



Department  
for Business  
Innovation & Skills

1 Victoria Street  
London  
SW1H 0ET

T +44 (0) 20 7215 5000  
E [enquiries@bis.gov.uk](mailto:enquiries@bis.gov.uk)

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

Peter Lauener  
Chief Executive - Skills Funding Agency  
Cheylesmore House  
Quinton Road  
Coventry CV1 2WT

26 February 2015

Dear Peter,

### **Skills Funding Agency (SFA) Priorities and Funding for the 2015 to 2016 financial year**

This letter confirms BIS funding available for adult further education and skills for the 2015-16 financial year. It sets out both funding for which the Skills Funding Agency (SFA) will be responsible and for completeness the additional BIS skills funding not routed through you.

We would like to thank you and the sector for your contributions in a year where we have made good progress towards our ambition of a rigorous and responsive skills system. Nick Boles wrote to the sector in November<sup>1</sup> highlighting everything we have achieved.

We ask you and the sector to continue to pursue the programme of reform that we have focused on together since 2010. A key priority is for you to promote and support the delivery of high quality apprenticeships that meet the needs of the economy and offer a credible alternative to university. For learners who are not yet able to undertake a rigorous apprenticeship programme, you should continue to prioritise traineeships which contain high quality work experience, English and maths and development of the basic attributes employers value. Finally, it is critical that you support the availability of English and maths for all those learners who need to improve their literacy and numeracy levels to GCSE standard.

You do not control how colleges and learning providers respond to the skills funding available. Indeed, providers will want to consider not only how to respond to your funding offer, but also how to lever in additional funding directly from businesses, employers and individuals. This is important now, and will become even more so over the next few years as apprenticeship funding is channelled through employers, and individuals' access to 24+ Advanced Learning Loans continue to grow.

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<sup>1</sup> <https://www.gov.uk/government/publications/further-education-reform-update-for-colleges-from-nick-boles-november-2014>

Overall funding for adult FE and skills in 2015-16 will be £3.91 billion, with £2.77 billion routed through the SFA. Our expectation is that £770 million will be used to support apprenticeships. Over the course of the year we will continue to prioritise any under delivery to support high quality apprenticeships. Based on previous experience, we expect this action is likely to increase funding into apprenticeships up to £800m.

The annexes to this letter set out in more detail the funding available for 2015-16 and the areas this funding is expected to support. We have recently published FE Trends which provides additional information about how our money is spent and the people it supports. It is available here <https://www.gov.uk/government/statistical-data-sets/fe-data-library-other-statistics-and-research>

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Vince Cable', with a large, sweeping flourish at the end.

**VINCE CABLE**  
Secretary of State for Business,  
Innovation and Skills

A handwritten signature in black ink, appearing to read 'Nick Boles', with a large, sweeping flourish at the end.

**NICK BOLES**  
Minister for Skills and Equalities

## Annex 1

### Priorities for funding and key areas of focus

#### Apprenticeships

We are delighted by the progress made in the delivery of high quality apprenticeships and ask that you continue working alongside employers to prioritise this activity.

Apprenticeships must continue to be more rigorous and responsive to the needs of employers and a key priority is promoting apprenticeships as an equal choice to university and A-levels. You should grow and improve the apprenticeship programme with a particular focus on 16-24 year olds, Higher Apprenticeships (particularly levels 6 and 7), priority sectors (including STEM for Higher Apprenticeships), and small businesses (including through successful delivery of the apprenticeships grant for employers).

The National Apprenticeship Service needs to continue its effective operation as a single service to learners, providers and employers. This will need to be underpinned by highly effective information and communications about apprenticeships to individuals, schools, parents and employers using an improved website and online Apprenticeship Vacancies in line with the Government's Digital by Default agenda.

Employer-led Trailblazers are leading the way in implementing the apprenticeship reforms. We need more groups of employers coming forward to develop apprenticeships for their sectors, and also want to work jointly to engage providers so that they are able to deliver the new apprenticeships effectively.

#### Traineeships

Traineeships have made an excellent start. We want to continue to grow the programme at pace whilst maintaining a strong focus on quality. We will therefore continue to fund and prioritise high quality traineeships, encouraging more eligible providers to deliver them in order to give as many young people as possible the skills and experience they need to enter apprenticeships and sustainable jobs.

