GUIDANCE NOTE NUMBER 1: December 2009

FUNDING ALLOCATIONS FOR THE 2010/11 ACADEMIC YEAR

Introduction

1. This Guidance Note provides information on the Skills Funding Agency’s funding allocations processes for the 2010/11 academic year. This will inform discussions between colleges and training organisations and shadow Skills Funding Agency account management teams which will take place over the coming weeks and months.

2. For the benefit of transparency and consistency, this note encompasses all main programmes - Apprenticeships, Train to Gain, Adult Learner Responsive provision and programmes for the unemployed. Some of the contents will not be directly relevant to some organisations, but the Skills Funding Agency will, in general, aim to conduct a single dialogue with colleges and training organisations covering all programmes.

3. Work is continuing to develop the further detail underpinning these processes, and more guidance will be available in due course.

Strategic Planning Context

4. *Skills for Growth: the national skills strategy* underlines the vital importance of skills to economic recovery. The *Skills Investment Strategy 2010-11* takes forward key elements of *Skills for Growth*, as well as confirming an on-going commitment to the ambitions set out in the *Leitch Review of Skills (2006)*, and the intention that provision should be driven by demand from employers and learners. The Skills Funding Agency’s planning assumptions for 2010/11 outlined in this guidance note reflect an expectation of continued progress towards the Public Service Agreement targets for adult skills as well as a strong emphasis on Apprenticeships and technician skills. They also show the continued emphasis on skills and training being delivered in the workplace.

5. *Skills for Growth*, and *Partnerships for Growth: a national framework for regional and local economic development*, confirm that Regional Development Agencies (RDAs), working in partnership with regional local authority leader boards and others including the Skills Funding Agency, Jobcentre Plus, Sector Skills Councils, business representatives, colleges, training organisations and
higher education, will be responsible for producing regional strategies for skills. This means that skills strategies will be embedded within the single integrated strategies, ensuring skills are core to wider economic development.

6. The skills strategies will:
   
a. articulate employer demand and set out specific skills investment priorities for the region

b. support the delivery of national priorities for skills, which take account of the advice of UKCES and other partners

c. have a 20 year time horizon, updated every 5 to 6 years in line with wider regional strategies

d. take account of skills priorities identified on the basis of industrial sectors (including Sector Skills Councils) where these are relevant to the region

e. articulate all skills needs in the region including pre-19 and higher education

f. inform regional priority statements, produced by RDAs every 3 years and refreshed annually. These will constitute a core element of the Ministerial annual Skills Investment Strategy against which the Skills Funding Agency will fund colleges and learning providers to ensure an appropriate supply of skills to meet the national, sectoral, regional and sub regional priorities. The Government will review and sign off these strategies, ensuring consistency with national investment priorities.

7. The Skills Funding Agency's Delivery Plan, agreed with BIS, will set out how it will fund colleges and providers to deliver the priorities in the Skills Investment Strategy.

8. Recognising that 2010/11 is a transitional year, because the single integrated regional strategies will not be in place till later in the year, RDAs are looking now, with partners, at the current priorities for 2010/11. This work will take account of the UK Employment and Skills Commission's analysis due in January and of the views of Sector Skills Councils relevant to the regions, as well as the views of other partners, including the Further Education sector. It will be important that colleges and training organisations take account of these priorities in deciding what programmes to offer in 2010/11. These priority
statements will be developed in partnership and signed off with BIS during the early part of 2010.

9. To help the Further Education sector play its role, AoC and LSIS are undertaking some work, looking at practice in London and the North West, to review how colleges and training organisations can work collaboratively with regional and sub regional partners, to articulate demand and demonstrate how they are responding to demand. AoC and LSIS will be consulting the sector on the review's findings in early 2010.

10. *Skills for Growth* also announced the intention to pilot a Joint Investment Scheme with the Sector Skills Councils in areas key to economic recovery with a cash match from employers. We will take forward decisions on the operation of these pilots as part of finalising the overall allocation of the Train to Gain programme for 2010/11.

