Delivering World-class Skills in a Demand-led System

January 2007

Of interest to everyone in the learning and skills sector, including employers and learners
Responses to this consultation are required by 30 March 2007. Details of how to respond can be found in Section 5 of this document.
Delivering World-class Skills in a Demand-led System

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Foreword

A new ambition for world-class skills has been set in the Leitch Report and echoed in the Chancellor’s Pre-Budget Report. For, despite significant advances in the skills and qualifications of individuals and a stable economic environment within which businesses can operate, we have to raise our game if we are to continue to compete – as individuals and as businesses – in an increasingly competitive global context.

It is worth illustrating the global challenge that lies ahead so that we can be in no doubt of the scale of the task. Asia now produces more than Europe. China alone manufactures 50 per cent of the world’s computers and textiles, and 60 per cent of digital cameras and mobile phones. By 2020, the G7’s share of global growth will fall to just one third. The structure of Britain’s workforce is also set to undergo dramatic change. Today, there are six million British adults without basic skills, yet jobs for only three million of them; by 2020, in all likelihood, there will be just half a million unskilled jobs.

These are sobering economic statistics, but there are also powerful social reasons for concentrating on reform. Young people and adults should have every opportunity to increase their value in the job market, and to seek self-improvement and to build self-esteem. So, while we are determined to meet a major economic challenge, the further education (FE) system will always offer the means for personal fulfilment, social mobility and, as a consequence, the basis for community cohesion.

There is no doubt that the FE system is delivering ever greater success. We have improved quality, engaged more employers and young people in learning and training and we are increasingly efficient. The FE White Paper, Further Education: Raising Skills, Improving Life Chances, is a major step in reforming the FE system, renewing the economic mission and making plain its central role in equipping young people and adults with the skills for productive sustainable employment in a modern economy.

This is a progressive and necessary first step, but to continue to compete successfully we need a step-change in the way the system works. If we are to engage more people and more businesses in developing their skills we cannot rely on the success or the approaches of the past.

The Leitch Report makes bold recommendations for radical change right across the skills spectrum. We need to be determined and imaginative in our response, with shared action from government, employers and individuals, each taking increased responsibility and building on the successes of recent years. Our proposal is simple – place the power to choose in the hands of the individual and the employer, and empower and enable the best of providers to engage and excite more learners and employers.
The FE system needs to operate in an open and competitive market, driving up quality and delivering more innovative provision. This means moving away from the traditional planning role that exists to delivering through a demand-led system. Coupled with a funding system that reflects customer choice, a demand-led approach will free up the system to respond flexibly to customer demand over time. This is at the heart of this consultation.

Leitch called for a fully demand-led system by 2010, and the extent to which this will be possible is in part reliant on the outcomes of the Comprehensive Spending Review (CSR). We must be mindful that the system will continue to operate within available funding and the Government’s priorities to make sure the skills deficits of adults are addressed at Skills for Life and Level 2. We also want to expand choice and increase the quality of 14–19 provision to ensure that more young people continue to participate and achieve. Specialised Diplomas, the expansion of the International Baccalaureate and the guarantee of an Apprenticeship place are crucial mechanisms for realising this priority.

We are pleased to introduce this consultation on the proposed reforms required to deliver the adult skills, employer skills and 14–19 challenges. The Learning and Skills Council (LSC), the Department for Education and Skills (DfES) and their partners will be organising consultation events over the next few months to allow you to join the debate. You can also choose to respond in writing or online to this consultation. The details appear at the end of the document. However you choose to get involved, we encourage you to take part to help us all make a real difference.

Bill Rammell, Minister of State for Higher Education and Lifelong Learning

Mark Haysom, Chief Executive, Learning and Skills Council
Section 1 Introduction

1.1 The case for change

1 There have been significant improvements in skills attainment, with record numbers of adults achieving basic and full Level 2 qualifications. Despite this achievement, a strong stable economy and record employment rates, the UK still has skills deficits:
   - seven million adults lack functional numeracy and five million lack functional literacy
   - In OECD 30, the UK ranks:
     - 18th for low skills
     - 11th for high skills
   - 35 per cent of working age population do not have full Level 2
   - 36 per cent qualified to intermediate (Level 2-3), compared with over 50 per cent in Germany and New Zealand.

2 The Leitch Review of Skills (Prosperity for all in the global economy – world class skills, December 2006) lays down the challenges faced by the UK if we are to deal with these skills deficits. Unless we build on the reforms in place and bring about a step change in the quality and quantity of skills being developed, we will find it increasingly difficult to compete at home and abroad, as individuals and as businesses. The cost of failure is economic and social; the challenge is real and is upon us now.

3 The Review makes eight main recommendations, the chief of which build on the commitments in the FE Reform White Paper, Further Education: Raising Skills, Improving Life Chances, to move to a system which is demand led. The system must be designed and delivered to meet the needs of the customers, individuals and employers, and supply only high-quality provision to increase productivity and employability.

4 The Review challenges us further by recommending an acceleration of change, so that by 2010 all public funding for adult vocational skills in England, apart from community learning, is routed through Train to Gain or Learner Accounts. The funding consequences of Leitch are being worked through in the Comprehensive Spending Review (CSR) and the speed of transition is partly dependent on the outcome of the CSR. Nevertheless, the direction of travel is clear and this consultation is about how we reform the FE system in such a way that it makes a reality of a demand-led approach.
1.2 The size of the challenge

The Leitch review leaves no room for doubt about the urgency of raising our ambitions on skills.

14–19

• The OECD ranking for the proportion of our young people staying in education and training after age 16 has improved by four places since last year. However, our position remains low; we are now ranked 20th out of 29 developed nations.

• In response to this, we want at least 90 per cent of 17 year olds to be in learning in 2015 and more than 85 per cent of them achieving at least a Level 2 by age 19.

Adult skills

• The number of adults in the workplace without the skills at Level 2 for productive, sustainable employment in a modern economy is too high; we rank only 18th out of 30 countries.

• In response to this, we have two existing targets – to reduce by at least 40 per cent the number of adults in the workforce who lack a National Vocational Qualification (NVQ) Level 2 or equivalent qualifications by 2010; and, to improve the basic skills of 2.25 million adult between 2001 and 2010, with a milestone of 1.5 million by 2007.

Delivering these targets will represent more real progress. The FE system is already playing its part, with the Adult Learning Inspectorate (ALI) praising every part of the post-19 sector for its improvements in achievements. But we need to recognise that it will not be enough, given the rate of change in other countries. So, to become a world leader in skills by 2020, benchmarked against the upper quartile of the OECD, we need to double attainment at most levels.

We need more learners and more employers to engage with skills training, and a system that purposely sets out to give more choice and control to its customers in order to enhance their individual and business competitiveness. The new economic mission for FE set out in the White Paper, coupled with significant levels of investment from the public purse, a shift to greater autonomy and a revitalised focus on employer engagement, set the course for meeting this challenge. We now need a demand-led system, with supporting funding mechanisms, to underpin this mission; one that is clearly informed by the principles of public sector reform.

1.3 The aims of the consultation

This consultation asks questions about how we implement the White Paper’s commitment and respond to the Leitch Review. We are keen to hear your views and ideas about how we make a demand-led system work, so:

• How do we make sure that colleges and providers, which have been increasingly successful over recent years, can move as quickly as possible towards being truly demand led?
• How do we develop and implement a system that puts the needs of young people, adults and employers at the centre of its activity and its funding?

• How do we manage this ambition for a system that should become increasingly self-regulated?

9 Section 2 sets out our proposals for the reform and development of the FE system to become more demand led. The context is the new relationship required with colleges and providers and the development of self-regulation. It focuses on the need to stimulate demand and the incentives to engage more learners and employers. It also sets out proposals for qualification and curriculum reform.

10 Section 3 sets out more detailed proposals for the establishment of the funding mechanisms needed to support a demand-led system. It is focused primarily on the 16–19 elements of the much wider 14–19 funding system. There will be a separate consultation in spring 2007 on arrangements for 14–16 funding, as part of a wider consultation on school funding.

11 Section 4 sets out cross-cutting issues in relation to learners with learning difficulties and/or disabilities and the Foundation Learning Tier. Section 5 explains how to respond to this document, by 30 March 2007. The Technical Annex sets out the details of how the new funding formula will work.

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1 Separating out 14–16 and 16–19 allows us to take a view of arrangements as they sit against school funding and adult funding arrangements. This will help schools, colleges and training providers understand the interactions with the other parts of the funding system that determine their allocations. Because 14–19 funding arrangements need to operate coherently across institutions and across the age range to support the 14–19 entitlement, the outcome of the two consultations will be brought together by the DfES in a description of the whole 14–19 funding system, setting out how it will support delivery of 14–19 reform.
### 1.4 Timetable for change

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
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<tbody>
<tr>
<td>2007/08</td>
<td>Simplified and streamlined light touch planning arrangements with colleges and providers meeting learner and employer demand.</td>
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<tr>
<td></td>
<td>Improvement Strategy implemented and poor-quality provision taken out.</td>
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<td></td>
<td>Initial trials of Learner Accounts.</td>
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<tr>
<td>2008/09</td>
<td>First five specialised Diplomas available for 14–19 year olds.</td>
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<td></td>
<td>Implementation of new funding arrangements for 16–18 year olds, adults and employers.</td>
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<td></td>
<td>A common funding approach across school sixth forms, colleges and training providers.</td>
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<td></td>
<td>Qualifications and Credit Framework becomes operational.</td>
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<tr>
<td></td>
<td>Short list of qualifications prioritised by Sector Skills Councils (SSCs).</td>
</tr>
<tr>
<td>2010</td>
<td>Subject to the CSR outcome, all public funding for adult vocational skills in England, apart from community learning, routed through Train to Gain and Learner Accounts.</td>
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<td></td>
<td>A full set of Progression Pathways identified and implemented across the Foundation Learning Tier.</td>
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<td></td>
<td>The national fee contribution for learners not covered by the national entitlements will rise to around 50 per cent, together with growth in full-cost work for learners and employers.</td>
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<tr>
<td></td>
<td>100 additional institutions will offer the International Baccalaureate.</td>
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<tr>
<td>2012</td>
<td>Quality assurance within a self-regulating system to raise standards and tackle underperformance.  In such a system, the sector itself will intervene to address poor and underperforming provision.</td>
</tr>
<tr>
<td>2013</td>
<td>National entitlement to 14 specialised Diplomas for 14–19 year olds.</td>
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1.5 Potential long-term balance of funding

The chart above illustrates the potential balance of funding based on assumptions from the FE White Paper. It demonstrates that by 2015 more government funding will be routed through the Employer-responsive/Train to Gain model than through the Adult Learner-responsive/Learner Accounts model. The implications of the Leitch ambition for all adult vocational funding to be routed through Train to Gain and Learner Accounts by 2010 will be considered as part of the Comprehensive Spending Review.
Section 2 How the FE System will Work

2.1 An FE system fit for the future

13 This section looks more deeply into the commitments of the White Paper and the Leitch report. It sets out what a demand-led system will deliver and asks questions about how it would operate in practice. The Leitch report set out a clear critique and vision of the future. It said:

*Previous approaches to delivering skills have been too ‘supply driven’, based on the Government planning supply to meet ineffectively articulated employer demand.*

It acknowledged the recent developments by the LSC:

*Recent reforms in England have attempted to develop a more ‘demand-led’ system, responding to demand rather than trying to plan supply. Train to Gain provides flexible training, designed to meet the needs of employers and employees.*

But it concluded that the ambition for post-19 learning should be much greater:

*The Review has concluded that this sort of approach must be embedded across the system so that providers only receive funding as they attract customers, rather than receiving a block grant based upon supply-side estimates of expected demand.*

14 To support this ambition, the Leitch report recommends that by 2010 all public funding for adult vocational skills, apart from community learning, should be routed through Train to Gain and Learner Accounts. The funding implications of accelerating the change to a more demand-led system are being considered as part of the CSR. While we are clear on the direction of travel, the speed of the transition is dependent in part on the CSR outcome.

15 To turn the concept of a demand-led approach into reality, we want the customer to have more power to choose and for funding to follow demand. Choice will vary between different customer groups, but the principle will be the key driver.

16 For choice to be exercised there must be a balance and range of supply. As we move towards a more self-regulating system that responds to customer demand, we will expect the LSC to continue to take an interest in the overall volume, pattern and range of supply from which customers can choose in each area.

17 Our focus will be on creating the right market environment for supply to meet demand, with effective feed back of the informed views of customers in order to develop and design provision.

18 Competition will be supported. Providers demonstrating quality of provision will be able to expand. New entrants to the market will be encouraged and unwarranted barriers to entry removed. Suppliers of unwanted or lower-quality provision will not be protected from the resulting loss of income. In this environment, the LSC will have a new role to play, that of making the
market work effectively and efficiently and delivering more skills to more businesses and learners.

**Delivering more for young people...**

19 We are undertaking reforms that aim to facilitate collaboration by allocating comparable funding for comparable activity, that will apply a common system to all 16–19 funding, and incentivise partnerships to make sure that as many young people as possible participate and achieve in their communities. As young people are not yet in a position to be fully informed customers, we will expect an element of supply-side planning to deliver the entitlement.

20 From 2013, young people will have an entitlement to follow any one of 14 specialised Diplomas, an Apprenticeship or a range of GCSEs and A-levels, and will have greater access to the International Baccalaureate. Schools, colleges and training providers will work together to ensure that this entitlement is available to all young people, wherever they are in the country. Young people will have the information, advice and guidance (IAG) they need to choose a course that is right for them and the teaching and support to enable them to succeed.

