  
**Chief Executive of Skills Funding**  
**Skills Funding Agency**  
**A partner organisation of**  
**the Department for Business,**  
**Innovation and Skills**  
12 July 2011

# Statement of Chief Executive of Skills Funding's Responsibilities

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

# Statement on Internal Control

## The Accounting Officer's Statement on Internal Control 2010–11

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### Scope of responsibility

1. 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*.
2. 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 and apprentices of all ages. In discharging those duties, the Chief Executive makes funding decisions independent of Ministers, but under their policy and objective-setting direction and within the funding envelope they make available. 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.
3. The Chief Executive is responsible for the direction and management of the Agency, which is a partner organisation of BIS. A corporation sole does not require a formal board or non-executive governance structure, as all the duties and associated powers are vested in the Chief Executive. I have nevertheless established an Advisory Board to provide a sounding board to the Agency and am also in the process of having several non-executives appointed to participate in the monthly Strategy Board to provide support and challenge. An Audit and Risk Committee, drawn from members of the Advisory Board, has been established. The Board has met five times since 1 April 2010 and the Audit and Risk Committee four times.

### The purpose of the system of internal control

4. 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 policies, aims and

objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

5. The system of internal control has been in place in the Agency for the financial year ending 31 March 2011 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

### The risk context for the Agency

6. The Agency is one of the biggest arm's-length government bodies in the UK, funding all education and training in England from the age of 19, other than in universities; funding apprentices of all ages; and distributing funds for vocational learning for 16- to 19-year-olds. It pays out almost £0.5 billion per month for learners through more than 1,500 colleges and training organisations. Some 3.5 million adults received FE last year. The Agency is responsible for overseeing the capacity and capability of

adult and much of young people's provision and provides significant supporting funding and services to promote FE. It therefore plays a crucial role in education and skills for England, and any significant failure in its mainstream operations would have a serious impact.

7. There was a substantial transfer of systems, knowledge and expertise to the Agency from the predecessor organisation, the LSC, but also the following operational risks were inherited:
  - loss of key staff
  - reorganising from a regional structure to a functional structure (while maintaining a regional presence)
  - ways of working with the NAS in advance of an expected ministerial direction
  - working collaboratively with other funding agencies, notably the YPLA, to ensure that individual funding providers are engaged with in a coherent manner
  - the challenge of reduced funding – both for administration purposes and in respect of the Agency's programmes
  - ensuring that the Agency delivers, through its delivery partners, an improved service to learners, employers, communities and the taxpayer.

8. Since the Agency's creation on 1 April 2010, there has also been an alteration to Government policy within which the Agency works. Its remit is less about planning and more about enablement and persuasion. There is also a drive to radically improve and simplify the funding and oversight of FE. All of this change, combined with the need significantly to reduce our running costs, has meant restructuring, new ways of working and downsizing. These changes have also involved taking on new challenges, such as the transfer of UK Skills Ltd to the Agency and taking over the funding of LSIS.
    - a second and larger severance exercise
    - the need to encourage the sector to recognise the changes it needs to make in order to respond to funding challenges
    - central spending controls that can restrict or delay implementation of policy
    - further major changes to the funding system, including the impending introduction of FE loans
    - the move by government departments to exert more influence over their partner organisations
  9. Any of these factors would have represented a significant additional risk to those we began with; taken together, they amount to a significant level of difficulty and risk to the effective delivery of the Agency's main operational role.
  10. In the event, the transition from the LSC to the Agency was managed effectively. The post-election uncertainty followed by our first downsizing last autumn, together with the initial changes to the funding system, were also achieved without material operational failures, and no learner suffered as a result of these changes.
  11. However, change continues and new risks have emerged. Some of the more significant include:
    - the divergence of the pre- and post-19 FE systems
    - the more flexible approach to oversight, combined with the fiscal position, which has increased the risk and actual incidence of misuse of public funds.
- Consolidation of FE college accounts**
12. Another – rather unexpected – risk has emerged that threatens to contradict the Government's simplification and cost reduction policy. This relates to reclassification of FE colleges for national statistical purposes from the private to the public sector. It requires more explanation to understand the implications.
  13. During the course of 2010–11 the status of FE colleges has become

an issue with regard to their classification as part of the private or public sector, and consequently the potential requirement to consolidate their accounts into the wider public sector accounts if they are deemed to be part of that sector. There are two elements to this issue.

14. First, the Office for National Statistics (ONS) announced in October 2010 that, given elements of control potentially exercisable by the Secretary of State and the Chief Executive of Skills Funding, FE colleges should have been classified as public sector bodies since their initial incorporation in 1993. The elements of control identified relate primarily to the control over colleges' financial policies implied by the requirement to seek approval for significant borrowing.
15. The implications of this decision are that the income and expenditure of statutory FE colleges would fall within the BIS/Agency accounting 'boundary' from 2011–12. ONS is reviewing the assessment of the classification of FE colleges in summer 2011, and HM Treasury will review the position for 2011–12 following the outcome of this review.
16. A second and related consideration has been highlighted to me as Accounting Officer. The accounting framework under which government bodies prepare their accounts is based on IFRS as adopted by the Government FReM. This includes the provisions of International Accounting Standard 27: Consolidated and Separate Financial Statements (IAS 27). IAS 27 specifies the criteria for control under which an accounting entity is required to consolidate the accounts of subsidiary bodies.
17. Under the Accounts Direction issued to me by the Secretary of State, I am required to comply with the FReM in preparing the accounts of the Agency. The controls in place over FE colleges mean that the Agency would need to consolidate the results of these bodies in order to meet the applicable accounting requirements. I believe it to be impractical to successfully achieve consolidation for 2010–11. It should be noted that colleges currently produce their accounts on a different accounting year basis and under different accounting standards from government bodies, including the Agency.
18. I have considered all of the implications of this issue, taking account of our clear policy aim of freeing colleges to achieve their important objectives, the nature of the technical accounting requirements and the impracticality of achieving a successful consolidation in 2010–11. I consider that the only reasonable course of action for the Agency in the circumstances is not to attempt consolidation of the accounts of FE colleges in 2010–11.

19. The Comptroller and Auditor General has given an adverse audit opinion on the accounts of the Agency for 2010–11 due to this non-compliance with the requirements of the FReM, and his Certificate and Report are included on pages 45 and 48.
20. I believe that this accounting issue, which arose only after the financial year had begun, has had no wider impact on the control environment of the Agency. For the future we continue to work with BIS and HM Treasury to seek a workable solution to this issue.

## Capacity to handle risk

21. Overall, the Agency has managed many significant risks effectively and continues to manage others. Our willingness to manage risk is relatively high, as we have developed an effective ability to manage change and the associated uncertainties.
22. Our approach is predicated on our view that risk management is not an element of management; identifying and dealing effectively with the risks and opportunities that affect performance is management.

## The risk and control framework

### Risk management

23. Risk management is embedded within the Agency's management framework. There is no separate risk

management policy or corporate risk manager, although specific staff support the recording and dissemination of risk information. Instead, the Agency's key management document, the Performance and Risk Report, forms the platform which the Executive Team uses to report performance and risks thereto. The same document is shared with BIS and Ministers. These reporting arrangements are underpinned by specific management arrangements within each functional area, with the Executive Team member being 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 early warning of possible issues is recorded from across the business.

### Audit and Risk Committee

24. A properly constituted Audit and Risk Committee was established and has met four times. It consists of non-executive Advisory Board members and other attendees, including from BIS and the Agency's Internal Audit team and from the National Audit Office. Its terms of reference reflect best practice.
25. The Committee did not operate throughout the whole of the year due to the initial uncertainty concerning the Agency's future existence following the general

election in May 2010 and the resulting delay in the creation of the Advisory Board from which Audit Committee members are drawn. The Committee has considered reports from the Agency's Internal Audit team on the system of internal control, risk management and governance, and from the PFA audit team on providers' systems of internal control. The Committee also considered reports on the Agency's hard close final accounts, as well as reports from our external auditors, the National Audit Office.

26. 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.

### **Management Board**

27. A Management Board was established as soon as the Agency was set up, comprising me and 12 senior Agency officers. It met weekly (usually) to consider:
- the performance and risks thereto that face the Agency
  - progress in taking these matters forward
  - where necessary, mitigating and/or corrective action.
28. The Management Board's focal discussion point is the Performance and Risk Report and the horizon-scanning document.

29. Under the Agency's new remit, a smaller group of eight senior officers formed a renamed Executive Management Team. This group meets weekly: twice physically and twice by conference call in each month. One of the physical meetings is held at a different Agency office each month and is devoted to operational matters, but is extended to allow a longer discussion on strategic issues. It is the intention to now appoint several non-executive members to join this monthly meeting in order to provide operational challenge to supplement the challenge that the Advisory Board provides and the risk and control challenge provided by the Audit and Risk Committee.

### **Internal Audit**

30. A professional and independent internal audit service is maintained. Monthly reports were provided on audit findings, including progress against the internal audit plan. Internal audit work was targeted towards the higher-risk areas.
31. The Internal Audit team reports directly to the Chief Executive of Skills Funding, and the Chief Internal Auditor has direct access to the Chair of the Audit and Risk Committee, and the BIS Chief Internal Auditor. The Internal Audit team also conducts a number of audits jointly with BIS Internal Audit.

