



Date Wednesday 9 September 2015
Subject Skills Funding Agency Advisory Board
Attendees As per Annex

1. Welcome and Introductions

- 1.1 Paul Drechsler welcomed Board members to the meeting and apologies were noted.

Declarations of interest

- 1.2 Paul Drechsler informed the Board that he would be standing down as the chair of the SFA Advisory Board due to his new role as President of the CBI. He said that it had been a pleasure and a privilege to be part of the Board and he acknowledged the professionalism and commitment of the SFA, particularly in challenging times. He confirmed that Mark Farrar had agreed to take over the chair on an interim basis. This was supported by the Board.
- 1.3 There was a vote of thanks to Paul Drechsler for his leadership and direction, and to Mark for stepping in. The Board congratulated Paul Drechsler on his new appointment.
- 1.4 There were no new declarations of interest.

2. Minutes and matters arising

- 2.1 The minutes of the last meeting, held on 8 July 2015, were agreed. The Board was content for them to be published on the SFA's website.
- 2.2 Board members considered the action log and noted that action 16 was closed. It was decided to amend the action on the risk appetite statement (action 11) to show that it would be taken to the Audit and Risk Committee in advance of being brought back to the Board.
- 2.3 Keith Smith informed the Board that Dr Ann Limb OBE had been announced as chair of a new group, the Funding Reform and Localism Steering Group (FRLSG). This group will support the work on simplifying the funding system for adult skills. Dr Limb is also the chair of the South East Midlands Local Enterprise Partnership (LEP). It was agreed that action 15 on localism could be closed.

- 2.4 Following the qualification of the SFA's accounts the Board were reminded that there were two reviews in progress - one on the SFA's internal financial management and control arrangements, and the second on the compliance by colleges with the financial programme management arrangements for the CCIF. It was agreed that there was no need for further discussion at the Board unless the Audit and Risk Committee highlight something of note.
- 2.5 There was a discussion about college bonds and the future capital process. It was noted that any lessons learned should be shared with the LEPs.
- 2.6 Peter Lauener gave an update on the formal line of reporting from the SFA Audit and Risk Committee to the BIS Audit Committee (action 17). He informed the Board that Nigel Johnson would be joining the SFA Audit and Risk Committee; Nigel already sits on the BIS Audit Committee. This was well received by the Board and it was agreed that action 17 could now be closed.

3. Joint review of FE cost drivers

- 3.1 Paul Drechsler and the Board welcomed Johannes Wolff (HMT) and Andrew Goodman (McKinsey) to the meeting. Paul Drechsler congratulated them on a very useful piece of work and invited Andrew to give an overview of the project and the key points.
- 3.2 Andrew talked through the background to the project and the high-level findings. Deep dives looked at were:
- The cost of teaching
 - Policy changes around English and maths
 - Financial management
- 3.3 The key findings highlighted by Andrew were:
- There is a significant difference in the profitability of individual institutions.
 - Revenue – the most profitable institutions have diversified into other income streams.
 - High performing institutions are good at collecting part-funding income.
 - Teaching salary costs are driven primarily by tenure, but subject, geography and performance are also important.
 - There is a very large degree of variation in administrative costs.
 - Institutions with strong results provide a course-level view of profitability.