21 Employers will influence the design and delivery of Diplomas and Apprenticeships. This will ensure that young people will leave learning with the knowledge, skills and attitudes that employers want and that are needed for the success of the economy and the future success of young people themselves.

22 All young people will have access to information, advice and guidance to help them make better life and careers choices. This IAG should be focused on the individual, be impartial, comprehensive and encourage aspirations and challenge stereotyping. The new quality standards for young people’s IAG (due to be published in April 2007) will support this goal.

**Delivering more for employers...**

23 We expect the future, reformed FE system will be the first choice of employers, clearly delivering more skills to enhance their productivity and competitiveness. As a consequence, employer engagement and investment in training will increase.

24 Building on the successes of Train to Gain, employers will be able to choose which provider they want to use – freed from any constraints concerning geography or type of provider.

25 Sector Skills Councils will speak authoritatively on behalf of employers so that the vocational qualifications they want for their businesses are those that will attract government subsidy. The list of approved qualifications subsidised through the public purse will be greatly reduced. Learners will have the absolute certainty that the qualifications they study are those that are valued by employers, giving them a greater opportunity to enter the labour market and progress within it.

26 Employers will have a much greater influence on the FE system, advising on curriculum design, offering work placements, contributing to greater
collaboration, supporting the network of National Skills Academies and in many other ways.

27 The Framework for Excellence and the New Standard for Employer Responsiveness and Vocational Excellence will provide indicators of quality for employers, enabling them to make informed choices about publicly-funded providers.

…and for adult learners:

28 The future FE system will deliver more opportunities for adult learners, devolving purchasing power to them so they can determine where they use their entitlement through Learner Accounts.

29 Those who want to pursue learning for wider benefits will have access to a wide range of choice, at affordable prices.

30 There will be a new adult career service that will provide good quality, accessible information and advice, including a free Skills Health Check. This will enable every adult to get the impartial help they need to make informed choices and invest wisely in improving their skills and building their careers in a changing labour market.

31 While in learning, adults will receive personalised support to help them achieve their learning goals and progress to further employment or learning opportunities.

32 Learning will take place in facilities that are world-class, at a time and place that suits the needs and lifestyles of learners.

2.2 A new relationship with schools, colleges and providers: changing the planning regime

33 Our commitment to a new relationship with providers of all kinds permeates the White Paper. The Secretary of State has challenged the FE system to achieve self-regulation by 2012. This will empower the best providers to reach greater heights, encourage targeted and collaborative working to improve underperforming provision, and encourage new providers to inspire the rest, ensuring the development of a dynamic and innovative system. As we move towards this, the LSC will have a new relationship with colleges and providers; one characterised by strategic dialogue, which is light touch, appropriate and which minimises bureaucracy.

34 In such a system, the LSC will no longer plan with colleges and providers in the way it has done. It will focus on the successful operation of the learning market – stimulating competition, developing capacity and protecting the interests of learners and employers. It will have more light touch relationships with a more diverse group of colleges and providers which will support direct responsiveness by the sector in meeting the needs of its customers. It will also incentivise recruitment within an overall finite financial envelope.

35 Schools, colleges and providers will be driven by strong leadership and governance – with the FE system becoming increasingly self-regulated.
We expect colleges and providers to share their business plans with the LSC to facilitate a mutual understanding of capacity and ambition. This means that it will no longer be necessary to agree detailed plans; rather the LSC will agree the upper limits of funded activity, and also identify where there are gaps in the market which need to be filled by current or new high quality providers.

36 The new demand-led system will act to raise standards in the sector as learners and employers, exercising the greater choice they are to be given, increasingly reject poor-quality provision. The LSC will intervene to protect the interests of learners by removing funding and replacing underperforming provision with higher-quality options. Ultimately, we will expect the sector to take responsibility for raising standards and tackling underperformance through self-regulation.

**Question 1: Would this be sufficient for colleges, providers and the LSC to benefit from a light touch relationship?**

### 2.3 Creating demand: devolving choice and purchasing power to customers

37 Currently the FE system operates in a quasi market – where there is some encouragement of competition but where purchasing power comes from government, through bodies such as the LSC, rather than directly from the customer.

38 The system for determining who pays must be fair and equitable. The greater the national benefit, the more the state pays; the greater the benefit to the business, the more a company pays; and the greater the personal benefit, the more an individual pays, with the necessary caveat around those on low incomes. Working within this more equitable framework, any remaining barriers that prevent customers from exercising their choice to engage in learning that meets their needs, will need to be removed.

39 We need to free up the system, encourage more colleges and providers to talk directly to individuals and employers about their needs and develop the provision that best addresses them. We need a more open market – where colleges and providers – working on their own or collectively – are more innovative and creative, expanding their provision to engage new learners and new employers.

40 At the same time, there are clear government priorities to focus public funding on those people who do not have the necessary skills for employment. While government priorities will continue to attract public funding, not all customer choice will be met through government funding. We need the FE system to move further towards a position where it offers provision to which individuals and employers are prepared to contribute. This is fundamental.

41 Our ambition is for the overall learning market to grow. There will be a national campaign to promote the value of learning. Within that, Sector Skills Councils need to drive up demand for and investment in both
government-subsidised and privately-funded learning. We expect colleges and providers to increase their engagement with their local employers and communities to increase investment in learning and skills development.

42 We have referred to the different groups of customers of the FE system – learners aged 14–19, adult learners and employers. It is reasonable to develop a demand-led system where these three ‘markets’, with their different levers and learning goals, will operate independently. However, we must be aware of the potential for integration or sharing of systems to ensure transaction costs are as efficient as possible. The technologies available should mean that both end user and provider benefit from a customer-centred approach.

2.4 Competition and choice

43 A truly demand-led system does not mean determining what the market wants and engineering supply to meet that demand. Individuals and businesses that represent the demand side of the FE system must be allowed to exercise greater choice, and the colleges and other training institutions on the supply side of further education should be rewarded when they respond effectively to this demand. The role of the LSC is to create the framework within which this supply/demand relationship can best operate.

44 In this environment we expect colleges and providers to have regard to the development of their provision according to their own mission and aspirations. The plans for this should be shared – rather than agreed – with the LSC so that we can evaluate the collective impact of public investment and identify and address gaps in provision through commissioning. The LSC will also direct capital funding strategically to grow the market of providers and provision in line with demand.

45 As identified, there are three different markets that may require different approaches:

14–19 provision

46 Local authorities and the LSC will work with schools, colleges and other providers through local 14–19 partnerships to develop and publish a 14–19 prospectus, detailing the entitlement for young people. The LSC and local authorities will work together to secure the provision to deliver this entitlement.

47 In relation to the 16–19 element of the entitlement, school sixth forms, colleges and providers will be expected to agree their contribution to the entitlement with the LSC. This will include the number of learners and the range of Diplomas to be delivered, which will form the basis of the 16–19 allocation.

48 Provision to address gaps, or significant new growth in capacity, will be commissioned through the LSC for 16–19 provision and the Local Authority for 14–16 provision. This will include sixth form and FE presumptions, 16–19 competitions and tendering for specialist provision – for example, targeted at young people not in education, employment or training.
Question 2: What are your views on this approach to greater collaborative and area-based planning for 14–19 provision?

For adults

49 We expect colleges and providers to continue to respond to the demands of their local communities, delivering the provision the communities want. Increasingly and over time, we would expect that all adults will access their learning through Learner Accounts.

50 However, where the needs of particular groups are not being met, the LSC will act in their interests. In these circumstances, the LSC will undertake customer-centred commissioning to address any gaps.

51 We expect a greater proportion of government funding for adult learning to focus on employability outcomes, using qualifications to help people enter and progress in sustainable employment to meet the changing needs of the economy.

52 Investment in Personal and Community Development Learning (PCDL) will be determined by local partnerships as part of the ongoing reform of PCDL. These partnerships will leverage in other sources of funding and identify specialist providers (such as the voluntary and community sector) to engage more people from under-represented groups. Access to leisure learning should be universal, with most learners contributing some or all of the cost of their learning.

Question 3: To what extent should the LSC intervene to make sure there is sufficient appropriate provision for particular groups?

For employers

53 Government-funded employer skills provision will no longer be agreed through a detailed plan. Colleges and providers will tender against regional and sector priorities to become approved providers, which will be awarded for up to three years subject to satisfactory performance and employer demand.

54 Maximum contractual volumes will be varied in-year in response to employer choice and provider performance. This process is essential to ensure spending stays within the overall budget given to the FE system.

55 We recognise the need to learn from our experience of tendering for Train to Gain provision. We must remove some of the complexity and bureaucracy from the process so that more providers are able to enter the market. If an employer wants to work with a provider that they have chosen, where the provider already receives public funds and has a successful track record of meeting the needs of employers and where we have no concerns about the provider’s quality, financial health, or management of health and safety, then we must support that decision.

Question 4: How can we simplify the tendering process so that more providers are able to deliver training that employers’ want?
2.5 Diversifying the market

56 The LSC is tasked with promoting diversity and choice of provision. This means opening up the market to extend the range of existing, successful colleges and providers and bringing in new providers, for example, those with particular strengths in engaging wider groups of learners and employers. This could include expanding existing college activity, niche private training providers for specialist sectors of industry, or voluntary sector organisations working within local communities.

57 This will need to be underpinned by a more sophisticated and differentiated approach to procurement, one that may need to include appropriate incentives and reflect differentiated outcomes for different target groups. The LSC will review its criteria for new and expanding providers to ensure that the market operates successfully and equitably.

58 There are currently a number of formal and informal collaborative arrangements for delivering learning and skills provision. We want to encourage new arrangements that promote innovation and efficiency within a market environment.

59 To accommodate a more diverse provider base we will need to review financial capacity based on published and sometimes unpublished financial results. This will give us greater flexibility in setting financial exposure limits.

Question 5: What incentives do you think will be effective to open up and diversify the market across all types of providers to engage more learners and employers?

2.6 Investing in and developing capacity and capital

60 We recognise the need to develop capacity and improve the infrastructure to attract more people into learning. Capital investment will support the building of high-quality facilities to extend and improve the choice and quality of learning. This is essential for 14–19 provision to deliver the new Diplomas and support school and FE presumptions.

61 Those establishments that are chosen by learners and employers will be able to access support to develop their facilities further, extending choice to more learners and employers. We are currently reviewing criteria to make sure providers are not prevented from entering the market by lack of access to capital.

62 Capacity building funding will be used to develop new providers to enter the market, where existing provision fails to meet the needs of learners. It will also be used to assist colleges, providers and the voluntary and community sector to develop their staff and their learning and skills programmes to address gaps in provision in government priority areas.

63 Such funding will be available to support development in the privately-funded learning market, taking account of the private sector’s ability to borrow. We recognise that those providers that receive capacity building funding for areas of their business eligible for public funds may realise incidental benefits too. We will ensure propriety and regularity in the use of
funding, recognising the different legal status of providers and the need to protect state interest.

**Question 6:** Are the principles for capital and capacity development outlined above the correct ones?

**Question 7:** Do you agree that capacity building funds should be used to help new providers enter the market?

### 2.7 Ensuring quality

64 Support for quality and improvement will be vital within a demand-led system. Government, national agencies and individual colleges and providers have already done much to raise standards and performance within the FE system, and this must continue. But the work must also be extended and enhanced to ensure that customers have the information they need to choose and make decisions, and that the learning and skills outcomes sought by employers, individuals and the economy are achieved.

65 The FE White Paper set out proposals for supporting quality and improvement through the national Improvement Strategy for FE and the related Framework for Excellence. The strategy, which will be published early in 2007 by the Quality Improvement Agency (QIA), brings together the contributions that national agencies, including the LSC, the Centre for Excellence in Leadership, Lifelong Learning UK, Ofsted and QIA itself, can offer individual colleges and providers to help them improve. This includes leadership, management and workforce development; personalisation and better teaching, training and learning (focusing on the areas set out by Lord Leitch); and sharing best practice across the system. The strategy will provide support for all colleges and providers as they need it, including those where quality is poor or inadequate.

66 The LSC will continue to ensure that colleges and providers operating in the market meet quality assurance requirements if they receive any public money. By 2008, public funding will no longer support poor-quality or inadequate provision.

67 By 2012, we expect the system to be much more self-regulating in line with the commitment in the White Paper. In such a system the sector itself will intervene to address poor provision; external quality assurance will be limited to vulnerable learners and financial assurance; but reserving the right for intervention by exception.

68 Until that time, the LSC will continue to have a key duty to protect the interests of learners and employers – taking robust and urgent measures to withdraw funding from poor-quality provision and move funding to those colleges and providers that can deliver. Through its intervention strategy and the application of minimum levels of performance, the LSC will tackle poor providers and provision robustly.

**Question 8:** Do you think that the proposed balance between self-regulation and external intervention is right?
Section 2.8 Qualification and curriculum reform

69 In order to support a demand-led system we need to ensure that the vocational qualifications we support reflect the needs of employers and learners. The diagram below illustrates how funding will support the qualification delivery chain in 2010.

