**Agenda Item 4**

# AOC REFERENCE PANEL
# PROGRAMME UPDATE AND FUTURE SPENDING PRIORITIES

## SUMMARY

1 This report seeks the views of Reference Panel members on the priorities against which unallocated capital funds might be spent and the related question of the potential priorities for the allocation of capital funds that might be included in a future bid for additional funds. A brief update on the progress of implementing the FE capital programme is also included.

## RECOMMENDATIONS

2 Reference Panel members are recommended to consider and respond to the issues set out in this report.

## BACKGROUND

3 At its meeting on 14 September the Reference Panel considered a progress report and overview of the LSC's forward capital budget which identified the FE capital budgetary position through to 2013-14 as agreed with BIS and the Treasury. It was noted that the forward budget would be revisited during next years spending review and also that it would be subject to MoG processes. It also distinguished between SFA FE/Skills and YPLA/16-19 capital budgets going forward.

4 It was noted that just over £200 million of the FE budget was as yet uncommitted in the period 2011-12 to 2013-14 and that consideration was being given as to if and when it might be possible to commit some or all of these funds towards colleges' capital activities.

5 This report seeks the views of the Capital Reference Group on future spending priorities should a decision to be taken to commit some or all of these unallocated funds. It also begins the related debate as to the priorities that might be identified for any additional funds that might be made available in next years spending review.

## FE Programme Update

6 Since the meeting on 14 September the following key activities can be reported:

- terms and conditions of grant letters have been exchanged with each of the 13 colleges that had projects approved following the recent value for money challenge. Each of these projects is now under construction albeit at the advance site works stages for a few;

- the Capital Committee will be considering 76 applications to the current round of the Regional Capital Skills Development Fund and up to 4 National Skills Academies' projects at its meeting on 2 November;
- The LSC Finance team is reviewing capital expenditure for the half year to the end of September 2009., It is anticipated that the outcome of the review will show no significant variations from the budget figures discussed at the meeting of the Reference Panel on 14 September;
- the LSC's finance teams are reviewing colleges' audited draft accounts with a view to identifying by the end of November those colleges that may move into financial difficulties as a result of pre-contract development costs for projects not now proceeding. This information will inform decisions about support which needs to be provided;
- most eligible colleges have now submitted and have been paid the LSC's contribution to fee support costs for eligible expenditure incurred or committed before 18 December 2008; and
- meetings have taken place between representatives of the LSC and AoC to consider the work programme that will follow up the outcomes of the Capital Task Force report. These actions are considered at Agenda Item 5.

**UNALLOCATED FUNDS – OPTIONS**

7 Three principal options are put forward to generate debate on the priorities for the application of as yet unallocated capital funds. The views of the Reference Panel will be fed into discussions between the LSC and BIS before a submission is prepared for Ministers on how to proceed.

## Option A: A £100 million challenge fund to support specialisation and the "New Industry New Jobs" White Paper

8 It is important to be able to demonstrate, especially in the new economic climate, that the FE sector is playing its part in the Government's response to the economic downturn, the implementation of the "New Industry New Jobs" (NINJ) White Paper and the new skills strategy planned for this autumn. It would be the policy intention of this fund to be strategic about how capital allocation can best support economic recovery and growth areas.

9 Funds could be targeted on new projects meeting agreed criteria reflecting principal government priorities such as those set out in "New industries, New Jobs. Given the relative scarcity of capital funds it would be designed to support the priorities in "New Industries New Jobs". Further consultation would be required but the intention of this fund is that it would act to facilitate and leverage in additional resource and to facilitate college borrowings. The maximum colleges will be able to apply for would be in the region of £1-3 million and a target for matched funding to LSC funding of say at least 5:1 might be set.

10 Whilst the principal aim of this fund would be to support Government's key objectives of 'Building Britain's future' and the "New Industry New Jobs" White Paper (having passed an appropriate assessment scoring threshold) the fund arrangements could be constructed to give additional priority to supporting colleges in economically deprived areas, which may have yet to receive major capital investment or have urgent accommodation issues to address.

11 The aim would be to develop a strong, flexible approach able to deliver a range of outcomes. Colleges would have, however, to invest further resource in developing new projects to be able to demonstrate any significant output. A target threshold of 5:1 to lever in additional investment could deliver £500 m of expenditure. With an LSC /SFA contribution of £1-2m paid upfront to support development costs that could support 50-100 new projects.

## Option B: A £50m refurbishment fund to support colleges where urgent modernisation/refurbishment is necessary

12 It is clear in some cases that colleges which were expecting to undertake complete rebuild or redevelopment/modernisation of existing campus buildings have a maintenance backlog on existing buildings or need to replace or upgrade temporary buildings or enhance IT facilities and equipment. This proposal, therefore, would be to allocate funds to specifically target and support colleges who urgently need to refurbish part of their existing estates to an appropriate level.

13 This fund would be available on a clear needs basis so we would not necessarily propose a funding maximum. However, in most cases and as for all capital projects moving forward the SFA's intervention would be limited. Indicatively this could be a general SFA maximum contribution of up to £500,000 with matched expenditure from the applicant for projects ranging from £100,000 to £1 million in cost.

14 This fund would have a clear mandate to help ensure all college estates are at an acceptable standard in respect of health and safety. DDA Compliance and essential works to accommodate LLDDs are other suggested criteria, as is a consideration of where learning is currently been undertaken in unsuitable temporary accommodation.