32. I met at least monthly with the Chief Internal Auditor and received an Annual Report on findings which included a professional opinion as to the level of control assurance that was applicable to the Agency.
33. For 2010–11 the Chief Internal Auditor has concluded that, overall, the Agency has maintained sound systems of governance, internal control and risk management, but that there were some weaknesses that need to be addressed.
34. 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.
35. An evaluation by the Internal Audit team informed each of the personal Statements on Internal Control received from the Executive Team. The evaluation took into account changes in staffing that occurred as a result of machinery of government changes and the voluntary severance scheme, and their impact on internal control arrangements.
- cases were closed after vetting, and a further 32 cases were closed after investigation, leaving 55 cases being dealt with at the year end.
37. The above statistics give some feel for the scale of the work involved in dealing with allegations of fraud or financial irregularity.
38. These statistics do not show the very real impact of the Unit throughout the year: 2010–11 saw the first imprisonment of fraudsters, with three people currently in prison and a further four given suspended sentences. The Unit is currently working with the police on nine cases.
39. As discussed later in this statement, the Agency is further tightening its procurement arrangements in respect of sub-contracting and to prevent specific providers (and their directors) from re-contracting with the Agency. The work of the Unit is actively contributing to this enhancement in control.
40. A large number of Government initiatives to combat public sector fraud are currently being planned. The Unit is fully engaged in this agenda, and in 2011–12 the Unit's resources will be significantly increased and it will become more integrated into the mainstream of the business to ensure that prevention and recovery are optimised and that resources can temporarily be supplemented when needed.

### **Counter Fraud Unit**

36. The Agency continues to promote a zero tolerance approach to instances of potential fraud. To this end it has a Counter Fraud Unit, which has operated throughout the year. It brought forward 40 cases from the LSC, and 88 new allegations were made during the year. A total of 41

## Financial management

41. As Accounting Officer I had responsibility to ensure that there were effective systems in place to manage and monitor all funds granted to me.
42. I can confirm that there were effective systems in place to manage and monitor the funds I was responsible for in line with BIS financial rules and procedures and that accurate financial records were maintained. I also confirm that funds were spent on achieving the outputs and outcomes detailed in my funding letter from the Secretary of State.
43. In October 2009 BIS commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) Consultancy to undertake a summarised review of financial management of the LSC, the arrangements of which were substantially inherited by the Agency. The CIPFA Financial Management Model was used to undertake this review. This model sets out the fundamentals of financial management best practice within a public sector organisation and uses a scoring system to provide an objective and comparable measure of financial management performance.
44. The overall conclusion supported the LSC's view that sound financial arrangements were in place.
45. In 2010–11 a full self-assessment of financial management was undertaken using the same CIPFA model. This self-assessment was independently validated by the Internal Audit team, and agreed with management's conclusion that the Agency's financial management was, in the various areas considered, either strong or at the high end of satisfactory. CIPFA Consultancy conducted an independent review in June 2011 of the Agency's internal review and concluded that the Internal Audit team's findings were verifiable.

## Provider Financial Assurance audit team

46. As Accounting Officer I am required to be satisfied that those organisations that the Agency funds also operate in an appropriately controlled environment. The Agency has a PFA function, with responsibility for co-ordinating and carrying out a programme of visits designed to gain assurance over the systems of control operated by providers in respect of use of Agency funds.
47. The scope of the PFA audit team's work also covered the balance of LSC funds that had not been previously checked, as well as YPLA funding. The latter was in accordance with the Joint Audit Code of Practice, where it was agreed that, with the exception of ESF funding, just one Government agency will normally audit a training provider and give

assurance over both Agency and YPLA funds. At the start of the financial year this arrangement also included local authorities.

48. In the LSC the level of assurance work carried out was commensurate with the level of associated risks. In 2010–11 most of the PFA audit team's work remained focused on higher-risk providers, but during the year the team introduced a sampling approach across funding streams in their entirety. The results of such work include, but are not skewed towards, higher-risk areas, and therefore provide a statistically representative picture of the level of error in training providers' funding data.
49. The result of this work is that the residual error rate within most of the Agency's funding streams is well below 1 per cent.
50. Further sources of assurance are considered by the PFA audit team, including the results of work carried out by providers' financial statement auditors, internal auditors and funding auditors.

### **Responsibility for review of effectiveness**

51. As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors

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

### **Internal control issues**

52. As Accounting Officer I am satisfied that the Agency's governance, risk management and internal control were compliant with *Managing Public Money* requirements during 2010–11.
53. The following significant internal control issues should nevertheless be highlighted as areas that will be improved.

### **Information assurance**

54. The Agency is not yet fully compliant at Level 1 in five out of six 'information assurance areas' within the Information Assurance Maturity Model. This follows a rigorous review of activities against these information controls. However, all six areas have a level of compliance that is greater than 50 per cent,

and four of the six are more than 80 per cent compliant. The criteria and scoring have changed between 2009–10 and 2010–11, making direct comparison difficult. However, the Agency's current position is significantly improved compared with the LSC's position.

55. In respect of the Security Policy Framework, the Agency is not compliant (scores of 0 or 1) in respect of 30 out of 125 control items. My belief is that this compares reasonably well against organisations with similarly large and complicated systems.
56. In all information assurance areas, the improvement process is informed by risk versus cost judgements. These are monitored monthly. We will continue to seek improvements that are focused on the areas of highest risk, but I am satisfied that our current position represents a reasonable trade-off of risk and resource.

### **Business continuity planning**

57. The business continuity policies that were inherited by the Agency from the LSC were not considered to be best practice. Actions were put in place by the Agency to ensure that better processes and arrangements are developed for business continuity plans in line with BS 25999. These are not complete but we are working as fast as is practicable to reach this standard.

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

### **Financial stability of the sector**

59. All parts of the public sector need to achieve efficiency savings over the coming years and this cannot be done in a painless way. There will inevitably be redundancies, and some colleges and training providers, particularly those whose financial position is not strong to begin with, may become financially unviable. This risk, and the potential subsequent risk to learners, is fully recognised. To this end the Agency has enhanced its monitoring and is reviewing its arrangements so that appropriate and timely actions can be taken if colleges or providers fall into difficulty.

### **Higher-risk providers**

60. Early in the financial year it became clear to me that there was a risk that providers and individuals whom the LSC and the Agency had known to be untrustworthy with either public money or delivering learning to students could still nonetheless secure funding agreements in other procurement rounds. I commissioned the Internal Audit team to review this risk and to advise management on appropriate internal controls. Corrective action is being implemented. As a first step, a

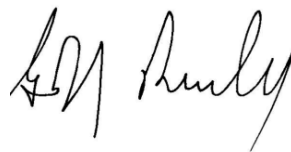
policy setting out the types of people to be excluded from funding was developed and published.

### **Sub-contracting**

61. A significant contributory factor behind the collapse of a number of colleges was the scale of sub-contracting that some colleges undertook without having effective processes to oversee these activities. During the life of the LSC the level of sub-contracting was much reduced in comparison with previous Further Education Funding Council levels.
62. However, with the advent of Train to Gain, sub-contracting levels increased. Previous weaknesses soon began to re-emerge, and it is not a coincidence that many of the Counter Fraud Unit's cases involve sub-contracting. In 2011/12 the Agency will be introducing minimum contract levels, and it is clear that levels of sub-contracting will increase still further. The Agency is keen to ensure that the mistakes of the past are not repeated either by itself or by its main contractors. Guidance, direction and systems on this matter have been improved and further steps will be taken as a priority.

### **Conclusion**

63. I believe that the risks the Agency faced in 2010–11 were managed effectively, albeit not without some level of impact on either the Agency or the sector. I do not believe that there were any material adverse effects on learners or the taxpayer. The best processes and practices of the LSC were brought into the new Agency and enhanced. As always, there is more still to be done. A period of even moderate stability would create a welcome environment to embed our responses to the change we continued to experience over the last year.
64. The accounts of the Agency have been given an adverse opinion by the Comptroller and Auditor General. As explained in paragraph 20, I am satisfied that this does not indicate any weakness in the controls operating within the Agency during the year.



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

12 July 2011

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

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I certify that I have audited the financial statements of the Skills Funding Agency for the year ended 31 March 2011 under the Apprenticeships, Skills, Children and Learning Act 2009. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Chief Executive of Skills Funding and auditor**

As explained more fully in the Statement of Chief Executive of Skills Funding's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Apprenticeships, Skills, Children and Learning Act 2009. I conducted my audit in accordance with

International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

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

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

### **Opinion on regularity**

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

### **Basis for adverse opinion on financial statements**

The Skills Funding Agency has not prepared group financial statements which consolidate further education colleges because it has not been able to collect the information required to do so and does not consider it cost effective to undertake additional actions in order to obtain the necessary information. Under International Financial Reporting Standards, further education colleges should have been consolidated because the Skills Funding Agency has control over them according to the criteria contained within International Accounting Standard 27. Had the further education colleges been consolidated, group financial statements would have been prepared and all elements in the financial statements would have been materially affected. Group financial statements have not been presented

and the effects on the financial statements of the failure to consolidate have not been determined.

### **Adverse opinion on financial statements**

In my opinion, because of the significance of the failure to prepare group accounts which consolidate further education colleges in these financial statements, as discussed in the basis for adverse opinion on financial statements paragraph above, the financial statements do not give a true and fair view of the state of affairs of the Skills Funding Agency and its subsidiaries as at 31 March 2011, and of their net expenditure and cash flows for the year then ended in accordance with the Apprenticeships, Skills, Children and Learning Act 2009 and Secretary of State directions issued thereunder.