Qualification reform

70 Within this delivery chain, SSCs will develop a qualification strategy for each sector, known as a Sector Qualification Strategy (SQS) and public funding will be aligned to the priority qualifications identified in that strategy. In doing so, an SSC (or other sector body) will identify how well current qualifications and provision are meeting sectoral needs, and what future skills, knowledge and understanding might be needed and new qualifications developed.
These proposals will be implemented through the UK Vocational Qualification Reform Programme (VQ Reform Programme), and the development of the Qualifications and Credit framework (QCF). SSC priorities will need to meet the specifications of the QCF with qualifications built up from units and underpinned by credit accumulation and transfer.

Leitch has stated that colleges and other providers should be able to offer their own qualifications, subject to SSC approval and consistency with a national regulatory framework. This would happen where such qualifications are of clear economic value, demonstrably relevant to employers and fill a clear gap in the market. This would be possible under the QCF once it becomes fully operational.

The programme of vocational reform and the development of a demand-led system will ensure that demand can be met by provision that matches the needs of employers. This will be achieved by employers directly inputting into the prioritisation and development of qualifications and through a more responsive and flexible qualification framework. The VQ Reform Programme and the development of new funding approaches will ensure that government priorities are aligned with sectoral priorities. This is because Sector Qualification Strategies will provide greater clarity about what qualifications and what levels employers need. The QCF will provide both employers and learners with flexible routes to gaining qualifications, and, for some learners, will enable qualifications to be achieved in small steps.

Question 9: What support do you need to ensure the alignment of Sector Qualifications Strategies, the QCF and public funding of provision?

‘Turning off funding’

While work is underway within the VQ Reform Programme we believe there is a need to take action to ensure that public funding is focused on provision that has the clear support of and endorsement by Sector Skills Councils and other sector skills bodies as part of their identified skills solutions for their sectors.

In practical terms, the transfer of funding into ‘preferred’ qualifications requires a clear transition process. This process will start with an impact assessment that will assess the implications for employers, learners and providers of withdrawing funding for provision not prioritised or approved by SSCs and other sector skills bodies. This will enable capacity building, updating of skills and capital investment to take place where necessary in order to respond to the changes in the mix and balance of provision.

The LSC is currently developing the processes that will enable preferred qualifications within Sector Qualification Strategies to influence and drive funding. A timeframe for the overall transfer of funding across the LSC-funded provision would be set through guidance from SSCs and within the VQ Reform Programme.

This transition plan would be linked to the agreed timescales for the QCF and the ‘running down’ of the National Qualification Framework (NQF). As the QCF develops and sector qualification reform is implemented, we will expect ‘preferred’ qualifications to fit the specifications of the QCF (this may become a condition of continued funding once the QCF becomes operational from
2008). We will focus the ‘turning off’ funding for provision that lies outside the QCF.

**Question 10: What are the key factors we should take into account in developing an initial impact analysis in preparation for withdrawing funding from certain qualifications and for the introduction of the QCF?**

78 The DfES is currently considering the most effective means of rationalising qualifications flowing from the SQS process and in anticipation of the QCF. The current process, where the Secretary of State approves qualifications as eligible for funding, will need to be reconsidered to ensure that only those vocational qualifications endorsed by SSCs attract public funding.

**Qualifications and credit**

79 Although we are committed to the development of a Qualification and Credit Framework (QCF) it is important that this operates in a way that supports the completion of qualifications, and not just achievement of random units. However, we must also ensure that we do not inadvertently undermine the flexibility of the QCF and a unit-based framework by deterring new learners from entering it. We therefore propose measures to support units where they lead to the completion of a qualification and the learner intent for accumulated achievement leading a qualification is clear.

80 We intend to introduce a range of financial incentives and practical support that would enable and encourage adults to accumulate credit leading to qualification achievement. Any units undertaken or credit achieved randomly, without the intent for or within the minimum requirements qualification achievement, would not be supported.

81 This could be done through a combination of the following:

- weighting the public contribution in favour of top-up provision that takes the learner to a full qualification with initial units attracting less public subsidy
- incentivising learning providers to encourage and support progression to the full qualification, by linking a proportion of their funding to achievement of the final qualification
- incentivising the information and advice system to support skills development and progression by linking a percentage of its funding to these achievements, particularly among the hard-to-reach groups.

82 The key is to take advantage of the flexibility that a unit-based qualification and credit system offers, and use it to generate new demand and also target public funds more efficiently (for example, topping up learner achievement and qualifications to a full Level 2) while not losing the strong link between what we fund and what meets the priorities. We will need to test carefully the precise balance of funding allocated for participation, achievement of units and credit accumulation, and achievement of full qualifications. This would be to ensure that providers are not discouraged from recruiting the very low skilled or the hardest to reach into learning programmes, while still ensuring that public funds are targeted on supporting learners to achieve full qualifications.
Where a learner wishes to pursue a programme leading to the award of credit that does not in itself lead to a whole qualification (indeed may lead to credits that contribute to the achievement of a number of very different qualifications) then this may be through fees or an expectation of learner or employer contribution.

**Question 11: Do you agree that the proposals suggested would encourage progression to full qualifications without deterring the hardest to reach? If not, what other means of achieving this aim could you suggest?**

**Curriculum reform**

**Foundation Learning Tier**

The Foundation Learning Tier (FLT) will be a coherent framework of qualifications for young people aged 14 and over and for adults below Level 2. The establishment of Progression Pathways to give learners access to a first full Level 2 programme is key to this. The framework will be part of the QCF and will allow units and qualifications to be combined in ways that suit the needs and aspirations of the range of learners at this level.

Over time the LSC will concentrate public funds on programmes that align with these pathways. The new entitlement for 19–25 year olds will be extended to these programmes as resources allow.

Once fully implemented the FLT will contain a comprehensive range of Progression Pathways and will encompass all LSC-funded provision for young people and adults at this level, including Entry to Employment (E2E), Foundation Learning for young people (within a further education college), First Steps and some aspects of Personal and Community Development Learning.

The FLT will provide an organising structure for units and qualifications at entry and Level 1. These will in time be taken from the QCF. The LSC will be announcing timescales for the transition of existing and appropriate provision at entry and Level 1 into the FLT.

The first validated Progression Pathways are due in August 2007. A key development will be Progression Pathways to Level 2 for adults. Further information with regard to the implementation of the FLT will be published by the LSC and QCA in spring 2007.

Proposals for the funding of the Foundation Learning Tier are set out in Section 4 of this document.

**The specialised Diplomas**

At the centre of our 14–19 reforms is delivery of the new statutory entitlement to the specialised Diplomas in each local area by 2013. Specialised Diplomas will offer a real alternative to traditional learning through an imaginative, high-quality blend of general education and applied learning and will be suitable for young people of all backgrounds and abilities who wish to develop knowledge and skills in a practical, work-related environment. Specialised Diplomas will be available in fourteen lines of learning at Levels 1, 2 and 3,
covering all the sectors of the economy. The first five specialised Diplomas will be available for teaching from September 2008.

91 The entitlement could not be delivered by an individual school acting alone and nor could many colleges offer it in full. It is therefore essential that planning and funding systems facilitate the collaboration needed at area and school/provider level to deliver the entitlement.

92 Proposals for the funding of specialised Diplomas are set out in Section 3 of this document.
Section 3 Funding Models

Introduction

93 The previous sections have outlined our longer-term vision of a demand-led system. This section sets out details of funding models for 2008/09 designed to support this wider reform programme, and to take forward the commitments in the FE White Paper, *Further Education: Raising Skills, Improving Life Chances*.

94 This section sets out the principles for three models: for young people aged 16–19, adult learners and employers. Funding of Personal and Community Development Learning (PCDL) will remain outside these funding models for the time being. While the funding models will vary between the major groups, we want to standardise and simplify the interface with providers in terms of how funding is calculated, allocated and payments get made:

- We will still have a regular payment mechanism that aggregates into a single payment the funding due to each provider from the four major blocks (young people aged 16–18, employers, adult learners and PCDL).
- We will make use of the simplification developed through *agenda for change*, including using standard units of funding (the standard learner number) for the major categories of programme, rather than negotiating different funding rates for different providers.
- We will build in mechanisms that allow some under- and over-shooting of targets in the aggregate, recognising that you cannot sensibly plan and audit for every last place.
- We will keep the commitment to funding convergence between schools, colleges and independent providers.

95 For 14–19 year olds, we must ensure that they can exercise their entitlement, and undertake elements of their programme in more than one institution or provider where appropriate. This will require effective provision planning by 14–19 partnerships and collaboration between schools, colleges and providers. To support this, we are proposing a common 16–18 funding model based on the *agenda for change* approach, as envisaged in the White Paper. A common 16–18 model will be a step towards our aim of comparable funding for comparable provision irrespective of the provider. While we envisage that the 16–18 model will apply to all providers, whether the model should also be applied to 16–18 Apprenticeships is something on which we are seeking views as part of this consultation. The options are that we include 16–18 Apprenticeships within the 16–18 model with all other 16–18 provision, or within the employer model with other employer-based provision.

96 The FE White Paper details the nine principles for 14–19 funding. These principles require the funding system to incentivise improved participation, progression and achievement rates. They also require that the system be transparent and simple, provide appropriate stability and certainty for planning while avoiding unnecessary bureaucracy. We have developed two options for achieving a balance between these principles, which are described later in this section for comment.
In this section we also seek initial views on how 14–16 funding might work, particularly for learning taking place ‘off-site’ from schools, through colleges and providers. More detailed proposals will be set out in a full consultation on schools funding in the spring.

For adults (19 and above) we have developed two complementary funding models to deliver demand-led funding arrangements in line with the White Paper commitments. Both our models make a direct link between the choices of learners and employers and funding received by a provider in any given year.

The Learner-responsive model is designed to support provision driven by individuals, taking place mainly on colleges’ or providers’ premises. This will encompass a wide range of provision, and diverse groups of learners, including people not in employment and learners with learning difficulties and/or disabilities. We propose that funding for provision driven by Learner Accounts, which is being trialled in 2007/08, would be channelled through this model.

The Employer-responsive model will support provision driven by employer choice, informed by Sector Skills Councils’ priorities. Skills brokers will play a major part in helping employers to choose the programmes that meet their business needs, which we expect will be delivered mainly on employers’ premises. The model will encompass Train to Gain, Apprenticeships for Adults (all those over 19) and FE provision delivered on employers’ premises.

The three funding models are set out in Sections 3.1, 3.2 and 3.3. Section 4 provides further details on proposals for supporting learners with learning difficulties and/or disabilities, and allocating additional learning support. Section 4 also explains how we intend to fund the Foundation Learning Tier (FLT). The Technical Annex describes the new funding formula underpinning the models outlined in Section 3.
Section 3.1 16–18 Model

Introduction

102 This section describes how the proposed new approach to funding, performance measurement and planning for 16–18 year olds, which ministers committed to in the FE White Paper, could operate in practice. Our aim in reforming education and training for 14–19 year olds is to create a system where more young people are prepared by their education for success in life. Teenagers need a broad education that equips them not just for progression in learning for a particular job today, but gives them the right foundation for their adult lives – as individuals, in the family and in the community, as well as at work.

103 The reformed funding system will need to reinforce this approach, encourage broad programmes and embrace the range of Diplomas to be available from 2008. This section outlines the process of planning and procuring provision at the provider/institution level and how performance, and employer and learner demand, will inform provision to ensure it is high quality, responsive and demand-led.

Scope of the model

104 The 16–18 model will cover all provision for 16–18 year olds (inclusive) in colleges of further education, together with independent training providers and school sixth forms from August 2008. It will cover:

- all pupils in school sixth forms aged 16–18
- all learners aged 16–18 in colleges and other providers following further education programmes
- all learners aged 16–18 undertaking Foundation Learning Tier programmes
- all learners aged 16–18, undertaking ‘off-site’ provision.

105 The model and funding methodology is also being considered as a way of funding specialised Diplomas and other off-site provision throughout Key Stage 4. This will be subject to further consultation by DfES in the spring.

Balancing incentives, stability and bureaucracy for 16–18 year olds

106 In developing options for 16–18 funding arrangements we have attempted to balance the principles for funding the 14–19 age group set out in the FE White Paper. The options outlined here should be read in conjunction with the new funding formula described in the Technical Annex, which includes strong incentives for recruitment and success.

107 The choice of option will affect the relationship between schools, colleges, providers and the LSC, including the way growth is allocated, how audit will work, and the direct impact on learners. We have outlined two options, together with the potential advantages and risks of each. We ask you to rate how each option would meet the objectives of the White Paper.

Option 1 Strategic commissioning
108 Under this proposal past performance informs rather than determines allocations. The commissioning of growth for new and changed provision would take place in two ways – by negotiation during a planning meeting between the school, provider or college and the LSC and, by competitive tendering, including 16–18 competitions for provision over 200 places. This means growth or reductions will be agreed through provider plans, changing the allocation for the year, but significant new or changed provision will be offered by tendering each spring.

109 Competitions will provide the opportunity to develop innovative provision, developing and testing new kinds of learning opportunities for young people who are not currently participating in education and training. Innovative programmes will involve a wide range of organisations – including voluntary, community and independent providers – and new forms of partnership.

110 Negotiating growth as part of a dialogue with the LSC would be a significant change for schools with sixth forms, where allocations are determined by numbers recruited in the autumn of the previous year, without the opportunity to discuss anticipated growth, or decline, with the LSC. Building in anticipated growth into allocations would address the concerns expressed by schools following the withdrawal of in-year adjustment in 2006/07.

111 Under this model there would be no requirement for in-year or year-end reconciliation because growth is agreed and allocations issued to cover the growth in advance of the year starting. In exceptional circumstances where a school, college or provider departs significantly from its plan, allocations may be adjusted subject to negotiations.