15 The benefit of this approach is that it would help ensure learners have a safer environment in which to learn. Priority could be given to those colleges who have received least investment and whose need is greatest.

16 £50 million with up to £500,000 per project again on a matched funding basis could generate at least £100 million investment.

## Option C: A formula based approach

17 HEFCE currently uses a formula based system for distributing part of its HE capital funding, principally that aimed at supporting modernisation. Once HEI's have past through an eligibility gateway the resource is distributed as a percentage of turnover. FE colleges directly funded by HEFCE receive it although such funding for colleges in franchise arrangements is allocated to their HE partners. The formula approach allows greater flexibility for the provider to meet their own priorities.

18 The sums available would provide for very modest sums of money being provided to each college. If well designed, however, it is possible for a formula approach to deliver specific outcomes. For instance, it could be focused toward those colleges who have yet to receive significant capital investment. Initial gateways using additional criteria/weightings could be incorporated such as specialisation, relevance to NINJ aims and objectives, condition of estate and sustainability.

19 The advantages of this approach is that it is less bureaucratic and economical to implement and whilst there would be inevitable disagreement regarding the criteria and weighting it is arguably more inherently fair in it distribution. On the other hand there would be very little control on the ability to ensure value for money with a risk that any available resource would achieve fewer outcomes than the more traditional model. Early feedback from the sector has determined that this is a potentially popular option depending on the amount of funding that would be available. For example, if divided equally amongst say 280 SFA FE colleges, £50 million would only provide an average allocation of circa £0.175 m and £100 million would generate only £350,000 over the entire three year period and allocations could not start until 2011-12 . Even if the allocations were weighted and prioritised through a purpose-designed "tariff" the project funding impact would be limited.

### Other Options: Variations on a Theme

20 There are other important areas for consideration that may be priorities within these options or merit alternative consideration for the use of these funds:

21~~2~~ LLDD Specialist Provision. From 20010-11 revenue funding will become the responsibility of DCSF up to the age of 25 as part of the Machinery of Government changes. Discussions between departments are still ongoing and this is an important area for consideration, especially given the increasingly important role of FE colleges in accommodating LLDD provision in line with the recommendations of the 2005 report "Through Inclusion to Excellence" - The Report of the Steering Group for the Strategic Review of the

LSC's Planning and Funding of Provision for Learners with Learning Difficulties and/or Disabilities across the Post-16 Learning and Skills Sector". The question here is whether or not the criteria for identifying projects and categories A and B above should give priority to projects with LLDD provision and whether or not specialist colleges should be included under the FE category or should be included with those sixth form colleges which will come under the DCSF and YPLA post-MoG.

22~~3~~ Property Strategies. Help with the costs of developing property strategies for those colleges that have not had recent investment or developed proposals and, therefore may not have up to date condition surveys, a site master plan or a formal long term property strategy so as to provide a strategic context for developing new projects. In the last 5 years 68 colleges have not developed project proposals beyond the very early RIBA stage B (AiP approval is usually at RIBA stage D). 94 colleges have not developed project proposals to the AiP stage. Up to £100,000 might be made available to towards the costs of physical condition surveys and developing strategies. Helping say 60 colleges in this way would cost £6 million but there would be an 18 month delay in providing the funding and those colleges that had previously developed proposals might regard this as rewarding past inactivity. An alternative might be to make say £100,000 available to every college to help review their accommodation needs. If 300 colleges participated then the cost would be £30 million but once again the timing of the payment of grants would be a problem.

23~~4~~ Contingencies. A case can be made for some or all of these funds to be used for contingency purposes at least for now. Contingencies that might be identified include: additional fee support for colleges in financial difficulties; the skills/specialisation budget for which the budget from 2011-12 to 13-14 has yet to be agreed; assisting colleges with unforeseen and unplanned capital costs; transfer of provision due to poor institutional performance; need to accommodate additional LLDDs.

## EXPENDITURE PRIORITIES

### Priorities Used in the Recent Project Selection Exercise

24~~5~~ As well as considering priorities for the allocation of uncommitted funds members may also wish to consider the related issues of the priorities and criteria that might be used to support any case for additional capital funds in the spending review next year and the extent to which the criteria used in the recent evaluation exercise might be changed to reflect the criteria and priorities discussed above in relation to as yet uncommitted funds.

25~~6~~ Members will recall that having identified the project proposals able to start on site by a certain date (shovel ready) the recent prioritisation exercise undertaken by PwC assessed project proposals again the following main priorities based on consultation with FE sector representative bodies and other interested parties:

- local education and skills
- contribution to local economic and regeneration priorities;
- co-dependency (for example, where there is significant leverage of third party funding or another important project that is dependent on the college project);
- the current condition of the estate; and
- value for money.

26~~7~~ Further priority was given to the following categories

26~~7~~.1 Condition of estate - Where there are extremely urgent estate issues e.g. significant work already underway, buildings demolished, significant and unsatisfactory temporary accommodation, critical health and safety issues;

26~~7~~.2 Co-dependency - Where there is significant leverage of 3rd party funding or another important project will not proceed if this project doesn't proceed; and

26~~7~~.3 Regeneration – Where the area is both highly deprived and the project is integral to a wider area or region.

27~~8~~ Members are invited to consider the extent to which these existing priorities should be used to inform future FE project allocation exercises and the priority and weightings that might be agreed alongside those suggested earlier in the report such as those supporting NINJ.

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