### **Opinion on other matters**

In my opinion:

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

## Matters on which I report by exception

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

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

## Report

My Report on pages 48 to 51 provides further detail of my adverse opinion on the financial statements.

### **Amyas C E Morse** **Comptroller and Auditor General**

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

July 2011

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

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## Introduction

1. The Chief Executive of Skills Funding is a corporation sole established under the Apprenticeships, Skills, Children and Learning Act 2009 (ASCL Act 2009). The Chief Executive is head of and supported by the Skills Funding Agency (the Agency), which is a partner organisation of the Department for Business, Innovation and Skills (the Department).
2. The Chief Executive was established on 1 April 2010 as one of two successor bodies to the Learning and Skills Council which was abolished on 31 March 2010. The Chief Executive's role is to fund and regulate adult further education and skills training in England. Its funding strategy is informed by policy set by the Department and by the needs of businesses, communities and regions, and sector and industry bodies. The Agency supports him in this task. Their mission is to ensure that people and businesses can access the skills training they need to succeed in playing their part in society and in growing the economy. As part of its role the Agency provided funding of some £5 billion in 2010–11 to further education colleges (FE colleges) and other skills and training organisations, to fund training for adults in England.

3. The ASCL Act 2009 grants the Chief Executive of Skills Funding certain powers over FE colleges. These include the power to change all the Board members and give the body direction on the exercise of their powers and duties. Legislation also requires FE colleges to seek the consent of the Chief Executive before borrowing.

## Accounts

4. The Agency is required to prepare its first set of financial statements in accordance with the Accounts Direction issued by the Secretary of State under the ASCL Act 2009. This requires compliance with the Government *Financial Reporting Manual* (FReM). Under the FReM, a corporation sole, as a non-departmental government body, is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.
5. The financial statements on the following pages represent the results of the Skills Funding Agency for the period from 1 April 2010 to 31 March 2011.

## My obligations as auditor

6. Under the ASCL Act 2009 I am required to examine, certify

and report on the financial statements of the Chief Executive of Skills Funding. To comply with International Standards on Auditing (UK and Ireland) I obtain evidence to give reasonable assurance that the financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing the statements.

7. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I am required to satisfy myself that, in all material respects, the expenditure and income of the Skills Funding Agency have been applied to the purposes intended by Parliament and conform to the authorities that govern them.

### Audit opinion

8. Under International Accounting Standard 27 (IAS 27), *Consolidated and Separate Financial Statements*, I consider that FE colleges should be viewed as subsidiaries of the Chief Executive of Skills Funding and be consolidated into the 2010–11 financial statements of the Agency. This is because the Chief Executive has controls in place that provide the power to govern the financial and operating activities of FE colleges so as to obtain benefit from their activities. The financial statements

presented are those of the Skills Funding Agency only and have not been presented to include the consolidated results of the group which in order to comply with IFRS would need to include the financial results of FE colleges, consolidated within each line heading of the accounts as appropriate.

9. I have therefore concluded that, due to the non-consolidation of FE colleges in the accounts, they do not represent a true and fair view.

### Background

#### Consideration of Control Framework against International Financial Reporting Standards

10. Since 2009–10 central government bodies, except charities, have been required to adopt IFRS. One of these standards, IAS 27, requires parent bodies to consolidate into their accounts the results of bodies they control.
11. Initially the Agency did not interpret this standard as meaning the Agency had to consolidate into its accounts the results of FE colleges, and this was the case for the 2009–10 Learning and Skills Council accounts where the oversight arrangements in place were broadly the same. However, at that time, the Office for National Statistics (ONS) had classified FE colleges as private sector bodies for national accounts purposes.

12. In October 2010, the ONS announced a reclassification of the FE colleges sector to the central government sector. This engendered a reconsideration of the appropriate accounting treatment by the Agency and the Department. Following review of the controls the Chief Executive of Skills Funding has over FE colleges, triggered by this reclassification, I have also concluded on the appropriate accounting treatment.

13. I have considered the arrangements that the Agency has over colleges in the context of IAS 27. This accounting standard sets out the factors that might indicate control. The circumstances where control exists include when there is power to appoint or remove the majority of the members of the board of directors or equivalent governing body. As set out at paragraph 3, the Chief Executive of Skills Funding has this power and other controls under Statute. My conclusion is that, taking the various powers into account, the Chief Executive does have control over FE colleges under the standard, and should therefore consolidate their results into the Agency's accounts if they are to meet the applicable reporting requirements.

#### **Challenges facing the Agency if consolidation is to be achieved**

14. Whilst the Agency and its sponsor Department accept this interpretation of IAS 27, the Agency considered it could not feasibly prepare a robust consolidation for 2010–11 in order

to meet the statutory deadline under the ASCL Act 2009 for the presentation of final accounts to me by the end of August 2011. The Agency also considers that it would not be cost effective to seek to consolidate the bodies as costs would be incurred by both itself and the FE sector in doing so. This takes into account the accounting and auditing complexities mentioned below.

15. There are 258 FE colleges in England. FE bodies in general are independent incorporated bodies with charitable status. The accounts are prepared on an academic year basis covering 1 August to 31 July in accordance with the SORP applicable to Higher and Further Education Institutions.<sup>1</sup> This SORP is not consistent with the IFRS basis which the Agency is required to apply. The latest audited accounts now available are therefore for the year ended 31 July 2010.

16. The Agency routinely collects financial information, including the audited FE college accounts, but there are a number of accounting issues with consolidating the results of these bodies. The most significant are that the FE college accounts and those of the Agency have a non-coterminous year end (31 July compared with 31 March) so consolidation schedules at 31 March would be required. In addition, the FE college accounts

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<sup>1</sup> Statement of Recommended Practice for the Higher and Further Education Sectors, 1 August 2007.

are UKGAAP based so consolidation schedules would need to be prepared on an IFRS basis. In the first year of consolidation, the Agency would need to present prior year comparative figures for the group.

17. The current audit assurances in place for college accounts would also need to be extended. Some 18 private sector auditing firms provide the external audit function for FE colleges, although 76 per cent of the 258 colleges are covered by five firms. In order to compile the group accounts the arrangements for audit of the individual colleges would need to be designed to support both the preparation and audit of the group financial statements.

### **Impact of non-compliance on the presentation of the financial statements**

18. According to their 2009–10 audited accounts,<sup>2</sup> FE colleges record non-current assets of some £8 billion, and income and expenditure balances each just less than £7 billion. Net assets total some £5.6 billion. The total net results for the year for FE colleges as a whole compare with the net assets shown in the 2010–11 financial statements of the Agency of £120 million. If FE colleges were to be accounted for as subsidiaries, the Agency would need to prepare group accounts which presented the accounts of the group as those of a single entity.

<sup>2</sup>Taken from the summary record of audited FE college accounts collated by the Agency.

19. These figures are an indicative estimate of the overall impact on the Agency's accounts. In practice, the Agency would need to make a number of adjustments to these numbers having first obtained that information as at 31 March and on a IFRS basis. This would include any other changes to make the accounting policies consistent across the group and eliminate the inter-entity balances.
20. In auditing the accounts of the Agency, my staff conducted a full audit of the Agency accounts in accordance with International Standards on Auditing (UK and Ireland) and identified no other issues that materially impacted on the truth and fairness of the Agency's accounts as presented for my audit. Apart from this issue, there are no other matters that would have caused me to modify my audit opinion.

### **Action being taken**

21. The Department is seeking to remove some of the powers over FE colleges and this may have the impact of removing the accounting requirement for the Agency to consolidate the bodies in the future.

**Amyas C E Morse**  
**Comptroller and Auditor General**  
 National Audit Office  
 157–197 Buckingham Palace Road  
 Victoria  
 London SW1W 9SP

July 2011

# Statement of Comprehensive Net Expenditure

for the year to 31 March 2011

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Administration costs</b>			
Staff costs	2a	55,215	67,096
Other costs	3a	27,736	26,577
Depreciation, impairment and losses on disposal	3b	38,614	29,048
<b>Programme costs</b>			
19+ further education	4.01	1,595,048	1,706,803
Programmes for unemployed	4.02	143,355	81,371
Young People Apprenticeships	4.03	744,870	687,815
Adult Apprenticeships	4.04	450,880	384,220
Train to Gain	4.05	773,524	881,038
Adult Safeguarded Learning	4.06	209,830	210,871
Offender learning	4.07	146,014	140,535
Learner Support 19+	4.08	115,524	119,355
Adult skills reform	4.09	81,655	89,423
Quality reform	4.10	84,547	65,826
Capacity and infrastructure	4.11	50,908	67,219
BIS capital programmes	4.12	682,775	944,379
Programmes managed for DfE	4.13	6,499	17,386
Non-departmental programmes	4.14	325,236	329,569
<b>Income</b>			
EU income	5	(298,255)	(239,720)
Other income	5	(42,884)	(44,756)
<b>Net expenditure</b>		<b>5,191,091</b>	<b>5,564,055</b>

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

The notes on pages 56 to 85 form part of these accounts.