112 This is similar to the LSC’s current plan-led system for FE, but with one major difference. Currently in FE, allocations are based mainly on the last full year’s data. The experience of working with school sixth forms has shown that autumn recruitment data can be used to update the allocation before it is confirmed in the spring. This will mean the allocation will be based on up-to-date, in-year data resulting in a system that is responsive to learner choice and ensures that the funding follows the learner.

113 A key feature of this option is to guarantee funding in the following year’s allocation for institutions that recruit above their plan. Our new proposal ensures this happens by consolidating growth into the baseline for the following year, through the operation of the funding formula. This gives institutions an incentive to improve participation and success.

114 Potential advantages of this option are:

- Institutions are incentivised to expand participation to raise their baseline allocations for the next year and strengthen their case in bids for further growth.
- Subject to exceptional circumstances, institutions will have stable budgets with no retrospective funding adjustments. This will encourage them to commit their full budget, collaborate freely with other providers, and invest in improved quality through staff training and capital resources.
• The LSC would not need to withhold contingency funds to cope with unplanned growth, and could meet local needs identified by 14–19 partnerships through agreed plans.
• Audit can be light touch, and proportionate to risk.
• Contestability can be enhanced through open and competitive tendering to fill gaps identified by the 14–19 partnership; this will be open to all types of providers and can be targeted to bring new high-quality providers into the sector.

115 The risks associated with this approach could be:

• that the incentives to improve participation may not be strong enough to meet the Government’s expectation of 90 per cent participation by 2015
• that, should there be a mis-match between plans and delivery, there would not be the flexibility to redeploy funds to meet unplanned demand during the year
• institutions/providers may overstate the growth they can actually deliver to improve their negotiating position and allocation.

**Question 12: On a scale of 1 to 5, with 1 being ‘not at all’ and 5 being ‘completely’, to what degree do you believe this option would meet the three objectives of the White Paper?**

• providing incentives to respond to learner choices, increase participation and achievement
• providing stability to allow future planning
• avoiding bureaucracy.

**Option 2 Strategic commissioning with reconciliation**

116 The second option has some similarities to the strategic commissioning model above, but would include in-year and year-end reconciliation. Schools, colleges and providers would agree initial allocations with the LSC based on their planned delivery. These allocations would then be adjusted in the light of autumn recruitment data, and reconciled finally after the end of the year when audited data for the full year is available.

117 This option would introduce a stronger element of competition and an immediate funding incentive for higher participation. Allocations would be increased in-year to include all delivery above that planned. To fund this unplanned growth, institutions that under deliver against plan would have their allocation and funding reduced in line with the under delivery. At the end of the year a full reconciliation would take place and funds paid or reclaimed from the following year’s allocation. However, as outlined below, one of the risks of this approach is an overall increase in demand requiring some funds being held back or an adjustment to funding rates.

118 This model could be operated in two ways, with reconciliation at either full or reduced rates. The main difference is that the effect on institutions is lessened the smaller the monetary value involved, although the administrative process will be the same regardless of the sums involved. The impact on institutions could also be moderated by applying a ‘tolerance’ range (such as a percentage of allocation, or a specified number
of learners), in a similar way to the proposed approach for adult learners (see Section 3.2).

119 Potential advantages of this option are:

- It could provide a strong incentive to recruit additional learners above plan as a result of additional funding in-year.
- Funding could be re-deployed in-year to support those providers responding to increased learner demand by withdrawing funds from institutions falling short of planned numbers.
- It could provide a clear and transparent link between learner recruitment and the funding.
- Providers would have incentives to respond flexibility to in-year demand from young people, in particular those who drop out of employment or learning which does not meet their needs.
- Greater competition would stimulate improvements in quality.

120 The risks associated with this approach could be:

- Competition between providers could focus on existing learners rather than increasing overall participation and could act against collaboration between providers.
- Providers that lose funding as a result of in-year adjustments might have to cancel courses or withdraw resources to manage budgets.
- Institutions might not have the facilities to cope with additional unplanned numbers.
- Underinvestment by institutions could occur as a result of retrospective adjustments to funding.
- Reconciliation would remove a degree of stability for institutions/providers, and make it difficult to provide multi-year indicative budgets.
- The LSC might need to withhold funds or reduce funding rates to cope with over-delivery.
- Bureaucracy might increase as a result of the need to undertake detailed funding calculations and associated audit.
- Focusing on the detail of in-year and end-year funding adjustments could distract attention from quality improvement.

**Question 13:** On a scale of 1 to 5, with 1 being ‘not at all’ and 5 being ‘completely’, to what degree do you believe this option would meet the three objectives of the White Paper?

- providing incentives to respond to learner choices, increase participation and achievement
- providing stability to allow future planning
- avoiding bureaucracy.

**Question 14:** In what other ways could we incentivise schools, colleges and providers to recruit additional learners?
Apprenticeships

121 Apprenticeships for 16–18 year olds form a major part of the 14–19 entitlement for young people. The Secretary of State has made it his priority in the next spending review that every young person who wants an Apprenticeship and who meets the entry requirements should be entitled to a place. This is reinforced by the Leitch recommendation to increase the number of Apprenticeships in the UK to 500,000 by 2020.

122 Apprenticeships provide opportunities for young people to develop occupational, functional and technical skills in a work environment, complementing school and college-based provision. Planning, budgeting, funding and payment arrangements for Apprenticeships must reflect their particular requirements while ensuring that they are fully integrated into the wider learning opportunities for young people.

123 We will create a single budget for young people’s learning for each region, so that a balance of school, college and Apprenticeship provision can be offered in each area without artificial barriers between funding streams. Although Apprenticeships for 16–18s will be an integral part of the planning and budgeting arrangements for 14–19 year olds, we need to consider which mechanism for funding and payments is most effective. The options are to include 16–18 Apprenticeships in the 16–18 options outlined above, or to apply the funding arrangements developed for employer-focused provision – the Employer-responsive model set out in Section 3.3.

124 Applying the 16–18 model for Apprenticeships would involve the LSC and providers agreeing planned numbers and associated funding allocation or maximum contract value. For independent providers working under contract, mid-year and end-year reconciliation would take place and funding adjusted accordingly. This may be extended to all providers (including those working under grant-in-aid or grant arrangements) depending on the option selected for 16–18 funding. The new funding formula (set out in the Technical Annex) would be used to calculate allocations, as for other 16–18 provision.

125 An advantage of this option could be simpler movement between 16–18 Apprenticeship funding and other 16–18 funding in schools and colleges. Partnerships would be able to plan the pattern of provision required in an area, within the total funds available. However, while this could simplify the position for providers only delivering 16–18 learning, it could be a disadvantage for providers that would require separate arrangements for 16–18 and 19–25 Apprenticeships. It would also cut across funding arrangements developed with employers, particularly through the National Employer Service.

126 Apprenticeships tend to have more emphasis on individual coaching and portfolio building, and our assessment of costs of delivering Apprenticeship frameworks indicates that the additional cost of extra learners approximates to the full unit cost. Reconciliation of funding at reduced rates, which may be considered for other 16–18 provision, may not therefore be as appropriate for Apprenticeships.
The Employer-responsive model described in Section 3.3 builds on the current work-based learning and Train to Gain arrangements. The funding formula is designed to support employer-based provision, and it is proposed that payments are made monthly on the basis of recorded activity. This model will cover employer-facing activity, including 19–25 Apprenticeships.

As indicated above, the advantages of this option are that it simplifies administration for employers who deliver their own Apprenticeships and for providers specialising in employer-facing provision (who would therefore not have to introduce two systems); the funding formula reflects the particular mode and costs of delivering Apprenticeships. The main risk of this approach is that it may discourage the necessary forward planning and co-ordination needed to assure the delivery of the Apprenticeship entitlement. A related risk is that it may discourage integration of 16–18 Apprenticeships from other elements of the 14–19 entitlement, and make a co-ordinated approach to employer engagement to support the 14–19 curriculum across an area more difficult. These risks could be mitigated by effective partnership planning and budgeting arrangements.

**Question 15:** Which funding and payment mechanism do you think will be most effective in supporting the delivery of 16–18 Apprenticeships within 14–19 planning and budgeting arrangements?

### Main changes from the current system

For colleges and independent providers, the options outlined above build on the funding consultations undertaken by the LSC in August 2005 and May 2006. The funding formula has been developed further in response to those consultations and details are provided in the Technical Annex. The LSC’s approach to quality through the Framework for Excellence and setting of Minimum Performance Levels are included in this year’s Annual Statement of Priorities, *Raising our game*. The one additional major change will be the allocation of additional learning support (ALS), which is detailed later in this document.

The model will involve some significant changes for school sixth forms, which were signalled in the schools’ version of *Priorities for Success* (October 2005) and through a series of six conferences in autumn 2006.

In outline the changes will be those listed below:

- A new way to collect and use data to inform allocations. There is already a requirement to provide, to DfES, learner aim level data each year. The interim system (Post 16 Learning Aims Management System - PLAMS) for this is in place and data is already being received. The data will be matched to awarding body data to provide school level sixth form success rates.
- It is now proposed that the data collection timetable is changed to allow time for learners to settle into their sixth form subjects before the data is submitted. The proposal is to collect at the end of October each year. This ties in well with the definition of a start for funding and performance purposes (that is, that the learner has been attending for six weeks; this is explained further in the Technical Annex). It is also consistent with the
data collection in other sectors, and would provide more accurate data to inform allocations. This would require slightly later data collection for school sixth forms but schools would still receive their allocations before the financial year begins.

**Question 16: Do you support this changed data collection timetable to allow schools more time to ensure the data properly reflects the subjects that learners are following?**

- Schools will have a direct conversation with LSC Partnership Teams for the first time. The purpose will be to agree the contribution to the local 14–19 plan and local area prospectus. This conversation will take into account the baseline allocation calculated from the previous and current year’s delivery, the negotiation or tendering for growth and any changes to the mix and balance of provision because of changing need, or quality issues. The results of this discussion will be documented in a summary statement of activity.
- The new funding formula, described in the Technical Annex, will be used to provide a nationally consistent method of calculating allocations to schools based on the amount of learning delivered (the standard learner number or SLN), a national rate per SLN and a Provider Factor.
- The proposed formula uses the Index of Multiple Disadvantage (IMD) 2004 which measures disadvantage at ‘super output’ areas using learners’ postcodes, replacing the use of free school meals as a measure of disadvantage. The free school meals measure is based on the 11–16 cohort of the school and so does not reflect the 16–18 cohort. There is also no equivalent measure for other providers so in order to have a consistent approach we need to make use of the IMD.

**Question 17: Do you agree with the move away from allocating disadvantage funding based on free school meals?**

- Individual school success rates will be calculated at a learner aim level using the New Measures of Success formula in place of the standard national achievement rate of 87 per cent, which currently has to be used. These will inform the Provider Factor, which will mean schools with success rates higher than the national standard will receive more funding and those below less.
- The introduction of additional learning support as an element of the funding calculation for schools based on the GCSE points score of learners when they are recruited (see the Technical Annex) and the resulting impact on base rates. Removing the ALS element from mainstream school sixth form rates and allocating it separately will be a significant move towards a single system for all post-16 provision and support those schools that recruit learners with lower GCSE point scores. Based on claims from sixth form colleges, we currently estimate that 3 per cent of school sixth form funding would be re-classified as ALS.

**Question 18: Do you support the allocation of Additional Learning Support for school sixth forms to support those recruiting learners with lower prior achievement?**
Issues and risks

132 In introducing this model there are two main issues to be managed, the transitional effects on funding of introducing the new formula and, reconciliation for independent providers.

Transitional effects

133 The introduction of a new funding formula inevitably causes variations in the level of funding per learner for institutions. We will be carefully assessing the impact of any changes on schools, colleges and providers and as necessary putting in place transitional protection to ensure that the changes do not destabilise institutions. Any transitional arrangements would only impact on the funding per learner; where numbers fall through learner choice it is right that the funding will drop, as is already the case. An illustrative example of the transitional arrangements was included in the LSC’s funding consultation document in May 2006.

134 The schools consultation will also consider the future of the Minimum Funding Guarantee (MFG). Depending on the outcome of that consultation we will consider the impact on 16–19 funding rates in reflecting MFG increases.

Reconciliation for independent providers

135 It is a legal requirement that allocations are reconciled to actual delivery for independent providers who deliver 16–18 further education and training under contract. By necessity contracts must have an overall maximum value that cannot be exceeded. This means that under-utilised allocations will be recovered at the end of the year but the LSC will not be in a position to guarantee that all over delivery will be funded. Therefore, the idea of tolerances discussed in Option 2 above will not apply to independent providers working under contract. Additional funds would only be available where other independent providers under deliver. The LSC proposes to manage this through the creation of a limited response fund, dialogue during the year and reviewing the allocation at the mid-year review.

Foundation Learning Tier

136 We propose to make use of whichever 16–18 option is selected to fund 16–18 year olds undertaking Foundation Learning Tier provision. There are some questions set out in Section 4.2 regarding how this might be incorporated into the new funding formula.

Specialised Diplomas

137 The rollout of specialised Diplomas from September 2008 and delivery of the statutory entitlement to the 14 Diploma lines at three levels in each local area by 2013 depends critically on funding arrangements at area and school/provider level that facilitate collaboration, at Key Stage 4 and 16–18. We have already set out in the FE White Paper the key principles that should underpin changes to the funding system to support 14–19 reform.

