



Skills Funding
Agency

Skills Funding Agency

Annual report and accounts

For the year ended 31 March 2017

**An executive agency of the Department for
Education**

Skills Funding Agency

Annual report and accounts

For the year ended 31 March 2017

Accounts presented to the House of Commons pursuant to Section 7(2) of the Government Resources and Accounts Act 2000

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Performance report

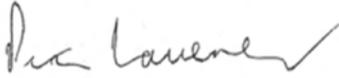
1. Overview

Chief Executive's review

- 1.1 This past year has been one of immense change for the further education sector as a whole and in particular for the Skills Funding Agency (SFA). This is to be the last Annual Report and Accounts issued under the SFA and is to be my last Annual Report as Chief Executive as I hand over the mantle to my colleagues to continue the significant progress we have made on the government's key priorities.
- 1.2 The Skills Funding Agency and Education Funding Agency (EFA) will merge from 1 April 2017 to become one body, the Education and Skills Funding Agency (ESFA).
- 1.3 With the creation of the ESFA, there is much work to do, yet we should take the time to reflect upon what we have achieved. We must not be daunted by the challenges ahead of us. We have been set high targets, but we know we are up to the job.
- 1.4 We have reached a major milestone this year with the launch of the apprenticeship levy, and the Institute for Apprenticeships. These fundamental reforms mean that we can ensure high-quality apprenticeships are accessible to all as we widen participation and support the government target of 3 million apprenticeship starts by 2020.
- 1.5 A crucial part of our remit is taking steps to intervene where we need to, particularly in terms of risk management and intervention, which has been an area of increasing focus for the SFA. At the end of 2016 we published our joint SFA and Education Funding Agency (EFA) early intervention strategy showing how we will work with colleges that are at risk, in terms of financial health, for example. We believe that early intervention and swift mitigation is in the best interests of students, colleges, employers, and taxpayers, ensuring high-quality learning is maintained.
- 1.6 The work of the SFA is wide ranging and as such is debated at the highest level. During this reporting period, I have appeared before the Public Accounts Committee to discuss our support in key areas and in particular, financial sustainability. When I travel the country, I see how these changes can help support better outcomes for learners yet we need to continue to strengthen

cross-government working between central and local governments. This has never been more relevant in light of the government's devolution agenda.

- 1.7 I finish with a thank you to my colleagues, past and present; their passion and commitment to provide our customers and stakeholders with a high level of service is clear. I am deeply grateful for their support throughout the years, and especially during this year of change. I could not have asked for more.



Peter Lauener

Chief Executive and Accounting Officer
Education and Skills Funding Agency

13 July 2017

What we do

- 1.8 We fund skills training for further education (FE) in England. We support more than 1,000 colleges, private training organisations, and employers with £3.2 billion of funding each year.
- 1.9 The SFA is responsible for giving colleges, training organisations and employers the right funding to help adults, young people, the unemployed and people with low skill levels to get the skills they need for employment.
- 1.10 We run the National Apprenticeship Service (NAS) which supports, funds and co-ordinates the delivery of apprenticeships and traineeships throughout England and provides a dedicated, responsive service for both employers and learners. We also manage the [National Careers Service](#)¹, which gives impartial, professional advice on careers, skills and training.
- 1.11 The SFA operates nationally but has a local reach that supports individual employers, local stakeholders (such as Local Enterprise Partnerships) and those combined authorities with devolved skills budgets. We also support employer strategic networks such as the Apprenticeship Ambassador Network, the Apprenticeship Delivery Board and the Apprenticeship Diversity Champions Network.

Background and objectives

- 1.12 The office of the Chief Executive of Skills Funding was established in law by the Apprenticeships, Skills, Children and Learning (ASCL) Act 2009. The Deregulation Act 2015 received Royal Assent in March 2015, whereby the SFA became an executive agency of the Department for Business, Innovation and Skills (BIS). Following a machinery of government change in July 2016, the SFA became an executive agency of the Department for Education.
- 1.13 We support the government's ambitious programme of reforms to the technical and professional education system, putting more power in the hands of employers.

¹ National Careers website: <https://nationalcareersservice.direct.gov.uk/>

- 1.14 During the 2016-17 financial year, we had 6 strategic objectives.
- 1.14.1 maintain the current apprenticeship funding system whilst developing the apprenticeship service to enable employers to control funding and recruit high-quality apprentices
 - 1.14.2 deliver simplified national adult education funding systems (non-apprenticeship) to support government policy
 - 1.14.3 champion the opportunities for learners and employers to engage in high-quality apprenticeship, traineeship and skills opportunities
 - 1.14.4 deliver on intervention cases alongside our wider work to increase college sector resilience
 - 1.14.5 support and monitor the implementation of area reviews including securing solutions for long-term failing colleges
 - 1.14.6 deliver shared services, through FAS²T (Funding Agencies Shared Services Team), that enable effective financial, data and digital system management (together with the Education Funding Agency)

Principal risks and uncertainties

- 1.15 For more detail on these risks, please refer to the governance statement on page 41.
- 1.16 **Significant risk 1:** Declining financial health of the FE sector leading to greater demand for intervention and growing pressure for Exceptional Financial Support, resulting in an unfunded pressure on the adult education budget.
- 1.16.1 We reviewed our [early intervention strategy](#)², and published a joint EFA/SFA strategy in December 2016. We will continue to mitigate risk by analysing the financial plans of colleges most at risk and by scrutinising college management accounts and other management information. When there are signs of financial weakness, we will intervene early to support those colleges to bring about recovery and any appropriate structural changes.
- 1.17 **Significant risk 2:** Not meeting the expectations of the apprenticeship service supporting the distribution of the apprenticeship levy to meet employer needs. This would have an adverse impact on the achievement of the government target of 3 million apprenticeship starts by the end of 2020.

² Early intervention strategy: <https://www.gov.uk/government/publications/college-funding-early-intervention-and-prevention>

- 1.17.1 To ensure the service meets employer needs, we have worked with policy teams across government. We will develop detailed engagement and communication plans ahead of release.
- 1.18 **Significant risk 3:** Delays in plans to devolve adult education funding to local areas could impact on the timeliness and effectiveness of implementation arrangements.
- 1.18.1 There is a risk that local areas with devolution deals beyond 2018 to 2019 are not ready to take on responsibility for funding colleges and training providers.
- 1.18.2 We will mitigate this risk by delivering capacity building workshops for devolved areas, as well as developing and testing arrangements for transition and implementation.
- 1.18.3 We will establish support arrangements for areas with devolution deals to enable them to meet the readiness conditions, focussed on implementing transitional arrangements. As part of this, we will look to agree certain functions within the ESFA that we expect devolved areas will use as part of satisfying the readiness conditions.
- 1.19 **Significant risk 4:** The increased provider funding error rate may be indicative of weak financial controls within the sector. If unchecked, and an upward trend in the error rate continues, this could limit assurance over the proper use of public funds that colleges and other training organisations receive.
- 1.19.1 We have analysed the nature and causes of the increased error rates and have used the results to develop an action plan. The ESFA will take forward implementation of the plan which focuses on greater stakeholder engagement through briefing and training events, raising the profile and importance of strong data management and internal control arrangements. The plan also strengthens internal arrangements for the early identification and sharing of emerging errors, so that collaboratively the ESFA takes timely corrective action.

Emerging risks

Cyber security

- 1.20 A lack of awareness of cyber security risks, lack of cyber security strategy or good cyber security management practices could leave the ESFA vulnerable to cyber attack.
- 1.21 We are working with DfE to define an appropriate cyber security strategy and framework with clear governance and identified roles and responsibilities between the ESFA and the department.
- 1.22 The ESFA will work with our supply chain to address known issues and ensure that appropriate mechanisms are in place to identify and address any potential security vulnerabilities or issues in a timely manner.
- 1.23 We are recruiting to address some gaps in our cyber security capability and in the meantime, we are ensuring that our existing resources remain fully embedded within the technical teams to enable them to manage risk within this space.
- 1.24 Finally, we are raising cyber security awareness with our staff and supply chain to ensure they remain vigilant and any concerns are reported promptly.

Market entry for apprenticeships

- 1.25 Market entry for apprenticeships: over 1,700 organisations are on the first version of the register of apprenticeship training providers published in March 2017. We expect the number of successful applicants to increase in the following months. Many of these will be new entrants to the apprenticeship market place.
- 1.26 The ESFA will be undertaking due diligence and reviewing the financial health of all providers looking to deliver apprenticeships in the future.
- 1.27 We will also run workshops to support new entrants. We will be carrying out assurance work with these new organisations, reviewing their readiness to deliver and use of funds. This work is expected to include mandatory workshops, surgeries, site visits and use of funds audits.
- 1.28 We will also review our approach to market exit, to ensure that we can continue to manage and respond to risk effectively in the apprenticeship market place.

Our achievements in 2016 to 2017

We enabled
over
18,000
learners aged
19 to 23 to access
**Advanced
Learner Loans**
for the first time.



36,000
queries
into the
provider
service centre
with the majority
resolved
within
48
hours




Over
4.9 million
GCSE results and
1.8 million
A/AS-level results
were
loaded
into the
Learning Records
Service
a **10%** increase
on last year.



The **National Careers Service** gave more than
696,000 individuals
careers information and advice
to help them enter learning and work with
20 million visits to their website.



 **1,000 schools** and **365**
teacher champions
engaged through the **Amazing
Apprenticeships** project.

Over **1,700**
providers
supported by
the Provider
Management team.


6,000
contracts and
variations
managed online.

Designated over
3,500 qualifications
eligible for an **Advanced
Learner Loan**

including **new qualifications**
at levels 5 and 6.



 **Digital and Technology** **£8.3**
transformation has **saved** **million**

2. Performance analysis

Business review

- 2.1 This section covers progress against strategic objectives, development and performance.
- 2.2 **Maintain the current apprenticeship funding system whilst developing the apprenticeship service to enable employers to control funding and recruit high-quality apprentices.**

Apprenticeship funding reforms and the levy

- 2.2.1 We have made significant progress implementing the new apprenticeship service to support the government's large-scale programme to reform the way apprenticeships are funded and delivered in England. The services that we are providing will support the introduction of the new apprenticeship levy for employers, and provide them with access to funding and training providers to deliver apprenticeships. Underpinning the service is the digital transformation to make apprenticeships more accessible for individuals and easier to access and manage for employers.
- 2.2.2 HM Treasury approved the full business case for the move to a digital service and operations in June 2016. The objective was to design and build a digitally-led service to allow levy-paying employers to manage their apprenticeship programme, including funding, and to recruit apprentices through their training provider.
- 2.2.3 In summer 2016, we launched the new recruit an apprentice service, providing enhanced services for citizens and employers, and achieving efficiencies in how these are delivered. This service allows employers to advertise vacancies through their training provider, and potential apprentices to search for and apply for vacancies. This aspect of the service is crucial in underpinning the government's ambition that the apprenticeship programme develops the capacity of employers to drive economic performance through a skilled workforce, and for individuals to have access to opportunities to improve social mobility.
- 2.2.4 In October 2016, we extended the apprenticeship service to allow employers to find apprenticeship training. Employers can search for apprenticeships that are available, to identify the correct one for their business need. They can then find information on approved training providers who can deliver the training that they require, and contact the training provider to discuss their needs and the costs involved. In

February 2017, we launched registration for the apprenticeship service to all levy-paying employers. This enabled employers to begin to set up their online accounts to prepare for when funds become available after they start to pay the apprenticeship levy.

- 2.2.5 Over 4,500 accounts have been registered with the service by employers and we are continuing to deliver support to ensure all employers, due to pay the levy, understand how to access the service and the benefits it will provide.
- 2.2.6 We have extended the apprenticeship service to allow employers to add apprentices and confirm the costs for training they have agreed with their chosen training provider. This is a critical step to allow levy-paying employers to prepare to spend the funds that are added to their digital account once they start paying the apprenticeship levy. Alongside this, we have published information on the [English percentage](#)³ for employers due to pay the levy, meeting our public commitment to deliver this before the levy comes into force.

Register of Apprenticeship Training Providers

- 2.2.7 We received 2,327 applications for non-levy contracts for the Register of Apprenticeship Training Providers and issued an Invitation to Tender (ITT) in October 2016. The current round closed in November 2016 and we published the register⁴ of the 1,708 successful applicants in March 2017.

Apprenticeship standards

- 2.2.8 Our support of apprenticeship reforms extends to the move from frameworks to standards, with over 500 apprenticeship standards approved or in development across a range of sectors.
- 2.2.9 We have consulted with the sector as part of the transition from apprenticeship frameworks to apprenticeship standards. Since the start of the process, we have either withdrawn or announced the future withdrawal date for 84 frameworks.
- 2.2.10 We have supported the employer-led 'trailblazer' groups to develop and design these new standards and their accompanying assessment plans.

³ Apprenticeship funding: how it will work: <https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>

⁴ Register of apprenticeship training providers: <https://www.gov.uk/guidance/register-of-apprenticeship-training-providers>

Higher and degree apprenticeships

- 2.2.11 There are more than 100 companies working with over 20 universities and several colleges to develop degree apprenticeships. Over 40 higher education institutions (HEIs) are currently contracted to deliver degree apprenticeships.
- 2.2.12 We have developed the register of apprentice assessment organisations. This provides employers with a list of organisations who have evidenced that they are capable of delivering independent end-point assessment against a particular apprentice standard in line with the requirements of the assessment plan. Over 50 organisations have successfully entered this register.
- 2.2.13 With DfE, we developed how apprenticeship funding for employers will work from May 2017. Based on this work, we have designed, and will implement, an apprenticeship funding model from May 2017 to cover both frameworks and standards. We have also set out the [Funding and performance management rules](#)⁵ that employers and providers must follow in spending apprenticeship funds.
- 2.2.14 We are supporting the longer-term expansion of higher and degree level apprenticeships by undertaking a £20 million procurement exercise to increase the number of Higher Education/Further Education training providers delivering higher and degree level apprenticeships at levels 4 to 7. It will also increase the number of HEIs with direct accountability for higher and degree apprenticeship delivery, and help deliver approximately 3,000 higher and degree apprenticeship starts.
- 2.2.15 During 2016 to 2017 we awarded 39 new contracts which aimed to deliver 1,866 higher and degree level apprenticeships (starts before 30 April 2017). The total funding awarded from the £20 million pot for the year was £5.24 million.

⁵ Funding and performance management rules:
<https://www.gov.uk/government/publications/apprenticeship-funding-and-performance-management-rules-2017-to-2018>

2.3 Deliver simplified national adult education funding systems (non-apprenticeship) to support government policy.

Adult education budget

- 2.3.1 In 2016-17, we combined all participation and support funding (excluding Advanced Learner Loans, European Social Fund (ESF) and apprenticeships) under the adult education budget (AEB).
- 2.3.2 Its purpose is to engage adults and provide the skills and learning they need to equip them for work, an apprenticeship or further learning.
- 2.3.3 The AEB gives colleges and other training organisations more flexibility to:
- respond to the needs of their local area
 - offer and deliver more tailored programmes of learning that do not need to include a qualification
 - help those furthest from learning or employment
- 2.3.4 It includes a simplified learner eligibility framework that makes it easier, for providers and adult learners, to understand what level of government contribution is available for skills training and learning.
- 2.3.5 To support this, we have moved towards a single entitlement offer for learners aged 16 to 23 focussed on high-quality technical qualifications at levels 2 and 3⁶.
- 2.3.6 A new European Union Directive on procurement law means that we can no longer automatically renew all of our current contracts for services at the end of the current contracting term. For training delivery commencing from 1 August 2017, we launched a competitive procurement exercise open to all eligible organisations on the [Register of training organisations](#)⁷ (RoTO).
- 2.3.7 The procurement was open from January to February 2017. Bidders will be notified in May 2017 of the outcome, and contracts awarded to successful organisations for a 1-year period with an option to extend for a further 2 years, subject to budget, government policy and performance management.

⁶ What qualification levels mean: <https://www.gov.uk/what-different-qualification-levels-mean/list-of-qualification-levels>

⁷ Register of training organisations: <https://www.gov.uk/government/collections/sfa-register-of-training-organisations>

- 2.3.8 We have also developed a simple method for funding providers in response to redundancy in the steel industry, and developed and released the funding calculations for 2016 to 2017 to cover AEB (including traineeships), ESF and loans bursary.
- 2.3.9 We have worked through the Data and Management Information Advisory Group to ensure our data requirements remain open and transparent.

Devolution

- 2.3.10 The SFA has undertaken a range of activities to support areas that will have devolved skills budgets in the funding year 2018 to 2019, enabling combined authorities to take control of the AEB and become local commissioners of skills training. This has included specialist insight workshops, focusing on business planning, practices and operations, and provided the combined authorities with opportunities to share their own knowledge and experiences.
- 2.3.11 A bespoke AEB devolution Commissioning Academy commenced in December 2016 and has comprised masterclasses, expert speakers, peer-to-peer challenge and practical action planning to apply commissioning practices to the issues facing each combined authority.

Advanced Learner Loans

- 2.3.12 In the Advanced Learner Loans programme, the SFA designates the qualifications eligible to be funded with a loan, and determines the maximum loan amounts for these qualifications. In 2016 to 2017 around 3,500 qualifications have been designated for the loans offer. We have also determined over 700 providers are eligible to offer loans to learners and to receive loans payments from the Student Loans Company (SLC) on behalf of learners.
- 2.3.13 In 2016 to 2017, Advanced Learner Loans eligibility criteria was expanded from being available for learners aged 24+ studying designated qualifications at levels 3 and 4, to individuals aged 19 and above to undertake designated qualifications at levels 3 to 6.
- 2.3.14 The availability of loans at level 3 for 19- to 23-year-olds does not replace an individual's legal entitlement for full funding for a first full level 3 qualification. From the start of the 2016/17 academic year to the end of January 2017, the SLC received 76,810 loans applications. This represents an increase of over 25% on the number of loans applications received in the same period in 2015 to 2016 (56,950).

