

***National Assembly for Wales' Finance
Committee:
Inquiry into Specific Grants***

**fforwm submission to inform oral
evidence session 4 March 2009**

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Introduction

1. fforwm welcomes the opportunity to provide written and oral evidence to the National Assembly's Finance Committee inquiry into the bureaucracy associated with specific grants in the education sector.
2. The remit of the inquiry is *"to look into claims that there are too many of these grants, that they are uncoordinated and overlapping, and that the application processes are long winded and bureaucratic"*.
3. fforwm is the national organisation representing the 23 further education (FE) colleges and two FE institutions in Wales¹. It is an educational charity and a company limited by guarantee. fforwm's Board comprises college principals and chairs of corporations, appointed by member colleges. fforwm provides a range of services to its members including networks, conferences, research, consultancy and the sharing of good practice. It also works closely with a wide range of partners in post-16 education and training. Through fforwm, colleges are represented on various committees, working parties and other groups influencing and shaping policy in post-16 education and life-long learning.

Some key points

4. FE colleges receive on average every year an estimated £39m in specific grants. Around £14m (36% of these grants) are awarded by DCELLS and WAG departments, £10m (25%) from European Social Funds (ESF), and 39% from other sources. A number of specific grants are listed in **Annex A**.
5. Colleges recognise that as they are in receipt of public funds, it is right and proper that they are subject to a rigorous regulatory framework.
6. Regulation has to be commensurate with the level of risk. Colleges sometimes spend disproportionate amounts of time in bidding for additional funding and, if successful, accounting for how the money is spent. Large numbers of staff are employed to monitor and account for public money (processes) rather than being focused on improving opportunities for learners (outcomes).
7. There needs to be a common agreement on the definition of high, medium and low risk. Estyn assesses the nature of colleges' inspection on the basis

¹ In this response, the terms further education institution (FEI) and FE colleges are used interchangeably to describe all of fforwm's members.

of risk and of college performance during previous inspections. Those deemed to be low risk with an excellent quality profile receive a lighter touch inspection. This principle could be applied to other forms of regulation.

8. In the Reducing the Monitoring Burden on Centres Project, risk-based monitoring is defined as an approach where:

'An awarding body grades a centre on a scale, high to low, in relation to the risk it poses to the awarding body reputation and quality and translates this grade into an increase or decrease in the monitoring activity that is carried out'.²

9. The audit procedures do not necessarily reflect the amount of funding allocated. Detailed audit may be required for small sums of money allocated but much less audit for larger sums.
10. One college reported that it received approximately £800k of financial contingency funds (FCFs) and the same amount for backlog maintenance grants. The estimated staff time spent administering the FCF grant to ensure compliance with WAG audit requirements was 3,150 hours compared with 15 hours of staff time spent administering the backlog maintenance grant.
11. Another college reported the following:
- *11 staff enter data for £20m FE recurrent funding*
 - *6 staff for £3m WBL funding*
 - *one member of staff for £200k of Ufl funding*
 - *one member of staff for £30k of ILAs.*
12. The amount of time spent in bidding and accounting for specific grants may deter some colleges from putting in bids.
13. Colleges and other providers might be more closely involved in providing advice on regulation to the WAG at an early stage when a new specific grant or initiative is being planned. For example, FE colleges are very supportive of ProAct and the proposed new apprenticeship package. However, colleges and other providers have not been involved in discussions about the procedures and processes involved in bidding for these funds nor about the arrangements for accounting for their use.
14. Under the Learning and Skills Act 2000, ELWa had the power to allocate funding and set conditions including monitoring of how these funds were spent. This power has transferred to the Department for Children, Education, Lifelong Learning and Skills (DCELLS). There is a strong

² *Reducing the Monitoring Burden on Centres*, presentation by Capgemini to conference on Reducing the Monitoring Burden on Centres, Cardiff, 7 December 2006

temptation on the part of WAG to attach conditions to funding through the use of hypothecation. Colleges believe that this relationship is predicated on a lack of trust.