138 The FE White Paper also established a 14–19 Technical Group made up of a broad range of stakeholders from the schools and learning and skills sectors to develop funding proposals. The group has considered how
funding mechanisms could support the delivery of specialised Diplomas at 14–16 and this will feed into a consultation on school funding in early 2007. FE colleges and training providers will have an important role to play in delivering specialised Diplomas in partnership with schools at Key Stage 4 and their views will be sought as part of the consultation on school funding.

139 The key issue on which your views are sought in this consultation is the method by which the costs of specialised Diploma provision delivered by colleges/providers should be calculated. The Technical Group is reviewing the use of the proposed 16–18 model to fund ‘partnership provision’ and its interaction with funding provided through the Dedicated Schools Grant at local authority/school level.

140 Using the 16–18 model has attractions in terms of providing a clear rationale for what different elements of specialised Diplomas cost as well as providing post-16 institutions with a funding stream that is consistent with the rest of their LSC-funded provision and covers their costs and overheads.

141 However, the basis of calculating costs under the model relates to the institutional costs of the post-16 setting: in terms of class size (significantly less than pre-16 class sizes particularly for practical subjects), the learner-profile underlying the institutional specific factors cost model (in terms of disadvantage) as well as other institutional specific factors within the provider factor (area cost and success factor).

142 Assessing costs according to national criteria, as implied by full adoption of the 16–18 model, limits the scope for local commissioning and brokering, whereas a more flexible mechanism to assess costs may provide local solutions that could result in better value for money. One possible way of balancing prescribed national rates with local flexibility while maintaining a clear indication of actual delivery cost, could be to:

- use the national funding rate and programme weighting using the new funding formula to establish a national ‘base rate’ for Diplomas delivered in partnership at Key Stage 4
- separately identify uplifts for area costs which would be the usual basis for local agreement but which could be moderated if necessary
- separately identify uplifts for disadvantage/deprivation that would be the basis for local discussion about the learners attending provision, which could be different to the level of deprivation at the institutions the learners are attending.

143 These elements would form the basis of discussion in the 14–19 partnership about the transfer of funding for specialised Diplomas between schools and partnership providers.

**Question 19:** What are your views on the proposal for funding specialised Diplomas delivered in partnership at Key Stage 4 outlined above? Are there alternative approaches you would recommend?
Section 3.2 Adult Learner-responsive Model/Learner Accounts

Introduction

144 This section describes how in practice the proposed new approach will operate in 2008/09 for funding adults aged 19 and over who as individuals choose to take part in further education. This includes the funding of Learner Accounts, which will be trialled from September 2007, the details of which are outlined below.

Scope of the model

145 This model covers mainstream provision in FE colleges and other providers that the LSC funds where individual learners choose to study. This includes provision such as Skills for Life, full Level 2 and full Level 3 qualifications, as well as many other types of courses that may be studied on full-time or part-time basis in the day or evening. It will also include Foundation Learning Tier provision for adults (details and questions are in Section 4.2).

146 The proposed method does not include:

- Personal, Community and Development Learning which will continue have separate funding arrangements
- employer-facing provision, which will be funded using the Employer-responsive model/Train to Gain outlined in Section 3.3
- offender learning provision, which has its own funding arrangements for the time being.

147 The model will need to be developed over time to encompass Learner Accounts, which are being trialled for Level 3 provision in 2007/08. To achieve the Leitch ambition that all adult vocational funding, except PCDL, is funded through Learner Account or Train to Gain by 2010, we would need to expand Learner Accounts.

Question 20: Do you agree with the scope as described above? If not, please explain what types of provision should be funded by this approach.

Characteristics of the Adult Learner-responsive/Learner Accounts Model

148 Colleges and providers will receive indicative allocations as an indication of the funds that the LSC will make available. However, this allocation is not a commitment or a guarantee as funding will be determined by learner choices and actual delivery.

149 With the exception of the Learner Account trials, initial allocations for this model will be based on ‘light touch’ strategic planning. This will be influenced in a similar way to the 16–18 allocation by:

- performance against Framework for Excellence
- performance in earlier years.

150 The initial allocation is calculated using the new funding formula (set out in the Technical Annex), which will provide resources to fund the agreed plan.
Allocations for additional learning support (ALS) will be based on a formula for lower costs and a range of categories for higher costs based on the profile of learners and provision rather than previous ALS claims.

151 The initial allocation together with the provider’s contribution to the local plan will be confirmed in the spring each year with knowledge of the current year’s recruitment. The provider will receive monthly profiled payments based on the initial allocation subject to reviews of performance.

152 Actual delivery, performance and responsiveness will be reviewed mid-year, informed by individual learner data using standard learner numbers. The provider will also be required to calculate the estimated outturn based on the activity that has occurred up to that point with robust forecasts for activity for the rest of the year. The provider will be required to justify and share with the LSC such details, particularly where recruitment patterns are different from earlier years.

153 The LSC will apply a mid-year adjustment to the initial allocation. This will be subject to a tolerance, so that small differences from the allocation do not affect the funding available. The adjustment can be upwards or downwards. Proposed ways of calculating the adjustment including proposals for possible tolerances are set out later in this section. Any adjustment will be made to subsequent monthly profiled payments.

154 A second outturn estimate will be made towards the end of the year in June or July. If this is significantly different to previous estimates, changes will be made to the following year’s allocations. This is similar to the late year return that colleges are currently asked to complete.

155 Actual delivery, performance and responsiveness will be reviewed again shortly after the end of the year, based on the individual learner data using the new funding formula.

156 The LSC will then provide extra funding or claw funding back. This could be subject to a tolerance so that changes are made only where there is a material difference between actual and planned delivery.

**Question 21:** Do you agree with this approach to mid-year and end-year reconciliation? If not please suggest alternatives

**Question 22:** Do you agree that there should be a second outturn estimate near the end of the year? If not please suggest alternatives.

**Transitional protection**

157 When implementing a new funding formula there is potential for significant changes in levels of funding per learner for some providers. We need to carefully assess the impact on providers to consider the need for transitional protection. We would not propose to protect institutions when there are changes to the volumes or mix of provision – where numbers fall, it is right that funding should reduce accordingly. An illustrative example of transitional protection was included in the LSC’s funding consultation document in May 2006.
Main changes from the current system

158 The new formula (see the Technical Annex) will be used to calculate funding for both the initial allocation and for the in-year and end-year reconciliation.

159 In the current approach, the funding rates include an element for the costs of initial advice and guidance, recruitment, and enrolment administration. This element is not specifically identified but is part of the activities that all providers are required to offer to their learners. The element is proportionately higher for short courses to reflect the higher costs incurred.

160 We need to consider if we need to include additional funding within the new funding formula to support shorter courses that could contribute to Government priorities. However, this needs to be balanced against the need to focus on larger courses that give adults the necessary employability skills.

**Question 23:** Should additional funding be made available for shorter courses?

161 There will be mid-year reconciliation that will make changes to the profiled payments for providers that are over or under target. There will also be end-year reconciliation that will affect later years’ indicative allocations. This is different from the current arrangements for most FE colleges where there is no reconciliation for the current year but over or under performance is taken into account in the next allocation.

Calculation of funding adjustments

162 The adjustments will involve either tolerance or reduced rates for the funding of this model, there would be one or the other but not both.

The tolerance

163 It is proposed that a tolerance would apply to the mid-year and end-year reconciliation.

164 For the mid-year reconciliation, it is recognised that for many colleges and other providers it is difficult to forecast accurately the end-year outturn of their adult learners. Many adults enrol throughout the year and the profile of the number of enrolments and volume of learning activity can vary from year to year. For this reason, the LSC is proposing there should be a tolerance. It is suggested that the mid-year tolerance is 5 per cent. Hence, outturn estimates within 5 per cent of the standard learner numbers in the initial allocation will not affect the initial allocation.

165 For the end-year reconciliation, the outturn is not an estimate. It is a measure of the learning activity that took place. Hence, there tolerance could be lower. It is expected that providers should aim to be close to their forecasted outturns that were made in mid-year. It is suggested that the end-year tolerance should be 3 per cent of the mid-year forecast. In effect, the mid-year forecast re-bases the provider’s allocation and the tolerance in the end-year reconciliation is calculated from this re-based position.
Funding increases or decreases

166 Where a provider’s mid-year estimate or end-year outturn is outside the tolerance, change in funding could be based on the whole variation from the allocation, or it could be just that above or below the tolerance.

167 For instance, if at mid-year a provider forecast an outturn of 92 per cent of the initial allocation and the tolerance is 5 per cent, should the reduction in funding be based on 8 per cent or 3 per cent?

168 Using the whole variation approach would mean that there is a ‘cliff edge’ where a minor variation in the forecasted outturn could have a large effect on funding. This is sometimes referred to as the ‘golden’ pound effect.

169 Using the alternative based on only the variation above or below the tolerance will have a much smaller effect. The LSC recommends this method.

170 Using tolerance could encourage some providers to aim to just reach the bottom end of the tolerance. For instance, if the tolerance is set at 3 per cent, some providers may set their sights on reaching only 97 per cent of their allocation and claim the full funding. This practice should be prevented by the LSC offering a proportionately lower allocation in a later year. The method is striving to seek a balance between reducing bureaucracy by avoiding small changes to funding against opportunities for providers to exploit the system.

Rate of funding increases or decreases

171 Paying or recovering funding at a reduced rate, say 50 per cent, would mean that providers who are significantly over or under target would have reduced effects of their outturn. It would offer more financial stability in the event of underperformance, while not fully funding significant over-performance.

172 Reduced rates reflect more realistically the actual variations in costs of additional or fewer learners – small increases or decreases in the sizes of groups have little effect on costs.

173 Given that the LSC has a fixed annual budget, increases in funding for one provider have to be counterbalanced by reductions elsewhere. Hence, if the overall increases in standard learner numbers are greater than the overall decreases, it may lead to the rates for increases above planned numbers being lower than for shortfalls.

**Question 24:** Would you prefer a funding adjustment to involve a tolerance or a reduced rate? If neither, give reasons.

Learner Accounts trials

174 The FE White Paper announced that we would trial in a small number of areas, a new type of Learner Account for adult learners from autumn 2007.

175 In the first year of the trials we will focus mainly on the learner experience by:
• offering a wider choice of providers offering full Level 3 learning leading to an increased number of individuals being qualified to Level 3

• supporting learners in making the right learning choices by better access to information, advice and guidance on learning, work and careers

• raising awareness among individuals of the support, costs and contribution that the state, employers and individuals are making through Learner Account statements.

176 Learner Accounts are designed to give learners ownership of their own learning and it is planned that the account will be in use longer than simply the term of the current learning programme to support and encourage progression to higher levels of learning. For individuals with Learner Accounts this means:

• access to high-quality, independent information, advice and guidance on career choices, courses at Level 3 and providers, including through a learndirect telephone service providing in depth personal support

• receipt of an information pack setting out contact details and options

• learners will be registered on a Learner Account through either the IAG service or, where a learner presents at a provider, by the provider. It will be important for those learners opening an account through a provider that the registration process adds value and is not seen as additional bureaucracy

• a range of providers to choose from

• once their choice has been made and enrolment has occurred through the provider’s usual processes, receiving a statement setting out details of provider, course, duration, total cost of tuition, state contribution, individual’s/employer’s contribution, learner support provided and sources of further information

• personalised support and advice, as learners move to completion of their course, to help them progress into work and further learning.

177 The aim is to make use of the formula set out in the Technical Annex and the arrangements outlined above for Learner Accounts. However, there will be some differences for providers in the trial areas. For providers of full Level 3 learning in the trial areas there will be opportunities to engage with Learner Accounts. For the trials:
• Funding will be set aside for full Level 3 delivery to be used for provision identified through competitive tender.

• The tender will be open to new providers. It will build on the Train to Gain process, but we recognise the need to learn the lessons and keep bureaucracy to a minimum.

• Successful providers will be allocated a number of Learner Accounts and a budget for these.

• Learners will contact providers either directly after contact with an IAG provider. For those going directly to the provider, it will be important to ensure they are also advised of the Learner Account package.

• As learners take up learning account opportunities, the providers will notify a third party organisation (to be appointed by the LSC), which will produce the account statements.

• As with Train to Gain and the arrangement outlined above, providers will not be guaranteed funding up to the limit of their notional account total if they do not in practice recruit a corresponding number of learners choosing to spend their account with that provider. Performance will be reviewed during the year as outlined above so that providers are only funded for the number of account holders they actually recruit.

178 The trials will vary to test accounts in a range of different settings and to reflect in this first year local and regional priorities. Although relatively small scale in 2007/08, around 2,000 full Level 3 learners, the proposed areas include rural areas, where existing choice may be restricted, and deprived inner city areas where there are difficulties in accessing learning and, relatively affluent areas with range of provision. The areas to take part will be based in two regions, the East Midlands and the South East. In the East Midlands, the LSC will initially be targeting Learner Accounts on hard-to-reach clients. In the South East, the LSC will look to supplement LSC funds with regional development agency (RDA) and European Social Fund (ESF) funds, to use Learner Accounts to target skills priorities and test linkages with Train to Gain brokers in supporting learner choice. Both sets of trials will look to build links with Jobcentre Plus for out-of-work learners.

