

Learning to Succeed

Post-16 Funding and Allocations: First Technical Consultation Paper

January 2000



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How to respond

This consultation will end on 3 April 2000. We look forward to receiving your responses before that date if at all possible.

You can send your responses, as well as any queries, to:

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1. Introduction

- 1.1 The Government's White Paper *Learning to Succeed* promised new funding arrangements to match the vision Ministers had set out in *The Learning Age* for the future of post-16 education and training. The legislation now before Parliament provides for the establishment of a Learning and Skills Council, which will allocate around £6 billion for the benefit of almost 6 million learners. *The Learning and Skills Council Prospectus*, published in December 1999, provides further detail of how the LSC will work and can usefully be read alongside this funding paper.
- 1.2 The LSC and the Employment Service will ensure that the Government's vision is given practical effect, including through new, more coherent and transparent funding arrangements. The two organisations will work closely together, share information and have joint planning arrangements. There will be formal links at LSC Board level, through the Adult Learning Committee and at local LSC level. Establishment of the LSC is subject to passage of the legislation.
- 1.3 This technical consultation paper sets out initial thinking on the type of funding arrangements the LSC and ES will need and invites your comments by **3 April 2000**. The paper will be supported by regional conferences. Further, more detailed, technical consultation is planned for May this year. Everyone with a stake in the new post-16 arrangements will have a chance to have their say.

Objectives

- 1.4 The objectives of the new funding and allocations system are that it should:
 - a) *promote excellence and high quality delivery of service*. The new system must have the over-riding objective of helping to raise standards. There should be a clear link between quality and the decisions made by the LSC and ES. Those offering high quality provision should be able to expand where they can demonstrate demand;
 - b) *maximise participation, retention and achievement towards the National Learning Targets for 2002 and beyond*. The problems to be addressed by the new system are clear. Some 21 million adults are not qualified to level 3 - the equivalent of having 2 A levels. Around 14 million people do not have a level 2 qualification - the equivalent of having 5 good GCSEs. And over 6 million adults lack the basic, level 1 skills that would help them get on the first rung of the jobs ladder and participate more fully in society.
 - c) *be responsive to the needs of individuals and employers*. The new system must meet the needs of learners, employers and the economy. Funding should follow the individuals not the institution, so that the system is driven by individuals and business and not by providers;
 - d) *promote employability for individuals by equipping them with the right skills*. The new system must aid economic regeneration and community capacity building. It must meet the skills needs of the future, not those of the past;

- e) *ensure targeted support for the socially disadvantaged.* The new system must offer additional funding in respect of disengaged and economically excluded learners, as reports by Tomlinson, Kennedy, Moser, the Social Exclusion Unit and the Policy Action Team on Skills, have all in recent times proposed¹;
- f) *ensure equality of opportunity.* The proposed new Youth Support Service will have a particular role in removing barriers to learning for young people who lack basic skills and have become detached from learning. The new system must also support appropriate provision for adult basic skills and family learning;
- g) *secure the entitlement of all 16-19 year olds to stay in learning.* All 16-19 year olds will be entitled to free tuition in pursuing qualifications up to level 3;
- h) *remove unnecessary bureaucracy.* More of the funding must reach the learner, not be tied up in bureaucracy. The system must be simple to understand and administer. The current 16-19 arrangements offer considerable scope for greater simplification and coherence;
- i) *secure maximum effectiveness and value for money.* If we are to achieve the step changes in participation and achievement which are needed to realise the vision of *The Learning Age*, the new system must support more flexible and efficient modes of learning. Ufl will assist this as a driver of virtual learning and as a key strategic partner of the LSC.

1.5 The new system will need to support all of the objectives above. But we would be repeating mistakes of the past if we saw funding as our only lever. Important roles will also need to be played by:

- a) effective arrangements for setting priorities and planning;
- b) high quality assessment and inspection arrangements, and appropriate performance indicators, benchmarking and target setting for all providers. A consultation paper on these areas is proposed for Spring this year;
- c) an appropriate curriculum and qualifications structure; and
- d) promotion and marketing and the provision of information for learners (and their advisers) and employers, which will be a high priority both for the LSC and for providers of education and training.

¹Skills for Neighbourhood Renewal: local solutions. Report by the Policy Action Team on Skills. Dec 1999.

¹Inclusive Learning: report of the Learning Difficulties and/or Disabilities Committee, chaired by John Tomlinson for the FEFC, 1996.

¹Learning Works: report of the FEFC's committee on widening participation, chaired by Baroness Kennedy, 1997.

¹Bridging the Gap: new opportunities for 16-18 year olds not in education, employment or training. The Social Unit, July, 1999.

¹Improving Literacy and Numeracy: a fresh start - the report of the working group chaired by Sir Claus Moser, 1999.

Key features

1.6 The key features of the new system discussed in this paper are that:

- ▶ it should be as simple as possible, in terms both of its design and administration, and should avoid the complexities of current post-16 systems;
- ▶ funding should be allocated on the basis of the assessed needs of learners and employers;
- ▶ allowance should be made for up to four core elements - recruitment of learners, retention, achievement and disadvantage;
- ▶ where national rates of funding are appropriate they should be determined rigorously and fairly;
- ▶ there should be scope for indicative allocations for up to three years for any provider, and scope for new providers to enter the system;
- ▶ long contracting chains, with intermediaries which each take a cut without adding value, should be a thing of the past;
- ▶ a co-financing approach should be introduced if possible for the distribution of European Structural Funds, to maximise take-up and simplify administration;
- ▶ local LSCs should:
 - ▶ have responsibility for allocating the funds to providers;
 - ▶ be able to vary the formula to increase national rates in certain circumstances and subject to national LSC guidance;
 - ▶ distribute some 10% to 15% of LSC funds on a non-formula basis;
- ▶ in the case of school sixth forms, there would be real terms safeguarding of current funding levels provided numbers do not fall;
- ▶ transition arrangements should apply to make changes in systems and funding levels as smooth as possible.

Q1 Do you agree that these features will support the development of a simple but effective post-16 funding system, which is responsive to the needs of learners and employers? Do you think that other features should also be regarded as key?

2. A Funding and Allocations System

- 2.1** The fundamental requirements of the new funding and allocations system are fairness, transparency and objectivity. That is why a high proportion of post-16 funds will be distributed according to national funding formulae, supported by a structure of national rates. As explored below, there will be exceptions to this. Workforce development and some Adult and Community Learning are obvious exceptions. The distinctive position of school sixth forms is discussed in section 4. But we expect that all provision for individuals which is currently formula funded, including through the FEFC system, will be formula funded in future. The aim must be to develop as simple a system as possible, in terms both of its design and administration, and to avoid the complexities of current post-16 systems (see Annex A). It must ensure, through the allocation of education and training opportunities, that national, regional and local priorities are met.
- 2.2** *Learning to Succeed* and *The Learning and Skills Council Prospectus* set out our plans for establishing the LSC as a single organisation with a transparent and accountable national framework, but with local LSCs having significant decision-making authority. This document describes how we will build a funding and allocations system that will deliver this.

Developing formula funding for LSC and ES

- 2.3** The LSC and ES will need to work closely together to develop a unified approach wherever possible, within a simple system that is flexible enough to accommodate a wide variety of different types and lengths of provision, some leading to qualifications and others not.
- 2.4** At present, much post-16 funding sub-divides provision into three distinct portions:
- a)** Paying for starts. Payments for entry to a course or programme are intended to cover providers' advertising, recruitment, registration and initial assessment costs;
 - b)** Paying for retention. "On-programme" payments cover the continuing costs of providing the course or programme; and
 - c)** Paying for achievement. Outcome payments offer providers a reward for getting the learner to the desired qualification, or into employment, or other intended outcome, and also help meet the costs of final assessment.
- 2.5** There are attractions in adopting this type of structure in developing LSC and ES formula funding. However, the funding system will also need to make proper allowance for the higher costs of recruiting, retaining and teaching learners who have been disadvantaged by their backgrounds. It will need to weight funding to education and training bodies to help such learners reach their achievement potential in order to break the link between social and educational under-achievement. And it will need to take account of the additional costs associated with reaching the most disadvantaged learners, such as outreach work.