European Social Fund (ESF)

- 2.3.15 We have now concluded procurement on the 2014 to 2020 ESF programme. We have issued 144 invitations to tender across 38 Local Enterprise Partnership (LEP) areas. We have awarded 293 contracts against the programme worth £556 million to operate up to 31 July 2018.
- 2.3.16 The ESF management and delivery team continues to work with colleges, other training organisations and LEPs to ensure there is an in-depth knowledge and understanding of their ESF contracts. Some 290 of the 293 contracts have had initial contract meetings, and three-way meetings with LEPs, and are now subject to a programme of regular compliance checks. These meetings take place between the ESF team/provider/LEP – in which the specification is discussed in more detail, to ensure all parties are clear on what the priorities are for delivery.
- 2.3.17 The ESF compliance visits are integral to ensuring providers can evidence their claims effectively and have contributed to further reductions in the ESF programme error rate in 2016 returning an error of just 0.6%, significantly below the 2% threshold. The threshold for the programme audit error rate is set by the European Commission, and is seen as an acceptable tolerance to the level of risk on the funding associated with the programme. The Audit Authority act on behalf of the European Commission to undertake financial audits of the ESF programme, and provide assurance on the audits undertaken.

2.4 **Champion the opportunities for learners and employers to engage in high-quality apprenticeship, traineeship and skills opportunities.**

Apprenticeship growth

- 2.4.1 In the first half of 2016/17 (August to January) 258,800 people started on apprenticeships.
- 2.4.2 Provisional data shows an increase in the number of people starting higher apprenticeships with more than 16,200 people starting higher apprenticeships between August 2016 and January 2017.
- 2.4.3 A recent Ofsted report into FE outlined that 63% of apprenticeship provision inspected last year was good or better.
- 2.4.4 69% of our employers with a direct grant to deliver apprenticeship (that have been inspected by Ofsted up to the end of March 2017) are judged as good or outstanding.

- 2.4.5 We continue to support the Apprenticeship Ambassador Network, which encourages private and public sector employers to recruit apprentices.
- 2.4.6 The apprenticeship service continues to help people to search and apply for apprenticeships online. During 2016 to 2017, '[Find an apprenticeship](#)⁸' has handled more than 1 million apprenticeship applications.
- 2.4.7 '[Find apprenticeship training](#)⁹' enables employers to search for apprenticeships and see details of approved training providers who can deliver the training that they need.
- 2.4.8 The Employer Ownership Programme budget forecast for the funding year 2016 to 2017 indicates that at least £4.6 million will contribute to apprenticeship growth.

Supporting employers, providers and candidates

- 2.4.9 The National Contact Centre supports employers, providers and candidates as part of the apprenticeship programme as follows:
- the employer support team, who support employers of all sizes, handles inbound queries from employers about apprenticeships and refers employers directly to training providers if they are considering taking on apprentices
 - the vacancy team quality assures all vacancies for the online find an apprenticeship service and provides telephone support for training providers
 - the candidate enhanced support team, who support candidates aged 16 to 24 who have been unsuccessful in their apprenticeship applications
 - an outbound team to support campaign activity
 - a dedicated team, who provide digital support for the apprenticeship service
 - the helpdesk also handles complaints and feedback from customers
- 2.4.10 During 2016-17, the National Contact Centre has handled over half a million contacts from employers, providers and citizens (this includes telephone calls, webforms and emails).
- The employer support team created over 16,500 employer leads that were converted into over 10,000 referrals to training providers. This resulted in over 8,000 apprenticeship starts and gathered a vast

⁸ Find an apprenticeship: <https://www.gov.uk/apply-apprenticeship>

⁹ Find apprenticeship training: <https://findapprenticeshiptraining.sfa.bis.gov.uk/>

amount of intelligence and feedback about the forthcoming changes with apprenticeship reforms and levy, which helped inform ongoing communications with employers.

- The vacancy team quality assured and processed 175,000 vacancies that were then advertised on the find an apprenticeship online service.
- The candidate enhanced support team supported over 2,500 candidates who had unsuccessfully applied for an apprenticeship, and as a result 300 of these went on to actually start an apprenticeship.
- The National Apprenticeship Service Intermediaries Team has delivered apprenticeship readiness training sessions to LEP networks across England.
- The employer and strategic networks team launched an updated Apprenticeship Ambassador Network with over 500 ambassadors.
- More than 1,300 employer agreements were signed to create a binding contract between the employer and the apprentice.

Account managers

2.4.11 The account management team, for large employers, currently manages the 1,250 largest levy paying employers who will pay approximately £2 billion or 75% of the apprenticeship levy. The service is located geographically but delivers national, impartial, expert advice and support to large employers to help them plan and deliver high-quality apprenticeships that maximise the return on their investment. This has recently included delivering a series of 16 roadshows to all employers in this group. The public sector has around 450 employers within the 1,250; the rest are private sector and typically multi-site or national.

Apprenticeship diversity

2.4.12 In February 2017, we launched an Apprenticeship Diversity Champions Network led by Nus Ghani MP. The network includes 23 employers committed to championing diversity in apprenticeships among other employers. It encourages more people from underrepresented groups, including those with disabilities, women and members of the black, Asian and minority ethnic (BAME) communities, to consider apprenticeships and embrace diversity. The network will support the government's commitment to increase the proportion of apprenticeship starts by people from BAME backgrounds by 20% by 2020.

- 2.4.13 In the 2016/17 academic year, 27,240 apprenticeships were started by people from BAME backgrounds, representing 10.5% of all apprenticeship starts reported.

National Careers Service

- 2.4.14 In 2016/17, the National Careers Service provided expert careers information and advice to more than 696,000 customers to help them to enter or progress in learning and work. This included more than 100,000 interventions with adults in custody. During the same period the National Careers Service website has received more than 20 million visits.
- 2.4.15 The National Careers Service commissions regular research through Ipsos Mori, an independent research company, whose annual independent surveys indicate that the National Careers Service has a high rate of satisfaction from adults. Fieldwork carried out by Ipsos MORI between April 2015 and March 2016 showed that 93% of customers who used the telephone and local area based service felt the quality of the service was good.
- 2.4.16 The survey also asked customers whether they had progressed in employment or learning in the 6 months since they had spoken to a National Careers Service adviser. The framework for continuous improvements to the service has improved results in these areas. Current performance is 93% for positive outcomes, and learning and employment progression are both at 72%.
- 2.4.17 All National Careers Service prime contractors are subject to inspections by Ofsted. The quality of the service has been highlighted by Ofsted inspection results (December 2016 to March 2017): 8 contractors were assessed, 2 prime contractors were rated outstanding and the other 6 prime contractors were rated good.
- 2.4.18 The National Careers Service has worked with its prime contractors to capture and share best practice to drive quality and performance. To support this learning, in February 2017, the National Careers Service launched an online tool named 'Coach' to aid learning and development for its advisors.
- 2.4.19 The National Careers Service continues to evolve its service delivery through a digital platform. It launched a redesigned website in October 2016, which is the precursor to a more comprehensive, dynamic site, based on user needs, to be launched during the next financial year. The National Careers Service is supporting ministerial priorities by offering

additional, specialist support to individuals who are interested in apprenticeships.

- 2.4.20 The Customer Data Service (CDS) now provides for a more integrated National Careers Service, through an improved learning registration process. Customers who have received careers advice, can review and update their action plans online. The CDS also allows the National Careers Service contact centre and area-based contractors to share data, which has improved customers' experience.
- 2.4.21 At The Skills Show 2016, the National Careers Service engaged with 6,821 visitors to the 4 dedicated 'careers hubs', where careers advisers provided information and advice to young people, parents, teachers and adults.

Public sector

- 2.4.22 We have increased the number of public sector employers assigned a named NAS account manager to 370. They include civil service departments, arm's length bodies (ALBs), NHS Trusts, local authorities, police forces and fire services.
- 2.4.23 Account managers for civil service departments have specific additional responsibilities, to support apprenticeship activities with their arm's length bodies, supply chains and in reaching the [2.3% public sector target](#)¹⁰. Further to this, we have leads for 122 slightly smaller (in terms of potential levy funds) organisations, working with them to get them ready for the levy and other reforms.
- 2.4.24 We have organised a number of events and webinars to support public sector employers prepare for the apprenticeship reforms, including an event attended by 133 of the largest public sector bodies in January 2017. In addition, a member of NAS sits on the Civil Service Apprenticeship Delivery Board. We are now engaging with public sector clusters such as the Fire Service and Police where common issues and best practice can be shared.

2.5 Deliver on intervention cases alongside our wider work to increase college sector resilience.

Early intervention

- 2.5.1 In April 2016, the SFA established a joint intervention team with the EFA, aligning functions and processes to ensure expert resource is directed

¹⁰ Public sector apprenticeship targets: <https://www.gov.uk/government/consultations/public-sector-apprenticeship-targets>

quickly to where it is needed and to gain efficiency savings from a single leadership team.

- 2.5.2 We have published a joint early intervention strategy and improved our approach to early intervention. The focus of the strategy is to use data to help identify colleges at risk of failure, whether for financial or quality reasons. The colleges identified have been provided with support and assistance to prevent formal intervention and a return to sound financial health and resilience.
- 2.5.3 Our aim is to achieve a turnaround at a lower cost to the public purse whilst maintaining delivery. As part of this approach, we have improved the information we give to college governors by sending them regular dashboards that show them key benchmarking information for their college. As a result of early intervention, by end of March 2017, 21 colleges have improved their financial health or quality and are no longer in early intervention.
- 2.5.4 Over the year, we issued 13 Financial Notices to Improve (FNTIs) to general further education colleges and 6 Notices for inadequate Ofsted assessment. Notices require specific actions to be taken within agreed timescales, and progress is closely monitored. 8 FNTIs and 5 Inspection Notices were lifted in the same period. Notices were lifted due to the institutions involved significantly improving either their finances or quality of delivery.

2.6 **Support and monitor the implementation of area reviews including securing solutions for long-term failing colleges.**

- 2.6.1 A total of 37 area reviews of post-16 provision, plus 2 pilots, have been undertaken, resulting in 56 recommendations for mergers involving FE colleges. In addition, there have been 22 recommendations for new apprenticeship delivery models and a range of other recommendations to improve local planning and collaboration.
- 2.6.2 Colleges and local stakeholders are responsible for implementing the agreed recommendations and their progress is monitored by the joint intervention team.
- 2.6.3 Where progress is slow or may be stalling, the intervention team provides support and challenge to colleges, ensuring local stakeholders remain

engaged, to help get the recommendation back on track; this may include seeking additional support from the FE Commissioner.

- 2.6.4 We have provided £6 million of Transition Grant funding to help FE colleges bring in appropriate skills and services to deliver significant structural changes.

2.7 Deliver shared services, through FAS²T (Funding Agencies Shared Services Team), that enable effective financial, data and digital system management (together with the Education Funding Agency).

Digital and Technology

- 2.7.1 We continued to build capability by setting up a successful digital and technology academy and recruited 12 graduates and apprentices to a range of posts. The academy is also supporting the DfE graduate intake of project managers. All IT service managers are certified agile service managers and process owners.
- 2.7.2 We successfully kept all systems running, exceeding the service level of 98% availability and resolved 53,432 incidents over the 12 months. In addition, we resolved 5,322 service requests and implemented 1,709 operational changes.
- 2.7.3 We successfully transitioned and transformed a number of services to public cloud infrastructure:
- Learning Records Service – a register providing a unique learner identifier with online record of qualifications and achievement
 - National Careers Service – a careers information and signposting service
 - data collection service – for providers and employers to submit evidence of training delivered to inform funding and contracting systems, management information and reporting
 - management information – a service to store, share and report information and data
 - business intelligence – a data analysis and reporting tool
 - recruit an apprentice – part of the apprenticeship service for employers
 - identity and access management services for partners and citizens – an authentication and authorisation service

- 2.7.4 This cloud transformation has given the SFA the ability to scale its services, to implement and deploy changes quickly and to meet user needs. It has generated £3.5 million of savings in the first year.
- 2.7.5 We decommissioned 13 legacy services. We also combined the payments mechanism with EFA, enabling us to consolidate financial accounts by re-using existing SFA services.
- 2.7.6 The National Careers Service is now more aligned to Government Digital Service (GDS) standards so it can be accessed through tablets and mobile devices. This project was delivered in 7 months, reducing operating costs. The service supports over 300,000 active lifelong learning accounts with on average 42,153 users accessing the website in a single day.
- 2.7.7 The skills funding service (SFS) passed its GDS assessment and went into public beta in July 2016 on schedule, enabling the SFA to issue and receive digital signatures for 2016 to 2017 provider contracts and enhancing providers' digital contract journey. The service has been continuously iterated and improved since July, enabling additional contract transactions and activities on the site. The most recent of these was adding a new role and access to the apprenticeship service as well as publishing around 1,500 apprenticeship agreements to providers in March 2017. Some 70% of colleges and training providers who responded to the survey were satisfied or very satisfied with SFS (July 2016 to March 2017).
- 2.7.8 Through the funding and contracting service, we delivered:
- the 2015/16 year-end funding claim reconciliation
 - the 2015-16 rollover
 - Offender Learning contracts
 - the rollover of 2017/18 contracts for Apprenticeship Grants for Employers (AGE)
 - Advanced Learner Loans
 - National Careers Service contracts for the first time on-system and issued provider agreements for the apprenticeship levy
- 2.7.9 We retrieved actuals for Advanced Learner Loans from the Student Loans Company to allow business users to report on Loans delivery and the Learning Records Service can now accommodate changes in the Ofqual IT system, giving business continuity to Wales and Northern Ireland. We also achieved Public Services Network (PSN) accreditation, which was

required for the SFA to connect to the DfE HR system. We achieved a total saving of £8.3 million (17%) against 2015-16 operating costs.

Data Science

- 2.7.10 Multi-disciplinary teams enabled more efficient and effective ways of working with quicker start-up times, consistent approaches and use of internal resources to provide better value for money.
- Experience and expertise from both agencies were brought together to develop the joint FE RAT (Risk Assessment Tool) – the function took the best parts of the SFA’s Profile and Assessment Tool (PAT) and the EFA’s Risk Assessment Tool (RAT) for post-16 provision, to create a single view of institutional risk for those funded by the EFA, SFA or both agencies.
 - Bringing together SQL developers and MI analysts from both the EFA and SFA enhanced the SQL development culture of the team and led to the development of new ideas for approaches, methods of quality assurance, and engagement with customers.
 - Support for the apprenticeship service and the distribution and management of data is now well developed – data science staff are shaping the data storage systems, business intelligence tool development, analytics and the apprenticeship service data strategy.
- 2.7.11 Efficiency has been delivered through the exploitation of existing infrastructure, thereby avoiding high costs associated with specialist resource and will continue as this service moves into business as usual. The function is also leading on the delivery of data and intelligence, working closely with departmental analysts and policy leads.

Our people

- 2.8 Our staff operate in an ever-changing skills and education landscape. What has remained constant year on year is our desire to improve what we do and how we do it by developing our people.
- 2.9 During 2016-17, we completed the work on our structure started in 2015-16. This included a job assessment process to align SFA job roles with civil service grades.
- 2.10 In July 2016, the SFA moved into the Department for Education from the Department of Business, Innovation and Skills. The machinery of government changes related to this, including harmonisation of terms and conditions, will continue into the next financial year.
- 2.11 The Civil Service People Survey in October 2016 highlighted the need to continue our focus on leadership and change management and maximising the return for our people on our investment in learning and development. Our focus this year has been on developing our line managers to manage performance at all levels, addressing poor performance and helping those with talent to develop and progress.
- 2.12 Our People Board will continue to address these areas of focus. We created the People Board this year to develop the SFA's people strategy, providing oversight and challenge to ensure that we:
- attract, develop and retain the talent and skills we need now and in the future
 - improve capability at all levels so that we can effectively deliver our business priorities
 - embed effective performance management across the organisation

Position at the end of the year

Strategic objective	Progress
1: Maintain the current apprenticeship funding system whilst developing the apprenticeship service to enable employers to control funding and recruit high-quality apprentices.	We have achieved this objective
2: Deliver simplified national adult education funding systems (non-apprenticeship) to support government policy.	We have achieved this objective
3: Champion the opportunities for learners and employers to engage in high-quality apprenticeship, traineeship and skills opportunities.	We have achieved this objective
4: Deliver on intervention cases alongside our wider work to increase college sector resilience.	We have achieved this objective
5: Support and monitor the implementation of area reviews including securing solutions for long-term failing colleges.	We have achieved this objective
6: Deliver shared services, through FAS ² T (Funding Agencies Shared Services Team), that enable effective financial, data and digital system management (together with the Education Funding Agency).	We have achieved this objective

Chief Executive's forward look

- 2.13 There have been events between 1 April 2017 and the date the accounts were signed that have a material impact on the EFA:
- 2.14 In March 2017, the Secretary of State for Education announced the replacement of the EFA and SFA with the ESFA. The ESFA became operational from 1 April 2017. The new agency will bring benefits to the individuals and organisations we support as well as to the taxpayer. It will enable a single, joined-up approach to funding and regulation to improve accountability.
- 2.15 As a new agency, the ESFA has much work to do, coming together to provide one central resource for our stakeholders and providing a joined-up service for our customers. Over the next year, I see key areas of focus as:
- championing the opportunities for learners and employers to engage in high-quality education and training opportunities
 - ensuring that both capital programmes and capital funding are delivered efficiently and effectively
 - supporting the government's reform of apprenticeships and the ambition of more high-quality apprenticeships
 - providing accurate and timely funding calculations, data and information to enable the department to make payments of £63 billion of revenue and capital funding to ESFA funded providers
 - ensuring the proper use of public funds through financial assurance undertaken by the ESFA, or by others
- 2.16 Our renewed focus, as one agency and as part of the Department for Education, allows us a new perspective. The creation of the ESFA must be a catalyst for change. What remains fixed though, is the belief that education and skills, especially apprenticeships, can boost economic prosperity and social justice. The ESFA will continue to ensure that its robust funding systems can ensure the maximum amount of money is directed to learners and employers to enable them to reach their desired outcomes. I am confident all my staff share this same vision.

