



Date Wednesday 8 July 2015
Subject Skills Funding Agency Advisory Board
Attendees As per Annex

1. Welcome and Introductions

- 1.1 Paul Drechsler welcomed Board members to the meeting and apologies were noted.
- 1.2 The Board welcomed Richard Lewis, Deputy Director for College Resilience and Sponsorship at BIS, who was attending the meeting on behalf of Rachel Sandby-Thomas.

Declarations of interest

- 1.3 Paul Drechsler informed the Board that he had been appointed as President Designate of CBI. Paul informed the Board that he would speak to Rachel Sandby-Thomas and Peter Lauener about the future chairmanship of the Advisory Board. The Board expressed their warm congratulations on the appointment.

2. Minutes and matters arising

- 2.1 The minutes of the last meeting, held on 11 May 2015, were agreed. The Board was content for them to be published on the SFA's website.
- 2.2 Board members considered the action log and noted that actions 12 to 14 had been closed. The risk appetite statement and localism items (actions 11 and 15 respectively) would be scheduled to come to a future meeting.

Update from 18 May 2015 SFA Audit and Risk Committee meeting

- 2.3 The Board noted a paper summarising the Audit and Risk Committee meeting that took place on 18 May 2015. The Board noted that during the year-end audit of expenditure in the financial year 2014 to 2015, it emerged that a number of colleges had secured payments in advance of need for capital projects funded by profile through the College Capital Investment Fund (CCIF), which finished at the end of that year. The prepayments were in the region of £49.9m. The Board noted that while public funds were not at risk, the costs were expected to be incurred by colleges in 2015 to 2016, rather than 2014 to 2015.

- 2.4 Two additional Audit and Risk Committee meetings had been held since 18 May. It was reported that the initial view from HMT was that retrospective approval would be granted, however, once invoices were received, HMT declined to provide retrospective approval. The NAO therefore classed this as an irregular payment and the SFA accounts therefore received a qualified audit opinion from the Comptroller and Auditor General, as it exceeded the level of materiality. It was expected that the Annual Report and Accounts will be published in the next few weeks. The 16 colleges involved would be named in an accompanying press release.
- 2.5 Peter Lauener informed the Board that he has commissioned two reviews of the SFA's internal financial management and control arrangements and the compliance by colleges with the financial programme management arrangements for the CCIF, one by the PFMA team and one from the Government Internal Audit Agency. If these reviews identify that colleges claimed funds in advance inappropriately the SFA will, as is our normal process, seek to recover those funds. The Board noted that BIS have also commissioned a review of their financial management of this budget. It was agreed that a paper on the lessons learned would come to the next Audit and Risk Committee meeting. Peter informed the Board that the implication of this was that the resource would need to be found in 2015-16.
- 2.6 Board members commented that it was, of course, unrealistic for all projects and construction work to be completed by 31 March 2015 and that provisions should have been put in place to ensure a smoother move of the capital budget from the SFA to DCLG. The Board advised that a full and comprehensive communications plan was put together to ensure that it is clear that public funds had been spent on approved projects and that the issue related to the timing of the expenditure. It was agreed that the Board would be informed of the publication of the accounts and sent a copy of the accompanying press releases.

ACTION 16: Board members to be notified when SFA Annual Report and Accounts are published.

3. Business priorities and performance update

Apprenticeships and Delivery Services (ADS)

- 3.1 Sue Husband provided a summary on the Apprenticeship and Delivery Services Division. Sue informed the Board that the Prime Minister had asked Richard Harrington MP to co-chair a new Board with David Meller, our Apprenticeship Ambassador Network Chair. The Apprenticeship Delivery Board's remit will be to ensure that the commitment of 3 million apprenticeship starts in this Parliament is delivered. Peter commented that

he was pleased with how this was progressing and was grateful for the advice and guidance on achieving what is a major target for the SFA.

- 3.2 The Board noted that the SFA had undergone an internal reshuffle. The area teams have now been refocused on apprenticeships and local growth, with responsibility for Provider Management and Intervention now with the Funding and Programmes division. Staff were now working with their new roles and this has been communicated with colleges and providers at a local level.