15. There are too many specific grants for which colleges have to apply. It would be preferable if many of these funds, particularly those allocated by DCELLS, could be consolidated into colleges' core funding and that instructions on the use of this money be included in the conditions of funding letter published annually by DCELLS.
16. Colleges receive specific grants from different parts of DCELLS and from different Departments within WAG. It is not clear how much coordination there is within DCELLS and between Departments in respect of the allocation of specific grants.
17. In summary, what is required is a new working relationship between colleges, WAG and other regulatory bodies where colleges' quality and audit systems are the key focus of scrutiny. If these are judged to be good, then the amount of detailed regulation should be reduced accordingly. While colleges recognise that there may be a need for some specific grants, many grants should be incorporated into colleges' core budgets. fforwm would support the recent statement by a member of the WAG Cabinet, who recently said that more time should be spent on what is being delivered i.e. outcomes, and less on monitoring i.e. processes.

Context

18. In 2002, fforwm carried out a survey into Funding Streams and Audit Requirements faced by FE colleges in Wales. The survey identified 107 funding streams and 43 audit and inspection arrangements.
19. Many of the funding streams identified in 2002 no longer exist. However, they have been replaced by others. The general view from colleges is that the amount of regulation has not declined in the seven years since the survey. If anything it has increased. And a disproportionate amount of time is spent in accounting for relatively small sums of money allocated through specific grants.
20. In 2007, the fforwm Report of the Bureaucracy and Red Tape Reduction Group in Further Education in Wales was published. Membership of the Group was drawn from colleges and from the WAG. The Report drew attention to the disproportionate level of audit to which colleges are subjected. The DCELLS audit, internal and external audit and other audit regimes, especially relating to European Social Fund (ESF) funding, together place heavy demands on colleges. The result is that in certain areas, such as ESF, a number of colleges have withdrawn entirely from bidding for funding because of the burdensome audit requirements and requirements for retrospective payments. This has deprived potential learners – often disadvantaged learners - from a range of educational opportunities.

21. With the support of DCELLS, fforwm has since set up a Bureaucracy Reduction Standing Committee to monitor regulation on a regular basis.

Total College Income

22. In 2006/07, colleges received total income of £405.8m. As shown in **Table 1**, 77.8% (£316m) came from the WAG. The £316m includes (i) recurrent funding allocated to all 25 colleges based on the National Planning and Funding System (NPFS) methodology, (ii) additional funding for FE pay allocated to colleges under the FE Pay Initiative³ (iii) additional funding for work-based learning (WBL) to 21 colleges who received funding after a competitive bidding round (iv) capital funding in which colleges bid for funds based on their estates strategies (v) specific grants such as the Common Investment Fund.

Table 1: FE Sector Income (excluding Merthyr Tydfil College) 2006/07

Income	2006/07 (000s)	%
WAG grants	293,840	72.4%
WAG funding (WBL)	21,861	5.4%
Tuition Fees and Education Contracts	38,369	9.5%
Research Grants and Contracts	342	0.1%
Other Income	46,088	11.4%
Investment Income	5,259	1.3%
Total	405,759	100.1%

Source – Welsh Assembly Government

WAG proportion of FE College funding

23. The amount of funding from WAG as a proportion of colleges' overall budgets varies considerably between colleges from 66.12% to 84.31% (excluding WBL funding) and from 66.12% to 86.91% (when WBL is included).⁴
24. WAG figures for 2005/06 break down the categories of income further (**Table 2**).

³ The FE Pay Initiative involved the WAG allocating a sum of money each year to colleges for pay increases as they moved towards pay parity with schools. This ran from 2003/04 to 2006/07 and over the four years amounted to around £42m. This money has been consolidated into colleges' recurrent funding since 2007/08.

⁴ WAG financial record 2006/07; WAG Circular No 020-07 30 July 07

Table 2: FE sector income (including Merthyr Tydfil College) (2005/06): broken down into income headings

Income	% of total funding
Recurrent WAG funding	59%)
Other WAG grants	12%
Other grants	4%
Capital grants	3%
Education contracts	4%
Work-based learning	5%
Tuition fees	5%
Commercial income	7%
Investment income	1%
Total	100%

25. A more detailed breakdown of the categories used by DCELLS in assessing college income is attached as **Annex B**.

Specific grants

26. Twelve colleges responded to a fforwm survey about the extent of specific grants. The budgets of these colleges make up 57.5% of total funding from all sources (2006/07 figures).
27. Between 2006/07 and 2008/09, these 12 colleges received 316 specific grants; or 7 specific grants per college per year.
28. A list of over 60 specific grants identified by colleges is included in **Annex A**. The list includes funding from DCELLS and from WAG as well as other sources.
29. The total amount of funding from specific grants in the 12 colleges over the three years is £66.6m. The annual amount has fallen from £21.7m in 2007/08 to £19.9m in 2008/09 after an increase in 2007/08. If these figures are extrapolated to all 25 FE colleges in Wales, the total amount for the FE sector is **£115.8m** over the three year period (see **Table 3**). This is an average of **£38.6m** per year or £1.52m per college.