Auditor

- 2.17 The Comptroller and Auditor General appointed by statute audited these accounts and his certificate and report appear on page 78. The notional audit fee incurred for the year was £150,000 (2015-16: £150,000) and relates to the

statutory audit of the SFA's accounts. The NAO, as the SFA's external auditors, provided no other services to the SFA during the year.

- 2.18 So far as I am aware, there is no relevant audit information of which the external auditors are unaware. I and the directors have taken all appropriate steps to become aware of any relevant audit information, and to establish that the external auditors are suitably informed.

Programme assurance

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

Assurances on entitlement to, and proper use of, SFA funding

2.20 As set out in the Accounting Officer's governance statement on page 41, Provider Risk and Assurance (PRA) is responsible for planning, coordinating and carrying out an annual programme of audit and other work to provide assurance over the proper use of public funds that colleges and other training organisations receive. The SFA's Audit and Risk Committee scrutinises the outcomes of this work.

Overview

2.21 The approaches we use to obtain assurance depend on the risks associated with colleges, other training organisations and funding streams. We carry out a programme of direct and indirect assurance and analysis work, ensuring that resources are used effectively and provide an appropriate level of assurance, whilst avoiding duplication. We also take into account other SFA compliance activities, including contract and performance management and data analysis.

2.22 The Higher Education Funding Council for England (HEFCE) funds higher education institutions (HEIs) that are often significant providers of 16 to 18 and adult learning. HEFCE provides assurance to the SFA on HEIs' funding as part of the mutual assurance arrangements between HEFCE and the SFA.

Direct assurance

2.23 As part of our direct assurance work, PRA carries out funding audits at providers, where the focus of the work is to ensure that monies have been drawn down in accordance with the funding rules. Where we identify errors, the funds are recovered. We carry out these reviews on a sample of FE colleges and other training organisations, carrying out both risk-based and random samples. From our random sampling, we make the assumption that the results of the sample are representative of the whole population. This allows us to understand the most likely underlying level of errors across our key funding streams, and the nature of those errors. In addition, PRA carries out responsive work to cover known risk areas. We use information taken from our Risk Analysis Tool, together with referrals from other SFA teams, to identify high-risk providers.

Indirect assurance

2.24 Where we provide grant funding to organisations, such as FE colleges, the SFA places reliance on the audit work that those organisations' auditors and reporting accountants carry out. PRA reviews the findings of external auditors and reporting accountants, alongside other returns required from those organisations, to ensure that they provide the required assurance.

Assurance on grants: further education colleges and other training organisations

2.25 Included in these financial statements are grants to FE colleges and other training organisations that the SFA has paid out during the academic years 2015/16 and 2016/17.

2.26 The mismatch between financial year, to 31 March, and academic year accounting, means we only receive formal assurances on entitlement and the proper use of funds from these colleges and other training organisations after the financial year-end.

2.27 During 2016-17, the SFA paid grants of £1.4 billion (2015-16: £1.25 billion) to FE colleges and other training organisations. All grant funded providers are required to return a year-end funding claim certified by the principal or Chief Accounting Officer. Some 54 colleges received a review of their funding claim for 2015 to 2016, which resulted in audit adjustments of £3.9 million being made. As a result of the reviews, one college received a qualified opinion on its funding claims because of control weaknesses and has agreed an improvement plan to rectify the underlying issues.

2.28 For most colleges, the primary sources of assurance for the SFA's 2016-17 financial statements are the external auditors' opinions on each college's financial statements for the academic year ended 31 July 2016, and their regularity reports as reporting accountants. The regularity assurance engagement at colleges provides limited assurance¹¹ about whether they have applied expenditure and income for the purposes intended by Parliament. This takes place alongside the financial statements audit. In addition, colleges provide the SFA with a statement on regularity, propriety and compliance, signed by the chair and principal on behalf of the governing body. Table 1 below shows the submission status in respect of the academic year 2015/16.

¹¹ Limited assurance engagements are defined as those concluding whether, based on the procedures performed and evidence obtained, anything has arisen that suggests that information is materially misstated.

Table 1: Position of FE colleges in 2015/16, representing £1.2 billion in grant funding (2014/15: £1.79 billion)

	Due	Received	Outstanding
Audited final funding claims	54	54	0
Financial statements audits	238	232	6
Final regularity reports	238	232	6

2.29 To date none of the financial statements opinions have been qualified and there are 5 regularity opinions that have been modified. There are 6 colleges that have their final financial statements audit opinion and regularity opinion outstanding. We are pursuing these outstanding returns.

2.30 The SFA takes assurance from HEFCE on grant funding paid to institutions within their financial oversight arrangements.

Assurance on funding under contracts: private sector and other training organisations

2.31 For 2015/16, PRA has carried out audits at a sample of private sector and other training organisations. This is to ensure that they have properly claimed the funds we provided under their contracts. In total we carried out 126 funding audits; where we have identified errors from those reviews, we have taken action to recover the funds, which amounted to £3.2m.

Sampling methodology and treatment of results for direct assurance work

Provider level

2.32 For mainstream funding, we select a sample of colleges and other training organisations on both a random and a risk basis. This takes into account the information from our Risk Analysis Tool and other SFA information. The selection of other training organisations is biased more towards a random sample but with coverage of those identified as at higher risk.

Learner level

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

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

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

Extrapolation methodology

- 2.35 The extrapolation methodology aims to estimate the full extent of the error across all colleges and other training organisations, taking into account the nature of errors identified.
- 2.36 The outcome of our audits is used to calculate the amount of funds we need to recover from each provider we audit. Statistical techniques are then applied to estimate the most likely level of error across our provider base.

The nature of errors

- 2.37 Almost all of the errors from testing relate to misapplication of our funding rules or insufficient evidence to support the application of the funding rule. It is unusual for colleges or other training organisations to claim funding for ineligible learners or where there is no learner.
- 2.38 We continue to improve the understanding of our funding rules within the sector by clarifying both the rules and evidence requirements. We also provide a data self-assessment toolkit to enable colleges and other training organisations to review their data and correct errors. We also monitor funding to highlight areas of risk to undertake further reviews as part of our contract management of providers and assurance processes.

Financial health

- 2.39 We review the financial health of colleges and other training organisations regularly during the year. For colleges, we review following the submission of the financial plans due 31 July and then again with the submission of the financial statements due 31 December. For other providers, we review financial health following the receipt of their annual financial statements.
- 2.40 As part of the SFA's procurement process we also carry out a financial health assessment for every applicant to the SFA's provider registers. This year we have seen the launch of the Register of Apprenticeship Training Providers (RoATP), in preparation for the introduction of the apprenticeship levy. The SFA maintains separate registers for the main funding streams and which open regularly throughout the year. The ongoing review of financial health is an important element in assessing the risk of current and potential providers.

Intervention

- 2.41 We review the performance of colleges and other training organisations regularly. This is to assess the risk of them failing to provide training that makes efficient and effective use of public funds.
- 2.42 The document [Rigour and responsiveness in skills](#)¹² sets out the policy for intervention with colleges, other training organisations and other bodies that we fund.
- 2.43 If formal intervention is triggered in an FE college, local authority maintained institution, or specialist designated institution, we will issue a Notice of Concern. The notice will set out the matters that need rectifying, the timescale to remedy them, the conditions under which we would lift the notice and any additional conditions of funding during the notice period. Failure to comply with the terms of a notice may lead to further intervention.
- 2.44 We will consider whether to refer cases to the FE Commissioner for review and advice at any point where intervention has been triggered.
- 2.45 The triggers for formal intervention are:
- notification to the college or other training organisation of failure to meet Minimum Standards
 - notification to the college or other training organisation of failure to meet our criteria for financial health or control
 - notification to the college or other training organisation from Ofsted of an inadequate grade at inspection
- 2.46 With training organisations funded under a contract for services, we may terminate the contract with 3 months' notice. In exceptional circumstances, we will issue a Notice of Breach, setting out the conditions the training organisation must meet to continue to receive public funds. Failure to meet the conditions in the notice may lead to termination of the contract.

¹² Rigour and responsiveness in skills: <https://www.gov.uk/government/publications/rigour-and-responsiveness-in-skills>

Number of FE colleges and other training organisations currently under a notice	
FE college, local authority maintained institution, or specialist designated institution	63
Training organisations funded under a contract for services	26
Total	89



Peter Lauener

Chief Executive and Accounting Officer
Education and Skills Funding Agency

13 July 2017

Sustainability

Summary of strategy

- 2.47 The Department for Business, Energy and Industrial Strategy (BEIS) Property Asset Management shared service provides the estate management function. The SFA's environmental policy objectives and environmental improvement projects align with those of the department, which has a single estates strategy. Since November 2016 closer alignment has been made with DfE strategies.
- 2.48 Increasingly, the SFA's staff are co-located in premises that are occupied together with BEIS and DfE partner organisations, such as the Advisory, Conciliation and Arbitration Service (ACAS), The Insolvency Service (INSS), and other government bodies. Our estate also comprises many types of occupancy: some are shared and some are leased as part of multi-occupancy buildings, where the landlord provides services for a service charge. As management of the estate is now devolved, the SFA does not have direct management of its utilities (Scope 2 indirect emissions).
- 2.49 The main direct impacts for the SFA are in its electricity and gas consumption and business travel. No greenhouse gas emissions occur from sources we own or control.

Estate rationalisation

- 2.50 The SFA estate has reduced from 15 sites as at April 2016 to 8 sites by the end of the financial year, reducing floor space by 2,084m² (15%).
- 2.51 This streamlining of the estate has significant operating savings that will continue to be made going forward.

Targets and direction of organisation

- 2.52 We had a target to reduce our CO₂ emissions by 25% by 2016. We achieved this target in the financial year ending 31 March 2015. Emissions continue to decrease.
- 2.53 We will continue to work with our landlords and tenants to achieve the minimum environmental impact and support opportunities for improvement.
- 2.54 We will continue to monitor and manage Scope 3 indirect emissions from business travel that we pay for directly.
- 2.55 The SFA is now an executive agency of DfE. DfE is bound to achieve a 45% reduction of CO₂ by 2020 compared with the 2009/10 baseline.

2.56 The SFA is in a strong position to meet the Greening Government Commitments.

	CO _{2e}	Domestic flights	Landfill waste	Paper usage	Water usage	Procurement
2020 target	-45% of baseline	-30% of baseline	Less than 10% of total waste	-50% of baseline	Internal target	Compliance with government buying standards and reduce supply chain impact and risk
Performance	On track to meet 2,267 CO _{2e} target	On track to meet target of 75 flights	No waste sent to landfill	On track to meet 11,730 A4 ream target		On track with compliance

Performance

2.57 At Cheylesmore House, in Coventry, project works have been completed renewing inefficient light fittings, including emergency lighting. The lighting is efficient with occupancy controls, achieving further energy savings. The annual saving of this new project equates to 151,035kWh, 73 tonnes of carbon and £15,103.

Greenhouse gas (GHG) emissions

Performance Data GHG emissions		2016-17	2015 -16	2014-15	2013-14	2012-13	2011-12
Gross emissions tonne CO ₂	Scope 1 – direct GHG emissions (including sources that the SFA controls)	Nil	Nil	Nil	Nil	Nil	Nil
	Scope 2 – indirect GHG emissions (including electricity supply and gas consumption)	*	*	1,696	1,768	2,100	2,475
	Scope 3 – indirect GHG emissions (including business travel that we pay for directly)	307	450	589	1,063	1,048	1,124

* As the estate is now devolved, we no longer report Scope 2 emissions.

2.58 We promote the use of video and telephone-conferencing facilities to minimise the need to travel for internal and external meetings. In the 5 years since the baseline year of 2011-12, business kilometres travelled has decreased by 4.5%.

Business travel

Table 3: Business Travel	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12
Total km travelled	5,609,638	5,053,905	6,271,325	9,544,067	9,567,932	9,965,401
Business km travelled for each FTE member of staff	6,960	5,691	6,553	7,527	7,600	7,285
Expenditure on business travel (£)	1,469,060	1,339,418	2,135,550	2,967,863	2,899,122	2,511,988

Waste minimisation and management

Site	General Waste	Recycled Waste	Food Waste	Total Waste (kg)
SFA Coventry – Cheylesmore House	88,896	9873	7830	106,599

Biodiversity action planning

2.59 The SFA has a minimal external estate and therefore has not been involved in biodiversity action planning.

Sustainable procurement

2.60 There are national contracts covering the following areas:

- rail, air and accommodation
- car hire
- conferencing
- desktop stationery
- government procurement card

2.61 All the national contracts were awarded through centralised, pre-tendered frameworks owned by the Crown Commercial Service. Therefore, all aspects of sustainability were considered as part of the tender exercises.

2.62 We have implemented the use of 'recycled' copier paper across the SFA estate.

2.63 We have also implemented a range of 'free to use' meetings and events facilities, which are free to use for public sector entities; we also offer our in-house meeting rooms on the same basis for general use when available.

Notes

- 2.64 We used conversion rates from the Department for Environment, Food and Rural Affairs (Defra) to account for carbon.
- 2.65 We have estimated the number of kilometres travelled and the cost for the final month of the year, as not all costs were known before we compiled this report. We made estimates on a straight-line basis using the SFA's actual data for all other periods in the year.

Accountability report

3. Corporate governance report

The directors' report

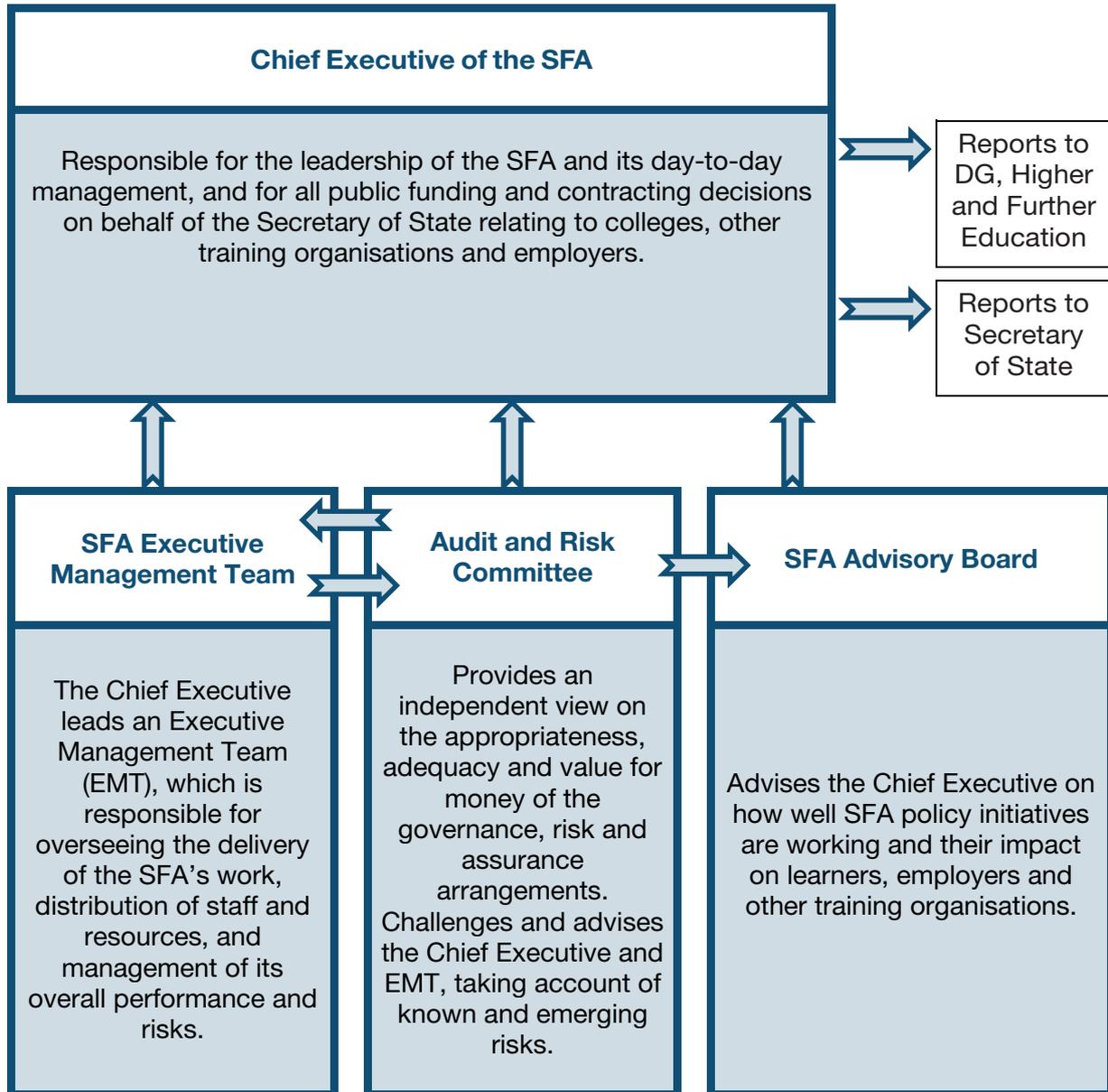
- 3.1 The Skills Funding Agency Executive Management Team (EMT) comprised the Chief Executive and 5 senior SFA officers, up until 31 October 2016. As a result of machinery of government restructuring, a Joint Executive Management Meeting (JEMM) of EFA and SFA directors was established, comprising the Chief Executive, 5 SFA senior officers, and 4 EFA senior officers during the last half of the financial year 2016-17.