- 2.6** In the further consultation proposed for May this year, and taking into account feedback from the present consultation, we intend to set out a range of proposals to ensure the funding system is robust enough to offer transparency and fairness, while being flexible enough to cope with a diversity of funded provision. That flexibility would need, for example, to ensure that the funding system can facilitate moving unemployed people quickly into work.
- 2.7** There need be no presumption that there would always be a payment for every element of the funding system. The range would need to reflect the diversity of provision and the policy intentions. For example, in the case of outcome payments, too high a percentage can affect the quality of the programme provision, too low a figure can remove the incentive to get the right learners through to successful outcomes on the right programmes. And in cases like Adult and Community Learning, or provision for unemployed adults, it may be inappropriate to limit outcome payments to the acquisition of conventional qualifications. We would welcome debate on these issues even in advance of the proposed May consultation.

Q2 Do you agree that the formula funding system should have elements for starts, retention, achievement and disadvantage?

Establishing national rates

- 2.8** Decisions about the proportion of funding that will be made for, say, starts as against outcomes will need to be made alongside decisions about the appropriate national rate for each type of provision. A structure of national rates will need to take account of different types and lengths of provision and different cost pressures, but within a system that is as simple as possible overall. It will also need to be clear about how much the state will contribute towards the national rate and, where appropriate, how much is expected from learners and employers. All 16-19 year olds will be entitled to free tuition up to level 3 for course-based provision, so for them the national rate will be equivalent to the state contribution. That is also already true for many adults, for example the unemployed and those taking basic skills courses in literacy, numeracy or ESOL. But other, employed, adults, and employers, are currently expected to make some contribution to the costs of provision and this will need to continue if planned levels of provision are to be maintained. While public funding of Modern Apprenticeships will remain important in ensuring good quality training, employers' contributions to the wage costs of Modern Apprentices and to training and supervision in the workplace should also continue.
- 2.9** The system for establishing national rates will need to ensure that the levels of contribution required from employed adults and employers are set according to objective, transparent criteria; that there is consistency of treatment from one locality to another, as befits a unitary system; that a history of state contributions in a particular area does not come to an end arbitrarily or accidentally; and that state funding does not replace contributions which learners or employers have properly made in the past.

- 2.10** It will be important to have a rigorous and fair mechanism for establishing national rates. There is an existing model which is tried and tested. The FEFC has a standing committee drawing heavily on the expertise of providers. It advises on the national rates for all FEFC formula funded provision, linked to a fair assessment of the cost of provision, and taking into account any need to build in incentives to reflect market forces or policy steers. We consider that the LSC and ES will need to establish similar arrangements, drawing on providers' knowledge but ensuring as well that the customer focus is properly reflected.

Local LSC power to vary national rates

- 2.11** A key issue is the scope that the local LSC will have for adjusting national rates when these are out of line with local circumstances. We consider that there does need to be an efficient means of addressing a local shortage of a particular type of provision. In such circumstances, it would be valid to use the price mechanism to address such a shortage. On the other hand, we would not wish to see excessive distortions compared to national rates. We therefore propose that the LSC should determine nationally the extent to which local LSCs should be able to vary the relevant national rate, within local LSC budgets.
- 2.12** An argument can be made for allowing local LSCs to reduce as well as increase national rates. Reductions might be valid where, for example, there was a glut of potential local providers for a particular type of course or programme. However, we consider that this would not be appropriate. Rationing in areas of over provision is best done through the allocations process, favouring better quality over weaker quality provision. Using a price mechanism to ration provision will risk allowing the worst to undercut the best.

Q3 Do you agree that the national LSC should set limits within which local LSCs could vary national rates? Do you think it is right to rule out downward adjustments?

Non-formula funding

2.13 Although the vast majority of post-16 funds should be allocated on a formula basis, some types of provision cannot be handled in this way. Examples include:

- ▶ some Adult and Community Learning;
- ▶ encouraging the use of skills accreditation, including NVQs;
- ▶ marketing and promotion activity, which can facilitate matching the design of courses to local needs;
- ▶ workforce development, including for Investors in People;
- ▶ some information, advice and guidance;
- ▶ 'pump-priming' initiative funding, for small-scale local projects;
- ▶ the promotion of equality of opportunity projects and initiatives;
- ▶ initiatives to meet the needs of those people who have the greatest difficulty in accessing learning opportunities; and
- ▶ support for local regeneration initiatives, including matched-funds for ESF and/or the Single Regeneration Budget.

2.14 Local LSCs will need to have funding to deal with such provision. This will be within a clear framework set nationally by the LSC, taking account of guidance from the Secretary of State. To aid transparency, local LSCs will include in their plans details of the extent of such non-formula funds and their use. We expect that these budgets will initially amount to around 10-15% of the LSC's overall funding.

Q4 Do you agree that the examples listed at 2.13 are appropriate for non-formula funding? Are other examples appropriate?

2.15 The national LSC will monitor the expenditure of local LSCs and retain the capacity to make in-year adjustments, and re-allocate a proportion of local budgets in the event of significant under-spends or potential over-spends, or of changing needs. Particularly during its early years, the national LSC may need to use this capability to 'fine-tune' the allocation of budgets. The national LSC will retain some capacity to invest in sector-based initiatives through NTOs where this provides specific benefits that cannot be delivered locally. The national LSC will also hold a limited contingency fund to allow it to respond to unexpected in-year changes.

2.16 A local focus will mean that local LSCs will look for evidence of individual and employer needs. They will expect education and training providers to reflect this in their own plans for the future. These plans will be a substantial input to each local LSC's allocations process. The Government recognises that providers do need to plan confidently to meet the challenges of the lifelong learning agenda, year on year.

An annual LSC cycle

2.17 The allocations made annually by each of the 47 LSCs should, in aggregate, fulfil the LSC's task of meeting demand and ensuring that the Government's post-16 National Targets are met. The framework laid down by the LSC nationally will ensure that this core objective is achieved, year on year. The LSC will have the primary responsibility for identifying and analysing learning and skills needs and gaps, and will advise the Government on future post-16 National Learning Targets.

2.18 Allocations must relate to a defined period and must be made on reasonable lead times, to ensure that the agreed provision is made at the right time and to the right standard. This is essential not just for providers but for learners and employers too, for in some cases they will require good notice about what provision is available, where and when. Some of the systems which the LSC will inherit offer longer lead times than others, some as short as three months and others as much as six months.

2.19 We intend to work towards a position in the steady state so that, each January, provisional allocations are determined for periods beginning in September of the same year, to maximise lead times. So, while some providers will undergo a transition to new arrangements, this will be a managed process and will bring clear benefits.

2.20 We also consider that local LSCs will need to make allowance within their arrangements for some provision to be negotiated in-year, for example to meet newly identified skills shortages or to cope with unforeseen demand. However, it could unbalance the process if this flexibility was too extensive, so we propose that the LSC should set limits on the amount of activity that can be approved in-year.

Q5 Do you agree that the annual cycle should lead to provisional allocation announcements by local LSCs each January preceding the September of that year? Do you think that the national LSC should set limits on in-year flexibility?

Quality of provision

2.21 We intend the LSC to be under a duty to secure the quality of provision. A separate consultation paper is proposed for Spring this year on new post-16 inspection arrangements and the LSC's quality improvement strategy. But a key issue is how far quality should be taken into account in allocations. We consider that there should be a clear link to quality. The FEFC already bars growth where provision is of poor quality until the necessary improvements are made. Those offering high quality provision, who can demonstrate that they can meet extra demand in the subject or occupational areas where they have a good track record, must have opportunities to expand. We would wish to see both ES and local LSCs have regard to this in their decision-making. The principle would, however, need to be implemented sensitively, taking account of:

- a) the need in most cases to give providers adequate time to improve after they are found to be poor in one subject area or occupational field;
- b) the overall viability of a provider, in cases where its poor provision is balanced by other good quality provision which meets an important local need;
- c) any local scarcity of alternative providers; and
- d) the need for new providers to have time to settle into their new roles.