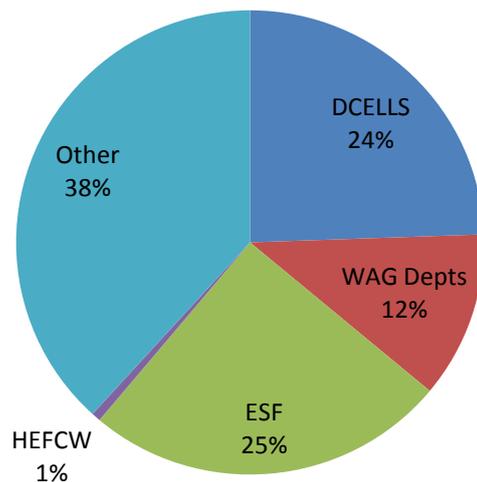
Table 3: Information on the specific grants – 12 colleges

Year	Number of specific grants applied for	Number of specific grants received	£ Amount of funding	£ Amount of funding for all 25 colleges
2006/07	109	105	21.7m	37.7m
2007/08	124	118	25.0m	43.5m
2008/09	96	93	19.9m	34.6m
Total	329	316	66.6m	115.8m

- 30 Over 36% of these grants were awarded by DCELLS and WAG departments and 25% through ESF (**Table 4**).
31. Assuming an average funding of £38.6m per year, it can be estimated that every year colleges receive around £14m through WAG and DCELLS in specific grants, £9.6m from ESF and £14.9m from other sources.

Table 4: Information on where grants came from (12 colleges)

Grants received between 2006/07 - 2008/09



Amount of time spent in the application process

32. Colleges were asked how much time is spent on applying for specific grants. Clearly there are differences depending on the nature of the grant, some requiring more time than others. The bullet points below set out some responses.
- *varies from none e.g. backlog maintenance, to extensive applications e.g. ESF, common investment fund (CIF) and entrepreneurship*
 - *155 – 200 days staff time*
 - *2 FTE dedicated staff and many other senior and middle managers are involved in writing bids*
 - *time consuming process with no guarantees of successful bids.*

Amount of audit and regulation associated with these specific grants

33. Again, the time spent in audit and regulation varied depending on the specific grant.
- *varies from 90 days staff time to 2.5 FTE staff dedicated to the auditing and monitoring of beneficiary data*
 - *in 2006/07, 7 staff were involved in administering projects but this has now reduced to 2 because of the lack of ESF convergence funding*
 - *audit time related to the recurrent grant is 5 weeks' direct audit time, with twice annual financial reports being submitted to DCELLS as well as monthly data reports*
 - *some WAG grants are not too onerous. ESF grants take on average 40 hours per quarter to prepare claims/audit trails and then 2+ days of audit at the project.*
 - *internal audit takes approximately 51 days together with external audit and various DCELLS audits, some of which overlap in content.*
 - *audits of specific grants such as Ufl and Individual Learning Accounts (ILAs) are particularly onerous for the small sums involved as is the WBL audit trail. Other issues are identified.*
 - *Colleges have to set up finance, management and estates processes separately to account for them 'in case' there is an audit. For example, one college may have tendered for a contractor to carry out estates work on a building for £400k. The college has separately to track and record that £50k is funded from DDA, £100k from backlog maintenance etc and be able to report to WAG and possible auditors, which elements of a single invoice for say £50k needs to be split in various ways. The focus of the estates manager should be on completing the 'total project' to time to cost to quality – not ensuring that separate parts can be separately identified*

34. Another example is funding to account for FE pay increases allocated separately by WAG over a four year period.
- *WAG have paid colleges on the basis of a proportion of total pay costs*
 - *Colleges are then required to send in a return to show what has been actually paid*
 - *However, if there were an audit, the college would be expected to demonstrate that the calculation was accurate. This would mean ensuring the amount claimed for each member of staff excluded any spine point increment / regradings etc*
 - *This grant would not need to be applied for and there would be zero days' audit. However, the threat of audit and the returns that are required create an 'industry' of accounting that is unrelated to the day-to-day management of the college.*