Directors

- 3.2 The directors of the SFA are:

	Peter Lauener Chief Executive of the Skills Funding Agency
	Sue Husband Director of the National Apprenticeship Service
	Keith Smith Director of Funding and Programmes
	Peter Mucklow Director of Intervention (joint with EFA)
	Matthew Atkinson Director of the Transactions Unit (seconded from PWC on a managed services contract)
	Simon Parkes Managing Director of Funding Agencies Shared Services Team (until 28 February 2017)

Accountability structure of the SFA



Members of the Skills Funding Agency Advisory Board

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

3.4 In January 2017, the advisory boards of the SFA and EFA merged. The SFA Advisory Board met 3 times (2015-16: 5 times), and the joint EFA/SFA advisory board met twice in the financial year 2016-17. The group is formed of SFA directors as well as external members including:

Member	Role	SFA meetings attended	Joint EFA/SFA meetings attended
Mark Farrar (SFA Chair)	Association of Accounting Technicians (AAT), CEO	3	2
Mark Dawe	Association of Employment and Learning Providers, CEO	2	2
Martin Doel	Further Education Trust for Leadership, Professor of Leadership in Further Education and Skills	3	2
Tim Ward	Third Sector National Learning Alliance, Trustee / Director	2	1
Ian Kinder	UK Commission for Employment and Skills, Chief Executive (stood down in February 2017)	2	0
Nigel Johnson	Independent member (appointed in October 2016)	N/A	2
Les Walton (Joint EFA/SFA chair from January 2017)	Northern Education Associates	3	2

Members of the Audit and Risk Committee

3.5 The committee met 5 times during the financial year 2016-17 (2015-16: 4 times). Two of the members have been drawn from the Advisory Board, including an independent chair; one member has been drawn from the DfE Audit and Risk Committee.

Member	Role	Meetings attended
Mark Farrar (Chair)	AAT, CEO	5
Martin Doel	Further Education Trust for Leadership, Professor of Leadership in Further Education and Skills	5
Nigel Johnson	Independent member	5
Ian Hickman	Northern Education Trust – Chief Operating Officer (Appointed to the Committee in September 2016)	3 (out of 3)

- 3.6 Other attendees are: the Chief Executive of the Skills Funding Agency, representatives from the NAO and representatives from internal audit. Other members of the Skills Funding Agency's senior management also attend regularly to provide information needed to allow the committee to discharge adequately its functions.

Other information

Pension liabilities

- 3.7 Most pension benefits to Skills Funding Agency (SFA) staff are provided by the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded, multi-employer defined benefit scheme. We pay employers' contributions based on pensionable pay for members of the scheme.
- 3.8 We account for benefits of the scheme in line with our policy in accounting policy 1.18 on page 93. More information is available in Remuneration and staff report on page 65.
- 3.9 We are unable to identify our share of the underlying assets and liabilities of the PCSPS. Details are available in the resource accounts of the Cabinet Office: Civil Superannuation at civilservicepensionscheme.org.uk.

Related parties

- 3.10 Note 20 to the accounts on page 108 shows that the EFA is a related party because Peter Lauener is Chief Executive of, and Simon Parkes and Peter Mucklow were directors of, both organisations. No other directors of the SFA hold posts or have significant interests in addition to their role at the SFA that could be viewed as conflicting with their management responsibilities.

Auditor remuneration for non-audit work

- 3.11 The NAO charged a notional fee of £150,000 to audit our accounts for the financial year 2015-16. The NAO undertook no further work on our behalf during this time.

Public sector information: audited

- 3.12 The SFA is a holder of public information but we do not charge for any data we provide.

Political donations

- 3.13 We made no political donations during the year 2016-17 (2015-16: £nil).

Financial instruments and financial risk management

- 3.14 We are exposed to significant credit risk from 2 main sources: the Professional and Career Development Loans (PCDL) programme (as a result of our obligation to fund the cost of student defaults on loans) and, to a lesser extent, from non-payment of debts relating usually to insolvency of provision of learning by commercial and charitable providers. The position for the financial year is shown in note 15 to the accounts.

Important events after 31 March 2017

- 3.15 The Education and Skills Funding Agency (ESFA) was launched in April 2017. The ESFA is an executive agency, sponsored by DfE, and brings together the existing responsibilities of the EFA and SFA, creating a single funding agency accountable for funding education and training for children, young people and adults.
- 3.16 The apprenticeship levy was launched on 6 April 2017.

Future developments

- 3.17 There will be further pressure on the availability of funds to support other FE and adult skills programme areas.

Employee sickness absences

- 3.18 We include details of employee sickness absence in our Remuneration and staff report on page 65.

Report on personal information breaches

- 3.19 All departments are required to report personal data related incidents that have occurred during the financial year in accordance with the standard disclosure format issued by the Cabinet Office.
- 3.20 The Cabinet Office defines a 'personal data related incident' as a loss, unauthorised disclosure or insecure disposal of protected personal data. 'Protected personal data' is data that the department, or its delivery partner, agrees the release or loss of which could cause harm or distress to individuals, including as a minimum:
- information that links one or more identifiable living person with information about them, the release of which would put the person or person at significant risk of harm or distress
 - any source of information about 1,000 or more identifiable individuals, other than information sourced from the public domain

3.21 We had 1 protected personal data related incident that we judged significant enough to report formally to the Information Commissioner's Office in 2016-17 (2015-16: no incidents). This is summarised in the table below:

Summary of protected personal data related incidents formally reported to the Information Commissioner's Office in 2016-17				
Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
March 2017	Possible [suspected] exposure of personal data to an unauthorised third party	Personal data (1,100 individuals) including sensitive personal data (50 individuals) as defined by Data Protection Act 1998	1,100	Individuals, police and ICO notified
Further action on information risk	Subsequent investigation and notifications revealed no evidence of any loss or compromise of personal data to the detriment of any individual.			

3.22 Note: Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

3.23 We had 1 protected personal data related incident reported in 2016-17 (2015-16: no incidents) that did not fall within the criteria for reporting to the Information Commissioner's Office, but that was significant enough for the department to record centrally and at department level. Smaller, localised incidents are not included. This is summarised in the table below:

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	None
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	None
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	None
IV	Unauthorised disclosure	None
V	Other	1

3.24 The information contained in the table above only relates to personal data security for the department and its executive agencies. The department's ALBs will report personal data related incidents in their own statutory accounts.

Statement of the SFA and the Chief Executive's responsibilities

- 3.25 Under section 7 of the Government Resource and Accounts Act 2000 I ensure that SFA prepares, for each financial year, a statement of accounts in the form and on the basis set out in the accounts direction, as determined by the Secretary of State. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of SFA and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.
- 3.26 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the government financial reporting manual (FReM) and in particular to:
- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply consistently suitable accounting policies
 - make reasonable judgements and estimates
 - state whether the SFA has followed applicable accounting standards as set out in FReM
 - disclose and explain any material departures from these standards in the accounts
 - prepare the accounts for SFA as a going concern
- 3.27 The Accounting Officer for the department designated me as Accounting Officer of SFA. As such, I am responsible for the propriety and regularity of the public finances, for keeping proper records and for safeguarding SFA's assets, as set out in Managing Public Money published by HM Treasury. I can confirm that I have discharged these responsibilities properly.
- 3.28 As Accounting Officer, I can confirm that:
- there is no relevant audit information of which the auditor is 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 the SFA's auditor is aware of the information
- 3.29 The annual report and accounts as a whole is fair, balanced and understandable and I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance statement

The purpose of the governance statement

3.30 This statement explains how I, as Chief Executive of the SFA, have put in place arrangements for good corporate governance and reviews of the effectiveness of these arrangements to ensure compliance with HM Treasury's 'Corporate Governance Code'. During the year I have reviewed and maintained these arrangements, including seeking assurance from my Executive Management Team (EMT) that our arrangements for corporate governance have been in operation throughout the whole year.

Scope of responsibility

3.31 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the SFA's policies, aims and objectives, while safeguarding the public funds and SFA assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in HM Treasury's publication 'Managing Public Money' and the requirements of the 'Corporate Governance Code'.

3.32 The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure, to achieve policy aims and objectives. Therefore, it can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the SFA's policy 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

3.33 The system of internal control has been in place in the SFA for the financial year ending 31 March 2017 and up to the date of approval of the 'Annual Report and Accounts', and accords with HM Treasury's guidance.

The organisation's governance framework

3.34 In July 2016, the Prime Minister completed a reshuffle following the EU referendum. Following the resultant machinery of government changes, the Skills Funding Agency is now an executive agency of the Department of Education, exercising functions on behalf of the Secretary of State in relation to procuring funding and managing providers of education and training.

- 3.35 The Chief Executive is responsible for the direction and management of the SFA. The SFA has an Advisory Board with external non-executive members to provide support and challenge in respect of how it carries out its functions on behalf of the Secretary of State. The Advisory Board has met 3 times between 1 April 2016 and October 2016; from January 2017 the Advisory Board merged with the EFA Advisory Board, 2 meetings took place from January 2017 to March 2017.
- 3.36 The organisation has also established an Audit and Risk Committee, drawn from members of the Advisory Board plus a member who sits on the BEIS and DfE Audit Committees. The Audit and Risk Committee has met on 5 occasions.

The risk and internal control framework

- 3.37 Risk management is not a separate function, but rather is embedded within the SFA's management processes; EMT has reviewed and agreed a risk-management policy.
- 3.38 Consistent with risk being the responsibility of all managers, there is no separate post of corporate risk manager. EMT members have each nominated staff to support the recording and dissemination of risk information.
- 3.39 The SFA's key management document, the 'Performance and Risk Report', is the means by which EMT reports progress against our objectives and risks. The 'Protective Security Risk Register' also supports this. We share these documents with the sponsoring department, ministers, our Advisory Board and Audit and Risk Committee. Specific management arrangements support these reporting arrangements within each functional area, with each EMT member responsible for escalating risks from their area of responsibility to the 'Performance and Risk Report'. Furthermore, I continually review risks as part of my one-to-one reviews with each member of EMT to ensure that the process is robust and the correct checks and balances are in place to ensure the SFA is compliant with requirements. If necessary extra measures are put in place to support continuous improvement.
- 3.40 EMT monitors performance throughout the year and receives performance updates every month. Upon review of these updates, EMT considered the quality of the data sufficient to serve EMT's purposes. The data used by EMT is taken from numerous sources across the SFA, the data on performance included in the annual report and accounts has already been shared at points throughout the year with operational boards and EMT. EMT is fully assured that this data, available in the public domain to ensure transparency, is both accurate and reliable.

- 3.41 In addition, EMT reviews the annual report and accounts, which provides an opportunity to challenge any of the data used.

Significant risks and mitigation

- 3.42 **Significant risk 1:** Declining financial health of the FE sector leading to greater demand for intervention and growing pressure for Exceptional Financial Support, resulting in an unfunded pressure on the adult education budget.

- 3.42.1 One of the most significant risks that we have had to manage is the deteriorating financial health of the sector delivering the training provision we fund. We will need to manage this continually over the coming years.
- 3.42.2 We reviewed our early intervention strategy, and published a joint EFA/SFA strategy in December 2016. We put this in place to strengthen the SFA's and EFA's intervention approach, identifying and responding to potential issues at an earlier stage, where SFA data, analytics and/or intelligence gave a clear indication of future risk. The thresholds for undertaking early intervention and prevention activities were developed across both funding agencies and shared with the relevant provider associations.
- 3.42.3 We will continue to mitigate the risks arising from this by analysing early the financial plans of colleges most at risk to establish whether they are sufficiently robust. We will monitor potential cases for intervention by scrutinising college management accounts and other management information. When there are signs of financial weakness, we will intervene early to support those colleges to bring about recovery and any appropriate structural changes.
- 3.42.4 The programme of area reviews in post-16 education and training institutions in every area provided an opportunity for institutions and localities to consider the structure of their provision to ensure it met the need of local communities. The objective of the area reviews was to enable a transition towards fewer, larger, more resilient and efficient training providers, and more effective collaboration across a range of institution types.
- 3.42.5 We are monitoring and reporting on the implementation of area review recommendations on the basis of risk to target intervention resources effectively and to identify and resolve barriers to implementation. We have established new governance processes for agreeing changes to

area review recommendations, eligibility for financial support and escalating where insufficient progress is being made.

- 3.43 **Significant risk 2:** Not meeting the expectations of the apprenticeship service supporting the distribution of the levy to meet employer needs. This would have an adverse impact on the achievement of the government target of 3 million apprenticeship starts by the end of 2020.
- 3.43.1 The apprenticeship service is the digital interface to services designed to support the uptake of apprenticeships. The service is aimed primarily at employers, with information coming from a range of different sources.
- 3.43.2 To ensure the apprenticeship service meets employer needs we worked with policy teams across government and undertook a detailed engagement and communication plans ahead of release.
- 3.44 **Significant risk 3:** Delays in plans to devolve adult education funding to local areas could impact on the timeliness and effectiveness of implementation arrangements.
- 3.44.1 There is a risk that local areas with devolution deals beyond 2018/19 are not ready to take on responsibility for funding colleges and training providers. We mitigated this risk by delivering capacity building workshops for devolved areas, developing and testing arrangements for transition and implementation. Working with DfE, the Department for Culture, Media and Sport, Department for Communities and Local Government and devolved areas, we have developed and implemented an AEB Commissioning Academy support programme for devolved areas, delivering a series of capacity building workshops. We are working with DfE in the development of all readiness conditions attached to the AEB devolution deals.
- 3.44.2 We have established support arrangements for areas with devolution deals to enable them to meet the readiness conditions, ensuring that the appropriate resources are available in line with the 3-year timetable. We ensured appropriate arrangements were put in place for 2016/17 to establish full understanding of adult education provision in commissioning areas, and implemented transitional allocation arrangements in advance of 2018/19 for the 2017 to 2018 funding year.
- 3.45 **Significant risk 4:** The increased provider funding error rate may be indicative of weak financial controls within the sector. If unchecked, and an upward trend in

the error rate continues, this could limit assurance over the proper use of public funds that colleges and other training organisations receive.

- 3.45.1 To help understand the causes of the increased error rates, particularly in the college sector, we have looked at the characteristics and common factors of those providers with increased audit error rates. The review considered a number of factors including: size, financial health, level of subcontracting and history of audit. Whilst there was no one single common factor, it is recognised that a number of colleges were undergoing significant organisational change during this period, including mergers, staff restructuring as part of financial recovery and preparing for the introduction of new funding programmes. Organisational change places stretch across all college resources, but it was noted that where colleges operate with small management and data information teams, this adversely impacted upon the audit results.
- 3.45.2 The analysis of error rates has fed into the development of a cross-agency action plan to address the nature and causes of the increased error rates. One of the key aims of the plan is to increase the briefing and training of providers and college staff of data related issues, raising the profile and importance of having effective management information teams and ensuring that full use is made of the funding and monitoring reports provided by the SFA to ensure data is accurate and complete.
- 3.45.3 The implementation of the plan is ongoing and also includes greater stakeholder engagement, with the objective of increasing and raising the profile of strong data management and effective and robust internal control arrangements. The plan recognises this is particularly critical for providers going through re-organisation and implementing the new requirements of funding programmes.
- 3.45.4 The action plan also strengthens internal arrangements for the early identification and review of emerging errors. This will ensure the SFA takes timely corrective action, intervening with providers at an earlier stage if appropriate, but also ensuring there is an ongoing review of guidance and procedures where providers consistently misinterpret the funding rules.

Audit Committee

- 3.46 We have a properly constituted Audit and Risk Committee, which has met 5 times during the year. It consists of non-executive Advisory Board members and other attendees, including a representative from DfE, the Government Internal Audit Agency (GIAA) and from the NAO. Its terms of reference reflect best

practice and we review them regularly. In addition, the committee has during the year assessed its own effectiveness using a questionnaire from the NAO.

- 3.47 The committee has considered reports from GIAA on the system of internal control, risk management and governance, and from the joint EFA and SFA Provider Risk Assurance division on the systems of control and use of public funds in colleges and other training organisations. The committee provided robust challenge and valuable support during the year and I wish to record my appreciation for that service.
- 3.48 The data used by the Board is taken from numerous sources across the SFA, and is subject to robust scrutiny and independent audit. The Board is fully assured that this data, available in the public domain to ensure transparency, is both accurate and reliable.
- 3.49 The committee has recommended to the Chief Executive that this statement is an appropriate report on the risks the SFA faces and the processes and controls around them to manage those risks.

The Executive Management Team

- 3.50 EMT comprised the Chief Executive and 5 senior SFA officers, up until 31 October 2016. Following the machinery of government changes, EMT expanded to the Chief Executive, 5 SFA senior officers, and 4 EFA senior officers during the last half of 2016 to 2017.
- 3.51 The Joint Executive Management Meeting (JEMM) meets weekly by telephone conference call and formally each month, which includes considering:
- corporate and operational performance and monitoring corporate risks that face the SFA
 - progress in taking these matters forward
 - mitigating and/or corrective action, where necessary
 - compliance with statutory and regulatory obligation

Internal audit

- 3.52 We maintain a professional and independent internal audit service, which is provided through GIAA. The Internal Audit team has direct access to the Chief Executive, and the Chief Internal Auditor has met regularly with the Chief Executive during the year. The team provided regular reports to the Chief Executive on audit findings, including progress against the internal audit plan and confirmation that all internal audit recommendations have been followed up and/ or implemented. Internal audit work was targeted towards the higher-risk areas.