179 The trials will be evaluated on an ongoing basis to inform plans for development of Learner Accounts. We will work with partners as we look, subject to spending review outcomes, to significantly expand the trials in 2008/09 in both scale and scope within the trial regions. This is to ensure testing of the mechanisms and processes that must be in place to operate Learner Accounts successfully, not only at Level 3 but also for other areas of learning. Subject to the outcome of the evaluation, we would then envisage moving quickly to apply the benefits of Learner Accounts across adult vocational learning.
A major constraint on the capacity of the FE system to move to widespread application of the approach for adult learners based on accounts is the lack of an IT-enabled Learner Accounts management system, utilising the Unique Learner Number, to register learners and produce account statements. The LSC will be exploring the linkages between developments on the Adult Learning Grant and Learner Accounts with the intention of having an IT-supported Learner Accounts management system to support an expansion of the trials.

As noted above, the Leitch Review of Skills has recommended that all publicly-funded adult vocational skills in England, apart from community learning and programmes for those with learning difficulties and/or disabilities, should go through demand-led routes by 2010. Learner Accounts are central to the Leitch vision for adult vocational learning. In order to help inform the development of Learner Accounts we need to ask the following questions:

**Question 25:** What contribution do you see Learner Accounts making to the development of a more demand-led system for adult learning?

**Question 26:** How can the Learner Accounts model best be made to work in the interests of learners?

**Question 27:** Are there any other sources of support/services that you think could be included in Learner Accounts?

**Question 28:** How can Learner Accounts best support the most vulnerable learners?
Section 3.3 Employer-responsive Model/Train to Gain

Introduction

182 This section describes how the new proposed approach to funding of employer-led provision will operate in practice, building on the success of Train to Gain. As the Leitch report has highlighted, the introduction of Train to Gain is a major step forward in the move towards a demand-led system, providing flexible training for employers. Another key feature of the model is that providers do not receive funding unless they attract learners, putting employers and learners in the driving seat, rather than trying to anticipate this demand.

Scope of the model

183 The Employer-responsive model will cover provision that is primarily focused on meeting the workforce development needs of employers. It will build on Train to Gain to encompass provision driven by employers and delivered mainly on employers’ premises, including that currently delivered by FE colleges.

184 As such it will cover employer-facing activity, including that provision contracted with large employers through the National Employer Service, in:

- Skills for Life
- Level 2 and Level 3 and above
- Adult Apprenticeships.

185 This represents a major expansion of Train to Gain, bringing together approximately £750 million of funding into a single funding block within which there is free movement of funds between different types of provider and provision.

186 The model could cover Apprenticeships for 16–19 year olds, so that all Apprenticeships for the 16–25 age group are funded under the same system. This would bring a further £600 million into the scope of the Employer-responsive model. The question of which model should cover 16-19 Apprenticeships is covered in section 3.1.

187 We will also need to consider other provision that is responsive to employer needs, such as provision delivered by Centres of Vocational Excellence (CoVEs) and National Skills Academies, recognising that some of this activity will be supporting the needs of younger learners, and some will be mainly college-based.

Question 29: Do you agree with the scope as described above?

Characteristics of the Employer-responsive Model

188 A demand-led skills service, which builds on Train to Gain, will embrace the key principles of contestability for provision, employer choice and demand-led funding.

189 The model will reflect the principle of employer demand and choice directly affecting the amount of funding earned by providers. It will have the following characteristics:
• The model will sit within a framework of ‘light touch’ planning of provision. Regional statements will identify the skills and sectoral priorities for a region. (see section 2.2)
• While aggregate employer demand is broadly predictable as a result of Sector Skills Agreements, it is proposed to use a similar approach to the existing Train to Gain model where 80 per cent of the overall fund is commissioned and 20 per cent is retained regionally, in a Regional Response Fund.
• Provision will be open to competition through planned expansion and tendering. Following the tendering exercise the LSC will agree with each successful provider its contribution to meeting employer needs.
• Approved providers will agree an ‘indicative’ maximum contract value with the LSC prior to the start of the year. However, it will be made clear that this is not a guarantee of funding – the provider’s actual budget will depend on employer demand and choice of the provision.
• Providers earn money based on actual delivery. Providers’ ‘earned’ value is compared to ‘indicative’ profile and maximum contract value twice a year.
• Each of the reviews will be based on the monthly data submitted by providers in accordance with the existing Apprenticeship provider process.

**Question 30: Do you agree that reviews should be undertaken twice a year, or more frequently to ensure budgets are revised more accurately – upward or downward - to reflect employer demand?**

• Providers experiencing more demand can request funds from the Regional Response Fund; providers with less demand will have their maximum contract value lowered, which will be added to the Regional Response Fund.
• We will consider adjustments at review points only if the provider is assessed to be more than 5 per cent above or below its contract. In these circumstances, a provider falling short of its target will have its contract reduced, and the funds released will be made available for those providers exceeding their contracts by more than 5 per cent. The amount of funding available for redistribution will depend on the amount recovered – it may be necessary to limit additional payments to those providers exceeding their contracts. Alternatively, the region could access additional funds from the Regional Response element to support strong performance.
• We will also consider redistribution of funds between regions.
• The second review will also provide a firm baseline for any tendering exercise the subsequent year. The annual review process leading to allocation representing maximum contract values will take account of employer and learner satisfaction, success rates, hard-to-reach penetration, employer and qualifications mix and balance.
Main changes from the current system

Funding formula

190 Elements of the new funding formula will be used to calculate funding for the initial maximum contract value and for in-year payments.

191 The concept of standard learner numbers and national funding rates (fully-funded and co-funded) will apply as in all the funding approaches, including the Employer-responsive model. SLNs will be agreed between the provider and the LSC, and funding rates will be set annually. However, as a result of payment reflecting money earned, some elements of the provider factor are no longer applicable.

192 In order to calculate a provider’s maximum contract value, an average of the programme weightings for all the learning aims planned will be used; payment will reflect the actual aims delivered.

193 Area costs will be based on the location of delivery, not locality of provider, as is the case in the other models. A historical average will be calculated for planning, and included in the provider factor.

**Question 31:** Do you agree with this proposal for applying the area costs uplift? If not, please outline your reasons and indicate alternatives.

194 A disadvantage uplift currently applies to Apprenticeships and college provision, but is not included in Train to Gain. It could be argued that the disadvantage uplift, where it has been applied, is no longer applicable in the Employer-responsive model, as all learners are employed. The funds currently used for disadvantage would be retained within the employer responsive budget.

**Question 32:** Should the Employer-responsive model include a disadvantage factor? If you think it should be applied, please state reasons why this is the case.

195 At the planning stage, a provider success factor will be calculated that includes retention and achievement, and can be influenced by previous performance and planned improvements.

196 Providers will be paid according to the number of learners retained in training each month. In effect, this will spread the payments across the learner programme, making monthly staged payments based on actuals, with an end achievement payment. At present 50 per cent of Train to Gain funding is paid on enrolment, and 50 per cent on successful achievement of the qualification. This 50 per cent combines payment for both numbers of learners retained and achievement. In work-based learning, retention is taken account of through the monthly payment process and achievement at the end of the programme. The financial effect of these approaches is directly comparable. As we intend to introduce monthly staged payments in the Employer-responsive model, we propose to have a common 25 per cent achievement element that would be applied to all provision funded through this model.
**Question 33:** Should payments be made monthly, or is quarterly sufficient?

**Question 34:** Should 25 per cent of funding be paid on achievement or an alternative proportion?

197 The maximum contract value will include an element of planned ALS; payments made to providers will reflect the actual ALS claimed.

**Payment system**

198 There has to be an appropriate payment system to support a responsive, demand-led skills service.

199 In assessing the best payment system there are a range of factors to consider, including the need to ensure that payments keep abreast of that earned by employer business; the need to keep the payment system simple so that providers focus on service delivery to employers; the need to minimise bureaucracy and additional costs, so that funds get spent on training rather than administration; and the need to adopt systems that will be fair but, at the same time, robust.

200 The Apprenticeship system is already familiar to the vast majority of providers and is a demand-led system in which payments are made on profile and reconciled monthly, reflecting funding earned by the provider. We have considered whether the existing Apprenticeship system could be adapted to make payments monthly in arrears, as proposed for the Employer-responsive model.

201 Having considered the practicalities of adapting the existing Apprenticeship system to meet the requirements of the Employer-responsive model, and having assessed its capability to delivering a wider offer and budget, it is proposed that a new system is developed.

202 We will evaluate the business processes, business requirements and system design needed to implement a common system to deliver the Employer-responsive model. We will assess the feasibility of a single system that will include Apprenticeships, Train to Gain and the National Employer Service.

**Issues and risks**

203 In introducing this model there are a number of key issues to be managed. These include impact on delivery of priorities; LSC budget management; audit requirements; impact on the financial position of providers; quality; administration costs; and systems implications. These are outlined below:

204 A system of in-year payments based on actual delivery could cause providers to focus mainly on achieving their learner number and cash targets, rather than on delivery of priorities. An indication of a possible shortfall in learner numbers at any of the review points may lead providers to seek additional learner numbers irrespective of the quality or relevance of provision. This will be mitigated through relationships with Local Partnership Teams, Skills Brokers and providers. Providers will have a clear direction on delivery of targets and understand that the LSC will manage the contract appropriately.
A stable, long-term relationship can only be maintained if delivery is of high quality and in line with priorities.

205 LSC budget management will be required to provide assurance that actual learner numbers (on which payment will be based) have been calculated correctly. New audit requirements must be risk-based to minimise burdens on providers, but there will be some additional requirements.

206 An expansion of Train to Gain to encompass all employer-facing provision will mean greater financial uncertainty for colleges and other providers, leading to the risk of financial instability. Financial uncertainty may also cause colleges and other providers to increase reliance on part-time staff and to be more cautious when making adult/employer-related capital investment decisions. This can be mitigated by colleges and providers becoming specialists in certain types of provision. If a provider can respond to demand in a sector area and maintain high-quality provision it is assumed that the LSC will continue a stable relationship and the provider can earn the projected contract value.

207 For providers currently delivering Apprenticeships, the new payment system will represent a change from one receiving payments based on profile and reconciled monthly, to one where payment is made in arrears. This could present some providers with cash flow problems, at least initially. We propose that a transition period should be introduced to mitigate the effects of changing the payment method.

**Question 35: Do you agree with the proposal to transitionally protect providers on the current payment system?**

208 Additional administrative costs have already been incurred by the LSC to manage the contract and payment of Train to Gain as currently designed, as the system is separate from those used elsewhere by colleges and work-based learning providers. By integrating Train to Gain with the work-based learning approach, we will minimise costs.
Section 4 Cross-cutting Issues

4.1 Provision for Special Educational Needs Learning Difficulties and Disabilities and Additional Learning Support needs

Introduction

209 In *Learning for Living and Work* the LSC’s strategy for improving education and training opportunities for people with learning difficulties and disabilities, the LSC commits to developing a fit-for-purpose funding system that is learner-focused, equitable across all strands of the FE system and provides an appropriate level of support for learning. The LSC proposes to do this by making allocations for lower level support costs, including those for learners with special educational needs and learning difficulties and/or disabilities, through the formula described in the Technical Annex. Higher-level costs would be dealt with by extending the 2007/08 funding mechanism used for specialist providers for learners with learning difficulties and/or disabilities. In this section we describe how the approach might work.

210 This section is designed to invite comment rather than provide a definitive intention. During the consultation period we are conducting further independent research and we intend to meet with all stakeholders to discuss these proposals. We also accept that these are longer-term proposals and not all the arrangements will be in place in 2008/09.

Scope

211 It is proposed that the system outlined below will apply to the whole FE sector for those aged 16–18 and those with special educational needs or learning difficulties and/or disabilities up to the academic year in which they reach age 25. As such it would apply to learners with special educational needs or learning difficulties and/or disabilities and those who require additional learning support (ALS):

- in maintained special school sixth forms
- in maintained school sixth forms
- in non-maintained schools where provision is secured through the local authority statementing process
- in specialist providers for learners with learning difficulties and/or disabilities
- in general colleges of FE and sixth form colleges
- in independent providers delivering FE
- in all Apprenticeship provision
- receiving learning at home.

212 The model represents a significant simplification of the current range of systems and will be consistent across the range of delivery organisations. We propose three distinct elements to the approach.
Costs of learning provision – these costs would be met by applying the 16–18 and Adult Learner-responsive models and new funding formula described in this document. As indicated in the Technical Annex, we will investigate the feasibility of assigning specific rates for independent living skills provision.

Lower-level support needs – learner needs requiring lower cost support (up to around £5,500) would be calculated using the formulae described in the Technical Annex for young people and adults.

This method is readily applied to the whole range of organisations listed above. For example applying this correlation to data from sixth form colleges implies that around 3 per cent of current sixth form funding is spent on ALS and therefore we are considering transferring approximately 3 per cent of the school sixth form budget to ALS and allocate it back to school sixth forms using the formula. Also the first £5,500 of all claims concerning learners with learning difficulties and/or disabilities and special educational needs will be included in the budget and allocated back using the formula.

This change is unlikely to significantly alter the funding allocated for special schools or specialist providers for learners with learning difficulties and/or disabilities but would re-distribute ALS funding for other FE providers and school sixth forms to ensure it follows the need.

Higher-level support needs – learner needs requiring higher cost support (over about £5,500) would form part of a larger regional budget, including funding for special schools and specialist providers. The majority of this fund would be allocated to providers and institutions calculated using an extension of the funding methodology being used for specialist providers for learners with learning difficulties and/or disabilities from 2007/08. The remainder would be held in a regional responsiveness budget so that the LSC can respond to unplanned needs in line with our duty to meet the needs of those with special educational needs and learning difficulties and/or disabilities.