Other issues

35. A number of other issues are of significance.
- *There is a need for a clearer steer about eligibility for the funding so that time is not wasted applying for funds that are unlikely to be awarded to FE.*
 - *Funding for learners with learning difficulties and/or disabilities (LLDD) is meant to support additional costs not for funding the underlying learner support arrangements. Colleges have to recruit specialist support staff on a casual basis with no guarantee of employment*
 - *Financial Contingency Funds (FCFs) are allocated as a separate fund to provide financial support for learners. Why should FCFs be a separate fund? It would be better to allocate this as part of core funding with a statement in the condition of funding letter setting out that a certain percentage has to be provided for student support*
 - *WAG officer time spent gaining approval for grant schemes is an important factor. This includes defining what the terms are going to be, how they will measure the success of a grant, how they will monitor the delivery of a grant, how they will do a post project appraisal of the grant etc. This takes much time and effort. WAG's own internal rules⁵ require detailed oversight of specific grants. WAG could get round this by putting as much as possible into a single core funding grant and setting conditions.*

⁵ HM Treasury Managing Public Money, Chapter 5 (Government Accounting Manual)

- 36. Annex C** includes specific comments on the Dynamo programme which has replaced the Knowledge Exploitation Fund (KEF) showing that the regulation appears to have increased rather than decreased. It also explains in some detail problems arising from the procurement process adopted for Convergence funding, which is extremely resource intensive. As yet, colleges have not been successful in any partnership bids.

Annex A: Examples of specific grants applied for from colleges

Grant Name	Awarding body
Capital Investment Fund (Billing)	ELWa
Capital Investment Fund (Commun)	ELWa
Capital Investment Fund (MotorV)	ELWa
KEF Entrepreneurship	WAG
KEF Innovation (SME Dev)	WAG
Dynamo Lev 1	WAG
Dynamo Lev 3	WAG
Dynamo Lev3	WAG
CeltNet	Interreg 3a (ERDF)
Vision	Interreg 4a (ERDF)
Food Tech SME Support (obj1)	Ceredigion Council (ERDF)
Meat & Cheese Development	Interreg 3a (ERDF)
KTP Galeri Caernarfon	DTI
Supply Chain Efficiency	Rural Development Plan (EAGGF)
Construction Centre	
Stepping Stones	WAG
A4B Feasibility Study	WAG (A4B)
EHANGU	Objective 1 (ERDF)
Skills in the Workplace	Objective 1 (ESF)
Backlog Maintenance	DCELLS
Welsh Language Centre	
Welsh for Adults	DCELLS
Financial Contingency Fund	DCELLS
Learners Learning Difficulties and/or Disabilities	DCELLS
WAG Enterprise	
Comenius	
Work-based Learning	DECLLS
Individual Learning Accounts	DCELLS
Rhyl City Strategy	WAG
React	WAG
14-19 Development Fund	DCELLS
University of Glamorgan	
ILT Champion	DCELLS
Education Maintenance Allowance Admin	DCELLS
Adult Learning Grant Admin	DCELLS
Estyn Quality	DCELLS
Quality Improvement Framework	DCELLS
WJEC WBQ	WAG
Graham Review	HEFCW

Five Star Pembrokeshire	ESF
Hospitality Excellence	ESF
Pembrokeshire Education & Training	ESF
Onwards & Upwards	ESF
Managing Farms with IT	ESF
Welsh Rugby Union	Other
14-16 Student Training	Other
Welsh Language Development Plan	Other
Career Wales Saturday Club	Other
ERDF M-Learning	Other
Interreg Celtic Maritime Connections	Other
Liquid Natural Gas Peru	Other
Supported Training & Education in Pembrokeshire	Other
Community and Skills Hubs	Other
Sgiliath Cymru	Other
Pembrokeshire County Council 14-19	Other
Big Lottery 3	Other
Transnational 1	Other
Gwent Association Voluntary Organisation	Other
Wales Council for Voluntary Action	Other
NIACE	NIACE
Welsh Medium Project	WAG
Youth Adult Learning Opportunities Division	WAG

Annex B: Breakdown of areas of income recorded annually by DCELLS in respect of college accounts

- Recurrent NPFS only
- Other Recurrent funding
- Release of WAG capital grants
- NPFS Adjustment relating to previous year
- Other WAG grants
- Work Based Learning
- Total WAG Grant
- LEA contracts
- HE - HEFCW contracts
- HE - Franchised & associated colleges contracts
- Other Education Contracts
- New Deal
- Further Education EC fees including Home
- Further Education Non EC fees
- Higher Education fees
- Examination fees
- Total Tuition Fees & Education contracts
- Research grants and contracts
- Total Research Grants and Contracts
- Catering, conferences and residence operations
- Release of deferred capital grants Non-WAG
- Farm Income
- Other income generating activities
- Other income
- European Grants
- KEF Grants
- Other Grants
- Total Other Income
- Income from investments
- Other interest receivable
- Pension finance income
- Total Investment Income
- Total income

