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Llywodraeth Cymru
Welsh Government

Mr Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
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Date: 08 June 2017

Dear Huw

**Response to the report 'Welsh Government oversight of FE colleges' finances and delivery'
(28 February 2017)**

I wrote to you in March in response to the above report with a commitment to respond fully to each recommendation at a later stage due to the Welsh Government wide implications of some of the recommendation.

I am now pleased to be able to share with you those responses at Annex A to this letter.

Yours Sincerely

A handwritten signature in black ink, which appears to read 'Huw Morris'.

Huw Morris
Group Director SHELL

c.c Cabinet and Plenary Mailbox
The PAC Chair
WG CGU Mailbox

Recommendation 1

While recognising the uncertainties facing the Welsh Government's own revenues, we recommend that the Welsh Government re-introduce three-year funding settlements at the earliest opportunity to assist colleges in their financial planning.

Response: Accept in principle

Recent years' funding settlements have been developed against the backdrop of unprecedented uncertainty with Welsh Assembly budgets only being laid on an annual basis.

Our aim is to publish a budget for a three year horizon, which would give our FE Colleges greater certainty in planning for a longer budget period. However, this can only be achieved with greater clarity about the revenue resources available to Welsh Government and therefore the funding settlements to colleges will mirror budgets laid by Cabinet.

It should be noted though that while the funding provided to FE Colleges through the Welsh Government is a very important component for budget setting, it is not the only source. FE Colleges have been asked to increase commercial income and increase fee income, via HE delivery for example. FE Colleges must take account of all the sources of funding available to them in preparing their short and medium term financial plans and the ability to do so should not be reliant upon the Welsh Government grant alone.

Recommendation 2

We recommend that the Welsh Government consider, as part of its institutional review process, how well placed colleges are to respond in the event of capital funds becoming available with tight timescales.

Response: Accept in principle

There will be occasions, such as the minor capital expenditure in 2016/17, where budget is available at short notice. In order to ensure FE Colleges are well placed to respond to capital budget coming available with tight timescales, consideration of the financial and estates position of each college is required as the ability to respond would depend on both the ability to match fund as well as having capital schemes ready to start.

Whilst officials accept this recommendation, in principle, it is proposed that this knowledge should be built into routine knowledge gathering of the finance and estates team to ensure an up to date position is always known rather than including it as part of an institutional review that may not look at each college on a regular enough basis.

This recommendation should not be limited to capital expenditure but should cover any scenario where a college might be asked to react to new project or funding stream.

Recommendation 3

We recommend that the Welsh Government requires colleges to prepare medium-term financial plans, including longer-term financial forecasts, and provide appropriate guidance and support, working with the sector to discuss any key underpinning assumptions.

Response: Accept

The Welsh Government is already taking action in this area. In recent years, financial forecasts have been requested from Colleges in Wales for the current academic year and also the next academic year. In June 2016, Welsh Government commissioned the financial forecasts from Further Education Institutions in Wales which were to be returned by the 31 July. These financial forecasts covered the current academic year (15/16) and a further three academic years from 16/17 to 18/19. The assumptions provided to Colleges for inclusion in the forecasts included assumptions on Welsh Government grant funding, pay, European income, capital, inflation and other grant income.

These assumptions will be reviewed on an ongoing basis so that the financial forecasting can be improved and give a more accurate position of the Colleges' financial health in the current financial climate.

Recommendation 4

We recommend that the Welsh Government develop a mechanism that links funding more closely to likely demand for further education in each area, while recognising the need to phase in significant changes in order to manage the financial impact on individual colleges.

Response: Accept

Growth funding has already been allocated in 2016/17 to reflect where colleges have seen growth in level 3 provision and a similar exercise is currently being undertaken for 2017/18. These have both been one-off recognitions of growth but a working group has already been set up, which includes college Principals and finance directors, to discuss and model several options of growth/decline which is anticipated to inform a revised funding mechanism beginning in 2018/19.

Recommendation 5

We recommend that the Welsh Government develop its institutional review framework to provide a comprehensive assessment of each college's performance and risks, and to report publicly on the main findings of these reviews each year.

Response: Accept

We will be piloting a new institutional review process during 2017, bringing together information from existing assessments and considering how other aspects of colleges' performance, including leadership and employer responsiveness, can be incorporated. This will be part of a wider 'FE resilience' programme to support the sector to meet current and future challenges. It is anticipated that this approach could provide the foundation for introducing outcome agreements in future, as part of the proposed establishment of a new oversight body for post-compulsory education and training in Wales.

We intend to work closely with the sector to develop the review framework and outcomes agreements. We do not anticipate publishing outcomes of reviews until this development and piloting has taken place.

Recommendation 6

We recommend that the Welsh Government provide focussed annual guidance for colleges, set in the context of longer-term, sector-wide strategic guidance.

Response: Accept

Welsh Government is committed to pursuing the development of an overarching strategy for post-16 education, building forward from the recommendations brought forward by

Professor Hazelkorn in her report “Toward 2030”. The Welsh Government recognises the important role which focussed annual guidance for colleges necessarily plays in supporting the emergence of a post-16 sector which bests supports the learning pathways and opportunities valued by employers and learners alike. We support the principle that planning guidance should be reviewed against the overarching ambition to deliver a more sophisticated approach to post-compulsory education governance which:

- enhances educational and career opportunities and quality, across the whole post-compulsory spectrum, and people’s lifetimes;
- anchors and underpin regional social, cultural and economic development; and
- boosts institutional and national global competitiveness.

In this context we are committed to strengthening the links between FE guidance and Ministerial strategies to support a Wales which is Prosperous and Secure, Healthy and Active, Ambitious and Learning and United and Connected.

Welsh Government will continue to review the annual guidance provided to institutions with a view to establishing a limited number of high level strategic goals able to guide both the wider sector and individual institutions.

Recommendation 7

Response: Accept

We recommend that the Welsh Government evaluate the impact of funding reductions on learners (including the impact on equality) once this data is finalised and use the results to inform future decisions on policy and funding.

Statistical data, once available, will be used to evaluate the impact of the funding reductions on the FE Sector. This will be used to identify the accuracy of the Equality Impact Assessments drafted at time of the reductions.

The results are unlikely to alter the policy decisions, as the statutory obligation placed upon provision for 16-18 year olds leaves little option but to continue to reduce part time adult provision should further budget reductions be enforced. The results will, however, be used to inform strategic budgeting decisions to highlight the impacts of previous reductions and the likely impact of future reductions prior to future budgets being laid.