- 3.53 The Chief Internal Auditor also has direct access to the Chair of the Audit and Risk Committee as well as the DfE Group Chief Internal Auditor. The Internal Audit team may also conduct audits jointly with DfE Internal Audit. The Chief Internal Auditor receives, or has access to, any SFA documents on request and may attend any JEMM meeting.
- 3.54 I received an Annual Internal Audit Report from the Chief Internal Auditor on findings, which included a professional opinion as to the level of control assurance that was applicable to the SFA.
- 3.55 For 2016-17 the Chief Internal Auditor has concluded that, overall, the SFA has maintained sound systems of governance, internal control and risk management, but that there were some weaknesses to rectify.
- 3.56 During the year the Chief Internal Audit Auditor has identified a number of significant issues that need to be rectified and managed going forward:
- 3.56.1 **EFA/SFA merger** – during the year, the SFA has had to deal with a significant amount of change, including its own reorganisation and the transfer of staff and activities to the Funding Agencies Shared Services team (FAS²T). We encountered some administrative challenges, for example debt management and internal governance processes such as ensuring staff declare any conflicts of interest. The creation of the ESFA offers the opportunity to ensure such identified weaknesses are addressed and uniform practices are adopted.
- 3.56.2 **Apprenticeship levy** – the significance of the levy should not be underestimated. Internal Audit commented that we needed to manage emerging risks effectively. As a consequence, we introduced robust internal work streams to support the implementation of the levy. This was done with some urgency to ensure the business would be able to accept the introduction of the levy IT applications, coordinate activity with HMRC and allow sufficient time for employers to prepare. Subsequently Internal Audit supported assurance mapping across the end-to-end process of the apprenticeship levy and their attendance of respective programme boards has offered assurance that risks were being managed. Further reviews are planned in 2017-18.
- 3.56.3 **Area reviews** – area reviews and the subsequent implementation of the recommendations that included an audit of the newly formed Transaction Unit were found by Internal Audit to have strong processes and effective risk management operating. Internal Audit highlighted that significant challenges are still being faced and to deliver the objective within the timescales will require significant resource, cooperating and

expertise along with management of expectations. Internal Audit will carry out further work in 2017-18.

3.56.4 **Security protective framework** – Internal Audit concluded in its reviews over the year that although there were reasonably effective protective security arrangements, some elements of the governance, cyber security and being prepared for security incidents were insufficient. This was due to the challenges of internal reorganisation, machinery of government changes and the significant ICT infrastructure and application management transformations.

3.57 These are risks that I am monitoring.

3.58 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. I take into consideration the findings in internal audit reports when assessing the performance of EMT members.

Counter-fraud strategy

3.59 The SFA categorises activity as fraudulent when an investigation establishes that an individual or organisation provided information or documents that they knew to be false in order for them to make gain for themselves or another. Where a mistake or misunderstanding results in the individual or organisation claiming and receiving an incorrect amount, this is classed as error.

3.60 Our aim is to reduce risk of loss to the public purse from fraud and error in the services we provide on behalf of government and, over the longer term, joining up our approach across government to reduce the risk of wider financial loss. This includes an NAO review and comparison of the SFA's and EFA's approach to investigations.

3.61 We continually review our counter fraud approach and have continued to work closely with the NAO, Cabinet Office, DfE and its partners during the year to share best practice in this area of work. The nature of fraud is itself constantly changing, presenting fresh challenges we need to anticipate, intercept and prevent.

3.62 Our participation in fraud challenge panels and our close working with other government departments and agencies allows us to access information about the latest fraud trends and to influence emerging solutions in the public sector. We are implementing wider cultural and organisational development which is a long- term ongoing objective involving organisation-wide education and awareness development.

- 3.63 As Accounting Officer, I have a duty to safeguard public funds and ensure the SFA complies with HM Treasury's requirements in its publication 'Managing Public Money'. In support of this the SFA is committed to having in place the following:
- a senior director at board level with the lead on counter-fraud
 - a deputy director responsible for the coordination of the strategy and delivery of its objectives
 - an internal investigations function
 - an internal audit function
 - further development for all staff on identifying potential fraud and error
- 3.64 During 2016-17, the investigations team brought forward 20 cases from 2015-16 and received 53 new allegations of fraud and/or financial irregularity giving a total of 73. Of these:
- 24 cases did not have sufficient weight and/or detail to proceed to an investigation
 - 29 investigations were closed
 - 20 cases in progress have been carried forward into 2017/18
- 3.65 Funds totalling £2,103,063 were identified for recovery in 2016-17, of which £1,445,789 has been classified as error and £657,274 as irregularity. As at 31 March 2017, a total of £1,816,497 has been recovered. Work is ongoing to process the remaining amounts to be recovered.

Provider Risk and Assurance

- 3.66 As Accounting Officer I am required to be satisfied that those organisations that the SFA funds make proper use of public money.
- 3.67 On 1 April 2016, the Skills Funding Agency (SFA) Provider Financial Management and Assurance (PFMA) team merged with the Education Funding Agency (EFA) Risk Analysis Division (RAD) to form a single entity, Provider Risk and Assurance (PRA).
- 3.68 PRA provides assurance to the SFA and EFA Accounting Officer over the use of public funds in the education and skills sectors. The team also provides specialist support for financial intervention and investigations into allegations of fraud and financial irregularity. In October 2016, the SFA's Investigation Unit transferred from the SFA's Programme Delivery and Implementation division into PRA.
- 3.69 For SFA funds, PRA's assurance programme includes:
- coordinating and delivering a programme of funding audits at colleges and

- private training providers
 - undertaking financial health assessments of college financial plans and finance records
 - undertaking financial health assessments of non-exempt training providers, applicants to the contracts register and private training providers
 - reviewing further sources of assurance for colleges funded under a financial memorandum, including the results of work carried out by their external auditors
- 3.70 In the financial year 2016-17, PRA's work included sampling across key funding streams in their entirety. The results of this work, based upon the sampling provides a statistically representative picture of the level of error in providers' funding data. The population tested includes high-risk areas, ensuring comprehensive coverage, but is not biased towards these areas and therefore allows the results to be used as representative of the population.
- 3.71 The result of this work is that the residual error rate, which is the net position after audit funding adjustments have been made, is 1.15% (2015-16 0.82%). This is higher than last year, although comparable with the range of errors over the last few years. Errors are mainly data error by the provider and are not indicative of fraud. We refer any suspected fraud to our investigations team. The SFA has a detailed action plan of how it will work with providers to address these errors going forward, which includes working with external stakeholders. The action plan is owned collectively across the SFA, with overall responsibility with Keith Smith in his Senior Responsible Officer role as Director of Funding and Programmes. The action plan aims to address weaknesses and errors identified from funding audits, and covers such areas as:
- developing closer working relationships between internal compliance teams
 - developing an assurance strategy to address risks identified in 2016-17
 - improving external stakeholder communication
 - making better use of existing networks to share good practice, and
 - revisiting the way we share audit findings and how we communicate with the sector

Financial management

- 3.72 As Accounting Officer, I had responsibility to ensure that there were effective systems to manage and monitor all funds granted to me. I am content that overall processes, controls, risk management and fraud prevention strategies delivered good financial management, propriety, regularity and value for money.

I have received assurances from all of my direct reports that effective systems are working in their individual areas of responsibility.

- 3.73 I can confirm that there were generally effective systems to manage and monitor the funds I was responsible for in line with DfE financial rules and procedures, and that we maintained accurate financial records.
- 3.74 I also confirm that funds were spent on achieving the outputs and outcomes detailed in my funding letter from the Secretary of State for Business, Innovation and Skills. In addition, the SFA has complied with all Cabinet Office spending controls, receiving the appropriate approvals whenever required.
- 3.75 The Financial Management, Performance and Planning team (FMPP) report monthly, or as requested, to EMT and elsewhere as required. The financial reporting covers a range of information including outturn position to date and year end forecasts.

Shared services

- 3.76 The department's operating model uses a range of shared services, detailed in the notes to our accounts, that provide many of our business systems to protect business continuity. The relevant corporate board reviews and challenges the quality of these services and the board escalates issues to me if required.

Review of effectiveness

- 3.77 As Accounting Officer, I have responsibility for reviewing the effectiveness of the SFA's system of governance, risk management and internal control. My review of the effectiveness of our systems is informed by:
- the work of the GIAA
 - EMT (which is responsible for the development and maintenance of the internal control framework)
 - the NAO (our external auditor), in its management letters and other reports
- 3.78 I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Committee, EMT and the Internal Audit team, and we have a plan to rectify weaknesses and ensure continuous improvement of the system.

Information assurance and protective security

- 3.79 During the financial year 2016-17, the security aspects of the SFA were transferred for delivery by a joint EFA/SFA shared services team, with a new Senior Information Risk Officer (SIRO) from that shared service. The SFA appointed a Deputy SIRO role to ensure that governance controls were maintained under this new arrangement. Protective security duties, including

operational security responsibilities, were transferred to the shared service, with SFA staff continuing to cover data sharing, records management, business continuity and physical security.

- 3.80 The Deputy SIRO continued to chair meetings of the Protective Security Governance Board (PSGB), meeting every 2 months, and supported by a variety of lower-level divisional security working groups, dealing with lower-level risk and escalating issues to the PSGB when required.
- 3.81 The SFA decided, following an assessment of the impact of machinery of government changes and risk review, to revisit governance arrangements. This is being taken forward by the newly-established ESFA at the start of the new accounting period.
- 3.82 Against a backcloth of 7 successful office moves since previous inspections, a further round of physical security surveys at SFA-occupied sites took place in late 2016 onwards. These confirmed that security arrangements remain commensurate with the data handled and senior field staff continue to manage low-level risk.

At the end of the accounting period, it was considered appropriate to report a single data security incident to the Information Commissioner's Office (ICO), although no evidence of data loss, or consequent damage to any individual was identified. During the 2017 to 2018 accounting period, the ESFA will continue to manage protective security risk transferred following closure of the SFA.

Public Accounts Committee

- 3.83 The Public Accounts Committee made a number of significant recommendations in December 2015 about the financial stability of the FE sector and highlighted concerns that intervention was often used as a blunt tool when preventative measures could often have been made earlier. I appeared before the committee in March 2016 and gave evidence on the progress the SFA had made in this area, in particular detailing how the SFA had strengthened its approach to risk and intervention.

Conclusion

- 3.84 I believe that the risks the SFA faced in the financial year 2016-17 were managed effectively. I do not believe that there were any material adverse effects on our learners or the taxpayer. The SFA's processes and practices have been enhanced but, as always, there is more still to do.
- 3.85 As Accounting Officer I am satisfied based on the review outlined above that the SFA has a sound system of governance, risk management and internal control

that supports its aims and objectives and were compliant with 'Managing Public Money' requirements during 2016-17.

Accounts direction and statutory background

- 3.86 We have prepared these accounts under an accounts direction issued by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

Financial commentary

- 3.87 The SFA underspent by £156.8 million (4.6%) against its total budget. This crystallised afterunders the SFA mid-year budgets were agreed which included an allowance for costs relating to the implementation of area reviews for which the timing was uncertain. The underspend resulted from a combination of the timing of area reviews and some underperformance in the sector.
- 3.88 The value of non-current assets at 31 March 2017 was £64.4 million. The increase of £19 million on last year was due to the transfer of the Exceptional Funding Support loan book from the department to SFA, and because investment during the year in new IT systems was less than the value consumed in the year.
- 3.89 The SFA's receivable balances continued its downward trend, decreasing to £79.2 million (31 March 2016: £120.2 million). The decrease is largely due to a reduction in FE receivables and amounts owed to the SFA by the European Social Fund 2007 to 2013 programme.
- 3.90 At 31 March 2017, the SFA held cash balances of £269.6 million (31 March 2016: £268.5 million), including funds drawn down from the ESF. This reflects the cash inflow as a consequence of the 2007 to 2013 programme coming to an end.
- 3.91 At 31 March 2017, the SFA had payable balances of £183.7 million (31 March 2016: £233.6 million). The decrease is largely due to a reduction in accruals. Funding is allocated to some colleges and other training organisations on an estimated basis, with final entitlement for a period dependent upon the outcome of agreed deliverables in that period. The March balance includes the recovery of funds payable following the settlement of final claims.
- 3.92 International Financial Reporting Standard (IFRS) 7 requires organisations to disclose information on the significance of financial instruments to their financial position and performance. We show this in note 9 to the accounts.
- 3.93 The most significant credit risk to the SFA arises from the failure of learners to repay loans provided to them under the Professional and Career Development Loan (PCDL) programme. In such circumstances, the SFA has an obligation to

the bank that provided the loan to reimburse the loss arising from the default. The position for 2016-17 is shown in note 15 to the accounts.

- 3.94 Another credit risk to the SFA arises from the non-payment of debts owed by private sector training organisations contracted to provide training services. The financial impact of this is largely attributable to training organisations' insolvency. The overall financial impact is currently not material. See Losses and special payments on page 76.
- 3.95 The SFA operates an unfunded multi-employer defined benefit pension provided by the Principal Civil Service Pension Scheme (PCSPS). We paid employer contributions of £5.7 million during the year (2015 to 2016: £7.6 million) but we are unable to identify our share of the underlying assets and liabilities. Further information is available in the Remuneration and staff report on page 65 and on the [civil service pensions](#) website¹³.

Development and performance

- 3.96 The accounts cover the period from 1 April 2016 to 31 March 2017.
- 3.97 DfE funds the SFA and in the financial year to March 2017 it provided £3.29 billion (2015-16: £3.32 billion).
- 3.98 The results for the financial year to 31 March 2017 show net operating expenditure (expenditure less other income) of £3.26 billion (2015-16: £3.32 billion).
- 3.99 The total value of capital assets used in the delivery of the SFA's services at 31 March 2017 was £39.3 million compared to £45.3 million at 31 March 2016. Capital spend in the year of £10.3 million was mainly on computer systems. The total value of capital assets decreased during the year because investment in new assets was less than the value consumed in the year.
- 3.100 The Late Payment of Commercial Debts (Interest) Act 1998 requires government bodies, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services, or the date on which the invoice was received. The target set by the Cabinet Office for payment to suppliers within 30 days is 95%. In the financial year to March 2017, we paid 99.2% of our invoices within 30 days (2015-16: 99.3%) and 94.4% of our invoices within 3 days (2015-16: 92.9%). We incurred £0.00 charges in respect of late payments for the financial year to March 2017 (2015-16: £nil).

¹³ Civil Service pensions website: <http://www.civilservicepensionscheme.org.uk/>

- 3.101 The SFA paid no political or charitable donations in the financial year to March 2016 (2015 to 2016: £nil).
- 3.102 Note 20 to the accounts shows the related party interests of the SFA and its senior staff, the most significant of which is the EFA, as we share the same Chief Executive, Peter Lauener.

Main trends and factors underlying development and performance

- 3.103 Between the financial years 2011-12 and 2014-15 we saved over £130 million on administration costs against a target for the same period of £120 million. In this financial year we have continued to make progress on identifying and delivering savings: administration costs were £77 million for the 12 months to March 2017, compared with £90.4 million for the same period last year.
- 3.104 Overall programme expenditure was £3.22 billion, which is lower than the previous financial year total of £3.44 billion. This reflects a reduction in the delivery of recurrent programmes in line with the reduction in funding available from DfE. It also reflects the transfer of responsibility for funding capital projects at FE colleges from the SFA to LEPs.
- 3.105 The government is committed to delivering 3 million apprenticeship starts by the end of 2020 and to continue to drive forward reforms with the introduction of the apprenticeship levy from April 2017. This enables employers to influence the design and delivery of apprenticeships.
- 3.106 In 2016-17, the availability of Advanced Learner Loans was extended from those aged 24 and above to those aged 19 to 23. The continuing diversification of funding routes will lead to fairer cost sharing and give service users greater control of funding decisions.
- 3.107 In 2015-16, the government announced its support of the establishment of 5 National Colleges; in 2016 to 2017 the SFA invested £25.9 million of capital funding in this programme. The colleges will deliver higher-level technical skills in industries and sectors that are vital to economic growth and productivity.
- 3.108 We will continue to pursue simplification and efficiency in our operations. We will achieve some of this through the merger of the SFA with the EFA to create the Education and Skills Funding Agency on 1 April 2017, and through sharing central services such as IT and Finance with the department.
- 3.109 The SFA expects to receive £517.8 million in ESF funding spread over the next 2 financial years. In 2016-17, SFA received £30.8 million of EU income with the larger share expected to be claimed in 2017-18. It is not thought this level of

funding will change significantly until at least when the negotiations to complete the UK's exit from the European Union are finalised.

Going concern

- 3.110 The statement of financial position at 31 March 2017 shows net assets of £220.7 million (31 March 2016: £159.6 million net assets).
- 3.111 Funding from the department, taking into account the amount required to meet the SFA's liabilities falling due in the year, has already been included in the department's Estimates for that year. Parliament has approved these Estimates and there is no reason to believe that the department's future sponsorship and future Parliamentary approval will not be forthcoming. The SFA will transfer all assets, liabilities and activities at book value to the newly created ESFA from April 2017. All functions will continue and SFA funding will be received by the ESFA.
- 3.112 It is appropriate, therefore, under the FReM to prepare these accounts on a going concern basis.



Peter Lauener

Chief Executive and Accounting Officer
Education and Skills Funding Agency

13 July 2017

4. Remuneration and staff report

Chief Executive and Executive Management Board members' remuneration policy

- 4.1 The Chief Executive and all executive management board members are senior civil servants whose pay is decided by the senior civil servant pay committee, chaired by the Permanent Secretary, and comprising members of the department's Management Committee and a non-executive director. The senior civil servant pay committee makes decisions within the limits and delegated authorities set by the government in response to the annual report of the Senior Salaries Review Body.
- 4.2 As staff employed by an executive agency of the department, the Executive Management Board's performance management and contractual terms are as described in the department's AR&A. As such, the department manages performance management and non-consolidated performance award for members of the senior civil service within the framework set by the Cabinet Office. The contractual terms of Executive Management Board members also comply with requirements set centrally by the [Cabinet Office](#)¹⁴.
- 4.3 Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the [Civil Service Compensation Scheme](#)¹⁵.