From the 2015/16 academic year we are strengthening the focus on positive outcomes, giving providers greater flexibility to deliver work preparation training and bringing greater consistency to the offer for 16 to 18 and 19 to 24 year olds, which from 1<sup>st</sup> January 2015 has included enabling 19 to 24 year old qualified to a full level 2 to access traineeships. Full details of our plans for the 2015/16 academic year can be found in the government's consultation response published on 18<sup>th</sup> November.<sup>2</sup>

#### Increased local influence

We expect the skills system to become increasingly effective in responding to the priorities of local economies and for both learner and provider choices to be influenced by the needs of the local labour market and growth opportunities. We have already agreed specific flexibilities for a number of localities through the City Deals and Growth Deals processes. Recent Devolution agreements with Greater Manchester Combined Authority and with Sheffield City Region will be important opportunities for these major cities to shape the FE landscape they need for the future

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<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/375832/bis-14-1099-traineeships-funding-in-england-consultation-government-response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/375832/bis-14-1099-traineeships-funding-in-england-consultation-government-response.pdf)

and re-commission provision in line with their needs. Delivering on these commitments is a priority for both Government and the SFA.

We hope that the relationships between Local Enterprise Partnerships (LEPs) and their local FE providers across the country will continue to strengthen as a basis for securing a provider offer that is more responsive to the local economy. We welcome the role that you are playing in many places to support those relationships also the efforts being made to strengthen the influence that LEPs have, including through the three Skills Incentive Pilots. In 2015-16 and 2016-17, skills capital funding has been put into the Local Growth Fund and is being allocated to LEPs through the Growth Deals process. Allocations worth £665m were announced in July 2014. We are grateful for the technical support you have provided to the LEPs, and I am pleased that this will continue.

### **Higher vocational education**

The SFA and businesses should give increased priority to the development of effective higher technical and professional education. This will include substantial expansion of Higher Apprenticeships and supporting the development of National Colleges.

National Colleges will be expected to set industry standards for training within their particular sector, based on emerging and future technology. And to provide strong progression pathways, linking to schools, University Technical Colleges, colleges and universities. We will work with you to further develop the National College proposals to ensure they are successfully established.

### **Employer ownership**

From the 2015 - 2016 financial year we will step up our development of skills that contribute to the industrial strategy through an "employer ownership fund". BIS will continue to support projects in the employer ownership pilot and continue to offer targeted opportunities for companies to co-invest with Government on skills projects of strategic value. These further offers will reflect the processes developed for the automotive supply chain and engineering offers and look to develop local delivery channels where appropriate.

### **Support for the unemployed**

In the 2015/16 academic year we will be running pilot schemes in a number of local areas to test innovative approaches to support low-skilled workless adults, including those with the most complex needs. The key aim of the pilots is to test alternative local commissioning mechanisms and how local partnerships, including providers, can add value and deliver efficiencies to such approaches.

### **24+ Advanced Learning Loans**

For the 2015/16 academic year you will be responsible for the management of the loans (up to £498m in 2015/16). Providers with loan facilities should be encouraged to grow their loan funded provision and new, good quality providers should be brought into the market.

### **English and maths**

English and maths continue to be one of our highest priorities. We expect learners who have not already reached GCSE standard to be studying these alongside their other subjects.

We have asked the Education and Training Foundation to lead a review of what employers and learners need from the English and maths qualifications taken by learners who are not studying GCSEs. We are pleased that you are already involved in the early stages of that review and will

work with us to consider how to respond to the recommendations in due course. In the meantime, you will further review the business rules for Qualification Credit Framework English and maths qualifications so that only those which best support progression can be funded.

## **Community Learning**

Community learning is an important part of the wider skills offer and can transform the lives of people experiencing serious social and economic disadvantage. The budget for 2015-16 is £215.7m, which includes an additional £5m (and £15m 2016-17) for the pilot community learning courses to help adults recover from mild to moderate mental illness, as announced in the Government's Autumn Statement.

Innovative partnerships, collaborative planning and high quality teaching and learning are the foundation for local provision that inspires people to succeed and supports them to lead fulfilling lives. We expect providers to add value to the public contribution by making cost savings, setting realistic fees and attracting extra income through grants and sponsorship. Income and cost savings must be re-invested to extend local provision and provide additional resources for people who are disadvantaged and cannot afford to pay.

## **Prison Education**

Prison education is an important part of the skills system, supported by National Careers Service provision and making an important contribution to the goal of reducing rates of reoffending. We look to Offenders' Learning and Skills Service (OLASS) providers to be proactive in supporting the Government's Transforming Rehabilitation reforms as they take effect during 2015-16.