### Planning and Funding Assumptions for the 2010/11 Academic Year

11. In the *Skills Investment Strategy 2010-11*, Lord Mandelson set the challenge to this sector: ‘In light of the inevitable constraints on the public finances over the coming years, skills policy must focus resources even more closely on skills that underwrite our economic growth and support high value-added employment.’ He went on to describe the shift once again of resources into Apprenticeships and Train to Gain whilst re-stating the commitment to prioritise provision which helps people to get into and to stay in work. This sets the backdrop to the planning and funding assumptions.

12. In the 2010-11 financial year, the resources available to the Skills Funding Agency for adult skills increase by 3% to £3.5bn. Within that figure, there is a further shift of funds into Apprenticeships, Train to Gain and programmes for the unemployed, with lower investment in lower priority developmental learning. This is not a new trend, and it will require continuing shifts in delivery by colleges and training organisations.

13. Taking into account the efficiency measures announced in the Skills Investment Strategy, the funding available for the 2010/11 academic year for the main programme blocks is set out in the table below.
Skills Funding Agency: Guidance note 1

<table>
<thead>
<tr>
<th></th>
<th>£000s 2009/10 academic year</th>
<th>£000s 2010/11 academic year</th>
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<tbody>
<tr>
<td>Employer Responsive (Apprenticeships and Train to Gain)</td>
<td>£1,232,951</td>
<td>£1,234,754</td>
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<tr>
<td>Adult Learner Responsive (excluding programme for the unemployed)</td>
<td>£1,666,515</td>
<td>£1,474,808</td>
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<tr>
<td>Adult Safeguarded Learning</td>
<td>£210,000</td>
<td>£210,000</td>
</tr>
<tr>
<td>Programmes for the unemployed</td>
<td>Allocated/contracted for different time periods – budgets for 2010-11 to be finalised</td>
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14. In broad terms, the planning assumptions for the 2010/11 academic year are shown below. These provide a general steer at national level, and we expect that what colleges and training organisations deliver will vary according to regional, local and sectoral priorities, and actual demand from learners and employers.

**Employer Responsive (Apprenticeships and Train to Gain)**

a. A continued increase in Apprenticeship starts, and particularly in Advanced Apprenticeship starts for those aged 19-30

b. The Skills Funding Agency will be responsible for contracting for 16-18 Apprenticeship delivery, on behalf of the National Apprenticeship Service. Funding and volume assumptions about this area of work have not yet been finalised and further information will be provided in due course

c. Increases in Train to Gain Full Level 2 and Full Level 3 starts, with no change in Foundation Learning or Level 4 starts
**Adult Learner Responsive**

- **d.** Modest single figure percentage increases in Full Level 2 and Full Level 3

- **e.** A marginal increase in Approved Skills for Life learner numbers (all NQF/QCF provision), but within this a more substantial rise in Approved Skills for Life Numeracy learner numbers (and we intend to invite a small number of proposals to develop innovative ways of delivering numeracy which will increase take up by learners)

- **f.** No change in Foundation Learning learner numbers

- **g.** New programmes for the unemployed announced in response to rising unemployment in the recession will continue in line with the original policy commitments

- **h.** For Adult Safeguarded Learning (Adult & Community Learning), where we are maintaining the level of funding, we expect that planned learner numbers should reduce only marginally, if at all

**Cross-cutting assumptions**

- **i.** The fee assumption will increase to 50%, and there will be a greater focus on achieving fee income targets for ALR providers

- **j.** There will be flexibility for colleges and training organisations to vire funding within the ER and ALR funding blocks

15. The Skills Funding Agency will publish an outline Delivery Plan in January 2010. This will set out how we intend to take forward key developments announced in the *Skills Investment Strategy 2010-11*. A complete version of the Delivery Plan will be published towards the end of the allocations process, including more detail of the allocations contracted.
Funding Allocations Timetable