# Statement of Financial Position

as at 31 March 2011

	Note	As at 31 March 2011 £'000	As at 31 March 2010 £'000	As at 1 April 2009 £'000
<b>Non-current assets</b>				
Property, plant and equipment	6	4,195	5,735	12,525
Intangible assets	7	72,848	86,071	67,557
<b>Total non-current assets</b>		<b>77,043</b>	<b>91,806</b>	<b>80,082</b>
<b>Current assets</b>				
Trade and other receivables	10a	178,583	220,206	223,522
Cash and cash equivalents	11	324,410	150,987	111,287
<b>Total current assets</b>		<b>502,993</b>	<b>371,193</b>	<b>334,809</b>
<b>Total assets</b>		<b>580,036</b>	<b>462,999</b>	<b>414,891</b>
<b>Current liabilities</b>				
Trade and other payables	12a	(408,126)	(453,642)	(507,427)
<b>Total assets less current liabilities</b>		<b>171,910</b>	<b>9,357</b>	<b>(92,536)</b>
<b>Non-current liabilities</b>				
Other payables	12a	(15,907)	0	0
Provisions	13	(4,594)	(9,666)	(21,409)
Financial guarantee	14	(31,544)	(31,408)	(21,933)
<b>Assets less liabilities</b>		<b>119,865</b>	<b>(31,717)</b>	<b>(135,878)</b>
Represented by				
<b>Taxpayers' equity</b>				
General fund		119,865	(31,717)	(135,878)
<b>Total Taxpayers' equity</b>		<b>119,865</b>	<b>(31,717)</b>	<b>(135,878)</b>

The notes on pages 56 to 85 form part of these accounts.



**Geoffrey Russell**  
**Chief Executive of Skills Funding**  
**Skills Funding Agency**  
**A partner organisation of**  
**the Department for Business,**  
**Innovation and Skills**  
 12 July 2011

# Statement of Cash Flows

for the year to 31 March 2011

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Cash flows from operating activities</b>			
Net expenditure		(5,191,091)	(5,564,055)
Notional audit fee	3a	198	0
Depreciation charges	3b	25,542	23,177
Loss on disposal of non-current assets	3b	15,187	5,871
Decrease in receivables – excludes capital receivables	10a	41,581	3,359
(Decrease) in payables – excludes capital payables	12a	(24,526)	(58,366)
(Decrease) in use of provisions for liabilities and charges	13	(5,072)	(11,743)
Increase in financial guarantees	14	136	9,475
<b>Net cash outflow from operating activities</b>		<b>(5,138,045)</b>	<b>(5,592,282)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	6	(284)	(247)
Purchase of intangible assets	7	(30,801)	(36,002)
Proceeds of disposal of property, plant and equipment		78	15
<b>Net cash outflow from investing activities</b>		<b>(31,007)</b>	<b>(36,234)</b>
<b>Cash flows from financing activities</b>			
Financing from BIS		5,342,475	5,668,216
<b>Net cash inflow from financing activities</b>		<b>5,342,475</b>	<b>5,668,216</b>
Net increase in cash and cash equivalents in the period		173,423	39,700
Cash and cash equivalents at the beginning of the period	11	150,987	111,287
<b>Cash and cash equivalents at the end of the period</b>		<b>324,410</b>	<b>150,987</b>

The notes on pages 56 to 85 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
<b>Balance at 1 April</b>	<b>(31,717)</b>	<b>(135,878)</b>
Retained deficit	(5,191,091)	(5,564,055)
Reversal of notional audit fee	198	0
<b>Total recognised income and expense for the year</b>	<b>(5,190,893)</b>	<b>(5,564,055)</b>
Financing from BIS	5,342,475	5,668,216
<b>Balance at 31 March</b>	<b>119,865</b>	<b>(31,717)</b>

**Note:** The Agency was charged a notional audit fee of £198,000. Previously the LSC was charged a cash fee which is not reversed through the General Fund and therefore does not show as a comparator figure in this statement.

# Notes to the Accounts

## 1 Statement of accounting policies

This is the first set of financial statements for the Skills Funding Agency and they have been prepared in accordance with the 2010–11 Government *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### 1.1 Going concern

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

### 1.2 Accounting convention

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

### 1.3 Machinery of government changes: opening balances and comparatives

The Agency accounts for machinery of government changes using merger accounting principles as detailed in the FReM. Such changes are outside the scope of IFRS 3 *Business Combinations* because central government bodies are deemed to be under common control. Under IFRS, the Agency is required to present comparative figures for 2009–10 and two comparative statements of financial position, as if it had been in existence from 1 April 2009.

The Learning and Skills Council (LSC) closed on 31 March 2010 and most of its functions and responsibilities transferred to either the Skills Funding Agency or the Young People's Learning Agency (an NDPB sponsored by the Department for Education).

The opening balances transferred into the Agency at the start of April 2011 represent its portion of the closing balances of the LSC's Statement of Financial Position. The values were determined by reference to a property transfer order.

Programme expenditure and income comparative figures were determined primarily by considering which organisation retained budgetary responsibility for the programme area.

Administration income and expenditure comparatives were determined primarily by reference to the property transfer order, supplemented by consideration of which organisation retained budgetary control. Where it was not possible to directly ascribe values and balances, they were apportioned to the Agency using appropriate proxy measures; most frequently this was the proportion of staff (by headcount) that transferred into the Agency from the LSC.

### 1.4 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:

- 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 Agency management.

## 1 Statement of accounting policies (continued)

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

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:
  - the items are functionally interdependent
  - the items are acquired at about the same date and are planned for disposal at about the same date
  - the items are under single managerial control
  - each individual asset thus grouped has a value of over £1,000.

### 1.5 Intangible assets

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

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

### 1.6 Depreciation

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

## 1 Statement of accounting policies (continued)

### Summary of depreciation methods

	Category	Component (if applicable)	Method	Useful life
<b>Property, plant and equipment</b>	IT	Desktop IT	Straight line	3 years
		Other IT	Straight line	5 years
	Plant and machinery		Straight line	3 years
	Furniture and fittings	Furniture	Straight line	5 years
		Fitting out	Straight line	Lower of 10 years or the length of the building lease
<b>Intangible assets</b>	Internally developed systems		Straight line	5 years
	Software licences		Straight line	Life of the licence or 3 years where none given

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

#### 1.7 Revaluation

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

#### 1.8 Impairment

Property, plant and equipment and intangible assets are subject to impairment reviews to ensure that they are carried at no more than recoverable amount; the higher of net selling price and value in use. For each financial reporting period, the Agency will assess whether or not there are any internal or external indications of impairment in its assets and will estimate the recoverable amounts of any such assets affected.

#### 1.9 Subsequent measurement

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

#### 1.10 Subsequent measurement – IT systems

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

#### 1.11 Leases

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

#### 1.12 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

## 1 Statement of accounting policies (continued)

earned on the basis of actual delivery are paid to providers and recorded in the Agency's accounts. In the vast majority of cases, these amounts are offset against future payments to providers and recovered (usually in the following month).

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

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

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

### 1.13 Provisions

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

### 1.14 Financial instruments

The 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 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.

### 1.15 Administration and programme expenditure

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

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

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

### 1.16 Programme accounting basis

The main groups of programme expenditure are: Adult Participation (Adult Learner Responsive, Employer Responsive and Adult Safeguarded Learning), Learner Support and Development (Learner Support, Adult Skills Reform, Quality Reform, and Capacity and Infrastructure) and Capital Funding. The policies for the most significant elements of expenditure are described below.

#### *Adult Participation*

- Adult Learner Responsive Programmes:
  - Learning Participation programme expenditure is recognised in the accounts when the grant is paid to colleges in line with an agreed profile for the academic year. The Agency sometimes pays advances of funding to colleges that experience cash flow difficulties. These are repayable, usually over a short term, through profiled deductions from future payments. Where they have not been recovered by the year end, the balances are included within Advances and FE college receivables.

## 1 Statement of accounting policies (continued)

- Exceptional Funding Support provided to colleges in difficulty is charged to expenditure over the life of the agreed recovery plan, which will typically cover a period of four years. Where the plan is for a period of greater than one year, this element of the funding is shown in FE college prepayments.
- Employer Responsive Programmes
  - Apprenticeships programme expenditure is accounted for on the basis of providers' actual delivery (subject to contract value) in the financial year concerned, except when the expenditure is made to colleges; in which case it is recognised in the accounts when the grant is paid to colleges in line with the agreed profile for the academic year as this value provides the best reflection of delivery for accounting purposes.
  - Train to Gain programme expenditure is accounted for on the basis of providers' actual delivery of training and services, except when the expenditure is made to colleges; in which case it is recognised in the accounts when the grant is paid to colleges in line with the agreed profile for the academic year as this value provides the best reflection of delivery for accounting purposes.
- Adult Participation: flexibilities: As part of the move to simplify the burdens on colleges, those delivering both Adult Learner Responsive and Employer Responsive training have the freedom and flexibility to vire amounts between the two programme strands to reflect their individual pattern of delivery. Private sector training providers do not have this flexibility.
- Adult Safeguarded Learning programme expenditure is accounted for on the basis of the utilisation of funds paid to local authorities. The Agency will recognise a receivable at each year end representing amount of unspent funds, based on use of funds statements submitted by local authorities for the academic year that has ended within the financial year. The Agency may recover any unspent funds or may allow local authorities to utilise the unspent funds in the following year.