Q6 Do you agree with the general principle that good provision should be a key trigger for expansion, potentially at the expense of weaker provision? Do you think that the general principle should be constrained in the circumstances listed, or in any other circumstances?

Stability of provision

2.22 The LSC and ES will be supporting the learning of millions of people. Thousands of providers will be responsible for the delivery of the education and training that learners need. Instability for those with such important responsibilities would be counter-productive. Experience in the FE sector has shown that stable relationships between providers and their principal funding body have created the right conditions for the expansion required by the national targets. In other sectors, annual contracting over volumes of provision has been a major constraint on the stability and sometimes viability of otherwise successful providers.

2.23 We intend that there should be scope for local LSCs and ES to contract for up to three years with any provider. While public funds can never be subject to absolute guarantees for years ahead, we do see the case for allocating volumes of provision on an indicative basis for up to three years as appropriate. This would naturally be subject to assurances about provider quality and to local LSCs and ES retaining enough flexibility to respond to changing demands.

Q7 Do you agree that any indicative allocations system would need to be subject to the limitations indicated?

New providers

2.24 Stability for providers is important for the reasons discussed above. Existing providers also need opportunities to improve and expand. But any system also needs to be regularly refreshed by new talent. To support a fast-moving knowledge-based economy in the next century, provision will need to be constantly improving and adapting to meet new demands. Local Learning Partnerships will play an important role in helping to ensure coherence across providers, within a system that values collaboration and also has room for new provision.

2.25 Those offering new provision might include voluntary and community organizations and organizations from outside the education sector. And they will include existing providers who are simply moving into areas which are new for them. We would expect the LSC and ES to establish systems for approving new providers to ensure robust hurdles and rigorous quality assurance by providers. There may also be a case for limiting the length of initial approvals of new provision until quality has been demonstrated.

Q8 Do you agree that new provision should be subject to limited initial approval? Do you think that any special measures will be needed to attract new providers?

The Ufl and on-line learning

2.26 The funding and allocations system will need to support the Ufl's distinctive role as a driver of virtual learning, with Ufl playing a key role in meeting the new skill needs of individuals and businesses, in particular SMEs, through world class web based learning. It must also take account of the need to seek equivalence between traditionally delivered learning activity and distributed and on-line learning for the purposes of funding. Some of the issues arising from this will be pursued at the next consultation stage in May this year. But at this stage there are two key issues on which we are inviting views.

2.27 Given Ufl's enormous potential to transform lifelong learning, the first key issue is how best to ensure that Ufl learners are funded. One approach would be to earmark centrally some dedicated volumes of provision for Ufl learners. This might be the right approach where the Ufl was working with national and multi-site employers. However, we do not favour this for the majority of Ufl learners as it would not take into account local LSCs, which we believe should look at the totality of local plans in considering how best to make allocations. Another approach, on which we would welcome views, would be for the LSC to set up arrangements which allow local LSCs to employ a form of local earmarking. This would ensure that local allocations for Ufl learners were in line with national planning assumptions for Ufl growth, at least in the early years of Ufl development.

2.28 The second issue arises from the flexibility of Ufl services as described above. Many tutors supporting Ufl learning will not be part of the same local community as the learners they are supporting. The growth of on-line learning, stimulated by Ufl, will present the LSC with the challenge of supporting increasing numbers of such learners. The LSC may need to establish some form of pooling arrangements between its local arms to provide for this and to meet the needs of learners wherever and however best suits them.

Q9 Do you agree that local LSCs should allocate volumes of provision for most Ufl supported learning? Do you think that a form of earmarking at local level would be the best way to ensure that we realise the potential contribution of Ufl to lifelong learning? Should there be a central allocation for Ufl work with national and multi-site employers?

Sub Contracting

2.29 Local Education Authorities have a key contribution to make to post-16 provision and will receive LSC funding for school sixth form provision and Adult and Community Learning. Authorities will add value both through the professional support they give to providers and by acting as a central point for administrative purposes. This is a model of partnership working which should be supported through the LSC's arrangements.

2.30 Partnership arrangements are welcome but not the type of sub-contracting and franchising by further education colleges and private training providers which has involved a long chain of sub-contractors and where money for learners has therefore been diverted into overheads. These problems can be overcome where there is only one intermediary between the LSC and the learner, whether that intermediary is a dedicated provider of education or training, or an employer able to meet the LSC's quality requirements.

2.31 Managing agent arrangements should only be allowed where there is clear employer demand for the service. An example is a Group Training Association managing the delivery of a Modern Apprenticeship programme for a number of small engineering firms, sub-contracting some elements to a college or training provider. The managing agent would become the single intermediary and be clearly responsible for the welfare of the learner. The LSC should not become a managing agent or provider itself, ie should not deliver training, organise a training service on behalf of an employer or provide support services, such as NVQ assessment. To do so would compromise the clear purchaser-provider split. And it would subject the LSC to inspection by the Adult Learning Inspectorate or by OFSTED, which would be inappropriate given the LSC's role as the funding and allocations body.

2.32 On this basis, all FE colleges and private training providers would deal directly with the local LSC. However, we do not wish to preclude one level of sub-contracting where it can add value. The provider responsible for sub-contracting would also need to ensure the quality of the sub-contracted provision, and take responsibility for the welfare of the learner. The local LSC would have a duty to monitor quality and assess the value added by the intermediary. We would expect there to be clear national guidance on the circumstances in which sub-contracting could take place and that it could form only a small proportion of local provision. Current FEFC funding requirements do not allow franchised provision to be sub-contracted again, and we propose to retain this limit for all sub-contracting arrangements under the LSC.

Q10 Do you agree that there should usually be only one intermediary between the LSC and the learner in the case of further education colleges and training providers?

LSC contracting with employers

2.33 Local LSCs should make arrangements through the training provider network (colleges, private training providers, voluntary and public bodies) for the vast majority of employer-based training. But they should be able to contract directly with an employer where it can meet all the LSC's quality requirements, including standards of provision, quality assurance mechanisms and management information returns, and has the capability to organise the delivery of the full learning package to the trainee (although some elements, such as off-the-job training, might be delivered by a provider). There may also be cases where there is a temporary 'market failure' in a particular sector of provision which means that a local LSC needs to step in. To ensure that direct contracting with employers remains strategic and does not undermine the capacity, innovation or responsiveness of the provider network to employer needs, we would expect it to form, on average, no more than 10% of employer-based training in each local LSC area.

Q11 Do you agree that direct contracting between local LSCs and employers should form, on average, no more than 10% of employer-based training in each local LSC area? Should this be subject to any criteria in addition to those described above?

2.34 Direct contracting at national level should be possible where a national or multi-site employer wished to agree volumes of provision through a LSC national co-ordinating unit. Some national and multi-site private training providers have argued for the same facility. Under the present system there is limited scope for such national arrangements - although some providers hold national contracts with FE colleges, or via the National Training Partnership. National arrangements would result in administrative savings for providers, but there is a clear risk that provision would become less responsive to local needs. To avoid this, we propose that there should be a presumption against national arrangements between the LSC and training providers.

Q12 Do you think that a co-ordinating unit should be supported nationally by the LSC, to help employers who wish to contract nationally? Do you agree that there should be a presumption against national contracts with training providers?