## **Outcome based success measures**

We believe these measures will provide useful information for learners, employers, local stakeholders and providers themselves. But we also propose to use the measures as part of a new framework of minimum standards, to inform decisions by the SFA and others on performance management, intervention and inspection. In time, we will also see how these measures can be used as part of our annual review of provision. A response to our consultation is available here: <https://www.gov.uk/government/consultations/adult-further-education-how-do-we-measure-success>

## **Qualifications Reform**

The Government's VQ Reform Plan – Getting the Job Done - published in March 2014, sets out the changes being made to improve the quality and standard of vocational qualifications to ensure they are valued by employers and individuals. We will work with you to make progress in delivering on these reforms, with a focus on improving regulation, implementing changes to funding rules and systems in order to strengthen the publicly funded offer, and improving access to information about qualifications to learners and employers to enable them to make effective choices.

## **Supporting new entrants into the market**

We are delighted that this year we have seen the creation of the first new college for over 20 years – Prospects College of Advanced Technology (PROCAT). PROCAT delivers a unique, employer focused offer in engineering (including rail), building services and aviation skills, which all directly support our industrial strategy. We will be sharing the lessons learnt from their set up and hope this will inspire others considering structural change, this learning will also be invaluable as we begin to establish National Colleges.

## **Raising Standards and Intervention**

This year we have seen the introduction of the stronger intervention regime, with the introduction of the FE Commissioner, who has led assessment of a number of colleges, who triggered intervention action. This swifter response and the sharing of lessons learnt has been well received, with the new regime having a significant and positive impact.

## **College financial health and exceptional financial support**

An increasing number of colleges are experiencing deterioration in their financial health. The prompt identification of colleges at risk or requiring intervention ensures remedial action is timely and has the best chance of being effective. You have a key role to play here.

You, working with the EFA, should undertake some work to ensure that the sector has the appropriate financial tools and assessment indicators to identify college level financial risks as soon as they arise. This work should look at the case for setting a threshold for the level of borrowing against turnover and review how such a threshold should be monitored and the implications for colleges arising from being above the threshold.

We have recently published a new policy on the exceptional financial support available to colleges going forward. <https://www.gov.uk/government/publications/fe-colleges-exceptional-financial-support> It is available strictly by exception and will trigger some form of intervention action, including potentially an intervention by the FE Commissioner. Where it is agreed that exceptional financial support is required by a college for a period which is likely to exceed 12 months, this will be provided in the form of a loan, entered into between BIS and the college, on the understanding that it will support college action plans which deliver robust, resilient, sustainable business models with good financial controls.

## **Subcontracting**

Responsible subcontracting has a role to play in ensuring that providers can secure a comprehensive offer for learners, employers and local communities. Subcontracting has been part of the FE landscape for some time; however the use of subcontracting has grown in recent years. Whilst we appreciate that you have worked with the sector to enhance the controls around subcontracting in the last 2 years, there continues to be levels of short term tactical subcontracting that are causing concern. You should remind all providers and colleges, particularly governing bodies and college accounting officers, of their responsibility and accountability to secure high quality subcontracting which improves the offer to learners and to manage their subcontractors accordingly. Lead providers are required to publish their reasons for subcontracting as part of their fees and charges policies. You will strengthen these requirements to ensure subcontracting is consistent with the mission of the lead provider by revising the funding rules and taking action where providers do not comply.

You will consider a lead's subcontracting arrangements in the allocation process and strengthen your subcontracting policy requirements through the in-year performance management process in 15/16. Where there is evidence of poor quality subcontracting or poor management of subcontracting by lead providers, you should continue to use your levers to terminate relationships between lead providers and subcontractors and/or remove the ability of a lead provider to enter into subcontracting arrangements. You should also look to publish a list of all providers where it has intervened in this way including a list of subcontractors where you have required termination of the relationship. You should review the use of subcontracting with a view to recommending further action, for implementation in 2015/16, to mitigate the risks of subcontracting and to ensure funding is allocated appropriately.

## Annex 2 – Funding table

The finance table shows the funding available for the 2015 to 2016 financial year.

		Funding 2015-16 £000's	Funding Responsibility
	<b>BIS Funding</b>		
1	24+ Advanced Learning Loans up to:	498,000	BIS via Loans Facilities
2	Funding to Support the FE and Skills Sector	107,402	BIS
	<b>TOTAL: BIS Funding</b>	<b>605,402</b>	
	<b>BIS funding routed through the Skills Funding Agency (SFA)</b>		
3	Adult Skills Budget	2,008,528	The SFA
4	Employer Ownership	86,000	BIS via Employers
	<b>TOTAL: Adult Skills and Employer Ownership</b>	<b>2,094,528</b>	
5	<i>of which Apprenticeships indicative funding</i>	<i>770,000</i>	The SFA
6	Offender Learning and Skills Service	128,900	The SFA
7	Community Learning	215,747	The SFA
	<b>TOTAL: SFA Teaching and Learning</b>	<b>2,439,175</b>	
8	Learner Support	172,842	The SFA
9	National Careers Service	90,878	The SFA
	<b>TOTAL: Student /Learner Support</b>	<b>263,720</b>	
10	Skills Infrastructure	23,175	The SFA
11	Skills Capital	80,000	The SFA / BIS
	<b>TOTAL: BIS funding routed through the SFA</b>	<b>2,766,070</b>	
	<b>Funding from other sources routed through Local Enterprise Partnerships</b>		
13	European Social Fund	170,000	DWP to the Agency then to LEPs
14	Capital Grants	330,000	DCLG / LEPs / BIS
	<b>GRAND TOTAL</b>	<b>3,911,472</b>	