Funding and Programmes

- 3.3 Keith Smith provided a summary on the Funding and Programmes Division which was noted by the Board. Keith informed the Board that funding system simplification proposals for 2016/17 had been signed off by the Minister.
- 3.4 The Board noted that the SFA was about to conclude an in-year savings exercise. This would be confirmed to the sector within the next few weeks. It was noted that normally, under-delivery on apprenticeships would be reinvested to fund in-year growth. This would now be limited as £54m of the in-year savings would now form part of the £450m savings announced by BIS. The Board stated that this would make reaching the new apprenticeship numbers target even more challenging going forward.
- 3.5 It was noted that on 8 July 2015 the Chancellor of the Exchequer announced that an apprenticeship levy would be introduced for large firms. Keith informed the Board that work would begin on how this might work in practice. Helen Knee circulated a paper summarising the other key announcements made in the Summer Budget.
- 3.6 Finally, the Board noted that the NAO would be publishing a report on financial sustainability in the FE Sector on 20 July. The Board advised that the SFA's response should be clear and robust, stating that the behaviour by one or two colleges are not reflective of the entire FE system. It was noted that there was also a reputational risk for the SFA as there is a perception that it is a regulator of colleges in the same way as the EFA is for schools and academies. This is not the case and the SFA Press Team may need to set this out clearly.

Operations

- 3.7 Paul McGuire provided a summary on the Operations Division which was noted by the Board. The Board noted that the team was disappointed with the qualification of the SFA Accounts and that a lessons learned exercise was now underway.

- 3.8 It was noted that the ESF Compliance Team had completed a successful audit in London on a significant learner sample resulting in an error rate of just 0.3% against a 2% benchmark. This and other actions have led to the lifting of the current ESF interruption.
- 3.9 Paul McGuire provided the Board with an update on the Supply Chain Transformation Programme and the shift to a new data hosting partner at the end of July. It was noted that work was also progressing with a new digital project, Funding and Contracting Transformation. The Board acknowledged that the SFA was facing a number of challenges in the digital and technology areas and commended the progress made so far.
- 3.10 The Board further noted Paul McGuire's update on provider financial health. It was noted that 29 colleges were currently considered to be financially inadequate.
- 3.11 Finally, the Board noted that the SFA would be facing a number of budget challenges this year. An early plan has been established to manage the gap which has been agreed with the BIS Sponsorship Board.

Performance and Risk Overview

- 3.12 The Board noted the contents of the Performance and Risk Overview for June 2015, in particular, the top three risks to the SFA. These are:
- Pressure on revenue budgets in 2015-16 financial year
 - The 3 million apprenticeships target
 - The declining financial health of the FE sector, which could lead to a greater demand for urgent intervention and reduced resource for other strategic objectives

4. College Resilience

- 4.1 Paul McGuire and Keith Smith presented an item on financial sustainability and intervention in the FE sector. It was noted that this would be a standing item at Advisory Board meetings going forward, as requested by the Board at the last meeting.
- 4.2 The Board noted that 12% of colleges were now rated as having inadequate financial health, an increase from 6% in 2009/10. The SFA would be working closely with colleagues at the EFA to undertake some joint modelling work to ensure we have a full sector view and can respond positively to an increasingly challenging situation. A joint team of SFA and EFA staff was being created to work on a national programme of area reviews. This team will deal with failures where they occur but also focus on identifying potential financial health issues before they materialise.
- 4.3 Keith informed the Board that there was also a concern relating to the cost of exceptional financial support for colleges facing difficulties, especially

cases that are yet to emerge. The Board asked what kind of data was currently being used to assess the financial health of colleges. Paul McGuire informed the Board that the SFA collated financial plans and financial statements from colleges, as well as the assumptions that informed those plans. Quarterly data returns on participation were also collected. In some cases, the variation in plans and actuals could be $\pm 30\%$. The Board agreed that rigorous and effective governance and good decision-making were essential for a college to cope with the consecutive spending cuts and a somewhat complex funding framework.