- 3.4 Andrew and Johannes pointed out that the project was completed over a 6-week period so that there are some constraints due to the timescale. It was agreed by the Board that valuable information had been collected and insights provided.
- 3.5 There was a general discussion on the content of the review and the Board stressed that they were keen for the findings to be disseminated. There would be value in getting the sector to respond; the main comments and observations were:
- How can we encourage colleges to share good practice on administrative costs? There was a need to accept that administration costs are higher for hard to reach client groups.
 - How can we address the supply chain for teaching, particularly for English and maths? There is also a further discussion to be had on English and maths legislation.
 - There is a need to be clear about where the research was carried out and it would be useful to add more of a non-college perspective.
 - Do lessons learned apply to all?
 - Outcomes need to be considered.
- 3.6 Les Walton made reference to the Curriculum, Organisation, Staffing and Management of Schools (COSMOS) analysis that no longer took place. This had been a useful tool.
- 3.7 The Board stressed the importance of taking into consideration the impact on costs of supporting special needs children, those with disabilities and other higher care young people. In reducing costs we do have to take care of the more vulnerable.
- 3.8 Johannes thanked the Board for their feedback. He reiterated that the reviews were intended to be completed quickly but do demonstrate what can be achieved in a short time and act as a catalyst for the relevant departments and sector to take forward further work.
- 3.9 Keith Smith gave a brief update on the joint Area Review Delivery Unit that is being set up involving BIS, DfE, the funding agencies and the FE Commissioner that will lead on delivering the programme of area reviews. Keith said that we will be asking fundamental questions and will be looking at how we can use the McKinsey analysis to build on the due diligence of results.
- 3.10 Paul Drechsler thanked Johannes and Andrew for their time and input. He said that it was a great piece of work that needs to be positioned correctly. Paul Drechsler stressed that we need to encourage leaders to be the best of the best and ensure that every college has good financial management and governance.

4. Business priorities and performance update

- 4.1 Paul Drechsler asked the EMT to give key highlights from their business priorities and delivery update.

Chief Executive's Overview

- 4.2 Peter Lauener referred to the spending review and said that all departments were looking at how to contribute to the significant savings that will be required. He had recently met with SFA deputy directors who were actively looking at this in a positive, engaged way.
- 4.3 Peter highlighted the performance of Team UK at World Skills; the team did exceptionally well and achieved their best results ever. Peter said that Team UK were an exceptional group of young people and his experience at World Skills had been very positive and rewarding.

Apprenticeships and Delivery Services (ADS)

- 4.4 Sue Husband provided a summary on the Apprenticeship and Delivery Services Division. Sue informed the Board that work is continuing with the Apprenticeship Growth Plan and connecting the key strands linked to the delivery of 3 million quality apprenticeships. Richard Harrington MP and David Meller continue to develop the role and membership of the Apprenticeship Delivery Board.

[Post meeting note: On 14 September 2015, Richard Harrington was appointed Parliamentary Under Secretary of State jointly at the Home Office, the Department for Communities and Local Government, and the Department for International Development. The minister is responsible for coordinating work across government to resettle Syrian refugees in the UK. The government expects to confirm his replacement shortly.]

- 4.5 There was a discussion about the importance of quality and the need to address negative media. Paul Drechsler suggested that a one-page document should be produced with a focus around quality and it was agreed that quality needs to be the responsibility of the apprenticeship community, not just the SFA. Sue also addressed questions about where the vacancies/ sectors were to ensure that growth was possible in order to meet the 3 million target.
- 4.6 The Board noted that 24 standards are ready for delivery. Sue confirmed that work is continuing to increase this number and move forward with existing agreed standards.

[Post meeting note: since the meeting, 28 further apprenticeship standards are ready for delivery increasing the total published to 52.]

Funding and Programmes

- 4.7 Keith Smith provided a summary on the Funding and Programmes Division which was noted by the Board. Keith highlighted that there is now a joint SFA / EFA Intervention Accounting Officer Group chaired by Peter Lauener. This group will bring together policy and operational issues to accelerate the resolution of cases requiring financial intervention. The Board stressed the need for a transparent process on intervention for all providers.
- 4.8 There was a discussion about the Apprenticeship Grant for Employers (AGE) in relation to devolution.

Operations

- 4.9 Paul McGuire provided a summary on the Operations Division which was noted by the Board. Paul McGuire informed the Board that in-year savings had been agreed with BIS.
- 4.10 Paul informed the Board that The Funding and Contracting System had delivered significant performance benefits.
- 4.11 The Board had been asked to advise on what further measures the SFA could take to reduce the skills gap faced by the Digital and Technology team and the inability to pay the market rate. The Board acknowledged that this is a widespread problem and that it should be deferred for a future meeting:

ACTION 18: Recruitment/ development of staff to support the Digital and Technology team to be discussed at a future Advisory Board meeting.