### *Learner Support and Development Programmes*

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

### *Capital Funding*

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

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

### **1.17 Employee benefits**

#### *Pension and superannuation costs*

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (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 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 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

## 1 Statement of accounting policies (continued)

of Comprehensive Net Expenditure so as to spread the total cost over the estimated remaining service lives of employees in each scheme. For unfunded schemes such as the PCSPS, this is achieved by charging the actuarially calculated accruing superannuation liability charges paid by each individual body.

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

### *Early retirement costs*

Where the Agency is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early, provision is made in full for this cost when the early retirement programme has been announced and is binding. In certain circumstances, settlement of some or all of the liability may have been made in advance by making a payment to the Paymaster General's account at the Government Banking Service 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.

### **1.18 VAT**

Irrecoverable 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.

### **1.19 Other income: European Social Fund**

Funding for certain projects is received from the European Commission. This income is matched to the expenditure profile for each project concerned and any balance at the end of the financial year transferred to deferred income (or income may be accrued where the expenditure exceeds income received for any particular financial year as appropriate).

### **1.20 Notional cost of capital**

The requirement to reflect a notional cost of capital in the Agency's accounts has been removed from the FReM and this change has been deemed to be a change of accounting policy. Accordingly these accounts have been restated to reflect the impact of its removal, and as the impact used to be reversed through equity, there is no impact on the Statement of Financial Position.

### **1.21 Segmental reporting**

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

The Agency considers that its activities contribute to an overall mission within the same business environment and there are no separable operating segments. The analysis of programme and administration expenditure and income in these financial statements reflects the presentation of financial information in the Agency's management accounts that are reviewed regularly by the Agency's chief operating decision maker: the Chief Executive and the Executive Management Team. Therefore, there are no separable operating segments.

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

### **1.22 Accounting judgements and estimates**

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

## 1 Statement of accounting policies (continued)

### 1.23 Accounting developments

#### *Accounting Standards: issued but not effective*

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

Standard	Issued date	Future effective date	Impact on the Agency
<b>IFRS 13</b> Fair Value Measurement provides a single standard on fair value measurement and disclosure but does not introduce any new requirements	May 2011	01/01/2013	No impact expected.
<b>IFRS 12</b> Disclosure of Interests in Other Entities	May 2011	01/01/2013	There may be implications for disclosures in the Agency's accounts, depending on the outcome of the review of the application of IFRS 10 (see below).
<b>IFRS 11</b> Joint Arrangements – supersedes IAS 31 and SIC 13	May 2011	01/01/2013	No impact expected.
<b>IFRS 10</b> Consolidated Financial Statements – replaces IAS 27 Consolidated and Separate Financial Statements and identifies control as the basis for consolidation of all entities	May 2011	01/01/2013	IFRS 10 builds on existing principles identifying control as a central concept and provides additional guidance where control is difficult to assess. The Agency believes adoption of this standard could impact on the determination of its accounting boundary but the full implications are still being assessed in conjunction with BIS.
<b>IFRS 9</b> Financial Instruments – covers the classification and measurement of financial assets and liabilities (intended to replace IAS 39)	November 2009 and October 2010	01/01/2013	No significant impact anticipated.
Amendment to <b>IFRS 7</b> Financial instruments: Disclosures – only applies to transferred financial assets	October 2010	01/07/2011	Financial institutions will be the main types of entity to be affected by the new requirement so it is expected that this will not affect the Agency.

## 1 Statement of accounting policies (continued)

Various minor amendments to IFRS and IFRICs in the Annual Improvements Process		Ongoing effective date of 1 January	No significant impact anticipated.
Amendment to <b>IAS 12</b> Income Taxes – deferred tax on recovery of underlying assets	December 2010	01/07/2011	No impact expected.
Amendment to <b>IFRS 1</b> First-time adoption of International Financial Reporting Standards – severe hyperinflation and removal of fixed dates for first-time adopters	December 2010	01/07/2011	No impact expected.

Source: [www.ifrs.org/Home.htm](http://www.ifrs.org/Home.htm)

## 2a Staff costs

Information in respect of senior employees' emoluments and pension entitlements is provided in the Remuneration Report on pages 25 to 32.

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
The aggregate payroll costs for the Skills Funding Agency were as follows:		
Salaries	74,125	77,260
Social security	6,417	6,803
Pension costs	14,063	14,329
Redundancies and payment in lieu of notice	(1,085)*	810
	<b>93,520</b>	<b>99,202</b>
Other staff (includes agency/contract/seconded staff)	2,229	2,228
	<b>95,749</b>	<b>101,430</b>
Staff costs related to programmes	(37,766)**	(34,334)
Staff costs related to the YPLA and other organisations	(2,768)	0
	<b>55,215</b>	<b>67,096</b>

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

\*\* This figure does not include £16 million cost of Voluntary Early Severance which was charged directly to a programme budget, as agreed with BIS (see note 4.11). The figure in 2010–11 includes £724,408 of staff costs (£137,018 permanent employees and £587,390 contingent workers) which was capitalised as IT systems development costs.

## 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 can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2010–11, employers' contributions of £13,950,915 were paid to the PCSPS by 31 March 2011 (2009–10: £13,648,126) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay (2009–10: 16.7 per cent to 24.3 per cent), based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2010–11 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 £113,417 (2009–10: £101,805) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £8,291 (2009–10: £7,947) representing 0.8 per cent of pensionable pay were payable to PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill-health retirement.

No contributions were outstanding to the partnership pension providers at the Statement of Financial Position dates of 31 March 2011 and 31 March 2010.

## 2c Average number of staff employed

### (i) Year ended March 2011

	Permanent		Other		Total staff number
	Senior management staff number	Payroll staff number	Inward seconded staff number	Agency/temporary staff number	
The average number of staff employed during the year, including the Chief Executive, was:					
<b>Group</b>					
Communications and Campaigns	0	43	0	1	44
Employer Skills Service	1	81	0	5	87
Human Resources and Facilities	1	68	0	0	69
Information Management Services	1	128	0	7	136
College and Learning Provider Services	1	381	0	5	387
National Apprenticeship Service	2	369	0	4	375
Chief Executive	2	16	0	0	18
Strategic Finance	1	373	0	0	374
Regional Skills Services	3	199	0	0	202
	<b>12</b>	<b>1,658</b>	<b>0</b>	<b>22</b>	<b>1,692</b>

**(ii) Year ended March 2010**

	Senior management staff number	Payroll staff number	Inward seconded staff number	Agency/ temporary staff number	Total staff number
The average number of staff employed during the year, including the Chief Executive, was:					
Skills Funding Agency proportion of LSC staff	12	1,797	8	64	1,881
	<b>12</b>	<b>1,797</b>	<b>8</b>	<b>64</b>	<b>1,881</b>

**Note:** The comparator numbers of staff relate to a period before the Agency existed, so are not reported in the same level of detail as the current year.

**2d Civil Service Compensation Scheme analysis**

Value	Compulsory redundancies		Other departures		Total departures	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
< £10,000	0	0	37	2	37	2
£10,000-£24,999	0	0	55	0	55	0
£25,000-£49,999	0	0	47	0	47	0
£50,000-£99,999	0	0	47	2	47	2
£100,000-£149,999	0	0	17	1	17	1
£150,000 +	0	0	22	1	22	1
<b>Total number of exit packages</b>	<b>0</b>	<b>0</b>	<b>225</b>	<b>6</b>	<b>225</b>	<b>6</b>
<b>Total resource cost of exit packages (£'000)</b>	<b>0</b>	<b>0</b>	<b>12,643</b>	<b>507</b>	<b>12,643</b>	<b>507</b>

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

Two individuals (including one senior member of staff disclosed in the Remuneration Report) received a compensation package under a compromise agreement which included an extra contractual element that was approved by HM Treasury.

### 3a Other administrative costs

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
National and regional council members' emoluments*	0	635
National and regional council members' associated travel and subsistence costs*	0	28
Travel and subsistence – staff	2,131	6,055
Recruitment and training	354	2,108
Furniture and office equipment	70	86
IT and computer maintenance	15,406	7,361
Telecommunications and postage	2,821	2,140
Publications, printing and publicity	666	889
General administration expenditure	13,268	1,422
Premises	14,875	18,928
External audit fee**	198	143
Legal fees and other audit fees	3,705	9,698
	<b>53,494</b>	<b>49,493</b>
Non pay costs related to programmes	(17,882)	(22,916)
Non pay costs related to YPLA	(7,876)	0
	<b>27,736</b>	<b>26,577</b>

\* The Skills Funding Agency no longer has council members. The comparative reflects a share of the costs incurred by the LSC.

\*\* The Agency was charged a notional audit fee of £198,000. The LSC was charged a cash fee and the figure for March 2010 reflects the Agency's share of this fee. The two values are not directly comparable.

**Note:** The prior year comparison figures are calculated based on proportions of LSC costs, and direct comparisons are not necessarily realistic. In 2010–11 transactions related to YPLA shared services are included and this also distorts direct comparisons.