¹⁴ Cabinet Office Framework: <https://www.gov.uk/government/organisations/civil-service>

¹⁵ Civil service commission: <http://www.civilservicecommission.org.uk/>

Remuneration (salary, bonuses and pensions)

4.4 This section of the Remuneration and staff report is subject to audit.

Officials

	2016-17				2015-16			
	Salary £000	Bonus payments £000	Pension benefits £000	Total £000	Salary £000	Bonus payments £000	Pension benefits £000	Total £000
Chief Executive								
Peter Lauener (1)	140-145	-	5-10	145-150	140-145	-	35-40	175-180
Directors								
Sue Husband (2)	105-110	-	40-45	145-150	105-110	-	25-35	130-145
Peter Mucklow (2,5)	90-95	5-10	20-25	125-130	90-95	-	25-30	115-120
Simon Parkes (2,3)	125-130 (135-140)	5-10	15-20	150-155	135-140	10-15	55-60	200-205
Kirsty Evans (2,4)	45-50 (75-80)	5-10	5-10	55-60				
Keith Smith (2)	110-115	5-10	35-40	155-160	110-115	10-15	25-30	145-160

- (1) Peter Lauener is joint Chief Executive of the EFA and SFA and his costs are split equally between the two agencies, EFA recovers 50% of his costs from SFA.
- (2) Joint directors of the EFA and SFA, also disclosed in the EFA remuneration report.
- (3) Simon Parkes was the Managing Director of Funding Agencies Shared Services Team until 28 February 2017. Simon was an employee of the EFA and did not receive remuneration from the SFA. His time was split equally between EFA and SFA roles. The remuneration shown is the total received for working for both agencies.
- (4) Kirsty Evans was a member of Executive Management Board from 2 July 2016 to 31 October 2016. Kirsty Evans was not a member of the Executive Management Board in 2015 to 2016 hence no costs disclosed.
- (5) Peter Mucklow is an employee of the EFA and does not receive remuneration from the SFA. His time is split equally between EFA and SFA roles. The remuneration shown is the total received for working for both agencies.

4.5 Matthew Atkinson, currently seconded from PwC (as part of a managed service contract to a value of £286,000) is on the Executive Management Board. He was not a civil servant at any point during 2016-17.

4.6 Salary includes gross salary; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the SFA and thus recorded in these accounts.

4.7 The SFA awards bonuses as part of the performance management process. The SFA sees effective performance management as key to driving up individual and organisational performance and providing greater value for money to deliver high-quality public services. The SFA follows the arrangements for the senior civil servants as set out in the [Performance Management arrangements for the Senior Civil Service¹⁶](#), and the SFA's performance management framework for

¹⁶ Performance management arrangements for senior civil servants:
<https://www.gov.uk/government/publications/senior-civil-service-performance-management>

managing and rewarding performance throughout the year. Bonuses relate to the performance in the year prior to that in which they become payable to the individual. The bonuses reported in 2016-17 relate to the performance in 2015-16 and the comparative bonuses reported for 2015-16 relate to the performance in 2014-15.

- 4.8 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Pension benefits

- 4.9 This section of the remuneration and staff report is subject to audit.

Civil service pensions

- 4.10 As an executive agency of the department, the SFA's staff are members of the Principal Civil Service Pension Scheme that provides pension benefits. The DfE's AR&A provide information on these arrangements, so we do not reproduce them here. You can find details on the scheme at the [civil service pensions website](#)¹⁷.

Cash equivalent transfer values

- 4.11 A cash equivalent transfer value 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 cash equivalent transfer value 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.
- 4.12 The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the principal civil service pension scheme. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. Cash equivalent transfer values are worked out in accordance with *The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008* and do not take account of any actual or potential reduction to benefits

¹⁷ Civil service pension scheme: <http://www.civilservicepensionscheme.org.uk/>

resulting from lifetime allowance tax which may be due when pension benefits are taken.

The real increase in the value of the cash equivalent transfer value

4.13 This reflects the increase in cash equivalent transfer value that is funded by the employer. It does not include the increase in accrued pension due to inflation, 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.

Officials

	Accrued pension at pension age as at 31 March 2017 and (related lump sum at pension)	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV	Employer contribution to partnership pension account Nearest £000
	£000	£000	£000	£000	£000	£000
Chief Executive						
Peter Lauener (1)	70-75 (215-220)	0-2.5	1,626	1,607	8	-
Directors						
Sue Husband	5-10	0-2.5	72	47	16	-
Peter Mucklow	35-40 (105-110)	0-2.5	725	674	20	-
Simon Parkes (2)	30-35 (0-5)	0-2.5	429	416	7	-
Kirsty Evans (3)	15-20 (40-45)	0-2.5	248	237	7	-
Keith Smith (4)	35-40 (90-95)	0-2.5	510	472	14	-

1. Peter Lauener is also Chief Executive of the EFA. These values reflect the full pension benefits due to him. It is not possible to determine what portion of the pension, lump sum and CETV relate to the SFA or EFA. These values are also reported in full in the EFA's Annual Report and Accounts.
2. Simon Parkes was the Managing Director of Funding Agencies Shared Services Team until 28 February 2017.
3. Kirsty Evans was a member of Executive Management Board from 2 July 2016 to 31 October 2016.
4. Due to pension actuaries fluctuations, the pension benefit reported in 2015-16 was £480,000.

Fair pay disclosure

4.14 This section of the remuneration and staff report is subject to audit.

4.15 The Hutton fair pay disclosure for SFA is as follows:

	2016-17	2015-16
Band of highest paid director's remuneration (£000)	140-145	140-145
Median (£000)	38	37
Range (£000)	14-141	14-141
Remuneration ratio	3.8	3.8

4.16 Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

4.17 In 2016-17, no employees (2015 to 2016: nil) received remuneration in excess of the highest paid director. Remuneration ranged from £14,000 to £141,000 (2015-16 £14,000 to £141,000). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Staff report

Staff costs: audited

4.18 The staff costs for SFA were £51.5 million (2015-16: £63.1 million) and the average number of full-time equivalent staff employed during the year was 806 (2015-16: 972).

	2016-17			2015-16		
	Permanently employed staff £000	Others £000	Total £000	Permanently employed staff £000	Others £000	Total £000
Wages and salaries	26,942	15,890	42,832	36,480	6,798	43,278
Social security costs	2,969	-	2,969	3,162	-	3,162
Pension costs	5,691	-	5,691	7,596	-	7,596
Redundancy costs	7	-	7	9,051	-	9,051
	35,609	15,890	51,499	56,289	6,798	63,087
Less recoveries in respect of outward secondments	(2,709)	-	(2,709)	(113)	-	(113)
	32,900	15,890	48,790	56,176	6,798	62,974
Less staff costs related to programme	(10,722)	(5,869)	(16,591)	(18,286)	-	(18,286)
Total net staff costs	22,178	10,021	32,199	37,890	6,798	44,688

Average number of persons employed: audited

4.19 The average number of whole-time equivalent persons employed during the year was as follows:

	2016-17			2015-16 Restated		
	Permanently employed staff Number	Others Number	Total Number	Permanently employed staff Number	Others Number	Total Number
Apprenticeships	104	1	105	244	2	246
Office of the Chief Executive	24	-	24	33	-	33
Funding and Programmes	217	-	217	226	-	226
Operations	290	170	460	369	98	467
	635	171	806	872	100	972

4.20 The 2015-16 published 'Other staff number' was incorrectly stated as the number of staff in post at 31 March 2016; this figure has been amended to the average number of persons employed throughout the year.

4.21 The SFA pays a flat fee for agency staff, which includes social security, holiday pay, pension costs etc. This note discloses the total sum as wages and salaries.

Pension schemes: audited

4.22 The SFA operates a range of pension schemes for its employees, dependent upon the employees' role. The schemes are described further below and in note 1.17 on page 91.

Principal Civil Service Pension Scheme (PCSPS)

4.23 Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the PCSPS. The PCSPS has 4 sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and 1 providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

4.24 These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within

10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

- 4.25 Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial 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.
- 4.26 Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the *Finance Act 2004*.

Partnership pension

- 4.27 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic

contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

- 4.28 The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the 2 schemes, but note that part of that pension may be payable from different ages.)
- 4.29 Further details about the Civil Service pension arrangements can be found at the [civil service pensions](#) website¹⁸.
- 4.30 For 2016-17, SFA made employers' contributions of £5.7 million to the PCSPS (2015-16: £7.6 million).
- 4.31 No individuals retired early on ill-health grounds (2015-16: nil).

Partnership pension accounts

- 4.32 Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. The SFA paid employers' contributions of £38,335 (2015-16: £45,585) in relation to its own staff to one or more of the panel of three appointed stakeholder pension providers.
- 4.33 Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and 8.0% to 14.75% from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, SFA paid employer contributions of £1,286 (2015-16: £1,782) 0.8% of pensionable pay, to the principal civil service pension scheme to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.
- 4.34 Contributions due to the partnership pension providers at the balance sheet date were £nil (2015-16: £nil). Contributions prepaid at that date were nil (2015-16: £nil).

Reporting of civil service and other compensation schemes: subject to audit

- 4.35 During both 2016-17 and 2015-16, SFA staff could choose voluntary exit under an early departure programme. As part of this programme, the SFA meets the

¹⁸ Civil Service Pension Scheme: <http://www.civilservicepensionscheme.org.uk/>

additional costs of benefits in respect of employees who retire early and of compensation payments payable to employees who take early severance.

- 4.36 The SFA has paid redundancy and other departure costs in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the *Superannuation Act 1972*. The SFA has accounted for exit costs in full in the year of departure. Where SFA has agreed early retirements, SFA has met the additional costs and not the civil service pension scheme. The scheme has met the ill-health retirement costs and such costs are not included in the table.

Exit package cost	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
<£10,000	-	-	4	15	4	15
£10,001 - £25,000	-	-	12	37	12	37
£25,001 - £50,000	1	4	7	80	8	84
£50,001 - £100,000	-	-	4	89	4	89
£100,001 - £150,000	-	-	-	-	-	-
£150,001 - £200,000	-	-	-	-	-	-
Total number of exit packages	1	4	27	221	28	225
Total resource cost (£000)	30	119	660	10,435	690	10,554

Analysis of staff policies and practice

Sickness absence

- 4.37 During the year, we lost 2,931 days to sickness absence (2015-16: 4,349). This equates to approximately 4.6 days' sickness absence per employee per year (2015-16: 4.9 days).

People management

- 4.38 The SFA has a diversity delivery plan. This plan sets out the objective to be an exemplary equal opportunities employer, to create a workplace that values diversity and to be free from unfair discrimination. The SFA's policies include explicitly the employment of disabled people, women, lesbian, gay, bisexual and transgender people and black and minority ethnic staff.
- 4.39 Our staff are a mix of civil servants and contractors. Our civil servants are employed by the department on its terms and conditions. Responsibility has been delegated to me for the recruitment of staff within the parameters provided

by the department's policies and procedures. Our staff profile, as at 31 March 2017, for full time equivalents, is as detailed.

4.40 At March 2017, our staff headcount figures, for permanent staff, was as follows.

Grade	Male	Female	Total
CEO	1	-	1
Executive director	1	1	2
Deputy director	2	10	12
G6	31	27	58
G7	63	81	144
SEO	72	74	146
HEO	69	112	181
EO	38	37	75
EA	3	15	18
AA	1	2	3
	281	359	640

Expenditure on consultancy

4.41 The SFA spent £nil on consultancy in 2016-17 (2015-16: £nil).

Off payroll engagements

4.42 As part of the *Review of Tax Arrangements of Public Sector Appointees* published by the Chief Secretary to the Treasury on 23 May 2012, departments were directed to publish information pertaining to the number of off-payroll engagements, at a cost of over £58,200, that were in place on, or after, 31 January 2012 and any off-payroll engagements of board members, and/or senior officials with significant financial responsibility between 1 March 2016 and 31 March 2017. The tables below set out this information.

4.43 For all arrangements that have existed as of 31 March 2017, for more than £220 per day and that lasted longer than 6 months.

	2016-17
No. of existing engagements as of 31 March 2017	
Of which:	
No. that have existed for less than one year at time of reporting	16
No. that have existed for between one and two years at time of reporting	4
No. that have existed for between two and three years at time of reporting	-
No. that have existed for between three and four years at time of reporting	-
No. that have existed for four or more years at time of reporting	-
Engagements as at 31 March 2017	20

- 4.44 As of 31 March 2016, there were 37 individuals who were employed by means of contracts for services as opposed to contracts of employment.
- 4.45 All existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax, and where necessary, that assurance has been sought.
- 4.46 There were no new off-payroll engagements, or any that reached 6 months in duration, between 1 April 2016 and 31 March 2017, for more than £220 a day and that last for longer than 6 months.
- 4.47 There were no off-payroll engagements of board members, and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017.

5. Parliamentary accountability and audit report

Parliamentary accountability disclosures

Losses and special payments: subject to audit

Losses statement

Number of cases	2016-17	2015-16
Cash losses	-	15
Claims abandoned	-	-
Administrative write-offs	-	-
Fruitless payments	-	-
Store and stock losses	-	-
	-	15
Value	£000	£000
Cash losses	-	1,616
Claims abandoned	-	-
Administrative write-offs	-	-
Fruitless payments	-	-
Store and stock losses	-	-
	-	1,616

5.1 There were no losses during 2016-17.

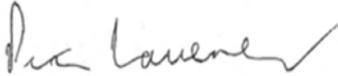
Special payments

Number of cases	2016-17	2015-16
Total number of cases	1	3
Values	£000	£000
Total value of cases	48	93

5.2 There are no special payments over £300,000.

Machinery of government changes

- 5.3 Following a machinery of government change in July 2016, the SFA became an executive agency of the Department for Education.
- 5.4 The responsibility for Offenders' Learning and Skills Service (OLASS) was excluded from the transfer and moved to the Ministry of Justice (MOJ). As a result, OLASS has been removed from all 2015-16 comparative figures within the accounts.



Peter Lauener

Chief Executive and Accounting Officer
Education and Skills Funding Agency

13 July 2017

The Certificate and report of the Comptroller & Auditor General to the House of Commons

I certify that I have audited the financial statements of Skills Funding Agency for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that are described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. 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 Skills Funding Agency; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Performance Report and Accountability reports within the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Skills Funding Agency's affairs as at 31 March 2017 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report which include information which has been audited including the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report including the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
17 July 2017

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

Financial statements

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 Restated £000
EU Income	3	(30,824)	(204,474)
Other operating income	3	(4,133)	(4,399)
Total operating income		(34,957)	(208,873)
Staff costs	4	32,199	44,688
Programme expenditure	5	3,221,359	3,439,463
Other operating expenditure	6	44,703	45,714
Total operating expenditure		3,298,261	3,529,865
Net operating expenditure		3,263,304	3,320,992
Non-operating expenditure			
Gain on transfer of EFS loans	10	(45,159)	-
Comprehensive net expenditure for the year		3,218,145	3,320,992

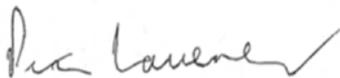
There are no other recognised gains or losses.

The notes on pages 84 to 109 form part of these accounts.

Statement of Financial Position

as at 31 March 2017

	Note	2017 £000	2016 Restated £000
Non-current assets:			
Property, plant and equipment	7	218	600
Intangible assets	8	39,046	44,707
Loans	10	24,763	-
Receivables	11	415	-
Total non-current assets		64,442	45,307
Current assets			
Receivables	11	78,757	120,198
Loans	10	25,217	-
Cash and cash equivalents	12	269,551	268,524
Total current assets		373,525	388,722
Total assets		437,967	434,029
Current liabilities			
Payables	13	(183,698)	(233,621)
Provisions	14	(1,269)	(4,870)
Total current liabilities		(184,967)	(238,491)
Total assets less current liabilities		253,000	195,538
Non-current liabilities			
Provisions	14	(2,643)	(4,148)
Financial guarantee	15	(29,705)	(31,750)
Total non-current liabilities		(32,348)	(35,898)
Total assets less total liabilities		220,652	159,640
Taxpayers' equity:			
General fund		220,652	159,640
Total taxpayers' equity		220,652	159,640



Peter Lauener

Chief Executive and Accounting Officer
Education and Skills Funding Agency

13 July 2017

The notes on pages 84 to 109 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2017

		2016-17	2015-16
	Note	£000	Restated £000
Cash flows from operating activities			
Net operating cost		(3,218,145)	(3,320,992)
Non cash			
Notional audit fee	6	150	150
Notional shared service recharge	6	170	-
Depreciation Charges	6	279	288
Amortisation intangible assets	6	15,460	16,899
Loss on impairment	6	577	2,076
Transactions with parent department		(11,449)	(6,531)
Interest and amortisation on loans	10	1,170	-
Decrease in receivables	11	41,026	203,775
Decrease in payables	13	(50,580)	(38,361)
Decrease in provisions	14	(5,106)	(2,418)
(Decrease)/increase in financial guarantees	15	(2,045)	2,102
Net cash outflow from operating activities		(3,228,493)	(3,143,012)
Cash flows from investing activities			
Purchase of:			
property, plant and equipment	7	(23)	(324)
intangible assets	8	(9,604)	(10,969)
Profit on disposal of non-current assets	6	11	-
Net cash outflow from investing activities		(9,616)	(11,293)
Cash flows from financing activities			
Exchequer supply from sponsor department		3,290,286	3,324,883
Transfer of function from parent department	10	(45,159)	-
Loan transactions	10	(5,991)	-
Net cash inflow from financing activities		3,239,136	3,324,883
Net increase in cash and cash equivalents		1,027	170,578
Cash and cash equivalents at 1 April	12	268,524	97,946
Cash and cash equivalents at 31 March		269,551	268,524

The notes on pages 84 to 109 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2017

	Note	General Fund Restated £000
Balance at 1 April 2015		162,130
Net Parliamentary Funding - drawn down		3,324,883
Comprehensive expenditure for the year		(3,320,992)
Non-cash adjustments		
Auditor's remuneration	6	150
Non cash transactions with parent department		(6,531)
Balance at 31 March 2016 (Restated)		159,640
Net Parliamentary funding - drawn down		3,290,286
Comprehensive expenditure for the year		(3,218,145)
Non-cash adjustments		
Auditor's remuneration	6	150
Notional recharges	6	170
Non cash transactions with parent department		(11,449)
Balance at 31 March 2017		220,652

The notes on pages 84 to 109 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These accounts have been prepared in accordance with the *2016-17 Financial Reporting Manual* (FReM) issued by HM Treasury (HMT). The accounting policies contained in the manual apply IFRS as adapted or interpreted for the public sector. Where the manual permits a choice of accounting policy, SFA has selected the accounting policy that SFA judged to be most appropriate to the particular circumstances of SFA to give a true and fair view. SFA describes the particular policies SFA has adopted for 2016-17 below. SFA has applied these policies consistently in dealing with items considered material in relation to the accounts.