European Structural Funds

- 2.35** Many post-16 providers currently access European Structural Funds, in particular the European Social Fund, to enhance domestic funding. Satisfying the requirements of each funding source simultaneously has sometimes been very difficult. Moreover, current domestic funding systems have not maximised the incentives to win European funding. The new system must overcome this and ensure that education and training partnerships and providers can take maximum advantage of the large sums available.
- 2.36** The European Commission require that their funds pay only for part of provision. Typically, the EC pay 45% of the actual cost, with the remainder being matched from other public or private funds. Those providing education and training must be confident that, if they are successful in attracting EC funds, there will be matched-funds available. At present they sometimes cannot find matched-funds, and under-spend their ESF as a result. EC funds must, in addition, supplement, not substitute for, existing expenditure; and the EC audit the accounts (on top of any audit required by those providing matched-funding) to assure themselves that their funds are adding value by supplementing planned domestic expenditure.
- 2.37** The new system must reflect levels of need and deprivation and be based on regional and local assessment. It must also satisfy EC requirements without imposing excessive administrative burdens. The establishment of the LSC provides the opportunity for a new approach. A co-financing mechanism would enable providers to go through one process rather than two. This could also facilitate simplified administration and audit arrangements for providers. The ES is also considering the scope for a co-financing approach for the delivery of employment measures.
- 2.38** It will be important to ensure that LSC and ESF funding is accessible to community and voluntary organisations, who are often the best placed to provide learning in the most socially disadvantaged communities. And any new LSC arrangements must maintain a clear involvement for external partners, including RDAs, to ensure that ESF is used effectively to target projects relating to particular local community and regeneration needs. We shall wish to explore the issues in more detail with partners before introducing new arrangements.

Q13 Do you agree that a co-financing approach could help maximise the take-up and effective deployment of ESF?

Auditability and data issues

- 2.39** Data will need to be collected which not only supports the funding system but also secures judgements about quality and value for money. The LSC and ES should work together to ensure providers are assisted by a common approach to information requirements and the format of returns wherever possible. Arrangements should be as clear and simple as possible to administer and audit, and have regard to what providers need to support effective systems for internal management information and self-assessment.
- 2.40** We envisage that a common approach should be supported by a unified database of individual learners. This will build on the best features from the existing FEFC Individualised Student Record (ISR), individualised pupil records being developed for schools and trainee databases used by ES and TECs. Data relating to individual learners will be supplied by providers on a regular basis, either in a file produced from their own administrative system using a specified format, or, for smaller providers without an IT based administrative system, an online "form" will be available. The intention is that all data will pass between providers and the LSC and ES electronically - education and training bodies will have access to their "own" data held by the LSC and ES. The transition to this new unified system will take time. The existing ISR system can continue to be used until it is appropriate to move to a new system. Elsewhere there may need to be interim systems for a transition period.

Capital funds

- 2.41** This paper is concerned only with revenue funding. The more detailed technical consultation proposed for May this year will be extended to cover capital funding.

Intervention funds

- 2.42** Intervention funds, such as the Standards Fund for FE colleges, will be covered in the consultation paper on new post-16 quality arrangements proposed for Spring this year.

3. Applying the system

- 3.1** The new system will have to meet widely varying needs. We do need a common set of principles to ensure coherence. But in their application, the new arrangements also need to take account of the particular circumstances of 16-19 year olds and adult learners. As noted in section 2, a key question is how far the LSC should be operating on the basis of a more fully developed “client-based” approach to funding. This question is pursued in section 3 and is one we intend to return to in the further consultation proposed for May this year.

Simplifying 16-19 further education funding

- 3.2** It is important that the LSC’s new funding system is flexible enough to provide a coherent approach across the wide range of provision it will be supporting. However, the system should aim at simplification, especially where the provision being supported is fairly straightforward. We consider that future funding for 16-19 further education could benefit from a simpler approach compared to some of the arrangements that have existed in the past. It is not inherently complex, as most of the provision is full-time and all should in principle be free.
- 3.3** The FEFC has made an important start through its approach to funding the Government’s Qualifying for Success reforms. The aim will be to build on this, further simplifying the arrangements under the LSC. This will ease administration and also assist coherence between the LSC’s arrangements for FE and the funding it will pass to Local Education Authorities for school sixth forms. We intend to make proposals on such simplification in the consultation proposed for May this year.

Work-based training for young people

- 3.4** In the same way that 16-19 year olds who wish to study full-time can expect to find a place in a school sixth form or a college, they should also be able to access the alternative of work-based training. In the case of such training, we expect that the national rate should provide an appropriate funding mechanism for course-based qualifications specified in a Modern Apprenticeship framework. Young people and employers would then know that the LSC would cover these costs.
- 3.5** However, such a funding mechanism may be less suitable for the cost of support for trainees in the workplace and for the assessment of competence for National Vocational Qualifications. In these areas, there might need to be additional local flexibility, within a national system of funding and audit. The question of employer contributions also arises where the employer and not just the learner can expect to derive some benefit. The costs of employee salaries, and the opportunity costs while a trainee is in training or being assessed, should be a matter for their employers. There will be more detailed consultation in May on future funding arrangements for work-based training.

Q14 Do you agree that the cost of course-based qualifications pursued as part of work-based training should be subject to standard national rates? Do you agree that more local flexibility is needed for the cost of trainee support in the workplace and for assessment costs?

Funding students with severe learning difficulties and/or disabilities

- 3.6** The funding system must ensure that students with disabilities and special needs, from specific learning difficulties to severe and profound challenges, can achieve their full potential. It will need to build on the strengths of current FEFC, TEC and Local Education Authority funding approaches. In addition, the proposed Youth Support Service (YSS) will secure arrangements for considering whether young people should be the subject of a written assessment which, as for school pupils, would set out their special learning needs and the additional provision required to meet them.
- 3.7** We propose that a funding matrix should be developed which links the nature of a student's learning difficulty or disability with the support required to deliver the learning programme. This approach would ensure a common framework for funding such students and provide greater transparency. It would also be objective and end the reliance on actual costs being attributed to individual students. And it would be consistent, so that a student in a particular category within the matrix attracted the same level of funding wherever he or she was in learning. Subject to the outcome of the current consultation, we propose to set out further details of this approach in the consultation proposed for May this year.

Q15 Do you agree that a matrix approach to the funding of students with learning difficulties and/or disabilities would allow for greater transparency and consistency of treatment?

Adult learners

- 3.8** Over six million adults have no formal qualifications. The extent of adult illiteracy and innumeracy remains unacceptable and the state now contributes 100% of the cost of provision for unemployed adults as well as further education basic skills courses in literacy, numeracy and ESOL.
- 3.9** However, the wider picture on state support for adult learning is more complex. Adult learners undertake the full range of provision from basic skills to level 3. They study a wide range of courses, from work-related programmes to leisure interests. Some 300,000 study full-time but many more study part-time. They study in institutions, at work, at home and in community-based learning. Family learning will be an increasingly key area of provision to be supported by the LSC. Ufl will ensure that increasing numbers of adults will in future learn on-line. Ensuring that the funding and allocations system can cater for this variety, while ensuring that the right balance is struck in every single case between state, learner and employer contributions, will be particularly challenging.

- 3.10** Given these difficulties, we do not propose that there should be a single rate for the level of state support. It is clear that some adult learners, such as those studying for basic skills, should attract 100% state funding as they do at present in further education. Other learning, such as company-specific workforce development, should generally attract no funding through the national framework (although local LSCs would be able to use discretionary funds for this purpose). But, elsewhere, there is a clear case for the state to fund a proportion of the cost of adult learning, such as to enable adult learners to secure portable qualifications to promote their employability.
- 3.11** In time for the May consultation, we propose to undertake further work into the level of state funding of learning by adults and in what circumstances it should be paid. This will need to examine the value different learners place on learning, and which groups should receive state funding for learning in order to ensure their full participation in society. The analysis would also need to examine what employers should pay for the learning of their workforce beyond the level required to satisfy immediate operational needs; and how the LSC's funding might be used most effectively to promote longer-term and wider perspectives by employers.

