

**A SIMPLIFIED FURTHER  
EDUCATION AND SKILLS FUNDING  
SYSTEM AND METHODOLOGY**

Summary of responses

NOVEMBER 2010

## Confidentiality and data protection

Information provided in response to the Skills for Sustainable Growth consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). Respondents who want information, including personal data to be treated as confidential should be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. If we receive a request for disclosure of the information we will take full account of previous confidentiality requirements you have given, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

## The Consultation Code of Practice Criteria

1. Formal consultation should take place at a stage when there is scope to influence policy outcome.
2. Consultation should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
4. Consultation exercise should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

## Help with queries

Questions about the summary of responses included in the document can be addressed to:

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## The skills consultation process

*A Simplified Further Education and Skills Funding System and Methodology* was a twelve week consultation that ran from 22 July to 14 October 2010. The consultation outlined a number of proposals aimed at developing a simplified funding system operating in an environment of reduced public funding. It also asked for views on how best to deliver the key elements of the strategy fairly and transparently.

### Responses were encouraged from all interested parties by:

1. Making the consultation documents and questions available publicly on the Department's website. A total of 575 responses were received.
2. Using a Survey Monkey website to record responses.
3. Discussing the proposals at meetings with stakeholder and representative groups.
4. Holding two technical funding meetings with colleges and training organisations<sup>1</sup> including Local Authority representatives and Third Sector organisations.
5. Hosting a Learners Panel conducted by OpinionPanel, an independent research company at which 30 individual learners discussed views and experiences on a range of topics related to their learning in Further Education.

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<sup>1</sup> This consultation uses the term training organisation throughout – where this is used it includes Local Authority providers, Third Sector Organisations and other FE Providers.

## Summary of responses

We would like to thank all who responded for their contributions to this consultation. A summary of respondents can be found below.

Category	Total	
General Further Education College	135	23.4%
Sixth Form College	18	3.2%
Charity or Social Enterprise	50	8.8%
Training Organisation	75	12.9%
Local Government	100	17.4%
Individual	56	9.7%
Large Employer (250+)	23	3.9%
Medium Employer (50 to 250 staff)	6	1.2%
Small Employer (10 to 49 staff)	7	1.3%
Micro Employer (up to 9 staff)	3	0.6%
Trade Union or Staff Association	4	0.7%
Other	98	16.9%
<b>Grand total</b>	<b>575</b>	<b>100%</b>

## The Wider Further Education and Skills Landscape

The majority of respondents support the principles of a simplified funding system as articulated in the introduction to the document. They did however comment on the need for a balance to be struck between simplification and ensuring that the diversity of learners in further education could be fairly supported while driving up quality of provision. There is widespread recognition that the sector is facing greater financial constraints. Many respondents see this as an opportunity to develop a further education system that is more responsive to the needs of both learners and the wider economy. This would need to be supported by greater freedoms and flexibilities, with greater transparency and accountability to local communities as well as to learners and employers.

A number of respondents stated that the FE and Skills system should be more employer and learner driven, focused upon supporting the delivery of high quality, relevant skills training. Others have highlighted that it needs to reflect the Big Society values of freedom, fairness and responsibility.

The consultation asked for views on other areas of the FE system that could be simplified beyond the post-19 FE and Skills funding system and methodology. There were a number of suggestions which include: coherence between 16-18 and 19+ systems; a reduced qualifications approvals process; and joining up between further education and higher education funding systems.

A recurring message has been that significant changes must be clearly communicated to the sector to give sufficient time for learners, employers, colleges and training organisations to understand and manage those changes effectively. Suggestions for addressing this included setting out a staggered implementation timetable. This would remain under review enabling it to be updated as information on the impact upon the sector becomes available. Other views expressed the need to bring in significant changes at the same time and, as a consequence, minimising continual change.

#### **Our response**

*Skills for Sustainable Growth (published 16 November 2010) sets out changes to simplify the FE and Skills landscape and to free colleges and training organisations to respond to learners and employers' needs. We will do this by:*

- *No longer imposing top down skills targets*
- *Simplifying systems and processes with a revised funding system and greater alignment across pre- and post-19 systems*
- *Removing regulations to free colleges to deliver for their local communities*
- *Streamlining the organisational landscape*
- *Acting decisively to tackle unacceptable performance.*

## **1. Funding Eligibility**

1. There was broad support for a single budget approach, with recognition that this provides an opportunity to reduce the number of separate funding systems and rules to simplify the accountability arrangements. A number of respondents said that it would also provide increased flexibility to respond to changes in demand from learners and employers, which is difficult to achieve in the current system.
2. There were mixed views from respondents on whether the Adult Safeguarded Learning (ASL) Budget should be included within the mainstream single budget. It was suggested that bringing it within the mainstream budget could provide further reductions in accounting across separate budgets, but some respondents wanted to

ensure that the funding for this activity was kept separate to recognise that the purpose of further education is not limited to the provision of vocational qualifications. Providers delivering provision through this budget suggested that virement between the separate budget lines within the ASL budget would be helpful. There was broad support for keeping the Offender Learning budget separate.