### 3b Depreciation, impairment and losses on disposal

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Property, plant and equipment (note 6)		
Depreciation charge for period	1,738	3,252
Loss on disposal	50	3,785
Loss on impairment	0	0
Intangible fixed assets (note 7)		
Depreciation charge for period	23,804	19,925
Loss on disposal	15,137	2,086
Loss on impairment	0	0
Capital contributions from YPLA	(2,115)	0
<b>Total charged for period</b>	<b>38,614</b>	<b>29,048</b>

### 4a Programme expenditure

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Adult learner responsive</b>		
<b>4.01 19+ further education</b>		
FE 19+ Participation	1,255,013	1,323,377
FE 19+ Additional Learner Support	131,527	153,521
19+ Structural Support	17,866	28,887
First Steps Provision (via ACL providers)	36,474	34,873
Capital Loan Support	1,493	6,971
Access to Music	0	2,332
Ufi – programme	138,987	143,316
Discretionary LS ESOL	4,705	4,401
Family Learning Impact Funding	8,983	9,125
<b>Total 19+ further education</b>	<b>1,595,048</b>	<b>1,706,803</b>
<b>4.02 Programmes for unemployed</b>		
Employability Skills programme	48,887	49,677
Response to redundancy – six-month offer	45,768	25,505
Work Focused Pre-Employment Training	21,553	4,879
Care First Careers PET	2,844	0
YPG Sector Routeway Support	24,303	1,310
<b>Total programmes for unemployed</b>	<b>143,355</b>	<b>81,371</b>

## 4a Programme expenditure (continued)

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Employer responsive</b>		
<b>4.03 Young People Apprenticeships</b>		
16–18 Apprenticeships	744,870	687,815
<b>Total Young People Apprenticeships</b>	<b>744,870</b>	<b>687,815</b>
<b>4.04 Adult Apprenticeships</b>		
19+ Apprenticeships	314,722	267,738
25+ Apprenticeships	136,158	116,482
<b>Total Adult Apprenticeships</b>	<b>450,880</b>	<b>384,220</b>
<b>4.05 Train to Gain</b>		
Delivery (includes wage compensation)	701,585	822,663
Brokerage	0	(222)
Infrastructure	19	5,908
Compacts	1,804	4,555
Marketing	41	1,998
Evaluation	0	190
Response to redundancy	40,028	20,303
Leadership and management	30,047	25,643
<b>Total Train to Gain</b>	<b>773,524</b>	<b>881,038</b>
<b>Other participation</b>		
<b>4.06 Adult Safeguarded Learning</b>		
PCDL safeguarded (ASL providers)	122,916	123,333
Neighbourhood learning in deprived communities	20,546	20,449
Family language literacy and numeracy	24,355	24,469
Family learning	11,906	11,753
PCDL safeguarded (FE providers)	30,107	30,867
<b>Total Adult Safeguarded Learning</b>	<b>209,830</b>	<b>210,871</b>
<b>4.07 Offender learning</b>		
Offender learning	146,014	140,535
<b>Total offender learning</b>	<b>146,014</b>	<b>140,535</b>

## 4a Programme expenditure (continued)

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Learner Support and development</b>		
<b>4.08 Learner Support 19+</b>		
19+ Hardship	39,458	41,554
19+ FE students in higher education institutions	771	869
19+ residential bursaries	2,435	2,322
19+ residential support scheme	1,389	2,274
20+ childcare	37,609	34,296
Adult Learning Grant	30,196	30,403
Career Development Loans (interest costs)	756	5,013
Adult Education Bursary	2,910	2,624
<b>Total Learner Support 19+</b>	<b>115,524</b>	<b>119,355</b>
<b>4.09 Adult skills reform</b>		
Careers Advice Service	16,998	22,424
Adult Advancement and Careers Service	0	3,629
Skills Accounts – Level 3	(369)	1,599
Adult information, advice and guidance	45,616	38,938
Skills for Jobs	2,727	10,186
Skills Accounts – Trials	443	3,643
Centres of Vocational Excellence revenue	0	(284)
Training Quality Standard	406	1,488
Skills for Life marketing	0	2,294
UK Online	15,295	5,442
Skills Accounts – carers and tax credits	539	64
<b>Total adult skills reform</b>	<b>81,655</b>	<b>89,423</b>

## 4a Programme expenditure (continued)

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>4.10 Quality reform</b>		
Vocational learning improvement fund	(29)	925
Apprenticeship Ambassadors	58	311
Local initiatives fund	0	261
Equality and diversity	2,524	5,103
Marketing and communications	1,027	5,656
Frontline Delivery – Health & Safety	1,416	2,626
ESF match funding	(40)	(1,204)
Research	0	2,474
Health & Safety booklets	100	145
'Golden hellos'	3,468	8,135
Framework for Excellence	3,842	6,581
Learning and Development Fund	5,138	2,687
FE procurement	17,325	2,336
Information Authority	785	1,091
UK Skills*	21,695	0
National Apprenticeship Service – BIS	10,039	12,574
Learner Records Service	6,840	6,869
Qualifications and Credit Framework	10,359	9,147
Community learning champion	0	109
<b>Total quality reform</b>	<b>84,547</b>	<b>65,826</b>
<b>4.11 Capacity and infrastructure</b>		
National Employer Service delivery	456	2,479
Skills Pledge	0	23
Sector Skills Councils – L2	454	1,345
National Skills Academies	16,510	14,553
ILT – Joint Information Systems Committee revenue	0	25,079
External financial assurance	1,965	2,905
FE specialisation and innovation	(33)	2,616
Aim Higher	9,338	9,338
Single account management systems	2,494	5,914
Data services	3,603	2,967
Voluntary Early Severance	15,996	0
Podium funding	125	0
<b>Total capacity and infrastructure</b>	<b>50,908</b>	<b>67,219</b>

\* Responsibility for grant funding to UK Skills passed from BIS to the Agency in 2010–11.

## 4a Programme expenditure (continued)

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Capital</b>		
<b>4.12 BIS capital programmes</b>		
FE capital buildings	608,602	861,409
Adult Safeguarded Learning capital buildings	9,652	13,111
Neighbourhood learning in deprived communities	(25)	1,878
Systems development	17,464	17,395
FE Capital – ILT	(118)	20,493
Colleges in difficulty	0	1,481
LEA loan liabilities	3,733	3,876
Regional Skills Capital Development	5,958	1,512
National Skills Academies – capital	16,601	580
PCDL defaults	10,365	24,969
PCDL receipts	(3,401)	(2,325)
IACS IT build	4,677	0
Skills capital project fund	9,267	0
<b>Total BIS capital programmes</b>	<b>682,775</b>	<b>944,379</b>
<b>4.13 Programmes managed for DfE</b>		
National Apprenticeship Service (DfE)	6,499	17,386
<b>Total programmes managed for DfE</b>	<b>6,499</b>	<b>17,386</b>
<b>Other non-BIS funded</b>		
<b>4.14 Non-departmental programmes</b>		
ESF 2003/06	2,324	3,885
ESF 2007/13	295,046	234,022
ESF response to redundancy	16,111	29,199
Other non-departmental programmes	11,755	62,463
<b>Total non-departmental programmes</b>	<b>325,236</b>	<b>329,569</b>
<b>Total programme costs</b>	<b>5,410,665</b>	<b>5,725,810</b>

**Note:** The descriptions and classification of some programmes have been changed in 2010–11 to reflect the funding and reporting requirements of BIS for the same year. Comparatives for 2009–10 have been amended so as to ensure consistency. There is no financial impact as the change represents a re-analysis of the same programmes.

Grants to the private sector totalling £1,432,660 (2009–10: £916,781) are included in the values above.

## 5 EU and other income

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Other funding for activities		
European Social Funding (ESF) 2003/06	3,248	3,914
European Social Funding (ESF) 2007/13	295,007	235,806
Other programme income	28,258	43,169
	<b>326,513</b>	<b>282,889</b>
Income from activities		
Sub-letting of part of premises	232	1,571
Other activities income	14,394	16
	<b>14,626</b>	<b>1,587</b>
<b>Total EU and other income</b>	<b>341,139</b>	<b>284,476</b>

### YPLA shared services

Following the closure of the LSC and the creation of the Skills Funding Agency and the YPLA, arrangements have been entered into to provide shared services between the two new bodies. The Agency provides human resource management, financial, information management, internal audit investigation and facilities services to the YPLA. The YPLA provides legal services and Learner Support administration to the Agency. The above income figures include sums paid by the YPLA to the Agency for shared services provided during 2010–11.

## 6 Property, plant and equipment

### (i) As at 31 March 2011

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

### (i) As at 31 March 2010

	Furniture and fittings £'000	Plant and machinery £'000	Computers and other IT £'000	Total purchased £'000
<b>Cost or valuation</b>				
At 1 April 2009	23,621	694	6,746	31,061
Additions	240	0	7	247
Disposals	(7,802)	(76)	(2,081)	(9,959)
<b>At 31 March 2010</b>	<b>16,059</b>	<b>618</b>	<b>4,672</b>	<b>21,349</b>
<b>Depreciation</b>				
At 1 April 2009	(12,236)	(640)	(5,660)	(18,536)
Disposals	4,109	73	1,992	6,174
Charge for period	(2,745)	(30)	(477)	(3,252)
<b>At 31 March 2010</b>	<b>(10,872)</b>	<b>(597)</b>	<b>(4,145)</b>	<b>(15,614)</b>
<b>Net book value (NBV)</b>				
At 1 April 2009	11,385	54	1,086	12,525
<b>Total NBV tangible non-current assets at 31 March 2010</b>	<b>5,187</b>	<b>21</b>	<b>527</b>	<b>5,735</b>

## 7 Intangible fixed assets

### (i) As at 31 March 2011

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

### (ii) As at 31 March 2010

	IT assets under construction £'000	IT systems £'000	IT software £'000	Total purchased £'000
<b>Cost or valuation</b>				
At 1 April 2009	7,710	95,446	2,391	105,547
Transfer from assets under construction	(10,816)	10,816	0	0
Additions	12,864	27,646	73	40,583
Disposals	0	(12,615)	(583)	(13,198)
<b>At 31 March 2010</b>	<b>9,758</b>	<b>121,293</b>	<b>1,881</b>	<b>132,932</b>
<b>Depreciation</b>				
At 1 April 2009	0	(35,980)	(2,010)	(37,990)
Disposals	0	10,500	554	11,054
Charge for period	0	(19,601)	(324)	(19,925)
<b>At 31 March 2010</b>	<b>0</b>	<b>(45,081)</b>	<b>(1,780)</b>	<b>(46,861)</b>
<b>Net book value (NBV)</b>				
At 1 April 2009	7,710	59,466	381	67,557
<b>Total NBV intangible non-current assets at 31 March 2010</b>	<b>9,758</b>	<b>76,212</b>	<b>101</b>	<b>86,071</b>

**Note:** Intangible fixed assets consist of spending on IT software that the Agency is developing in-house (assets under construction) which become IT systems when completed and operational. IT software consists of software purchased externally.