Q16 Do you agree that we should work towards some commonly applied principles to govern the state's contribution to the cost of adult learning? Do you think that employed adults and employers should contribute the balance of the cost of learning?

Adult and Community Learning

- 3.12** There is currently a large variation in Local Education Authority-supported Adult and Community Learning provision - for example, Local Education Authority expenditure ranges from 50p to £24.50 per head. The LSC's funding system must deal fairly and consistently with all learners. It should also take account of the fact that society has the responsibility to provide education and training opportunities to those adult learners who are least able to help themselves, who need to be encouraged to participate more fully in their communities or whose participation in learning will benefit the nation's productivity. However, it also needs to reflect that many individuals and employers may benefit from adult learning and that the cost of learning should therefore in many cases be fairly shared.
- 3.13** The new arrangements will give local authorities a strategic influence over all post-16 education and training. They will have a key role to play in ensuring coherence between compulsory education and post-16 learning and their broader social and economic responsibilities. Provided LEAs produce and effectively implement their strategic plans, and they maintain their current level of spend on adult education, we guarantee that each LEA will receive funding, in the first two years of the LSC's operation, at a level comparable with their net current spend on adult education in their education budgets. Where LEAs have increased expenditure since 1998-99, particularly where the focus is on individuals who benefit least from adult learning, our aim is to have this recognised in any further resources which may be available to local LSCs for Adult and Community Learning.

- 3.14** Voluntary bodies will be able to be funded by local LSCs on the same basis as other providers such as colleges who will also make an important contribution in this area. We will expect local LSCs to use and build on the current infrastructure where it is strong, and help education and training bodies to develop where it is not.

Supporting workforce development

- 3.15** Local LSCs will need to establish close working relationships with local employers. Working with the Small Business Service, they should enhance business performance and local economic development by helping companies improve their training and the skills of their people. Central to this will be local workforce development plans. These will build on good practice established by TECs with their local workforce development strategies. They will:

- a)** encourage employers to invest in the development of their workforce and to promote the business benefits of this learning, including its recognition through qualifications, such as NVQs;
- b)** identify and spread good practice in workforce development, including the setting of quality benchmarks, and Investors in People;
- c)** help people develop their knowledge and skills by promoting Individual Learning Accounts (ILAs);
- d)** work closely with key partners including employers, the Small Business Service, the Ufl, trade unions and others to ensure that employers get quality advice on how to access learning to best meet their needs, eg. *learnirect*, Investors in People, ILAs; and
- e)** ensure joint planning of provision between the local LSC and the Employment Service in matching the needs of young people and unemployed adults to the skill needs of individual employers and the wider economy.

- 3.16** Local LSCs will determine how local workforce development services should be provided and funded, including support for Investors in People, and access to workforce development for small firms through the SBS.

Learner support

- 3.17** Cost is a key barrier to learning, and over a fifth of learners have identified it as a major obstacle. Contributions to tuition costs will continue to be waived for young people, and for adults on literacy, numeracy and ESOL basic skills courses. But some learners will require additional support. Existing student support arrangements, including access funds to cover the costs of childcare and travelling to college, for example, must be available to learners in need. The LSC will address learners' needs through a number of initiatives including:

- a) student access funds in colleges, and for 16-19 year olds in schools;
- b) support for transport co-ordination alongside Local Education Authorities, and for childcare costs;
- c) additional help for colleges dependent on residential students, such as agricultural colleges; and
- d) direct support through Educational Maintenance Allowances which are currently being piloted.

3.18 *Individual Learning Accounts.* A national system of ILAs will be available from April 2000 to help people manage, plan and invest in their own learning and make it more accessible. The supporting infrastructure will be provided under a public/private partnership. Individuals' investment will be supplemented as appropriate by financial support from the state and their employer. Publicly funded incentives will be available to ILA holders of £150 for the first million account holders and discounts of 20% on the cost of learning (on spending up to £500 in a year) and 80% on certain key courses such as computer literacy. Employer investment in employee ILAs will be encouraged through tax and national insurance reliefs.

3.19 Market research on learning accounts has demonstrated wide interest in a pay-as-you-go facility. Ministers have decided that ILA holders should be offered an easy payment plan through colleges and other providers. Plans are being drawn up and will be the subject of consultation before introduction from September 2000.

3.20 *Youth Support Service.* To ensure that young people are able to benefit from learning opportunities, the proposed YSS will comprehensively support young people who lack basic skills and qualifications and who may have become detached from learning. This support will include initial and basic skills assessment, guidance, support and planning, in which every young person will be assigned a Personal Adviser, working in close collaboration with the LSC, ES and school, college and other providers. A document giving details of how the YSS will work will be issued shortly.

3.21 Part of the provision will be the "Life Skills" learning option (currently delivered through the "Learning Gateway") to help improve young people's motivation and to develop their basic and key skills currently funded by TECs. "Life Skills" helps a very specialised client group, with more individualised needs than other 16 and 17 year olds. The current approach is also highly flexible, allowing for a wide range of funding according to individual needs. In funding "Life Skills", the LSC will be under an obligation to ensure that the new system meets the needs of each individual young person as agreed with their YSS Personal Adviser.

4. School Sixth Forms

- 4.1** Schools with sixth forms will play a vital role in the drive to increase success for all our young people. As the Government recently announced, in the light of the comments received on the June 1999 consultation paper on sixth form funding, in particular from headteachers, Local Education Authorities will in future receive their sixth form funds via the LSC, with schools continuing to receive the funds from their Local Education Authority.
- 4.2** We do not expect the change in funding arrangements to be introduced before 2002-03. Schools will be safeguarded so that a school's sixth form budget will not reduce in real terms provided numbers are maintained. At this stage we are seeking your views on issues of (i) safeguarding, (ii) timing of introduction, and (iii) a consistent 16-19 funding and allocations system. Further consultation in May this year will focus on other detailed aspects of implementation.
- 4.3** Local Education Authorities have a vital local strategic role to play, working with their communities and local schools, including in key areas like tackling deprivation and disadvantage. Nothing in our funding changes will cut across that role. We are also enabling Local Education Authorities to propose new forms of provision to meet the needs of young people. The Government intend to lift the bar on the creation of Local Education Authority-maintained 16-19 institutions imposed by the FHE Act 1992. Subject to the passage of legislation, Local Education Authorities and other promoters will all be able to propose the creation of Local Education Authority-maintained 16-19 institutions. The LSC will inherit FEFC's power to propose new sixth form colleges and existing FE colleges will be able to create bespoke 16-19 provision. But the new option of Local Education Authority-maintained 16-19 institutions will be an important additional means for local communities to raise standards and provide the choices and curriculum breadth young people need and want.

Safeguards

- 4.4** The sixth form funding consultation paper sought views on four key safeguards:
- i.** current levels of funding for any school sixth form to be at least maintained in real terms on condition that its student numbers do not fall;
 - ii.** funds for pre-16 education will not be affected;
 - iii.** schools will remain able to deploy money flexibly between pre- and post-16 education; and
 - iv.** no noticeable change in audit burdens on schools.

Overall, these were judged to be the right safeguards but responses made clear that it would be important to offer further clarification on (i) and (iv).

Real terms protection

- 4.5** The consultation indicated that the key issues here were seen to be those of (a) what would happen at a particular school if sixth form numbers rose, (b) what would happen if such numbers fell, and (c) what year should be selected as the common baseline year to be protected. On (a), the funding system should not artificially constrain the scope for expansion by popular school sixth forms. Therefore, while it is never possible to give absolute guarantees about increases in public funds in future, the intention would be for expansion to result in extra funding. Whether the addition could be on a fully pro rata basis would depend on the availability of resources at the time.
- 4.6** On (b), the real terms safeguard would be maintained even if there were a dip in numbers in a particular year. Such a dip would be reflected in a pro rata funding reduction. The withdrawal of the guarantee would, however, be an issue where a sixth form was experiencing a sustained or significant reduction in numbers.
- 4.7** On (c), it was clear from consultation responses that there were different views amongst schools about the preferred common baseline year. Some thought it should be 1999-2000, as the year in which the funding change was announced. Others favoured 2000-01, as the year of introduction of the Qualifying for Success reforms. We believe that there could be merit in designating 2000-01 as the baseline year, not least because it would be easier to ensure collection of relevant data on a basis that was fit for purpose. Subject to consultation responses, we intend to plan with Local Education Authorities and schools on this basis.