16. The table below summarises key dates over the coming months.

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
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<tbody>
<tr>
<td>December</td>
<td>- Publish guidance on Minimum Levels of Performance in 2010/11.</td>
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<td></td>
<td>- Hold discussions with colleges and training organisations in scope for rebasing their 2009/10 Adult Learner Responsive allocation following under-performance in 2008/09.</td>
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<td></td>
<td>- Undertake Quarter 1 2009/10 review of Apprenticeship and Train to Gain performance.</td>
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<td></td>
<td>- Issue guidance note 1 to colleges and training organisations setting out further details of the planning and allocations process (this note).</td>
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<tr>
<td>December to February</td>
<td>- Hold discussions with colleges and training organisations on planning and funding for 2010/11.</td>
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<td>- Share proposed levels of funding for 2010/11 (January), with discussion on mix of provision, learner numbers and other planning/funding assumptions.</td>
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<td>- Moderate draft allocations/maximum contract values at regional and divisional level, including further discussions with colleges and training organisations where necessary.</td>
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<tr>
<td>March</td>
<td>- Moderate draft allocations/maximum contract values at national level, including further discussions with colleges and training organisations where necessary.</td>
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<tr>
<td></td>
<td>- Issue final allocations/maximum contract values.</td>
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<tr>
<td>April-May</td>
<td>- Agree schedules and issue funding agreements/contracts.</td>
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Fee Income

17. Government has consistently signalled its intention to encourage greater investment by employers and learners in learning and skills. Over time, the assumed fee element in the funding rate has increased and, in 2010/11, will reach 50% for learners who do not have an entitlement and who are not on income-related benefits. Fee income targets will continue to be set for all colleges and training organisations delivering ALR. Progress in achieving those targets will be one component of the discussion with account management teams about performance.
Quality and Responsiveness

18. Quality continues to improve considerably across England, when measured in terms of success rates and Apprenticeship framework completions, and inspection outcomes. The Skills Funding Agency is ambitious to continue this trend in 2010/11 and beyond, and quality and responsiveness will be central considerations in decisions about funding allocations for 2010/11. Information on the approach to Minimum Levels of Performance (MLP) in 2010/11 was set out in the Skills Investment Strategy 2010-11, and further information was published on 15 December 2009. With the introduction of MLP to Train to Gain, we will continue to apply a rigorous national framework in procuring all provision in 2010/11.

Methodology for Allocating Funding

19. The planning assumptions set out above give an indication of the overall direction of travel. Account management teams will share with colleges and training organisations further information about what this might mean for their organisation in terms of levels of funding available. In general terms, funding will be calculated centrally based on previous performance.

20. The dialogue is intended to focus on how the college or training organisation would propose to deliver the funding allocation, or maximum contract value, for all programmes. Discussion will cover the mix of provision, sector/geographic split, learner numbers and starts (where applicable), Standard Learner Numbers, fully-funded/co-funded mix and any other relevant planning assumptions.

21. The following sections describe how the Skills Funding Agency will allocate funding for the main programmes to colleges and training organisations. These are national processes, which will be applied consistently and equally throughout England. At this stage, given that the Skills Investment Strategy 2010-11 has only recently been published, these processes remain draft.

22. The processes are intended to be simpler than in 2008/09 and 2009/10, reflecting the funding pressures on some programmes, and the need to give early notice of likely funding for 2010/11 so that colleges and training organisations may make plans to manage the impact of any changes.
23. In calculating maximum contract values (MCVs) for 2010/11:

For Apprenticeships and Train to Gain:

a. we will use 2008/09 outturn data and performance at Period 5 – December 2009 (excluding any over-delivery) and the April-July 2010 remaining contract value as the starting point;

b. the national funding rates per SLN will be £2,732 for Apprenticeships 19-24, £2,186 (to be confirmed) for Apprenticeships 25+ and £2,727 for Train to Gain. We will continue to use the Demand Led Funding Methodology as the basis of funding delivery;

For Apprenticeships only:

c. we will calculate the allocation based on three components: the level and cost of existing learners in the system (providing they are within the agreed MCV for 2009/10); the number and funding cost of new starts expected over the remainder of 2009/10; and the number and funding cost of new starts expected in 2010/11;

d. based on the last 12 months Apprenticeship delivery information for each provider, we will calculate an average provider factor for retention, achievement and mix of provision. These average factors will be used to calculate an indicative cost of both existing and new learners;

e. priority provision for Apprenticeships will focus on all 16-18 learners, 19-30 Advanced Apprenticeship starts, public sector starts and those linked to specific regional/national priority sectors. Funding for other Apprenticeships will continue to be supported within the overall budget available;