## 8 Impairments

The total impairment charge for the Agency is £nil; £nil of this has been charged directly to the Statement of Comprehensive Net Expenditure and £nil has been taken through the revaluation reserve.

## 9 Financial instruments

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

As an agency 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.

## 10a Trade receivables and other current assets

	As at 31 March 2011 £'000	As at 31 March 2010 £'000	As at 1 April 2009 £'000
<b>Amounts falling due within one year</b>			
<b>Trade and other receivables</b>			
Advances and other FE college receivables	35,237	27,100	39,898
Employer responsive receivables	4,417	6,036	7,943
Trade receivables	94	1,064	530
Tax and social security	1,996	0	0
ESF and other receivables	38,856	26,845	36,776
	<b>80,600</b>	<b>61,045</b>	<b>85,147</b>
<b>Prepayment and accrued income</b>			
ESF and other accrued income	74,037	133,784	108,667
FE college prepayments	19,772	20,069	22,395
Employer responsive prepayments	0	0	82
Administration cost prepayments	3,090	3,222	4,599
Other prepayments	1,083	2,043	2,622
	<b>97,982</b>	<b>159,118</b>	<b>138,375</b>
Capital receivables (sale proceeds of non-current assets)	1	43	0
<b>Total receivables and other current assets</b>	<b>178,583</b>	<b>220,206</b>	<b>223,522</b>

**Note:** Receivables include a provision for doubtful debts of £7.6 million at 31 March 2011 (31 March 2010: £12.5 million).

## 10b Trade receivables and other current assets analysed by type of organisation

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

	As at 31 March 2011 £'000	As at 31 March 2010 £'000	As at 1 April 2009 £'000
<b>Current receivables</b>			
Local authorities	4,129	11,534	14,358
NHS trusts	260	59	149
Public corporations and trading funds	116	648	705
Other central government bodies	81,066	138,734	111,990
Balances with other government bodies	85,571	150,975	127,202
Balances with non-governmental bodies	93,012	69,231	96,320
<b>Sub-total current receivables</b>	<b>178,583</b>	<b>220,206</b>	<b>223,522</b>
<b>Non-current receivables</b>			
Balances with non-governmental bodies	0	0	0
<b>Total receivables by organisation type</b>	<b>178,583</b>	<b>220,206</b>	<b>223,522</b>

## 11 Cash and cash equivalents

	As at 31 March 2011 £'000	As at 31 March 2010 £'000	As at 1 April 2009 £'000
Balance at 1 April	150,987	111,287	98,346
Net change in cash and cash equivalent balances	173,423	39,700	12,941
<b>Balance at 31 March</b>	<b>324,410</b>	<b>150,987</b>	<b>111,287</b>

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

Government Banking Service	324,410	150,821	110,823
Commercial banks and cash in hand	0	166	464
Short-term investments	0	0	0
<b>Balance at 31 March</b>	<b>324,410</b>	<b>150,987</b>	<b>111,287</b>

## 12a Trade payables and other current liabilities

	As at 31 March 2011 £'000	As at 31 March 2010 £'000	As at 1 April 2009 £'000
<b>Amounts falling due within one year</b>			
Trade payables	706	3,811	3,849
FE college payables	973	1,736	25,367
Employer responsive payables	106,680	143,154	189,592
Tax and social security	1	53	54
ESF and other payables	2,710	8,986	14,370
	<b>111,070</b>	<b>157,740</b>	<b>233,232</b>
ESF and other deferred income	25,785	26,243	26,003
Employer responsive accruals	32,006	56,213	22,791
Other accruals	230,256	199,354	215,890
	<b>288,047</b>	<b>281,810</b>	<b>264,684</b>
<b>Sub-total payables, deferred income and accruals</b>	<b>399,117</b>	<b>439,550</b>	<b>497,916</b>
Capital payables	9,009	14,092	9,511
<b>Total payables and other current liabilities</b>	<b>408,126</b>	<b>453,642</b>	<b>507,427</b>
Amounts falling due after one year			
Other accruals	15,907	0	0
<b>Total non-current liabilities</b>	<b>15,907</b>	<b>0</b>	<b>0</b>
<b>Total payables, other current liabilities and non-current liabilities</b>	<b>424,033</b>	<b>453,642</b>	<b>507,427</b>

## 12b Trade payables and other current liabilities analysed by type of organisation

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

	As at 31 March 2011 £'000	As at 31 March 2010 £'000	As at 1 April 2009 £'000
Local authorities	2,575	4,693	18,024
NHS trusts	55	139	349
Public corporations and trading funds	810	1,859	2,796
Other central government bodies	27,316	32,857	39,526
<b>Balances with other government bodies</b>	<b>30,756</b>	<b>39,548</b>	<b>60,695</b>
Balances with non-government bodies	393,277	414,094	446,732
<b>Total payables by organisation type</b>	<b>424,033</b>	<b>453,642</b>	<b>507,427</b>

## 13 Provisions for liabilities and charges

	Early retirement £'000	<i>Agenda for change</i> Theme 7 £'000	Funding Claims £'000	Project Connect £'000	Career Development Loans £'000	Property £'000	Total £'000
Provision balance at 1 April 2009	197	15,720	1,030	1,051	3,411	0	21,409
Additional charge in year	0	0	0	0	2,321	2,165	4,486
Provision utilised in year	(75)	(3,542)	0	0	(2,406)	0	(6,023)
Provision unused and reversed in year	0	(7,547)	(1,030)	(1,051)	(578)	0	(10,206)
<b>Balance of provision at 31 March 2010</b>	<b>122</b>	<b>4,631</b>	<b>0</b>	<b>0</b>	<b>2,748</b>	<b>2,165</b>	<b>9,666</b>
Provision balance at 1 April 2010	122	4,631	0	0	2,748	2,165	9,666
Additional charge in year	0	0	0	0	2,163	1,675	3,838
Provision utilised in year	(122)	(4,631)	0	0	(1,337)	(1,105)	(7,195)
Provision unused and reversed in year	0	0	0	0	(934)	(781)	(1,715)
<b>Balance of provision at 31 March 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,640</b>	<b>1,954</b>	<b>4,594</b>

### Indicative timing of outflows required to settle obligation

Within one year	0	0	0	0	1,334	917	2,251
Between two and five years	0	0	0	0	1,306	1,037	2,343
Greater than five years	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,640</b>	<b>1,954</b>	<b>4,594</b>

### Early retirement

This covers the Agency's additional pension contributions that are charged against administration expenditure. These are defined by and made to the scheme administrator for the period up to normal retirement age for individuals who retired early under the former LSC's Reshaping programme.

### *Agenda for change* Theme 7

This relates to the Agency's liability for the costs chargeable against administration of reorganising the former LSC under the *agenda for change* programme. The balance covers the additional pension contributions to the scheme administrator in relation to individuals that retired early as part of the *agenda for change*.

### Career Development Loans

The Agency has a liability to cover interest payments that occur under this programme while the students 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 Agency has some property that either has vacant space or will be disposed of in the near future. This provision reflects the probable cost of retaining the space or disposing of the property.

## 14 Financial guarantee: Career Development Loans (defaults)

	Career Development Loans (defaults) £'000
Opening balance at 1 April 2009	21,933
Increase in the year	19,722
Expenditure in the year	(10,247)
Unwinding of discount	0
Decrease in the year	0
<b>Balance at 31 March 2010</b>	<b>31,408</b>
Opening balance at 1 April 2010	31,408
Increase in the year	10,598
Expenditure in the year	(10,462)
Unwinding of discount	0
Decrease in the year	0
<b>Balance at 31 March 2011</b>	<b>31,544</b>

### Exposure to risk

The Professional and Career Development Loans (PCDL) programme operates by providing loans to students to enable them to complete a course of study. High street banks provide the loans to students 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 students are in learning. The majority of the liability is for the default on the loans that, per IAS 39, is classified as a financial guarantee.

### Credit risk: exposure at end of period

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

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

The maximum possible value of the guarantee to cover the cost of defaults is capped at 15 per cent of the total loan portfolio advanced since the beginning of the programme and is estimated to be £35 million.