The 2007/08 funding methodology for higher-level claims defines the funding rate, for each learner within a specialist provider for learners with learning difficulties and/or disabilities, based on a quantification of hours of support they receive. The support is grouped into a range of hours, and then funded at a set national rate. It is intended that this will be extended to cover all but a small proportion of very high-level claims that would be funded by application to the LSC.

This change would not in itself significantly alter the funding allocated to special schools or specialist providers but it would introduce a consistency to funding that would clarify what the LSC is funding across the FE system.

Issues for consultation

The three most significant issues with introducing this system are its application to a wide range of organisations, variations in allocations and the transition arrangements.
• There is currently a wide range of planning, funding and delivery arrangements across many different organisations delivering provision for learners with special educational needs or learning difficulties and/or disabilities. The LSC is committed to bringing these together under the funding arrangements proposed in this document. This will not only simplify systems but also allow cost comparisons that will deliver better value for money.

**Question 36: Do you agree that the system as described above will achieve simplification and facilitate better value for money?**

• It is not intended that the system above will in itself change allocations significantly and where it does these will be done over time and by negotiation. However to ensure changes are planned and organisations have time to adjust to changed allocations we will consider transitional arrangements as described in Sections 3.1 and 3.2.

• The new funding systems across the sector are being introduced in 2008/09. However, we recognise that the reforms for this provision will take time to implement. Therefore we are proposing the following timetable and milestones:

<table>
<thead>
<tr>
<th>Timescale</th>
<th>Milestone</th>
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<tbody>
<tr>
<td>Autumn 2006</td>
<td>Detailed research on costs and existing practice by Learning and Skills Network (LSN)</td>
</tr>
<tr>
<td>Spring 2007</td>
<td>Consultation and detailed development</td>
</tr>
<tr>
<td>Academic Year 2007/08</td>
<td>Dry running of systems, including new arrangements for lower-level ALS in schools, Apprenticeships and colleges. Detailed consultation on higher-level costs and finalise the extended approach</td>
</tr>
<tr>
<td>Academic Year 2008/09</td>
<td>Implementation of funding formulae including new arrangements for higher and lower-level ALS in schools, Apprenticeships and colleges. Dry running of systems for special schools and specialist colleges and providers.</td>
</tr>
<tr>
<td>Academic year 2009/10</td>
<td>Implementation of funding formulae including new arrangements for higher- and lower-level ALS in all provision</td>
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</table>

**Question 37: Do you consider this timetable realistic?**

*If not why not and what would you change?*
4.2 Funding the Foundation Learning Tier

Introduction

221 The LSC and the Qualification and Curriculum Authority (QCA) have a ministerial remit to develop a coherent framework of provision below Level 2 for learners from aged 14 upwards. This framework is currently referred to as the Foundation Learning Tier (FLT).

222 As part of the remit for developing the FLT, the LSC has been asked to address the following specific issues:

- to consider the timescales and mechanisms for assimilation of existing programmes at entry and Level 1, particularly Entry to Employment (E2E)
- to consider how Learning Agreement Pilots can be brought into the FLT work
- to ensure that the FLT supports learning programmes which are fit to support learners who are unlikely to progress to Level 2
- to work with QCA to ensure proper validated Progression Pathways are offered and to consider how funding and performance management systems might be used as part of this. In particular, to take the work forward on the entitlement for adult learners aged 19–25 to a validated Progression Pathway to a full Level 2
- the development of a coherent funding system.

223 The LSC has confirmed a series of trial sites for the FLT, drawn from existing provision. Working closely with QCA, and within a development and support programme co-ordinated by the QIA, the trial sites will be used to focus on key aspects of the FLT, including Progression Pathways, using units and qualifications from the QCF, initial assessment and ongoing review, collaborative provision, integrated curriculum delivery and personalised learning. Alongside the trial sites, the LSC is now commencing detailed design work on funding and systems. Implementation is planned to take place in 2008/09.

Scope

224 Provision covered by the FLT will be planned, allocated and calculated using the new funding methodology described in the Technical Annex. It is proposed that there are two complementary operating models – the 16–18 model and the Adult Learner-responsive model. Providers would be calling on two separate budgets for 16–18s and adults; there will not be a separate FLT budget or funding stream. This has the benefit of ensuring that providers target the client group for whom the money has been allocated.

Issues for consultation

225 The key issue for consultation is how to calculate the standard learner numbers (SLN) value for FLT provision. The FLT will cover a broad range of provision below Level 2 and the funding mechanism must allow for this. In the LSC’s funding consultation in May 2006 we asked for comments on three possible methods for calculating SLNs for E2E. Responses were not conclusive and the FLT will be much broader than just E2E. We have therefore re-thought how an SLN will be constructed. At this stage we
would welcome views on the principles that should underpin this calculation.

- There are three approaches we could take to funding the FLT and therefore calculating SLNs. One of these methods, funding on costs, similar to ESF principles, has been rejected as it is potentially bureaucratic and would be a departure from all other LSC funding streams, so is not considered further here.

226 The remaining two are described below:

- Funding by unit of learning/qualification – this is how the LSC funds a majority of other provision, and it would be relatively simple to allocate an SLN value using the QCA recommended GLH in the same way we will with other qualifications (taking into account the implications in terms of credit values as the QCF develops (See section 2.8). This principle could easily be applied to units and qualifications. Alternatively it could be applied to whole Progression Pathways. While not all FLT provision will necessarily be linked to a qualification especially in the early diagnostic stages of a programme, it will fit into a programme leading to a qualification.

- Funding by time – this is how we currently fund E2E, the unit of time could be weekly or monthly and be the same regardless of the provision being delivered or weighted to give differential costs, and be based on planned length of stay, actual length of stay or a nationally set length of stay. This could be simpler than other options but is not linked to qualifications and could not be used to fund the 19–25 entitlement that will be linked to Progression Pathways.

**Question 38: Do you have a preference for either of the two principles outlined above?**

227 Initial discussions have led us to consider three distinct aspects of FLT provision that could affect the method of funding These are described below:

- an initial period of diagnostic work, planning and induction
- learning linked to qualifications, whether in whole or part qualifications or in whole Progression Pathways these can be converted to SLN values which could in time be based on credit values
- other learning not linked to qualifications. This could be funded through a standard entitlement attached to the Progression Pathway the learner is following or through an ALS system and include elements of personal and social development and other aspects of the Progression Pathway.

**Question 39: Do you have any views on how these three aspects of the FLT should be funded?**
Section 5 Next Steps

Equality and Diversity

228 We are committed to ensuring that our duties toward equality and diversity are not compromised as a result of the proposals set out in this consultation. We will therefore carry out an assessment of the impact of these changes before they are implemented. However, we are also seeking views from respondents about whether any of the proposals will have an impact on equality and diversity and, if so, which groups of people will be affected.

*Question 40: Do you think that any of the proposals set out in this document will have an impact on equality and diversity, whether positive or negative? Please also identify which groups of people you think may be affected.*

Responding to the consultation

229 Responses to this consultation must be received by Friday 30 March 2007. There are two different ways to respond:

- Online at: [www.dfes.uk/consultation](http://www.dfes.uk/consultation)
- Or using the feedback form which is available from the website above and the LSC’s website. Responses should be sent to the following address or email:

  Consultation Unit
  Department for Education and Skills
  Area 1A
  Castle View House
  East Lane Runcorn
  Cheshire
  WA7 2GJ
  Email: FEsystem&funding.consultation@dfes.gsi.gov.uk
Technical Annex

The New Funding Formula

Introduction

230 A formula has been developed over the past two years with the support of an external advisory group composed of representatives of providers from all sections of post-16 learning. It has been the subject of two technical consultation documents, published in August 2005 and May 2006. The approach has been generally welcomed. There are several areas in which further advice is sought in this consultation.

231 The same funding formula will be used separately for the 16–18 and adult learner responsive approaches. It will use different values for some elements of the formula, such as national funding rates and the provider factor.

232 The Employer-responsive model will include some, but not all, of the elements of the formula.

The formula

Funding = standard learner numbers x national funding rate x provider factor + additional learning support

Where

- funding is the provider’s funding allocation or funding outturn
- standard learner numbers are a measure of the volume of learning activity planned or being delivered
- national funding rate is the level of funding for each standard learner number. It will differ for 16–18 and adult learners to reflect the levels of funding made available
- provider factor is calculated individually for each school, college and provider. It reflects both the relative costs of delivery and quality as measured by the provider’s overall success rate
- additional learning support is the funding provided to support learning for those learners with additional needs.

233 Of the above, standard learner numbers are agreed each year while planning provision, and are used to monitor actual delivery. National funding rates and provider factors are determined annually before the planning takes place and are fixed for the funding year in which the delivery occurs.

Standard learner numbers

234 Standard learner numbers are based on learner enrolments and are not affected by withdrawals (which are taken into account in the calculation of the provider factor). They are calculated separately for each year of study on each learner’s programme. Hence a learner on a two-year programme will have SLNs calculated for each year.
Definition of a start for funding purposes

235 This was considered in the second technical consultation in May 2006 and respondents agreed to the following definition:

- For programmes of 24 weeks or more in an academic year, learners must remain on programme for at least six weeks from the date of their first attendance.
- For programmes of at least two weeks and up to 24 weeks, learners must remain on the programme for at least two weeks.
- For programmes of less than two weeks, learners must take part in at least one learning engagement.
- For learning aims that span more than one academic year, starts are determined separately for each year.

236 In practice, many learners in schools and colleges start in September on whole-year programme. The first definition means that these learners typically return after an October half-term before they are counted for funding or statistical purposes.

Guided learning hours

237 The size of learners’ programmes will be determined by guided learning hours (glh). For the majority of provision there will be ‘nominal’ glh for each learning aim being studied, which is similar to the ‘listed’ rates currently used in the funding systems for colleges and school sixth forms. The nominal glh values will be determined by the LSC based on evidence from data after receiving advice from an external advisory group.

238 For some qualifications, such as NVQs or evening GCSEs, more than one nominal glh value may be used according to the mode of delivery.

239 For other learning aims, such as Skills for Life, using nominal glh may not be appropriate. For these aims, planned glh will be used.

240 There will continue to be an entitlement for full-time 16–18 year old learners on programmes of at least 450 guided learning hours. The nominal guided learning hours for the 16–18 entitlement is likely to be set at 114 glh, with key skills being counted separately. (This is different from the current arrangement in which key skills is included within the entitlement funding).

Conversion of guided learning hours into standard learner numbers

241 The guided learning hours for learning aims that span academic years will be converted into annual values using start and planned end date by calculating the amount time spent in each year (using the number of days in each year).

242 Annual guided learning hours will be converted into standard learner numbers using a divisor of 450 glh.

Hence, \[ \text{SLN} = \frac{\text{annual guided learning hours}}{450} \]
243 However, the maximum size of any learner’s programme that is funded will be limited to no more than 1.75 SLNs in any year. This is equivalent to 4.25 AS/A2 qualifications plus the 16–18 entitlement. The maximum size may be reviewed from time to time as curriculum changes occur.

244 For small programmes, a modifier will apply to recognise the proportionately higher costs of recruitment and administration for these courses. The modifier will be stored in the provider factor and does not affect the calculation of SLNs. We will consider whether this modifier should apply to 16–18 provision or just adult learning.

245 The conversion of annual guided learning hours into standard learner numbers using the cap method is illustrated in the graph below.

![Glh to SLN conversion graph](image)

**Question 41: Do you agree that maximum size of programme that will be funded per learner per year should be 1.75 SLNs, which is the equivalent of 4.25 AS/A2 subjects plus the 16–18 entitlement studied?**

### National funded rate

246 The LSC will fund provision using national funding rates. There will be different funding rates for youth and adult provision to recognise the difference that was first set out in *Priorities for Success*, published in 2005. Hence there will be two national funding rates, one for youth and the other for adults. These will be announced each year and will depend on priorities and affordability.

247 In addition, for adult learners, there will be a fully funded rate and a co-funded rate. The fully funded rate will apply to provision that attracts fee remission such as for learners on means tested benefits or these on first full Level 2 courses.

248 The co-funded rate will be lower than the fully funded rate to account for learners who are expect to pay tuition fees. It will apply only to adults. The rate will not be the same for every provider as the LSC’s policy is to have
the same fee element for courses of the same size irrespective of other factors such as area costs or programme weighting.

249 The co-funded rate is calculated using the following method.

\[
\text{Fee element} = \frac{(\text{fully funded rate} \times \text{fee percentage})}{\text{provider factor}}
\]

\[\text{Co-funded rate} = \text{fully funded rate} - \text{fee element}\]

**Provider factor**

250 A factor will be calculated annually in advance for each provider that reflects the relative funding levels that each provider will receive. It is largely based on historical data and will simplify the calculation of each provider's funding allocation.

251 Occasionally a school or provider may plan to deliver a curriculum that is significantly different from previous years. In such cases, the LSC may agree to a provider factor that is calculated from the planned rather than the historical mix of provision. This process will only be agreed exceptionally.

252 The provider factor will include the following elements, which are multiplied together to give the factor:

- average programme weighting
- disadvantage
- area costs
- short programme modifier
- success factor.

**Average programme weighting**

253 An average will be found of the programme weightings for all the learning aims that the provider has delivered. The average will be calculated by weighting the aims according to their size, measured in annual guided learning hours, as used in the calculation of SLNs.