Q17 Do you agree that 2000-01 should be the baseline year for calculating the real terms safeguard?

Audit issues

- 4.8** Schools and other respondents to the consultation welcomed the intention behind the safeguard on limiting audit burdens. They acknowledged that the main audit issues would lie between the LSC and Local Education Authorities, rather than involving schools. The flexibility in safeguard (iii), in relation to free deployment between pre- and post-16 spending, would also mean a lighter audit requirement on schools than some other post-16 providers.
- 4.9** A number of schools volunteered that they would be ready to offer student number data at one or two extra points in the year, as happens with other post-16 providers. However, we would only take up this possibility if it proved necessary in establishing a more coherent and more transparent 16-19 funding system. We will persist in seeking the simplest to administer, easiest to audit arrangements that can be devised, consistent with achieving our policy objectives. This will be reflected in the more detailed further consultation phase scheduled for May this year.

Timing and phasing of funding change

- 4.10** The changes we shall be introducing will only take effect over an extended period of time. This is because:
- i. the real terms safeguard will act to limit the pace of change;
 - ii. we are not planning to implement the funding change until 2002-03; and
 - iii. we envisage that there would be a formal transition period, lasting for at least a further three years - in practice the effect of the real terms safeguard will benefit many schools for a much longer period than this.

A consistent 16-19 funding and allocations system

- 4.11** For 16-19 year olds, schools and colleges tend to deliver the same type of teaching, curriculum and qualifications. The LSC's involvement will ensure a coherent approach to post-16 provision, helping to support high national standards and greater local collaboration. In planning for the start of implementation of the sixth form funding changes from 2002-03, we shall be working with Local Education Authorities, schools and others. Through that process, we shall define the LSC's role in distributing funding to authorities and establishing criteria for authorities' allocation formulae for distributing funds down to the level of school sixth forms and Local Education Authority-maintained 16-19 institutions.
- 4.12** Section 2 of this document explains that providers will be able to propose and seek agreement to plans which meet the needs of learners. In the case of school sixth forms, we have ruled out that each school would need to discuss its plans separately with LSCs. But we do envisage that Local Education Authorities would have such discussions with local LSCs about the volumes of sixth form provision for which schools would need to be funded. These discussions will help each local LSC take a fully strategic view of the proper amount of 16-19 provision that needs to be supported locally. This will be a key part of ensuring a consistent approach across 16-19 provision.
- 4.13** Section 2 set out an approach to the development of a new post-16 system, in which the majority of funds would be allocated according to national rates within a common funding formula. In the case of school sixth forms, we have ruled out direct funding by the LSC within this system. The LSC will, however, be able to steer the distribution of funds for school sixth form provision, taking account of guidance from the Secretary of State. This will ensure that there is coherence in the overall shape and direction of funding across all comparable 16-19 provision.

- 4.14** The further consultation in May this year will need to cover in some detail the issues of LSC steering of sixth form funding. These envisaged arrangements need to take into account a range of complex factors, including (i) the distributional effects of the current local government finance system; and (ii) the aspiration that there should be common funding rates so that the same type of learner with the same type of needs on the same type and length of programme, is funded to the same extent, no matter which school or college he or she is registered with. Such developments must, however, be tempered by the need to deliver the real terms funding safeguard at school level. As noted already, that requirement will limit the pace of change.
- 4.15** A consistent framework will also require consistency of approach to the quality of provision. Issues relating to quality will be covered in a consultation paper due out in the Spring.

Q18 Do you agree with the approach to implementation set out in section 4? Are there any additional factors you think need to be taken into account?

5. Transition

- 5.1** This document sets out how the new funding framework can be developed. It will be built around learners and employers, and be designed to respond to their needs. The integration of various funding systems, operational models and accounting requirements will not be easy, either for the LSC or for ES. Not only do existing systems vary greatly in structure, they also allocate very disparate price levels for the same type of provision. Making this transition period as smooth as possible for all education and training bodies in terms of both the new administrative structure and the levels of funding allocations is an absolute priority.
- 5.2** All education and training bodies should have access to support and assistance in moving from current to future funding arrangements. This will be especially important for voluntary bodies relying on public funds to provide the invaluable services they offer to the most disadvantaged in our communities. Experience of transition from other funding systems suggests that cushioning arrangements can be needed for several years after the nominal introduction of a new system. As a new body the LSC will inherit a range of existing agreements, with implied continuing commitments to learners which it must honour. It will need to work closely with providers to ensure that the level of funding per learner is maintained as far as possible over the transitional period.
- 5.3** ES will also need to manage the transition carefully in view of the diversity of provision, variation in contracting arrangements and prices, and the different volumes of clients supported by providers.
- 5.4** FE colleges should benefit from the greater alignment of the LSC and ES systems as well as through the incorporation of the existing FEFC and TEC-funded routes into a single system. The simplification of the funding arrangements for young people will also result in a less bureaucratic system to administer.
- 5.5** For those training providers currently funded mainly by TECs, transition will be more complex. There are particular issues which will need to be addressed because of the extent of current TEC flexibility to determine the amount of funding they pay for provision. This has led to considerable variation in prices across the country. (It is not unusual for prices for similar provision to vary by 100% or more.) These price differentials reflect a number of factors, for example the priority attached locally to the training in question.
- 5.6** TEC funding regimes are also very varied, for example with different emphases on the components of the funding regime e.g. output related funding, or with different triggers for generating funding. These funding regimes have not only influenced past behaviour but have generated future expectations. For example, providers who have operated under regimes with high levels of outcome related funding and who have trainees within their programmes who are shortly to complete, will expect their “investments” to be recognised and rewarded.

- 5.7** Furthermore, TECs have developed distinctive local infrastructures which place different demands on the provider network. For example some TECs have developed arrangements for the central funding and delivery of trainee assessment processes. In these areas the provider's role excludes trainee assessment and the funds made available to them reflect this.
- 5.8** These differences of approach raise a number of issues, both about the transition to new arrangements and about the LSC's handling of the funding of work-based provision, in particular, the extent to which the LSC could and should take into account the different arrangements currently in place and should aim to converge systems and prices over time rather than immediately. The need for gradual transition to new arrangements is, potentially, a significant issue for many providers which could impact on their viability. It may be particularly critical to the smaller work-based providers who are not well placed to cope with significant financial change, we will work with providers over the next 15 months to ensure that the transition is as smooth as possible and will consult and involve them in managing the process.
- 5.9** Local Education Authority-funded providers of Adult and Community Learning will also need to adapt their systems to cope with a national framework, although many Local Education Authority adult services are already funded under the FEFC system as external institutions, and are therefore familiar with a national framework. As with other providers, we will need to help those providing Adult and Community Learning ensure that they are able to keep a focus on their key work with adult basic skills.
- 5.10** Local Education Authorities themselves will be affected too, and we are working with them to ensure the transfer of funds to the LSC takes place smoothly. We intend the transfer of funding for Adult and Community Learning to be calculated on the basis of average net expenditure by Local Education Authorities on the relevant parts of the 'Other education' budget category in the three years 1996-97 to 1998-99. This calculation will be based on Local Education Authorities' own RO1 returns. The transfer itself will come into effect from the financial year 2001-02. To smooth the transition process, each local authority will be guaranteed a level of funding comparable to their net current spend for adult education provision, subject to the points in paragraph 3.13.
- 5.11** Local Education Authorities will also be involved in further consultation regarding the transfer of resources to the LSC for the funding of school sixth forms. The transfer will take place on the basis of the post-16 block of current Local Education Authority expenditure, with deductions for those services which will not be funded through the LSC. Issues arising from transferring the funding of school sixth forms to the LSC will feature in the further consultation proposed for May this year.