- 4.4 It was noted that the amounts of exceptional funding support granted were likely to be published in the NAO's report on the financial sustainability in the FE sector.
- 4.5 The Board noted that there was no insolvency regime that applies to college corporations and that a college had not yet been allowed to fail. This was because of the implications on learners, staff and suppliers as well as the likelihood that the cost of failure would be more expensive than exceptional support for the college. However, this in itself meant that there is a risk that colleges may rely on the SFA as a 'safety net' in a way that a private provider would not be able to. Any final decision to put money towards assisting a failing college ultimately lies with the Permanent Secretary and Accounting Officer, although a recommendation would be made initially by the FE Commissioner. The Board agreed that this line of responsibility needed to be clear.

5. Increasing the number of employers engaged in apprenticeships

- 5.1 Sue Husband led the Board through a presentation on delivering 3 million apprenticeships by the end of the current parliament. This set out the overarching strategy of growth. The SFA would seek to maintain and/or improve the quality of any apprenticeships delivered. The Board noted that success was heavily reliant upon successful engagement with employers.
- 5.2 The Board agreed that there was significant scope for growth in apprenticeships within the public sector. They also suggested that more needed to be done to help SMEs design apprenticeship jobs. The aim would be to make apprenticeships the 'default' option going forward. At the moment, there was a perception amongst employers that the provision of apprenticeships was a complex process, so more needed to be done to make sure that isn't the case. The Board agreed that the best way to engage with young people and potential employers was to encourage apprentices and their employers to share the benefits of their experiences with others.
- 5.3 The Board discussed the routes into apprenticeships. It was agreed that more could be done to ensure teachers are well informed on apprenticeships as an alternative to university and to ensure they are

equipped to be able to show interested young people where they need to go to find out more information. This could possibly be done by engaging with teaching unions, as well as colleges and training providers.

- 5.4 The Board noted the progress of work being conducted by the Apprenticeship Delivery Board and the Earn or learn taskforce.
- 5.5 The Board looked at the trajectory for meeting the 3 million target. It was noted that the SFA would need a good start, but also needed to be comfortable that apprenticeship numbers achieved are affordable for each of the five years of Parliament.
- 5.6 Overall, the Board welcomed the plan and advised that the more that could be done to energise and share the value of apprenticeships the better. The Board asked for a regular update on progress against the plan.

6. Terms of Reference

- 6.1 Paul Drechsler informed the Board that the terms of reference were due to be reviewed and agreed. A revised version of the terms had been circulated with the papers. The Board discussed the document.
- 6.2 The terms of reference were agreed. However, the Board recommended that Peter should discuss the implementation of a more formal line from the Audit and Risk Committee to the BIS Audit Committee. Peter agreed to pick this up with Richard Lewis after the meeting. It was noted that the revised Framework Document was with BIS for agreement.

ACTION 17: Peter Lauener and Richard Lewis to discuss a formal line of reporting from SFA Audit and Risk Committee to BIS Audit Committee.

7. Any Other Business

- 7.1 Helen Knee circulated copies of the final SFA Business Plan (including the People Plan) to Board members.
- 7.2 The next Advisory Board meeting is scheduled for 9 September 2015.

Meeting closed.

List of attendees at Skills Funding Agency Advisory Board Meeting
08 July 2015

Members:

Paul Drechsler (Chair)	Teach First
Martin Doel	AOC
Michael Davis	UKCES
Stewart Segal	AELP
Tom Wilson	TUC

In Attendance:

Peter Lauener	Skills Funding Agency
Helen Knee	Skills Funding Agency
Keith Smith	Skills Funding Agency
Kiran Virdee	Skills Funding Agency
Paul McGuire	Skills Funding Agency
Sue Husband	Skills Funding Agency
Richard Lewis	BIS

Apologies:

Mark Farrar	Association of Accounting Technicians
Joe Vinson	NUS
Rachel Sandby-Thomas	BIS
Tim Ward	Learning Curve/TSNLA
Rob Wall	CBI
Jon Graham	JTL Training Limited
Les Walton	EFA/ Northern Education