### Liquidity risk

As an agency funded by BIS, it is unlikely that the Skills Funding Agency will encounter any difficulty meeting its obligations under this financial guarantee. The rate of interest on the loans is fixed (currently at 12.9 per cent), so it is unlikely that the future cash flows to settle the obligation will change as a result of changes in the market interest rate.

### Market risk

The rate of interest on the loans is fixed (currently at 12.9 per cent), so it is unlikely that the future cash flows to settle the obligation will change as a result of changes in the market interest rate. Changes in the general level of market prices or changes in foreign exchange rates are unlikely to impact on the value of the outstanding liability.

## 15 Operating lease commitments

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

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Obligations under operating leases at 31 March comprise:		
a) Land and buildings		
Not later than one year	6,645	7,344
Later than one year and not later than five years	21,934	24,232
Later than five years	20,643	23,667
	<b>49,222</b>	<b>55,243</b>
b) Others		
Not later than one year	66	105
Later than one year and not later than five years	80	84
Later than five years	0	0
	<b>146</b>	<b>189</b>

## 16 Capital commitments

The Agency had no commitments for capital expenditure as at 31 March 2011 (31 March 2010: £nil).

## 17 Commitments to make grants to colleges

Commitments to make grants to colleges at 31 March 2011 for FE participation related to the remaining period of the academic year April to July, together with capital commitments, were as follows:

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
<b>Payable within one year</b>		
FE participation	554,246	557,738
FE capital project support	175,967	363,264
Other capital grants (accessibility and Centres of Vocational Excellence)		0
	<b>730,213</b>	<b>921,002</b>
<b>Payable between two to five years</b>		
FE capital project support	334,441	648,457
	<b>334,441</b>	<b>648,457</b>

**Note:** Through its normal financial intervention process, the Agency will ensure that no college is unable to meet its financial obligations as a result of decisions on capital projects.

## 18 Contingent liabilities

The Agency had no material contingent liabilities at 31 March 2011 (31 March 2010: £nil).

## 19 Related party transactions

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

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

- BIS (provision of funding to the Agency); and
- DWP (provision of ESF funding to the Agency).

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

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

Agency/ close family member	Agency role/ relationship	Related organisation role/ relationship	Related organisation	Transaction(s)	Value (£'000)	Amounts owed to related party (£'000)	Amounts owed by related party (£'000)	Bad debts (£'000)
Simon Waugh	Chief Executive, National Apprenticeship Service	Non- executive Board member	WorldSkills London 2011	The Agency provided funding allocations	20,959	1,072	0	0

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

## 20a Losses statement

The Skills Funding Agency incurred the following material cash losses in the period to 31 March 2011. The losses have been charged to the relevant programme in note 4a or administration costs in note 3a.

Description	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Employer responsive, including Train to Gain		
Cases above £250,000 individually	2,574	4,303
Cases below £250,000 individually	521	1,003
	<b>3,095</b>	<b>5,306</b>
European Social Fund (ESF) provision		
Cases above £250,000 individually	0	1,220
Cases below £250,000 individually	127	1,175
	<b>127</b>	<b>2,395</b>
Other programme provision		
Cases above £250,000 individually	0	340
Cases below £250,000 individually	8	1,015
	<b>8</b>	<b>1,355</b>
Administration expenditure		
Cases above £250,000 individually	0	3,731
Cases below £250,000 individually	1	179
	<b>1</b>	<b>3,910</b>
<b>Total cash losses</b>	<b>3,231</b>	<b>12,966*</b>

\*Total LSC values.

At 31 March 2011 there were 23 cases, of which five were above the reporting threshold of £250,000 individually. The five cases above the reporting threshold were as follows:

Organisation	£'000
Woodlands Training Services Ltd	846,528
Premium People Training and Development Ltd	636,007
Careconnect Learning Ltd	519,799
Trisuko HR Solutions Ltd	293,366
Enterprise Solutions Training Ltd	277,360

## 20a Losses statement (continued)

The majority of these losses are the result of errors found following an audit of programme funding. The losses listed above relate to cases where the Agency has been unable to recover these overpayments, usually because the provider has gone into liquidation. These losses are subject to approval from the relevant authority (see below).

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

Authority	Item value	31 March 2011 Number of cases	31 March 2011 Loss £'000
Agency	Up to £10,000	7	36
BIS	£10,000 to £250,000	11	622
HM Treasury	Over £250,000	5	2,573
<b>Total losses</b>		<b>23</b>	<b>3,231</b>

## 20b Special payments

The Agency incurred no special payments greater than £250,000 in the period to 31 March 2011.

## 21 Events after the reporting period

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

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

# Glossary and Further Information

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

## **Adult Learning Grant**

An allowance of up to £30 per week given to adults on low incomes studying full time for their first full NVQ Level 2 qualification and to young adults on low incomes studying full time for their first full NVQ Level 3 qualification.

## **Adult Safeguarded Learning (ASL)**

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

## **Apprenticeships**

An Apprenticeship is a work-based training programme, designed around the needs of employers, which leads to nationally recognised qualifications. There are almost 200 Apprenticeship frameworks, suitable for hundreds of job roles. The day-to-day job that the apprentice undertakes is backed up with training in relevant competences and skills, transferable skills, and employment rights and responsibilities. The Government helps to fund the training elements of the Apprenticeship and the frameworks are designed and developed by Sector Skills Councils to ensure that the training is industry relevant. Apprenticeships bring considerable value to organisations, employers, individuals and the economy. Businesses across the country are now increasingly realising the enormous benefits that Apprenticeships create, not only in terms of a highly skilled workforce but also by boosting productivity and staff retention. [www.apprenticeships.org.uk](http://www.apprenticeships.org.uk)

## **Career Development Loan**

A Career Development Loan is a bank loan designed to help people pay for work-related learning. It can help people to gain the experience, training and qualifications needed to improve their job skills or even launch a new career. It can be used to fund a variety of vocational (work-related) courses with a wide range of organisations, and is available to people who are employed, self-employed or unemployed.

## **Department for Business, Innovation and Skills (BIS)**

[www.bis.gov.uk](http://www.bis.gov.uk)

## **Department for Education (DfE)**

[www.dfe.gov.uk](http://www.dfe.gov.uk)

## **Department for Work and Pensions (DWP)**

[www.dwp.gov.uk](http://www.dwp.gov.uk)

**Further education (FE)**

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

**Higher education**

Higher education includes courses above A-level or NVQ Level 3 standard. Examples include degree courses, postgraduate courses and Higher National Diplomas (HNDs). The Higher Education Funding Council for England distributes public money for teaching and research to universities and colleges, and aims to promote high-quality education and research that meet the needs of students, the economy and society.

**Jobcentre Plus**

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

**Learning and Skills Improvement Service (LSIS)**

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

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

**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.

**National Apprenticeship Service (NAS)**

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

In the first year of operation the NAS developed a full service for employers, with focused marketing, an active field force, advice for employers and an online system to match potential apprentices to their posts. The focus on employers is strong, and there is a dedicated service team in each region, providing personal and practical support to employers of all sizes and sectors. Matching vacancies with applicants online has been a major success, and at any one time there are around 8,000 live vacancies on the site – with this figure rising all the time.

[www.apprenticeships.org.uk/About-Us/National-Apprenticeship-Service.aspx](http://www.apprenticeships.org.uk/About-Us/National-Apprenticeship-Service.aspx)

**Not in education, employment or training (NEET)**

The previous Government set a target for reducing the number of young people who are NEET by 8 per cent by the end of 2010. The LSC had an important role and contribution to make – along with local authorities – in ensuring that suitable provision was available, accessible, well understood by young people and of high quality. The Agency and the NAS continue to have a significant role through Apprenticeships in reducing the number of young people who are NEET.

**Sector Skills Councils (SSCs)**

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

**Skills for Life**

The Government's strategy to help adults who have missed out on educational achievement. It aims to improve the literacy, language and numeracy skills of 1.5 million adults.

**Skills Funding Agency**

The Agency oversees the distribution of funds to the sector and manages the performance of FE colleges. It houses the NAS, the National Employer Service and the Adult Advancement and Careers Service.

[www.skillsfundingagency.bis.gov.uk](http://www.skillsfundingagency.bis.gov.uk)

**Skills Pledge**

The Skills Pledge is a public commitment by businesses to train their employees. The Skills Pledge is voluntary and is supported by impartial advice from the Train to Gain service.

<http://webarchive.nationalarchives.gov.uk/+http://www.bis.gov.uk/Policies/further-education-skills-engaging-employers/skills-pledge>

**Skills Strategy**

The Government launched its Skills Strategy in November 2010, promising to improve support for businesses that develop their workforces.

**Train to Gain**

Train to Gain helps employers to find the training they need for their staff. A dedicated skills broker analyses individual business needs and works with each employer to help them plan a tailored training programme. Train to Gain skills brokers do not work for any training organisation, so the advice they give to employers is impartial. The service is closing on 31 July 2011.

[www.traintogain.gov.uk](http://www.traintogain.gov.uk)

**UFI Ltd**

University for Industry Ltd. UFI Ltd owns LearnDirect, the largest provider of online learning and receives substantial grant funding from the Agency.

**Young People's Learning Agency (YPLA)**

A national non-departmental public body with responsibility for championing education and training for young people in England. It does this by providing financial support to young learners, by funding Academies for all their provision and by supporting local authorities to commission suitable education and training opportunities for all 16–19-year-olds.

[www.ypla.gov.uk](http://www.ypla.gov.uk)



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