Q19 Do you agree with the approach to transition set out in section 5? Are there any additional factors you think need to be taken into account?

Current Post-16 Funding and Allocations Systems

1. Publicly-funded post-16 education and training (outside higher education) is currently funded by:
 - a) The Further Education Funding Council for England, which funds 426 colleges in the FE sector, as well as 53 universities, 226 external institutions, 70 specialist colleges making provision for students with learning difficulties and/or disabilities, and other training providers which provide further education;
 - b) 72 Training and Enterprise Councils, which fund work-based training provided by thousands of large and small employers, by public and voluntary sector training providers, and by about 2000 private training providers;
 - c) The Employment Service, which funds education and training provision through its New Deal programme; and
 - d) 150 Local Education Authorities, which either provide themselves, or fund other providers of, Adult and Community Learning. Local Education Authorities also fund 16-19 provision as part of the funds they distribute to the 1,827 maintained schools in England with sixth forms.

The Further Education Sector

2. The Further Education Funding Council was established under the 1992 Further and Higher Education Act, with responsibilities to secure the provision of sufficient facilities in the further education sector for full-time education for 16-18 year olds who want it, and adequate facilities for part-time 16-18 year olds and full and part time further education (under Schedule 2) for adults. The FEFC funds five broad categories of college; general further education and tertiary colleges, sixth form colleges, agriculture and horticulture colleges, art, design and performing arts colleges, and specialist designated institutions. It also funds some FE provided by external institutions, such as language colleges, adult education centres and charities.
3. The FEFC makes a main allocation of funding to institutions each year to support the provision set out in their strategic plans. Institutions are free to apply this to, and between, their programmes as they see fit in accordance with their financial memorandum with the Council. The Council may make separate allocations of funding to institutions in respect of capital expenditure and targeted activity, for example growth funds in 1998-99 for 16-18 year-old full-time students and widening participation. Most colleges also receive extra income from non-FEFC sources, such as ESF, TEC contracts (around one sixth of TEC training budgets finds their way to FE colleges), and the New Deal.

4. Every college forwards to the Council each year a strategic plan. The plan sets out the college's objectives and how it proposes to achieve them. The Council makes a funding agreement with each institution every year, based on the plan. The agreement sets out the funds the Council has agreed to pay to the institution and the number of "funding units" the institution has agreed to deliver in exchange. The institution's grant is the product of the number of units and the Average Level of Funding per unit, which is set by the FEFC. (The FEFC sets a minimum ALF each year.) As a safeguard, each institution is guaranteed 90% of the previous year's funding for 90% of the activity.
5. Each institution's performance is monitored against its funding agreement. If an institution falls short of its agreement the corresponding funds are recouped by the Council in the next financial year. Each institution funded by the Council is audited at the end of the teaching year by the institution's external auditors. Adjustments to the main allocation is based on audited figures.
6. Each category and aspect of provision which the Council has decided to fund differentially is assigned a value of funding units in a 'tariff'. The tariff is a means of translating the extremely diverse range and modes of delivery of FE courses and expresses how many units are to be scored for each element of educational activity. The tariff enables each institution to determine the total number of funding units that may be earned for each student enrolled at the institution.
7. On average, 10% of the tariff is linked to 'start units' when learners join courses, 5% to the 'outcome' of student success and the remainder to course delivery, additional student support costs and fee remission - known as the "on-programme" element. This section of the tariff is determined by the nature of courses. In its yearly Funding Guidance, the FEFC sets the number of units to be paid for each type of qualification. Qualifications are divided into one of seven loadbands, according to the number of required Guided Learning Hours. Each loadband is assigned a number of basic units. Each qualification in a loadband is also assigned to one of five Cost Weighting Factors and assigned extra units accordingly, depending on staff and equipment costs, space occupancy, capital equipment and building costs. The system also assigns extra units for factors relating to the individual student, such as fee remission, childcare costs, special needs and widening participation.

TEC-funded Training

8. The current system of funding work-based training involves three stages.
 - a. The Department allocates budgets and volume targets to each Government Office. The basis for the distribution is mainly geared to regional share of the appropriate client or target group.
 - b. GOs negotiate performance targets and funding with individual TECs. The Department issues a formula for negotiating budgets with TECs, and although GOs are not required to use it, all TECs are offered the same contract with the Department and, with a few exceptions, the same funding arrangements apply.
 - c. TECs then negotiate individual contracts with providers. They have considerable discretion in the funding and contracting arrangements they use and these do vary from TEC to TEC.

9. The TEC budget structure is organised in four Funding Blocks, as follows:

Block 1: Work Based Training for Young People (WBTYP) including Modern Apprenticeships (MA) and National Traineeships, Work Experience pre-16 and the Further Education Collaboration Fund;

Block 2: Work Based Training for Adults (wbta) and the Out of School Childcare Initiative;

Block 3: Local Competitiveness Budget (principally encouraging organisations to work towards the Investors in People standard); and

Block 4: TEC Strategic Activities Budget (which supports TEC core business and activities contributing to the achievement of its strategic objectives) and the TEC Discretionary Fund.

10. The great majority of the Department's funding is for Work Based Training for Young People (c£720m or around a half) and work based training for adults (around a third). Block 3 also contains DTI funds for Business Link activity. Outside of the Block Structure, most TECs receive funds from DETR (for Single Regeneration Budget projects) and European funding (mainly ESF). Funding from other Government Departments amounted to around 11% of TEC income in 1996-97.

11. Funding for WBYP and wbtA is based on the Government Office agreeing prices for volumes of activity delivered by the TEC. For both of these programmes, TECs are paid for 3 separate elements:
 - i. a *starts payment* when a trainee enters into training;
 - ii. interim payments recognising the duration of training or progress towards final outcomes. In WBYP *on-programme payments* are based on a simple monthly count of trainees in training. In wbtA, *progression payments* are made for trainees with pre-vocational needs; and
 - iii. *outcome payments*. These are NVQs or other approved qualifications in WBYP; and jobs, self-employment, NVQs and movement into full-time education or training in wbtA. Outcomes are weighted to reflect their relative importance; eg. higher weightings are given to jobs for adults and NVQs at level 3 and above in training for young people.
12. The proportion of the budget contracted for these elements differs between the two main programmes: in WBYP the balance is around 20% starts, 50% on-programme and 30% outcomes; in wbtA the balance is around 25% starts, 20% progression and 55% outcomes. Under the current funding arrangements, unit prices vary between TECs and regions depending on comparative TEC performance and factors which the GO takes into account during negotiation (for example the numbers of trainees joining the programmes with special needs).
13. The contracts TECs issue to providers vary considerably. There is no obligation on TECs to reflect the contracts which they are issued by GOs. The levels of start, interim, and outcome payments vary greatly both between TECs, and between the contracts issued by an individual TEC. Indeed, some TECs do not make any payments for starts, or on-programme payments, and only minimal progression payments, and instead base their funding almost exclusively around outcome payments.
14. Allowing TECs this operational freedom enables them to generate Operating Surpluses, which represent the difference between the payments claimed by the TEC for the agreed volumes of activity and the expenditure the TEC actually incurs in their delivery (in other organisations this would be known as the profit margin). TECs use their Operating Surpluses to fund a range of activities in pursuit of their strategic objectives. In 1997-98, TECs registered a small loss (some £4m) but this was a net result of significant surpluses on the training programmes balancing deficits elsewhere.