SFA has produced these accounts as set out in a statutory accounts direction issued by HMT pursuant to section 7(2) of the *Government Resource and Accounts Act 2000*. SFA has produced the accounts using accruals accounting.

1.1 Accounting convention

These accounts have been under the historical cost convention modified to account for the revaluation of certain financial assets and liabilities.

1.2 Going concern

Funding from the department, taking into account the amount required to meet the SFA's liabilities falling due in the year, has already been included in the department's Estimates for that year. Parliament has approved these Estimates and there is no reason to believe that the department's future sponsorship and future Parliamentary approval will not be forthcoming. The SFA will transfer all assets, liabilities and activities at book value to the newly-created ESFA from April 2017. The ESFA was launched in April 2017. ESFA is an executive agency, sponsored by Department for Education, and brings together the existing responsibilities of the EFA and SFA, creating a single funding agency accountable for funding education and training for children, young people and adults. All functions will continue and SFA funding will be received by the ESFA. Therefore, it is appropriate under the FReM to prepare these accounts on a going concern basis.

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported values of assets and liabilities, income and expenditure. There are some material estimates and judgements in the accruals raised. These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and

underlying assumptions are reviewed on an on-going basis. Other than for the determination of liabilities and charges, impairments and financial guarantees, we made no material accounting estimates or judgements in preparing these accounts.

1.4 Adoption of FReM amendments

There have been no significant FReM changes in 2016-17.

1.5 Early adoption

The SFA has not early adopted any accounting standards in 2016-17.

1.6 IFRSs in issue but not yet effective

To comply with the requirements of *IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors*, the SFA must disclose where it has not applied a new IFRS that is in issue but is not yet effective. The SFA has carried out a review of the IFRSs in issue, but not yet effective, to assess their impact on its accounting policies and treatment. The full impact of the IFRSs in issue but not yet effective is not known and could be material to the accounts: the SFA, therefore, has chosen not to adopt early requirements of amendments to the following accounting standards and interpretations that have an effective date after the date of these accounts:

Standard	Effective	FReM application	Impact
IFRS 9 Financial Instruments	1 January 2018	Subject to consultation	<p>Change: This change simplifies the classification and measurement of financial assets, as well as amending when and how impairments are calculated and reported, moving from an incurred loss to an expected loss model. This will result in impairments being recognised earlier than under IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>Impact on SFA: The adoption of IFRS 9 has not yet been agreed by HMT, or the application date for the public sector. Consequently, the SFA is unable to establish the impact.</p>
IFRS 15 Revenue from Contracts with Customers	1 January 2018	Subject to consultation	<p>Change: The changes set out steps for revenue recognition along with requirements for accounting for contract costs.</p> <p>Impact on SFA: For many contracts the accounting for revenue will remain unchanged.</p>
IFRS 16 Leases	1 January 2019	Subject to consultation	<p>Change: The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off-balance sheet financing) and a finance lease (on-balance sheet financing). The new standard requires recognition of all leases which last over 12 months to be recognised as a finance lease (on-balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised.</p> <p>Impact on SFA: If IFRS 16 is applied without adaption for central government then a large number of leases currently recognised as operating leases (off-balance sheet) will be recognised as finance leases (on-balance sheet) significantly increasing the value of leased assets and liabilities on the SoFP.</p>
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	Subject to consultation	<p>Change: The proposed changes amend how to account for deferred tax assets related to debt instruments measured at fair value.</p> <p>Impact on SFA: The SFA does not pay corporation tax and does not therefore recognise deferred tax. No impact expected.</p>

1.7 Property, plant and equipment

The minimum value of capitalisation for expenditure on property, plant and equipment is £5,000. In the case of ICT equipment and furniture, all items recorded as capital expenditure are capitalised and if they fall below the £5,000 threshold they are grouped together and recorded as bulk assets. The asset value on capitalisation is measured at cost plus direct costs, such as installation, attributable to bringing them into working condition.

If an asset became surplus through circumstances not yet existing at the year-end, the changes in asset treatment would not take effect until the following financial year.

1.8 Depreciation

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

- furniture: 5 years
- fixtures and fittings: lower of 10 years or the length of the building lease
- plant and machinery: 5 years
- computer equipment: 3 to 5 years

1.9 Intangible assets

Intangible assets are initially valued at cost, then carried at fair value that is determined by reference to an active market where possible. Where there is no active market, we use depreciated replacement cost as a proxy fair value. Assets are capitalised as intangible assets where expenditure of £5,000 or more is incurred. Assets are amortised over their estimated useful economic lives. Assets under construction are not amortised but assessed for impairment annually.

Asset lives are in the following ranges:

- IT systems: 5 years
- IT software: life of the license or 3 years where none given

1.10 Impairment of non-current assets

The SFA reviews all non-current assets for impairment if circumstances indicate the carrying value may not be recoverable. The SFA recognises as a loss the sum that the asset's carrying value exceeds its recoverable value. The recoverable value is the higher of the asset's fair value less costs to sell and its value in use.

The SFA charges any impairment losses that result from a clear consumption of economic benefits to the Statement of Comprehensive Net Expenditure.

The SFA charges any excess devaluation to the Statement of Comprehensive Net Expenditure.

1.11 Financial instruments

The SFA has adopted IFRS 7 Financial Instruments: Disclosures (IFRS 7), IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 7 requires the SFA to disclose information on the significance of financial instruments to its financial position and performance.

The risks associated with the financial guarantee relating to the PCDL programme are shown in note 15. The SFA is also exposed to credit risk resulting from the non-payment of debts relating to private sector provision of training services. This is most usually attributable to insolvency. Private sector training organisations are subject to quality and financial status reviews before receiving contracts. Provision of funding is reconciled to earned values monthly, with future payments adjusted to minimise the risk of accumulating debt. The overall financial impact of such instances is not material.

As a partner organisation of DfE and with no borrowings, the SFA is not exposed to any market or liquidity risk.

The SFA 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.

1.12 Financial assets

The SFA classifies financial assets where appropriate as loans and receivables, assets available-for-sale and financial assets at fair value through profit and loss. Financial assets include cash and cash equivalents and trade and other receivables.

The SFA determines the classification of its financial instruments at initial recognition. The SFA recognises financial assets initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable costs. The SFA's financial assets include available-for-sale assets, trade and other receivables and cash. The subsequent measurement of financial assets depends on their classification, as follows:

1.12.1 Trade and other receivables

Trade and other receivables have fixed or determinable payments that are not quoted on an active market. Trade and other receivables do not carry any interest and the SFA recognises them initially at their face value then subsequently measured at amortised cost using the effective interest method. The SFA recognises appropriate allowances (provisions or write-

offs) for estimated irrecoverable sums (bad debts) in the Statement of Comprehensive Net Expenditure when there is objective evidence that the asset is impaired. The SFA measures the allowance recognised as the difference between the assets' carrying value and the estimated future recoverable value.

1.12.2 Loans

Loans are issued to Further Education or sixth-form colleges in England who are encountering financial difficulties that put continuation of provision at risk or who have been impacted by a substantive area review and must make major changes where they are unable to arrange their own funding.

1.12.3 Cash and cash equivalents

The SFA has included cash and cash equivalents comprising cash in hand and on demand deposits. Where there are restrictions upon the SFA's ability to access cash, for example through being held in escrow with a solicitor pending a transaction, the SFA discloses these restrictions separately in the notes to the financial statements. However, in accordance with IAS 7 the SFA continues to present balances as cash in the Statement of Financial Position and Statement of Cash Flows.

1.13 Financial liabilities

The SFA classifies financial liabilities, where appropriate, at fair value through profit or loss, or as financial liabilities measured at amortised cost (face value plus any discounts). Financial liabilities include trade and other payables and accruals. The SFA's measurement of financial liabilities depends on their classification, as follows:

1.13.1 Trade and other payables

Trade and other payables, including accruals, are generally not interest bearing and the SFA states them at their face value on initial recognition. Subsequently, the SFA values them at amortised cost using the effective interest method.

1.13.2 Loan liabilities

The SFA may take out interest bearing loans with the Secretary of State's permission. The SFA states such loans at their face value on initial recognition. Subsequently, the SFA measures interest bearing loans at amortised cost using the effective interest method.

1.14 Income

Operating income is income that relates directly to the operating activities of the SFA.

Operating income consists of:

- income such as general administration receipts and income from other departments
- income generated by the SFA in the course of their activities in addition to the funding received from the DfE. This income can include income from local authorities and other government departments as well as fund-raising income, sponsorship income and income from the hire of facilities.

1.14.1 Other income: European Social Fund

The European Commission provides funding for certain projects. This income is matched to the expenditure profile for each project concerned. Income not matched to expenditure at the end of the financial year is transferred to deferred income. If expenditure exceeds income, an accrual may be made for the balance of the income.

1.15 Shared services

In April 2016, the Funding Agencies Shared Services Team (FAS²T) was launched to deliver a shared service for funding payments, accounting, data, assurance and digital and technology. The shared service would support 2 funding agencies, the SFA and the EFA.

The shared service is made up of staff from both EFA and SFA and a recharge is made between the 2 agencies to reflect the costs of these shared services. The recharge includes pay costs (including contingent workers) plus a percentage addition for general admin expenditure (largely travel, subsistence, learning and development). Other overheads were excluded on the basis these were broadly fixed for both agencies for the period under consideration and there is no material impact on the overheads for either agency as a result of the FAS²T shared service arrangements.

1.16 Leases

The SFA charges operating lease rentals, if they occur, to the Statement of Comprehensive Net Expenditure on a straight-line basis over the lease term.

1.17 Accounting for programmes

1.17.1 Grant recognition

The SFA receives a delegation letter from the department annually on 1 April. This breaks down the grant the department transfers to the SFA into programme budgets that fund learning and administration budgets that fund the SFA's costs as an agency. The SFA accounts for the majority of grants to education providers as paid. The SFA considers that cash accounting is appropriate as the SFA pays education providers at a time and sum that as far as possible matches their underlying activity.

The SFA has made accruals for the cost of delivery within the financial year where payment is either not representative of recurrent underlying activity or there are delays in payment due to a delay in signing contracts or in the receipt of claims. Where termly payments cover a period beyond the current financial year, the SFA makes a prepayment adjustment to ensure that the SFA's accounts recognise only the cost of provision in the current financial year.

1.17.2 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. This ensures that we pay only amounts earned on the basis of actual delivery to colleges and other training organisations and record these in the SFA's accounts. In most cases these amounts are offset against future payments to colleges and other training organisations, so we recover them over the short term.

The SFA also has receivables that are the result of assurance work that may determine either:

- an actual amount that needs recovering from a college or other training organisation
- a data error that is extrapolated across the data population to determine an amount to recover. These amounts are only included in the accounts when a reliable value for their recovery is known. In most cases the debts are recovered through in-year data adjustments that result in reduced future payments to the college or other training organisation.

1.17.3 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 SFA 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.

1.17.4 Recurrent programmes

Adult apprenticeships

For training providers other than colleges, apprenticeships programme expenditure is accounted for on the basis of actual training delivered, subject to contract value, in the financial year concerned. For colleges, it is recognised when the grant is paid to the college in accordance with the agreed payment profile for the academic year. 16 to 18 apprenticeship funding is all paid on actual training delivered.

Adult education budget

The adult education budget comprises of classroom-based colleges and training organisations which include community learning, discretionary learner support and other workplace training.

Community Learning

Community Learning expenditure is recognised on the basis of the use of funds paid to local authorities. A receivable is recognised at each year-end representing the amount of unspent funds based on use of funds statements submitted by local authorities for the academic year ending in the SFA financial year. Unspent funds are either recovered or carried over and used to reduce payment of funds due in the following year.

Discretionary learner support funds

These programmes provide grant payments to support learners either directly, or indirectly through the private training organisation 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.

Other workplace training

Spend under the workplace training programme is recognised when payments are made in accordance with an agreed profile for colleges and on actual training delivered for other training organisations.

Capital expenditure

Expenditure on FE capital buildings is recognised in line with agreed profiles that reflect the underlying delivery and costs of the project. Projects are subject to quarterly reconciliation reviews to ensure profiles continue to keep pace with the colleges' own expenditure on the project. A prepayment is recognised where actual expenditure is less than the grant paid to the end of the financial year. The SFA reserves the right to recover funds and change profiles where costs are materially less than profiled. Also, the conditions of funding allow the SFA to bring forward profiled payments where they are based on evidenced capital expenditure. This will only be where we have the funds available to do so.

1.18 Employee benefits

1.18.1 Pensions

The SFA has adopted *IAS 19 Employee Benefits* (IAS 19) to account for its pension schemes.

Where the SFA contributes to defined contribution and unfunded defined benefit pension schemes (for which there are no underlying assets and liabilities), the SFA recognises contributions payable in the Statement of Comprehensive Net Expenditure.

1.18.2 Early retirement costs

Where we are required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect to staff who retire early, provision is made in full for this cost when the early retirement programme has been announced and is binding.

1.18.3 Other employee benefits

This includes the value of undertaken holiday leave at the financial year-end, which is accrued as it is earned.

1.19 Provisions

The SFA recognises provisions when it is probable that it will be required to settle a present obligation resulting from a past event and can make a reliable estimate of that obligation. The obligation is normally the sum that the SFA would pay to settle the obligation at the year-end or to transfer it to a third party at that time. Where the impact is material, the SFA discounts expected future cash flows using an appropriate discount rate.

1.20 Contingent liabilities

The SFA states as discounted sums those contingent liabilities that are disclosed in accordance with IAS 37, where the time value of the contingent liabilities is material, and the SFA separately notes the sum reported to Parliament.

1.21 Value added tax

Irrecoverable value-added tax (VAT) is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. When input tax is recoverable, the amounts are stated net of VAT. Income is stated net of VAT when output tax is charged.

1.22 Segmental reporting

In accordance with *IFRS 8: Operating Segments* (IFRS 8), the SFA has considered the need to analyse its income and expenditure relating to operating segments. The SFA has assessed that all lines of operation fall within the same geographical location and regulatory environment as envisaged by IFRS 8. We managed our assets and liabilities at the single entity level during the year and therefore we have not disclosed the distribution of assets and liabilities to those programmes and administration.

2. Restatement

2.1 Machinery of government transfer

Following a machinery of government change in July 2016, the SFA became an executive agency of the Department for Education.

The responsibility for OLASS was excluded from the transfer and moved to the Ministry of Justice. As a result, OLASS has been removed from all 2015-16 comparative figures within the accounts.

	2015-16
	£000
Statement of Comprehensive Net Expenditure	
Programme expenditure	(142,104)
Statement of Changes in Taxpayers' Equity	
Net operating cost	142,104
Net Parliamentary funding	(142,104)

2.2 Change of presentation

The SFA impairs receivables where the amount owed is unlikely to be recovered in full. In previous years, this impairment was shown in the accounts as a liability, the SFA has represented the notes to the accounts to reduce the receivables balance to reflect the impairment. These impaired receivables have also been adjusted in the 2015-16 comparative figures as below.

	2015-16
	£000
Statement of financial position	
Current assets	
Receivables	(47,735)
Current liabilities	
Payables	47,735
Net assets	-

3. Income

	2016-17	2015-16
	£000	£000
EU funded		
EU income	30,824	204,474
Total EU income	30,824	204,474
Other		
Other programme income	2,755	3,540
Sub letting of premises	654	496
Other activities income	51	363
Loan interest	673	-
Total other income	4,133	4,399
Total Income	34,957	208,873

The European Commission provides funding for certain projects. This income is matched to the expenditure profile for each project concerned. Income not matched to expenditure at the end of the financial year is transferred to deferred income. If expenditure exceeds income, an accrual may be made for the balance of the income.

4. Staff numbers and related costs

	2016-17			2015-16		
	Permanently employed staff £000	Others £000	Total £000	Permanently employed staff £000	Others £000	Total £000
Wages and salaries	26,942	15,890	42,832	36,480	6,798	43,278
Social security costs	2,969	-	2,969	3,162	-	3,162
Pension costs	5,691	-	5,691	7,596	-	7,596
Redundancy costs	7	-	7	9,051	-	9,051
Sub Total	35,609	15,890	51,499	56,289	6,798	63,087
Less recoveries in respect of outward secondments	(2,709)	-	(2,709)	(113)	-	(113)
	32,900	15,890	48,790	56,176	6,798	62,974
Less staff costs related to programme	(10,722)	(5,869)	(16,591)	(18,286)	-	(18,286)
Total net costs	22,178	10,021	32,199	37,890	6,798	44,688

Further disclosure relating to staff numbers and costs are detailed within the Remuneration and staff report.