For Train to Gain only:

f. for most providers full spend of the current April-July 2010 allocations would require a very significant growth in learner starts for those 4 months. This would be followed by virtually no head-room for any new starts from August 2010 to March 2011. This profile is not easy to manage and not one which we want to perpetuate. Given this, as part of the allocations process, we will also want to work with providers to
smooth the current April-July allocation to give a sustainable profile of starts across the period April 2010 to July 2011. We will offer providers the opportunity to reduce the April-July profile and funding and transfer that funding into the first 8 months of the 2010/11 contract;

g. the 2010/11 allocation for Train to Gain will be made up of any agreed shift in funds from April-July 2010, a share of the remaining funding available for the 2010-11 financial year based on the original April-July allocation adjusted for performance to period 5, and an allocation for April-July 2011 that maintains a steady flow of starts in line with the August-March profile;

h. as a result, we will seek to agree a starts, achievements and funding profile for the April 2011 to July 2011 period, ensuring that providers have the opportunity to create a smooth profile over the 16 months from March 2010 to July 2011;

i. key priorities for Train to Gain will be a refocusing on firstness and increasing employees’ skill levels, the need to respond to the skill needs of national priority growth sectors, and supporting those returning to or entering employment.

24. For both programmes, colleges and training organisations will be able to discuss how current or future performance is expected to change existing retention and achievement averages. In the majority of cases, we expect the costs of current learners to be agreed using the provider’s track record of delivery performance. The emphasis of the discussions should focus on how changing priorities may impact on the future delivery performance. The total number of SLNs will then be agreed after the overall allocation amount has been calculated and agreed;

25. Once the overall allocation has been agreed, account managers will agree monthly delivery profiles for both funding starts and completions. These will be used for in year performance management reviews and action. We are currently working on how these arrangements will apply to those in scope for further in year flexibilities as detailed in the Skills Investment Strategy;

26. In contracting for 2010/11, we expect to apply Minimum Levels of Performance rigorously. In the process, we will seek to increase the average contract size awarded and over time to reduce the number of smaller contracts. In doing this, we will be mindful of the need to continue to provide opportunities for
smaller organisations, including third sector organisations, to engage in delivery of Skills Funding Agency programmes, although this will not necessarily be through direct contracts. This may require a more planned and structured approach to sub-contracting.

**Adult Learner Responsive**

27. In calculating allocations for 2010/11:

a. we will use 2008/09 outturn data (excluding any over-delivery above the allocation) as the starting point;

b. we will allocate the available funding pro-rata to delivery of priority provision in 2008/09, increased by 1.5% for the increase in funding rates in 2009/10;

c. priority provision will be broadly defined, and will include Full Level 2, Full Level 3, Level 4, Foundation Learning, Skills for Life (approved and non-approved, though the latter should be no more than 10% of the total enrolments), Learners with Learning Difficulties and Disabilities not included in any other category, 19+ learners completing a 16-18 programme (learners who draw down entitlement funding), Trade Union studies and Initial Teacher Training;

d. in 2008/09, 82% of provision delivered was in the priority categories outlined above. We therefore expect that funding priority provision will fully utilise the budget available for 2010/11. However, there are wide variations in the levels of priority provision delivered at individual college and training organisation level, with some at virtually 100% and some below 50%;

e. to provide a measure of stability, where necessary, we will allocate transitional funding so that no allocation is less than (say) 75% of the 2009/10 allocation (the actual level will depend on affordability). We will expect any transitional funding to be used to deliver priority provision;

f. no allocation in 2010/11 will exceed 95% of the 2009/10 allocation (to take account of the 3% reduction in rates, the re-prioritisation of funding and the Skills for Life changes). In practice, the upper limit is likely to be between 90-95% (again, this will depend on affordability, and particularly the level of transitional funding allocated);
g. in setting the maximum allocation, and calculating any transitional funding, we will use the 2009/10 allocation. Where there has been under-delivery in 2008/09, and where there has been a subsequent agreement to reduce the 2009/10 allocation, we will use the reduced 2009/10 allocation to calculate the maximum and minimum allocation for 2010/11. We will therefore be looking for an early indication from colleges and training organisations in this category of whether they wish to rebase their 2009/10 allocation (to avoid an automatic rebasing in 2010/11 if they under-deliver again in 2009/10);