Performance and Risk Overview

- 4.12 The Board noted the contents of the Performance and Risk Overview for August 2015, in particular, the top three risks to the SFA. These are:
- Pressure on revenue budgets in 2015-16 financial year
 - The declining financial health of the FE sector, which could lead to a greater demand for urgent intervention and reduced resource for other strategic objectives
 - The 3 million apprenticeships target
- 4.13 The Board noted that the risks were mainly around finance and that there is a need to maintain awareness of system related risks. It was acknowledged that a lot of work had been done on systems but that there would be more to come.

- 4.14 It was agreed that the SFA would need to consider any internal risks that the area reviews may identify, particularly around resourcing and the skills requirements for the new teams. Peter Lauener stated that there had been a good level of interest in the joint EFA/ SFA posts.
- 4.15 Paul Drechsler stated that the Performance and Risk Overview was developing well and was a useful tool.

ACTION 19: Area reviews and financial intervention to be an agenda item at a future Advisory Board meeting

5. NAO's report on financial sustainability in the FE sector

- 5.1 The Board noted the NAO paper on financial stability in the FE sector. Keith stated that work was progressing on preparing for the Public Accounts Committee. There needs to be a robust response to the NAO to clarify the areas of policy that are within the SFA's remit.
- 5.2 Paul Drechsler stated that the Board needed assurance that the response would address the issues raised and that lines of responsibility would be made clear within the policy landscape. Peter said that Richard Lewis would be involved in this.
- 5.3 The recommendations on pages 10 and 11 in the NAO report were discussed more fully. Keith said that area reviews would form a main part of the SFA strategy and there was a further discussion on the area review process. It was suggested that providers could be encouraged to carry out more self-intervention/ self-reflection in local areas.
- 5.4 The idea of adding, at an earlier stage, some good performing institutions into the area review process was also discussed and the need to look at service provision, not just institutions. Keith and Martin Doel agreed to speak offline about the type of data that needed to be collected.
- 5.5 Further comments from the Board in relation to the paper were:
- The SFA needs to have sufficient money and resources to deliver the strategy.
 - Are the management skills in the right place to deliver the required change management and commercial responsibilities?
 - How does the sector get the right skills?
 - The information referred to in item 3 should be used where there is a correlation with the issues highlighted and also to look at a higher range of skills.
 - A national strategy on intervention is a good thing.
 - Should the SFA be more interventionist/ have a conversation pre-intervention with the sector?

- 5.6 The Board discussed the importance of strong governance and the fact that colleges should remain as independent and autonomous institutions.
- 5.7 In conclusion, Peter said that the NAO would be attending the Audit and Risk Committee meeting on 17 September 2015.

College resilience and financial health of the sector

- 5.8 Chris Griffin joined the meeting and the Board noted the paper on college resilience and financial health of the sector. Paul McGuire informed the Board that the latest data from colleges showed that financial health was declining further.
- 5.9 Area reviews will also have an impact here. When asked about a contingency plan for failing colleges, Peter reassured the Board that the Intervention team and Chris' team are working together.
- 5.10 The closing remark on this item was the need to safeguard poorer children's access to learning. This was endorsed by the Board.

6. Any Other Business

- 6.1 The next Advisory Board meeting is scheduled for 5 November 2015.

Meeting closed.

List of attendees at Skills Funding Agency Advisory Board Meeting
09 September 2015

Members:

Paul Drechsler (Chair)	Teach First
Michael Davis	UKCES
Martin Doel	AOC
Mark Farrar	Association of Accounting Technicians
Jon Graham	JTL Training Limited
Stewart Segal	AELP
Les Walton	EFA/ Northern Education
Tim Ward	Learning Curve/ TSNLA
Tom Wilson	TUC

In Attendance:

Peter Lauener	Skills Funding Agency
Keith Smith	Skills Funding Agency
Paul McGuire	Skills Funding Agency
Sue Husband	Skills Funding Agency
Richard Lewis	BIS
Jane Grant	Skills Funding Agency
Johannes Wolff	HMT
Andrew Goodman	McKinsey
Chris Griffin (joined for item 5B)	Skills Funding Agency

Apologies:

Rachel Sandby-Thomas	BIS
Helen Knee	Skills Funding Agency