Provision Secured by the Employment Service

- 15.** New Deal for 18-24 year olds consists of a range of provision including Gateway, Employment Option (Training only), Full Time Education and Training, Voluntary Sector and Environment Task Force, Employment Option - Self Employment Route.
- 16.** There are three principal contracting models for delivery of New Deal; a Joint Venture Partnership, a single Consortium or Individual Contracts. These arrangements often lead to a high level of sub-contracting through appointed intermediaries. Contracts are agreed for three years with an option to extend to five and are reviewed on an annual basis. Partners are encouraged to consider matched-funding from European funds to add value to the New Deal process.
- 17.** Providers of New Deal include FEFC funded organisations, TECs/LECs, Private Training Organisations, Voluntary and Environmental Organisations, Careers Service and many others. Organisations may deliver one or more parts of New Deal. In addition ES contracts with ten Private Sector Lead Units of Delivery. The individual focus of New Deal means that provision is demand rather than supply led and places are agreed as needed rather than block booked. The aim of the funding models is to keep administration to a minimum whilst protecting the integrity of public funds. Payments are made upon submission of monthly claim forms.

Gateway

- 18.** There are four funding models for Gateway provision:
 - i.** Single intervention. This is a single payment for a single interview;
 - ii.** Stage payments. These are paid at the start, mid point and end of provision;
 - iii.** Multiple intervention. This is paid at the end of a series of interventions with a client;
 - iv.** Whole Gateway. This is an up-front payment used in consortia or JVP contracts. The provider receives one lump sum and is expected to ensure the client receives whatever provision is appropriate for their individual needs.

Employment Option (Training only)

- 19.** In some cases employers will ask the Employment Service to arrange the training element of the New Deal Employment Option for them. Payments are made in three stages;
- i.** the first on production of an agreed Individual Training Plan;
 - ii.** the second after the client has been on the option for 13 weeks;
 - iii.** the third at the end of the option if the objectives in the Plan have been achieved.

Full Time Education and Training

- 20.** There are three payment categories for standard, intermediate and high cost provision. The following elements constitute the funding for FTET:
- i.** Start fee. This totals 20% of the funding and is paid upon agreement of an Individual Training Plan (ITP);
 - ii.** On-programme payments. These total up to 50% of the funding and can be paid over a duration of 20, 26, 39 or 52 weeks depending on the expected course length;
 - iii.** qualification outcome. This totals 20% of the funding and is paid upon completion of the agreed objectives within the ITP; and
 - iv.** Job outcome. This totals 10% of the funding and is paid when a client is successful in gaining full time employment which is expected to last at least 13 weeks.
- 21.** There is also access to a Discretionary Fund to cover exceptional costs within certain categories including Childcare costs.

Voluntary Sector and Environment Task Force

- 22.** Payments are similar to those for the FTET option, however instead of the qualification outcome there is a Value Added Fee - this totals 20% of the funding and is paid upon achievement of the objectives in the Personal Development Plan. In addition payments are made for training on the same three stage payment mechanism as described for the Employment Option.

Employment Option - Self Employment Route

23. The Self Employment Route is split into three stages. The first two stages are paid during Gateway. The final stage is paid on the following basis;

- ▶ Start fee - this amounts to 25% of the funding;
- ▶ On-programme payments - this is £30 per month;
- ▶ Value added payments total 25% of the funding and consist of £125 upon receipt of an approved Individual Training Action Plan and £250 when the objectives are achieved;
- ▶ Outcome fee - this relates to 50% of the funding paid upon confirmation that the client is still self employed or in a full time job 13 weeks after leaving the provision.

Follow Through

24. With 'Follow Through', as with Gateway, jobsearch type provision can be contracted for on a single intervention, stage payment or multiple intervention basis. However, Intensive Training Measures are paid as 50% at the start of the provision and 50% upon a successful outcome.

New Deal for 25 and over - Education and Training Opportunities

25. Payments for Education and Training Opportunities in the New Deal for 25 and over are somewhat different from FTET, however the standard, intermediate and high pay bandings remain. The funding mechanism is as follows;

- ▶ A start fee - this totals 30% of the funding
- ▶ Completion of an ITP - this totals 20% of the funding
- ▶ Qualification outcome - this totals 40% of the funding
- ▶ Job outcome - this totals 10% of the funding.

Other ES Provision

26. Job Clubs and Programme Centres make the bulk of remaining ES mainstream provision. In general a contract price is agreed for a year based upon expected flow of clients. The contract price is then paid in twelve monthly instalments. Within the contract will be an agreed job entry rate target. Some contracts have an all inclusive price which includes client travel costs, in other cases providers are paid separately for such travel costs.

Adult and Community Learning - LEA responsibilities

27. The 1992 FHE Act gives Local Education Authorities the duty to arrange adequate provision of FE for adults and part-time 16-18 year olds which is outside the scope of Schedule 2 to the Act (for which FEFC is responsible). Although FEFC has the power to fund non-Schedule 2 provision (clarified in the 1998 Act) it does not have a duty to do so. In practice, local authorities have met their responsibilities in different ways. Some "contract out" adult education to FE colleges; others continue to provide through their own institutions (AEIs) or through voluntary/community organisations. Levels of funding vary considerably from one Local Education Authority to another. While some have sought to maintain capacity, others have increasingly relied on, for example, Single Regeneration Budget funded projects to meet their statutory duties. Overall specific adult education enrolments have fallen, as has direct expenditure, although the last year has seen a sign of a reverse in this trend with an increase in enrolments of 50,000.
28. Some Local Education Authority (and voluntary) Adult and Community Learning institutions are in receipt of FEFC funds for Schedule 2 provision through a process of association with incorporated FE colleges. These bodies are known as "external institutions". The required criteria for FEFC funding is that insufficient provision of that type is available locally. All external institutions are sponsored by a local college, but are funded in the same way as all other institutions.

School sixth forms

29. In calculating education Standard Spending Assessments for each Local Authority, a total of grant support (the Education Standard Spending total) is first set. The amount provided for education specific grants to Local Education Authorities is deducted from this and the remainder divided into five blocks: under fives; primary (ages 5-10); secondary (ages 11-16); post-16; and other services (including youth and adult). This is then distributed to Local Education Authorities mainly on the basis of client numbers with other allowances to reflect particular local circumstances.
30. Until April 1999 under the Local Management of Schools, sixth forms were funded via a methodology based on Age-Weighted Pupil Units (whereby schools are funded according to the number of pupils), with an additional non pupil-led funding element to which each school is entitled. From April 1999 this has been replaced by "Fair Funding", as described in the consultation paper *Fair Funding: Improving Delegation to Schools*, and put in place under sections 45 to 53 of the School Standards and Framework Act 1998. This is a menu-type approach which allows Local Education Authorities largely to replicate their earlier LMS formulae. Through Fair Funding, the Government put in place a framework which aligns funding with the respective responsibilities of schools and Local Education Authorities, and promotes greater transparency in funding arrangements. Schools are able to deploy resources flexibly between pre-16 and post-16 provision.

- 31.** Funding for specific grants is allocated separately. The Standards Fund programme is the main specific grant for education and is determined annually. It enables Ministers to promote activities to which the Government attaches high priority. Funding for capital building works in schools is also separately handled, using a system of Basic Credit Approvals for work on county and voluntary controlled schools, and direct government grants for work on voluntary aided schools and GM schools. Formula capital arrangements for schools will be introduced from 2000-01.
- 32.** A number of Local Education Authorities have piloted, with local schools, alternative funding models for school sixth forms within the Fair Funding framework. The aim of these pilots was to support and encourage good practice by raising retention and achievement in school sixth forms and within Authorities. A report was published by the DfEE and participating Authorities in October 1998.
- 33.** Details of funding approaches were determined locally with schools. Pilot Local Education Authorities placed varying emphases on different aspects of provision, such as funding for recruitment, course delivery and student achievement. This information would be used to derive a 'unit score' for each school by multiplying the number of students on a course by the courses' unit value. Of the total available for distribution, schools would receive, for example, 95% of their funding in this way, with the remaining 5% allocated as 'output' funding according to students' results. Termly counts of students would be made so that adjustments could be made to account for drop-out or the arrival of new students mid-year.

Notes

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