h. the national funding rate per Standard Learner Number (SLN) will be £2,732 and we will continue to use the Demand Led Funding methodology to produce provider factors. The provider factors for 2010/11 will be adjusted to reflect the reduction in weighting for certain Skills for Life learning aims;

i. once a draft cash allocation has been calculated, we will apply the funding rate and the provider factor to calculate the proposed SLNs, both fully-funded and co-funded, for each college and training organisation;

j. account management teams will discuss and agree with colleges and training organisations the mix of provision, including the balance between fully-funded and co-funded SLNs, and the learner numbers required to deliver the SLN target. This will be recorded on the Summary Statement of Activity;

k. the reduction in the Skills for Life programme weighting for some learning aims will require more provision to be delivered than previously to generate any given level of funding. Noting that we are seeking only a marginal increase in Skills for Life learner numbers, Skills for Life providers may wish to increase other priority provision in order to deliver their funding allocation;

l. the large majority of adult learner responsive provision will be secured through negotiated commissioning, although we intend to invite a small number of proposals to develop innovative ways of delivering numeracy which will increase take up by learners.
28. We are in discussion with BIS and DCSF regarding the potential transfer of funding for LLDD 19-25 learners, and for Sixth Form College 19+ learners with 16-18 entitlement, to local authorities. In the meantime, we will continue planning discussions with colleges and training organisations, and will separately ring fence these elements of funding so that the amounts which may transfer are clear. Funding for discrete adult learning programmes delivered by some Sixth Form Colleges would continue to be the responsibility of the Skills Funding Agency.

Programmes for the unemployed

29. Various programmes fall under this heading, each of which has its own contracting arrangements reflecting its status, i.e. some are ongoing and intended to be long term, whereas others were specifically designed in response to the economic downturn and therefore time limited as per their original policy intention. Any changes in contracting or new opportunities will therefore be specific to the programmes concerned and further information will be made available at the appropriate time.

Adult Safeguarded Learning

30. As previously signalled, for Adult Safeguarded Learning (ASL, previously described as Adult & Community Learning, but now increasingly referred to as Informal Adult Learning following publication of The Learning Revolution white paper) we will continue to maintain the same level of funding in 2010/11 as in 2009/10.

31. During 2010/11, we will work with ASL providers to implement the reforms signalled in The Learning Revolution. A consequence of this is that from 2011/12 it is planned to channel all available funding to support informal adult learning through one identified Lead Accountable Body in each local area.

32. In 2010/11, as in previous years, we will continue to set aside an amount of non-formula funding for ASL providers to support the delivery of Formal First Step Learning, where this is designed to enable adults to progress to further formal learning.

Additional Learning Support

33. A new methodology for allocating Additional Learning Support (ALS) funding in Further Education was introduced in 2008/09, and continued in 2009/10, using level of study as the basis for calculation. This produced some substantial
changes in allocations at provider level. For 2010/11, we expect to reduce the ALS budget in line with the reduction in funding for Adult Learner Responsive provision, and to allocate it broadly in the same way as in 2009/10, with 60% allocated according to the formula and 40% at Skills Funding Agency discretion. We expect to use the discretionary element to minimise funding turbulence.

**Learner Support**

34. The Discretionary Learner Support national budget (19+ Hardship, 20+ Childcare and 19+ Residential Bursary Fund) remains the same as for 2009/10. The allocations will be made based on final 2010/11 Standard Learner Numbers and disadvantage factors (learner mix), and 2009/10 allocations and 2008/09 spend will also be considered to prevent significant displacement.

**Importance of Data Returns**

35. It should be noted from the description of the allocations methodology provided in this guidance note that, where the processes follow a formula, they will use data from 2008/09 and 2009/10 supplied by colleges and training organisations. We believe this offers the most consistent and equitable way of allocating funding.

36. For this approach to work, it is essential that the data which colleges and training organisations submit is complete, accurate and on time. In allocating funding for 2010/11, we will not be able to make adjustments to allow for errors in data submission, other than where circumstances were beyond the control of the organisation.

37. We are currently reviewing the timelines for data returns, as issues with data lag are inhibiting our ability to monitor and manage performance effectively. We are also proposing that there should be a financial penalty, as previously signalled, for a small numbers of ALR providers who submitted late funding claims for 2008/09.