5. Programme expenditure

	2016-17	2015-16
	£000	£000
Revenue grant expenditure		
Adult apprenticeships	816,613	747,889
Adult education budget	1,503,166	1,610,846
Youth-funded programmes	834,474	813,385
ESF and other programmes	32,235	208,017
	3,186,488	3,380,137
Capital expenditure		
FE Buildings	4,495	48,166
National Colleges	25,949	5,255
HMRC Levy initial start up costs	3,381	-
LEA Loan liabilities	2,816	2,922
PCDL	(1,770)	2,983
	34,871	59,326
Total programme expenditure	3,221,359	3,439,463

6. Operating expenditure

	2016-17	2015-16
	£000	£000
Staff related costs	2,340	2,734
Publications, printing and advertising	454	771
Telecoms	926	1,885
Computing	45,448	54,751
Premises	7,191	6,024
Other expenditure	2,003	2,628
Non-pay costs to programmes	(37,544)	(42,492)
	20,818	26,301
Non-cash items:		
Depreciation	279	288
Amortisation:		
Intangible assets	15,460	16,899
Loans	7,419	-
Impairment	577	2,076
NAO Auditor's remuneration	150	150
	23,885	19,413
	44,703	45,714

Some of the expenditure is incurred in the administration of the SFA and some is incurred in providing a shared service to the EFA. Some costs are programme in nature because, in addition to funding provision in the sector, the SFA also provides some programmes directly.

In April 2016, FAS²T was launched to deliver a shared service for funding payments, accounting, data, assurance and digital and technology. The shared service would support 2 funding agencies, the SFA and the EFA. The shared service is made up of staff from both EFA and SFA and a recharge is made between the 2 agencies to reflect the costs of these shared services. The recharge of £170k has been distributed across different categories of operating expenditure.

7. Property, plant and equipment

	2016-17			
	Furniture and fittings £000	Plant and machinery £000	Computers and other IT £000	Total £000
Cost of valuation				
At 1 April 2016	8,233	134	3,636	12,003
Additions	23	-	-	23
Disposals	(79)	-	(216)	(295)
Impairments	(261)	-	-	(261)
At 31 March 2017	7,916	134	3,420	11,470
Depreciation				
At 1 April 2016	(7,961)	(130)	(3,312)	(11,403)
Depreciation charge	(45)	-	(234)	(279)
Disposals	79	-	205	284
Impairments	146	-	-	146
At 31 March 2017	(7,781)	(130)	(3,341)	(11,252)
Carrying value at 31 March 2016	272	4	324	600
Carrying value at 31 March 2017	135	4	79	218
Asset financing				
Owned	135	4	79	218
Carrying value at 31 March 2017	135	4	79	218

	2015-16			
	Furniture and fittings £000	Plant and machinery £000	Computers and other IT £000	Total £000
Cost of valuation				
At 1 April 2015	8,467	143	3,334	11,944
Additions	-	-	324	324
Disposals	-	(9)	(22)	(31)
Impairments	(234)	-	-	(234)
At 31 March 2016	8,233	134	3,636	12,003
Depreciation				
At 1 April 2015	(8,130)	(127)	(3,120)	(11,377)
Depreciation charge	(62)	(12)	(214)	(288)
Disposals	-	9	22	31
Impairments	231	-	-	231
At 31 March 2016	(7,961)	(130)	(3,312)	(11,403)
Carrying value at 31 March 2015	337	16	214	567
Carrying value at 31 March 2016	272	4	324	600
Asset financing				
Owned	272	4	324	600
Carrying value at 31 March 2016	272	4	324	600

8. Intangible assets

	IT AUC £000	IT systems £000	IT software £000	Total £000
Cost or valuation				
At 1 April 2016	3,248	157,194	1,021	161,463
Additions	10,261	-	-	10,261
Impairments	(455)	(14,386)	-	(14,841)
Reclassifications	(4,657)	4,657	-	-
At 31 March 2017	8,397	147,465	1,021	156,883
Amortisation				
At 1 April 2016	-	(115,834)	(922)	(116,756)
Charged in year	-	(15,423)	(37)	(15,460)
Impairments	-	14,379	-	14,379
At 31 March 2017	-	(116,878)	(959)	(117,837)
Carrying value at:				
31 March 2016	3,248	41,360	99	44,707
31 March 2017	8,397	30,587	62	39,046
Asset financing:				
Owned	8,397	30,587	62	39,046
Carrying value at 31 March 2017	8,397	30,587	62	39,046

	IT AUC £000	IT systems £000	IT software £000	Total £000
Cost or valuation				
At 1 April 2015	7,595	144,372	920	152,887
Additions	10,868	-	101	10,969
Impairments	(1,358)	(1,035)	-	(2,393)
Reclassifications	(13,857)	13,857	-	-
At 31 March 2016	3,248	157,194	1,021	161,463
Amortisation				
At 1 April 2015	-	(99,262)	(915)	(100,177)
Charged in year	-	(16,892)	(7)	(16,899)
Impairments	-	320	-	320
At 31 March 2016	-	(115,834)	(922)	(116,756)
Carrying value at:				
31 March 2015	7,595	45,110	5	52,710
31 March 2016	3,248	41,360	99	44,707
Asset financing:				
Owned	3,248	41,360	99	44,707
Carrying value at 31 March 2016	3,248	41,360	99	44,707

9. Financial instruments and risk

IFRS 7: Financial Instruments (IFRS 7) disclosure requires the SFA to disclose information on the significance of financial instruments to its financial position and performance.

9.1 Credit risk

In addition to the risks associated with the financial guarantee relating to the PCDL programme, the SFA is exposed to credit risk resulting from the non-payment of debts relating to private sector provision of training services; this is most usually attributable to insolvency. Private sector training organisations are subject to quality and financial status reviews before receiving contracts. Provision of funding is reconciled to earned values on a monthly basis, with future payments adjusted to minimise the risk of accumulating debt. The overall financial impact of such instances is not material.

The table below shows the value of debts overdue by category for SFA:

Overdue debts	2016-17 £000	2015-16 £000
< 30 days overdue	1,041	10,545
30 - 60 days overdue	99	13,352
60 - 90 days overdue	39	1,662
90 -180 days overdue	115	12,916
> 180 days overdue	6,393	855
Total overdue debts	7,687	39,330

9.2 Liquidity risk

Parliament votes annually on the financing of SFA net revenue resource requirements, as well as its capital expenditure. With no borrowings, the SFA does not consider itself exposed to any significant liquidity risks.

9.3 Interest rate risk

The SFA's financial liabilities carry either nil or fixed rates of interest. The SFA does not consider itself exposed to any significant interest rate risk.

9.4 Foreign currency risk

All material assets and liabilities are denominated in sterling. The SFA does not consider itself exposed to any significant currency risk.

9.5 Market risk

There is some market risk in the fair value investment held by the SFA but the SFA is unable to quantify a value for the risk.

10. Loans

	EFS	RF	2016-17 Total £000	2015-16 Total £000
Balance as at 1 April	-	-	-	-
EFS Loans transferred in *	45,159	-	45,159	-
Loans issued	4,151	2,850	7,001	-
Loan interest	673	-	673	-
Repayments	(1,010)	-	(1,010)	-
Amortisation	(1,843)	-	(1,843)	-
	47,130	2,850	49,980	-
Presented as:				
Current assets	24,767	450	25,217	-
Non-current assets	22,363	2,400	24,763	-
	47,130	2,850	49,980	-

* This is the balance as at 1 October and includes repayments, amortisation and effective interest received up to 30 September 2016.

In 2016-17, the transfer of the EFS loan book from the DfE to the SFA has been treated as a transfer of function within a departmental boundary and recorded as a non-operating gain/loss through the Statement of Comprehensive Net Expenditure (SoCNE) in line with FReM 4.1 Accounting boundaries. In 2015-16 these loans were held in BIS accounts, as a result of the machinery of government changes, these loans were transferred to the DfE. On 1 October 2016, the DfE transferred these loans to the SFA.

In accordance with IAS39, loans will be classified as loans and receivables. The SFA recognises them initially at their face value then subsequently measured at amortised cost using the effective interest method.

10.1 Exceptional Financial Support

Exceptional Financial Support (EFS) is intended to safeguard learner provision where a Further Education college declares that it is encountering financial, or cash flow, difficulties that put the continuation of provision at risk; and that it cannot resolve from its own resources or through arranging borrowing facilities. A loan is a payment of funds that is expected to be paid over a period of time as set out in a legally binding document. A grant is a payment of funds the SFA does not expect to recover. Repayments of £1.01m have been received since 1 October.

10.2 Restructuring facility

The government's restructuring facility is for further education or sixth-form colleges in England who are impacted by a substantive area review recommendation with the exception of becoming an academy or relating solely to VAT, and need to make major changes. If they

are unable to fund the change themselves, they can seek funding from the government's restructuring facility.

11. Receivables

	2016-17	2015-16
	£000	Restated £000
Sums falling due within 1 year:		
Trade receivables	516	87
Tax and social security	2,433	2,535
Advances and other FE college receivables	26,203	35,938
Workplace training receivables	3,705	21,767
ESF and other receivables	8,813	52,987
	41,670	113,314
Prepayment and accrued income due within 1 year:		
Prepayments and accrued income		
ESF and other accrued income	35,744	5,751
Administration cost prepayments	1,343	1,133
	37,087	6,884
Total sums falling within 1 year:	78,757	120,198
Sums due after 1 year:		
Advances and other FE college receivables	415	
	79,172	120,198

Receivables for the SFA is stated net of a provision for doubtful debts of £9 million at 31 March 2017 (2015-16: £5 million).

12. Cash and cash equivalents

	2016-17	2015-16
	£000	£000
Balance at 1 April	268,524	97,946
Net change in cash and cash equivalent balances	1,027	170,578
Balance at 31 March	269,551	268,524
The following balances are held at:		
Cash at bank and in hand:		
Government Banking Service	269,551	268,524
Balance at 31 March	269,551	268,524

13. Payables

	2016-17	2015-16
	£000	Restated £000
Trade payables	78	44
FE College payables	272	1,058
Workplace training payables	3,395	2,895
ESF and other payables	7,137	237
Accruals and deferred income	170,876	228,104
Sub total payables, deferred income and accruals	181,758	232,338
Capital payables	1,940	1,283
Total payables and other current liabilities	183,698	233,621

There are no non-current payables.

14. Provisions for liabilities and charges

Analysis

	2016-17	2015-16
	£000	£000
As at 1 April	9,018	11,436
Provided in the year	1,313	3,604
Provisions not required written back	(1,738)	(1,271)
Provisions utilised in the year	(4,681)	(4,751)
Balance as at 31 March	3,912	9,018
Presented as:		
less than 1 year	1,269	4,870
Greater than 1 year and less than 5 years	2,643	4,148
Balance as at 31 March	3,912	9,018

Analysis by provision type

	Reorganisation	SCT	Early retirement	PCDL Interest	Total
	£000	£000	£000	£000	£000
As at 1 April 2016	3,337	1,000	2,814	1,867	9,018
Provided in the year	-	-	230	1,083	1,313
Provisions not required written back	(1,338)	(400)	-	-	(1,738)
Provisions utilised in the year	(1,113)	-	(1,922)	(1,646)	(4,681)
Balance as at 31 March 2017	886	600	1,122	1,304	3,912

14.1 Reorganisation

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

14.2 Supply Chain Transformation

This relates to the SFA's liability for costs chargeable to administration that may be incurred by suppliers that make individuals redundant as a consequence of the SFA's supply chain transformation (SCT) work. In line with government objectives, the SFA's SCT programme is reforming the way we use our ICT. One aspect of this work is to provide opportunities for SMEs to support and deliver ICT services to achieve value for money through competition and innovation.

14.3 Early retirement

This covers the SFA's additional pension contributions for all early retirements up to October 2010 that are charged against programme expenditure. These are defined by and paid to the scheme administrator for the period up to normal retirement age for individuals that retired early under the former Learning and Skills Council's reshaping programme.

14.4 Professional and Career Development Loans interest

The SFA has a liability to cover interest payments that occur under this programme while the learners are in learning. This provision reflects the probable outflow of funds in relation to the cost of covering interest-driven liabilities while the recipients of the loans complete their course.

15. Financial guarantee

	2016-17	2015-16
	£000	£000
Opening balance 1 April	31,750	29,648
Increase in year	410	5,760
Expenditure in year	(2,455)	(3,658)
Balance at 31 March	29,705	31,750

15.1 Exposure to risk

The PCDL programme operates by providing loans to learners to enable them to complete a course of study. High street banks provide the loans to learners at a rate of interest below what might ordinarily be offered to them in such circumstances. The SFA has a liability for the cost of default on such loans and for the interest costs of the loans while the learners are in learning. Most of the liability is for the default on the loans that is classified as a financial guarantee, in accordance with IAS39.

15.2 Credit risk: exposure at end of period

Most of the liability arises from the credit risk that learners will not repay the loans. The values above show the expected value of this liability at the end of the reporting period. The values have been estimated as 12% of the total forecast value of loans outstanding at the end of the reporting period. The exposure to credit risk is mitigated by the application of credit and other checks by the commercial banks operating PCDL schemes, before the loan is granted.

In accordance with the terms of the agreement with the banks, the maximum possible value of the guarantee to cover the cost of defaults is capped at 15% of the total loan portfolio advanced since the beginning of the programme. The total potential liability is estimated to be £50 million.

15.3 Liquidity risk

As a partner organisation funded by the DfE, it is unlikely that the SFA will encounter any difficulty meeting its obligations under this financial guarantee. The rate of interest on the loans is fixed (currently at 9.9%), so it is unlikely that the future cash flows to settle the obligation will change as a result of changes in the market interest rate.

15.4 Market risk

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.

16. Commitments under leases

16.1 Commitments under operating leases

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

2017

	Land and buildings £000	Other £000	Total £000
Not later than 1 year	2,325	79	2,404
Later than 1 year and not later than 5 years	8,837	-	8,837
Later than 5 years	1,266	-	1,266
	12,428	79	12,507

2016

	Land and buildings £000	Other £000	Total £000
Not later than 1 year	2,857	62	2,919
Later than 1 year and not later than 5 years	8,532	-	8,532
Later than 5 years	2,738	-	2,738
	14,127	62	14,189

17. Capital commitments

The SFA had £26.6m commitments for Capital expenditure as at 31 March 2017 (31 March 2016 £nil).

18. Other financial commitments

	2016-17 £000	2015-16 £000
Payable within one year		
Adult skills to colleges*	589,148	485,597
FE Capital	-	49,550
Total	589,148	535,147

* The SFA has commitments to make grants to colleges for the remainder of the academic year to July.

18.1 Other education grants

The Secretary of State is committed to funding the ongoing provision of education at a wide variety of providers. The SFA cannot quantify fully the commitments as SFA typically agrees funding for one year even though the Secretary of State's commitment is for a much longer period.

19. Contingent liabilities

The SFA has £4.5 million of contingent liabilities (2015-16: £6 million).

The contingent liabilities for the current year relate to payments for the Apprenticeship Grant for Employers, which will be due up to June 2017 as apprentices complete 3 months of employment.

20. Related party transactions

The SFA is an executive agency, sponsored by DfE, the SFA regards DfE as its parent department. The SFA regards the departmental group as a related party.

In addition, the SFA has had a number of transactions with other government departments and central bodies. Most of these transactions have been with BEIS, DWP (Department for Work and Pensions) and CITB (Construction Industry Training Board).

The SFA's senior civil servants are each required to complete an Assurance Framework Record where they declare related party transactions. SFA considers the following relationships as related parties and SFA has disclosed the relationships in line with IAS 24:

- As Peter Lauener is Chief Executive of the EFA, the EFA is a related party. Additionally, Simon Parkes and Peter Mucklow are directors of both the EFA and the SFA.

During the year, the SFA had no material transactions with the departmental group or with other related government departments and central bodies.

21. Events after the reporting period

The Secretary of State has announced the creation of the Education and Skills Funding Agency which will come into effect from 1 April 2017 and will oversee and be accountable for the funding of all 5 to 16 education as well as post-16 education and training for young people, apprenticeships and funding for adult education in England. It will also manage and deliver our school building and maintenance programmes. The ESFA will be an executive agency of the DfE and will replace both the EFA and the SFA.

On 29 March 2017, the Prime Minister notified the European Council in accordance with Article 50(2) of the Treaty on European Union of the United Kingdom's intention to withdraw from the European Union. The financial effect of this event won't be known until after the reporting period and a reasonable estimate cannot be made at this time.

On 19 April 2017, the House of Commons voted to dissolve the sitting Parliament with a General Election to be held on 8 June 2017. Following the outcome of the General Election, Rt Hon Theresa May remains Prime Minister and Rt Hon Justine Greening has been reappointed as Secretary of State for Education. The Rt Hon Anne Milton has taken over as Minister of State for Apprenticeships and Skills, replacing Rt Hon Robert Halfon.

The accounting officer authorised these accounts for issue on the date they were certified by the Comptroller and Auditor General. These accounts do not consider events after that date.

Glossary of terms

Abbreviation or term	Description
Academies	All schools operated by academy trusts encompassing academies, free schools, university technical colleges and studio schools
AR&A	Annual report and accounts
EFA	Education Funding Agency
EFS	Exceptional Financial Support
ESF	Education Social Fund
Estimate	Group funding, as approved by HM Treasury and subject to specific limits by category of spending.
FReM	Financial Reporting Manual, issued by HM Treasury
GIAA	Government Internal Audit Agency
HMT	HM Treasury
NAO	National Audit Office
PAC	Public Accounts Committee
PCDL	Professional and Career Development Loan
RF	Restructuring Facility
SFA	Skills Funding Agency
SoCiTE	Statement of Changes in Taxpayers' Equity
SoCF	Statement of Cash Flows
SoCNE	Statement of Comprehensive Net Expenditure
SoFP	Statement of Financial Position
2015-16 and 2016-17	Financial years, ending on 31 March
2015/16 and 2016/17	Academic years, ending on 31 July

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