**Disadvantage**

254 An average will be calculated of the disadvantage factors for all the learners in each provider.

255 For 2008/09, it is proposed to change the basis upon which disadvantage factors are calculated. We propose to use the Index of Multiple Deprivation 2004 (or later versions as they become available). This would apply to learners of all ages.

**Area costs**

256 Area cost uplifts (ACU) reflect the higher costs of delivering provision in different parts of the country, particularly in London and the South-East.

257 Area costs were last subject to external review by the LSC in 2002. The LSC carried out an internal review in autumn 2005, including a focus group meeting with providers and a meeting with some London colleges. The LSC concluded that it would make no changes at that time.
258 The LSC has considered area costs and recommended that area costs uplifts should be based on either:

- maintaining the same ACU as currently operated by the LSC. This index was developed by external consultations in 2002 and has been used by the LSC for all its funding streams since 2003 and is generally accepted by most providers
- adopting the ODPM index. This is the Government index that is used to make local variations to funding for various public sector activities, including education for learners aged under 16, the police and fire service. It was most recently revised in December 2005.

259 Tables showing the effects of both methods for area costs uplifts are shown in Appendix 1.

**The LSC is recommending that no change is made to the index that is currently operated.**

### Short programme modifier

260 There is evidence to show that there are proportionately higher costs to recruit learners onto short programmes. The method of converting annual guided learning hours into standard learner numbers was set out in paragraph 242 and shown in the graph in paragraph 245. This made the SLNs directly proportional to the glh and did not allow for any additional costs. We have already posed the question if any additional costs should be included to account for the higher costs of shorter courses and we are currently considering the need for additional funding of shorter programmes.

261 The short course modifier is particularly intended to not disadvantage funding for adult learners. However, some 16–18 year old learners also study short programmes. We will consider further whether the modifier should apply to 16–18 provision.

**Question 42: Should the short course modifier apply to learners of all ages, or to adults aged over 19 only?**

### Success factor

262 The funding consultation supported using success rates in the funding calculation. Success includes retention and achievement, which will no longer be separately used for funding purposes. An average success rate will be found for each provider based on data published within New Measures of Success. A weighted average will be calculated that takes into account the size of programmes that have been studied.

263 The success factor is then the mid-point between the success rate and 100 per cent. This is found from the formula

\[
\text{Success factor} = \text{success rate} + \frac{100\% - \text{success rate}}{2}
\]
Example calculation

264 A worked example of the calculation of the provider factor is shown in Appendix 3.

Specialist college factor

265 There is no specialist college factor in the proposed approach. The LSC is working with this group of colleges to resolve how the extra costs they incur should be funded.

Additional learning support

266 The second technical discussion document considered using a formula for part of the additional learning support (ALS) element of funding. The following is proposed, which is based on two methods dependent on whether the funding claim is above or below a threshold. This is expected to be similar to the current threshold of £5,500 that is up-rated for inflation.

<table>
<thead>
<tr>
<th>Level of ALS claim</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower-level claim, up to threshold</td>
<td>Partly based on a formula and partly based on discussion with LSC</td>
</tr>
<tr>
<td>Higher-level claim, above threshold</td>
<td>Partly based on a defined categories approach, similar to the current method in LLDD providers and partly based on discussion with the LSC</td>
</tr>
</tbody>
</table>

Lower-level claims

267 For the lower-level claims, the LSC proposes the following method is used. There is a different method for young learners and adults.

Young people aged 16–19

268 For young learners aged 16–19, prior qualifications will be used in determining allocations and claims for additional learner support. Comprehensive data is now available for all learners that were in England at age 16 that covers some 97 per cent of all the 16–19 learners. This has been successfully matched with college Individualised Learner Record (ILR) data and school census data. For instance, in FE it is found that learners with no or poor GCSE results claim proportionally more ALS, as shown in the graph below.
The LSC has shown that a formula can be found that fits the data points as shown in the graph above. The graph shows there is high correlation between the formula and the data points. Details of the formula are shown in the Appendix 2.

It is proposed this formula will be used for that part of the lower-level ALS allocation that broadly relates to literacy and numeracy support. The remaining part of ALS allocations that cover learner disabilities will continue to be based on dialogue between the provider and the LSC.

**Adults aged 19 and over**

For adults aged 19 and over, prior qualifications data is not systematically available. Instead the LSC proposes that ALS allocations and claims are based on the level of the programme being studied. In FE, it is found that learners on lower-level courses claim proportionally more ALS, as shown in the graph on page 58.
Independent living learners and additional learning support

272 More ALS is claimed for independent living learners to meet their learning needs. Our advisory group has suggested that this could be partly funded by increasing the programme weighting for independent living learning aims as a means of removing the small class element of ALS claims for this group of learners. The effect would be to shift some funding for ALS into programme funding. The LSC is investigating the feasibility of this approach.

Higher-level additional learning support claims

273 The procedure for dealing with these claims is covered separately in Section 3.4.

Modelling

274 Subsequent to the second technical consultation document the LSC has carried out further modelling work using 2005/06 further education ILR data. The results are set out in Appendix 2.
### Appendix 1
**LSC current and ODPM area cost tables**

<table>
<thead>
<tr>
<th>Area cost uplift area</th>
<th>LSC area cost uplift</th>
<th><strong>ODPM adjusted for affordability</strong></th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Inner London</td>
<td>20%</td>
<td>25.21%</td>
<td>5.21%</td>
</tr>
<tr>
<td>West Outer London</td>
<td>12%</td>
<td>13.03%</td>
<td>1.03%</td>
</tr>
<tr>
<td>Berkshire non-fringe</td>
<td>12%</td>
<td>11.27%</td>
<td>-0.73%</td>
</tr>
<tr>
<td>Berkshire, Surrey and West Sussex fringe</td>
<td>12%</td>
<td>11.21%</td>
<td>-0.79%</td>
</tr>
<tr>
<td>* Rest Outer London</td>
<td>12%</td>
<td>6.46%</td>
<td>-5.54%</td>
</tr>
<tr>
<td>Hertfordshire and Buckinghamshire fringe</td>
<td>10%</td>
<td>8.06%</td>
<td>-1.94%</td>
</tr>
<tr>
<td>Buckinghamshire non-fringe</td>
<td>7%</td>
<td>6.75%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>Oxfordshire</td>
<td>7%</td>
<td>5.10%</td>
<td>-1.90%</td>
</tr>
<tr>
<td>Kent and Essex fringe</td>
<td>6%</td>
<td>6.14%</td>
<td>0.14%</td>
</tr>
<tr>
<td>Bedfordshire and Hertfordshire non-fringe</td>
<td>3%</td>
<td>3.18%</td>
<td>0.18%</td>
</tr>
<tr>
<td>Hampshire and Isle of Wight</td>
<td>2%</td>
<td>2.09%</td>
<td>0.09%</td>
</tr>
<tr>
<td>West Sussex non-fringe</td>
<td>1%</td>
<td>0%</td>
<td>-1.00%</td>
</tr>
<tr>
<td>Cambridgeshire</td>
<td>0%</td>
<td>2.53%</td>
<td>2.53%</td>
</tr>
<tr>
<td>Avon</td>
<td>0%</td>
<td>1.60%</td>
<td>1.60%</td>
</tr>
<tr>
<td>Wiltshire and Swindon</td>
<td>0%</td>
<td>0.25%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Rest of England</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

* The LSC classes the London boroughs of Newham and Haringey as Inner London whereas ODPM classes them as Rest Outer London. This means that both boroughs have a variance of -11.16 per cent and -8.76 per cent when adjusted for affordability.
** The standard ODPM index has been reduced by 2.4 per cent to ensure overall cost neutrality with the existing area cost budget.
Appendix 2
Results of the modelling work

These results are all based on 2005/06 FE data using ILR files F04.

Effects of the modelling for each type of FE provider for programme funding (excluding additional learning support)

The results for each of the broad types of FE provider are shown in the table below. They are based on applying the proposed new funding formula to existing data. The overall effect is cost-neutral.

<table>
<thead>
<tr>
<th>Year and type</th>
<th>16-18</th>
<th>19+ (Learner)</th>
<th>19+ (Employer)</th>
<th>All Ages Total</th>
<th>Total after safety net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former external institutions</td>
<td>5.1%</td>
<td>-10.5%</td>
<td>-2.1%</td>
<td>-9.1%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>General FE and Tertiary Colleges</td>
<td>0.5%</td>
<td>-1.2%</td>
<td>3.3%</td>
<td>0.0%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Sixth Form Colleges</td>
<td>2.6%</td>
<td>2.2%</td>
<td>9.1%</td>
<td>2.7%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Specialist Colleges **</td>
<td>-8.6%</td>
<td>-10.8%</td>
<td>-13.1%</td>
<td>-9.4%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Specialist Designated institutions</td>
<td>-11.1%</td>
<td>-4.2%</td>
<td>-6.4%</td>
<td>-4.3%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Other providers of FE</td>
<td>-2.7%</td>
<td>-5.7%</td>
<td>-5.7%</td>
<td>-4.0%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>All providers of FE</td>
<td>0.7%</td>
<td>-2.4%</td>
<td>2.7%</td>
<td>-0.3%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

** The figures for specialist colleges include the removal of the 10% specialist college factor

Source ILR data 2005/06, using acheivements from 2004/05
In A4C formula, cap is 1.75 SLN, with a short course modifier of 30% and 225 guided learning hours

The results show that there is a shift of funding of £18 million from adult learners to young people. This arises from the higher success rates for young people compared with the adults in the learner responsive model.

Overall, the general FE and tertiary college sector will have little change to its funding, although there will be variations between providers.

Sixth form colleges gain by 2.7 per cent, although the increases in the first year may be reduced to accommodate transitional arrangements.

The specialist colleges are shown to have a reduction of nearly 10 per cent, which is largely as a result of the removal the 10 per cent specialist college factor. The LSC is meeting representatives of these colleges to discuss how such additional funding should be distributed in future.

The effect is particularly significant for providers that largely deliver to adult learners. This is mainly due to the success rates in this sector.
Effects on individual providers

Results for some types of individual colleges and providers are summarised in the graphs below. Modelling the effects on school sixth forms will be undertaken when data from PLAMS are available. The change in funding between the current approach and the new formula are based on ILR F04 for 2005/06. They also give an indication where transitional protection could apply, based on the illustrative model in the May 2006 funding consultation document.
For 16–18 year old learners in general FE and sixth form colleges more than 40 per cent of them are inside the safety net of 2.5 per cent.

The changes in funding for 16–18 year old learners in specialist colleges are larger than other sectors. This is due to the removal of the 10 per cent specialist college uplift, which will be replaced by an alternative mechanism for recognising necessary additional costs associated with this type of provider. This new mechanism is being developed.

For adults in the learner responsive model the variations are significant, particularly for former external institutions.

The funding formula for additional learning support

In Section 3 we referred to a funding formula for young people aged 16–18 that linked additional learning support to prior qualifications.

Using 2005/06 ILR data (F04) for further education it can be shown that the relationship is

\[ y = 0.8647 \times e^{-0.4052x} \]

where \( y \) is the additional learning support per guided learning hour and \( x \) is the number of GCSE A* equivalents.

The GCSE A* equivalents are found learners GCSE achievements, using QCA’s points system where grade A* is 56 points, grade A is 52 points, grade B is 46 points, to grade G being 16 points.
The degree of fit of the formula to the graph is measured by the $R^2$ value, which is 0.9899. A perfect fit would have an $R^2$ value of 1.0. Hence, the $R^2$ measure shows that there is very good agreement between the data points and the formula.

The graph is shown again below.
Appendix 3

Example of the provider factor calculation

<table>
<thead>
<tr>
<th>Learner</th>
<th>Size of programme (glh)</th>
<th>Programme weight</th>
<th>Disadvantage</th>
<th>Short programme modifier</th>
<th>Area cost</th>
<th>Success rate**</th>
<th>Success factor</th>
<th>Provider factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>200</td>
<td>1.3</td>
<td>1.040</td>
<td>1.033</td>
<td>1.03</td>
<td>74%</td>
<td>0.87</td>
<td>1.030</td>
</tr>
<tr>
<td>B</td>
<td>500</td>
<td>1.0</td>
<td>1.025</td>
<td>1.000</td>
<td>1.03</td>
<td>74%</td>
<td>0.87</td>
<td>1.030</td>
</tr>
<tr>
<td></td>
<td>Weighted averages</td>
<td>1.086</td>
<td>1.029</td>
<td>1.010</td>
<td>1.03</td>
<td></td>
<td>0.87</td>
<td>1.011</td>
</tr>
</tbody>
</table>

Notes
This example is based on a provider with two learners, studying programmes of 200 glh and 500 glh
Programme weights are LSC's standard values and depend on the subject being studied
Disadvantage normally depends on the learner's home address, using an index based on IMD 2004
Short programme modifier applies to programmes of less than 225 guided learning hours. For learner A it is calculated using the formula, short course modifier = (1 + (0.3 x (225 - 200)/225))
Area cost is determined by the location of the provider, using the index published by the LSC
Success rates are published by the LSC annually and are an average for the provider
Success factor is the mid-point between the success rate and 100 per cent.
The weighted averages for programme weight, disadvantage and short programme modifier are weighted by the guided learning hours each learner studies.
For instance for programme weight, the weighted average = (200 x 1.3 + 500 x 1.0) / (200 + 500)

Provider factor = programme weight x disadvantage x short programme modifier x success factor using the provider's average values.