Funding for financial year 2016-17 will be subject to the next Spending Review. Any commitments with implications for 2016-17 will be taken at risk by the SFA, and should be discussed with the Department in advance in the usual way.

## **1 – 24+ Advanced Learning Loans**

24+ Advanced Learning Loans are available for learners aged 24 and over studying at Level 3 and Level 4 (with the exception of apprenticeships).

## **2 – Funding to Support the FE and Skills sector**

This includes funding for a range of programmes not routed through the SFA including the UK Commission for Employment and Skills.

## **3 – Adult Skills Budget**

There are no changes in the eligibility to funding in 2015/2016. This figure includes £11.62m agreed for growth deals already announced. This funding will be allocated to local skills priorities, outside of the standard ASB allocations process.

## **4 – Employer Ownership**

The Employer Ownership Pilot is now closed and there will be no more bidding rounds. A permanent Employer Ownership Fund is being established to develop the work of the Pilot and to deliver a long term commitment to employer ownership of skills. Several projects have been approved under this scheme.

## **5 – Of which apprenticeships indicative funding**

This reflects the element of the Adult Skills Budget and Employer Ownership budget that we expect to allocate to support growth in apprenticeships. Over the course of the year we will continue to prioritise any under delivery to support high quality apprenticeships. Based on previous experience, we expect this action is likely to increase funding into apprenticeships up to £800m.

## **6 – Offender Learning and Skills Service**

This budget provides vocational and employability skills programmes and includes £14m for the National Careers Service for those in custody. The eventual OLASS budget is likely to be larger once annual transfers from the Ministry of Justice to reflect extra education costs that flow from recent prison expansions are added.

## **7 – Community Learning**

This budget funds flexible courses in local venues, based on national objectives<sup>3</sup> and usually unaccredited. Courses help people of different ages and backgrounds – many of them disadvantaged – to acquire skills, pursue interests, re-connect with learning, prepare for progression and/or support their children more confidently. It also supports adult education infrastructures across England, so that adults can access non-formal learning, paying according to their means.

## **8 – Learner Support**

Learner Support includes Discretionary Learner Support, the learner support element of the 24+ Advanced Learning Loan Bursary Fund, costs of the Professional and Career Development Loan scheme and support for Dance and Drama Awards for young adults.

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<sup>3</sup> See the objectives here: [‘New Challenges, New Chances’](#).

## **9 – National Careers Service**

The National Careers Service provides information, advice and guidance to help inform decisions on learning, training and work opportunities.

## **10 – Skills Infrastructure**

This funding includes the Apprenticeship vacancy system and the promotion and development of the Apprenticeship Programme, including Higher Apprenticeships.

## **11 – Skills Capital**

This funding supports capital investment in the SFA and in BIS, in support of, for example National Colleges. This is separate from the capital grants funding for adult skills providers which is now allocated to LEPs through the Local Growth Fund.

## **12 - TOTAL: BIS funding routed through the SFA**

This figure does not include £40m from the Skills Capital line which is routed through BIS for expenditure on National Colleges.

## **13 – European Social Fund**

The European Social Fund (ESF) has been allocated to LEPs for 2014-2020, and LEPs will agree strategies for use of the funding across the period with Government in 2015. The budget is managed over the entire programme and the 2015-16 funding is an estimate of the match funding required in that year. ESF covers social inclusion, employment (including people in work and at risk of redundancy) and skills support, including higher level skills, but must not duplicate support that is currently covered by national grants or loans (with a possible very few exceptions). The SFA will provide matched funding to all LEPs which “opt-in” to its services.

## **14 – Capital Grants**

From 2015-16, responsibility for capital funding of the local skills delivery infrastructure transfers from BIS to DCLG and funds will be allocated to LEPs via the Local Growth Fund (LGF). £330m pa of this budget will be transferred to DCLG for 2015-16 and for 2016-17 with the remainder held centrally by BIS to support national and strategic priorities.