Annex C: Comments on various specific grants

WAG programmes

Dynamo has replaced the Knowledge Exploitation Fund (KEF). Although it was intended to learn from the weaknesses of KEF, easier and less time consuming processes have not been developed

Under KEF, colleges submitted a three year strategy and were funded £45K annually to deliver the strategy. Dynamo now requires an application for every activity undertaken. Although the application form itself is comparatively simple, the whole process from drafting an application through to receiving a contract and start delivering the activity can take months. The role of the Entrepreneurship Champion as coordinator of this activity then becomes very difficult, as programme areas will have moved on with other ideas while waiting for confirmation of the funding. In some cases the delay also makes it very difficult to deliver the outcomes detailed in the application, as starting late can run into exam times or holiday periods.

There is an expectation within WAG that colleges can operate programmes without agreed contracts on a faith in the system basis.

Convergence

Due to the procurement process adopted for Convergence funding, it has been impossible for colleges to submit bids either singly, or as partnerships to date. Colleges are being increasingly directed to Sell2Wales as a route to identify opportunities to tender for work within projects submitted by other agencies.

The whole process of tendering is speculative and dependant upon the time and effort expended by staff on the tender submission. It also encourages colleges to undercut each other and only monitor quality up to the requirements specified within the tender document. WAG can suggest that colleges work collaboratively on tenders, but as colleges have no funding to support this speculative activity, having one college act as lead on a tender is dependant on staff commitment above and beyond their normal workload.

FE colleges also have a prescribed planning system which ensures that colleges are able to deliver their FE contracts at the top end of the quality scale, but at the bottom of the cost scale. This involves committing staff to their maximum contracted hours of teaching six months ahead. Tenders pop up like mushrooms, and require a different teaching cohort to respond to the flexible requirements of the tender specification. This therefore does not contribute to the efficiency of colleges, or their core funding needs.

Amount of time taken in the application process for convergence funding

Since the development and inception of the Convergence Funding programme within Wales in 2000, FE colleges have been working with partners to develop potential projects that could be eligible and supported through the use of structural funds.

For many FE colleges in Wales, the development and actual submission of project proposals has been an arduous journey and one which has brought little success to date.

In the early stages of the programme discussions predominantly took place on a local level with the intention of developing projects across a Local Authority area focusing on both the strategic need for the activity, and meeting the local needs of participants in the geographical area. Stakeholders were then advised that projects had to provide more of a strategic approach across the region, so project development discussions were widened to include colleagues from other localities across the South West Wales area.

Projects were also informed that large WAG projects were being developed and submitted and stakeholders would also have an opportunity to apply to these projects for financial assistance to fulfil local delivery requirements.

A further barrier and perhaps the most significant, has been the issue surrounding procurement. To ensure value for money in each of the approved projects the Welsh European Funding Office (WEFO) has issued guidelines which stipulate a move away from the traditional partnership approach formed under the Objective 1 programme, to a system where projects are required to identify a lead or joint sponsor and in the majority of cases the activity on the projects have to be procured. This has created a number of issues in the development of the projects and increased the delays in the submission of the project proposals.

In essence this has resulted in the college developing and costing projects over two years ago which still have not come to full fruition.

Despite WEFO now appearing to be approving projects at an increasing rate, colleges remain concerned that the ones that have so far been approved are mainly local authority-led or WAG-led.

Colleges are expected to be involved in some of these projects as deliverers (e.g. the basic skills project & regional projects such as COASTAL). However, little amounts of money will get through to colleges for a number of months given that the LA/WAG-led projects will have to go out to tender for deliverers: a process that will take a few months. This will inevitably mean that colleges are not likely to receive any structural funds until May/June 2009 (close to half way through the programme).

Amount of audit and regulation associated with these specific grants

ESF projects usually result in a week of an auditor's time during the visit (if the college is a lead partner on the project). It will involve 1-2 weeks of the lead partner's time to conduct a quality check of the project partners' information prior to the audit, as well as a 1-2 weeks to look at their own information, depending on the size of the project.