3. A majority of respondents support the introduction of a four year funding envelope. Most colleges and training organisation feel that this will provide the stability they need to undertake long term planning. Some concerns were raised about whether it will reduce the sectors' ability to respond quickly to new challenges and changing priorities.
4. There was general agreement that a sector-led Learning and Skills Improvement Service should continue to play a role in determining the funding to support sector directed improvement. A number of respondents stated that, in order to truly reflect the sector, it needed to represent the diverse range of providers outside of the college sector. There were some suggestions that in a truly market led system there would be no separate funding for LSIS and instead colleges and training organisations would use their participation funding if they chose to buy in improvement support services.
5. There was a wide range of views in response to how the funding system could support the sector in responding to disadvantaged learners. The key responses were:
  - to ensure that colleges and training organisations receive a funding premium for learners who have additional needs.
  - strong support for ensuring that funding and performance measures supported disabled learners to undertake mainstream provision with additional skills needs met through blended learning
  - rather than Additional Learning Support being paid to the college or training organisation that it could instead be part of individualised budget where the individual controls the spending.
6. For unemployed learners, there was also strong support for paying a premium for shorter provision for the unemployed and for the introduction of a national fee approach supported by local bursaries. Colleges and training organisations operating in rural regions and areas of economic deprivation have stated that there should be a premium for learners in these areas to ensure that they are not disproportionately affected.
7. There is clear support for the proposed differentiated approach to public subsidy. It was suggested that the use of a small number of bands of public subsidy could enable contributions from employers and individuals to vary; reflecting their circumstances and ability to pay. Feedback from learners indicates that they would need to see a transparent return on their investment if they are to be encouraged to pay for specific training. A majority of respondents felt that the system should reflect employer size, with a particular emphasis upon lower contributions from Small and Medium Enterprises (SMEs). Those opposed to the proposal have pointed out that employer size does not necessarily reflect ability to pay.
8. There was a mixed response to the proposed co-investment strategy, where public funding would be reduced if the assumed level of co-investment was not made. There

was a recognition that the system needed to increase the levels of investment from learners and employers.

9. However, colleges, training organisations and their representatives commented that if a match funding approach were introduced, it should be done at a provider level. Respondents were also genuinely concerned about introducing a full roll out of this approach in one year.
10. There were mixed views on whether employers should be expected to contribute in cash only rather than “in-kind” payments.
11. There was strong support for a more coherent approach to supporting learners’ additional needs, due to the reported level of administrative burdens in operating, for example, the discretionary learner support budget. Respondents made clear the need for a rationalised learner support system to consider sensitivity over pure simplification. There were mixed views on the extent of local discretion that should be given in administering funds. Some respondents advocated full discretion, whilst others argued for local discretion but within national parameters to minimise the risk of a postcode lottery. A strong theme running through responses was that an impact analysis should be undertaken for any significant reforms.

#### **Our response**

*Investing in Skills for Sustainable Growth provides the overall funding for the 2011-12 financial year, with indicative amounts for the 2012-13 financial year and a direction of travel to the 2014-15 financial year.*

*As set out in “Investing in Skills for Sustainable Growth”, from the 2011/12 academic year there will be a single Adult Skills Budget for FE colleges and training organisations (within which there will be an earmarked amount for Adult Apprenticeship delivery). The Adult Safeguarded Budget will remain outside the Single Adult Skills Budget but colleges and training organisations will have flexibility in delivering across the four previously separate funding streams that comprise it. The Offender Learning and Skills budget and the European Social Fund will remain as separate budgets.*

*The Skills Funding Agency will continue to monitor levels of income for co-funded provision with a view to these influencing future funding allocations.*

*In the context of a single Adult Skills Budget, reform of Learner Support will start in 2011/12 academic year. Within the next two years an enhanced discretionary learner support fund will be created by combining: Discretionary Learner Support, Adult Learning Grant and the Residential Student Support Scheme. A separate review of the Adult Education Bursary will be undertaken. These will be the subject of further consultation with the sector.*

## 2. Funding Methodology

12. The consultation asked for views on what aspects of the Qualification and Credit Framework (QCF) should be eligible for funding in the context of the need to focus funding where it will have the most impact. Comments on the QCF from organisations representing employers stated that, for the system to be successful, qualifications must be relevant and recognised by employers as having real value. This is echoed in feedback from learners who also indicated that there should be more flexibility in the system. This should allow them to undertake modules that are relevant to them rather than having to follow the full learning programme because that is where the funding is focussed. This approach would need to be supported by effective use of Accreditation of Prior Learning.
13. There was a mixed response to the proposed simplification of the rate-setting model. There is a recognition that the rate setting approach needs streamlining; there are too many separate funding rates and simplification would help to reduce bureaucracy. However there was some concern that over-simplification could impact negatively upon the provision for disadvantaged learners or specialist provision that has higher costs.
14. Organisations representing learners and teachers/lecturers have highlighted the need to ensure that the system does not encourage providers simply to opt for the easiest to reach (both in terms of learners and types of course). Learners highlighted concerns about the difficulty of changing courses once they have paid for a specific type of qualification - one suggested solution was for former students to share their experience with new applicants. A number of smaller training providers also raised concerns about the potential impact upon the provision of specialist courses.
15. There was a wide range of comments regarding outcome based funding. It was noted that the progress made by individual learners was important but whether this could be measured through the funding system was questioned, due to the time that can elapse between the learners leaving the education system and the outcome being achieved. In general, colleges and their representative bodies were strongly opposed to the proposed price driven/outcomes based model. A number of them stated they would prefer a system that balances cost of delivery against delivery of outcomes. There was recognition that moving away from a system that requires recording of learning hours and the subsequent related audit could significantly reduce administrative costs.
16. Sector Skills Councils and organisations that have a greater employer focus are broadly supportive of the proposal to have payments based on work related outcomes. Organisations representing colleges, teachers and learners take the view that this could be too narrow a measurement and may result in providers cherry picking those most likely to get into work. It was also suggested that outcomes into employment should include self employment or setting up a new business.
17. A number of respondents commented upon the fact that the current funding model, based upon contact time, was problematic for the growth of e-learning and other technology-based delivery models. It often forced particular modes of delivery that were inappropriate and not cost effective.

18. There was limited support for pricing based on banding. Amongst those who supported the proposal, Option 1 (bands for Qualification) was preferred as it sought to reduce the high number of funding rates that currently exist under the QCF. The general consensus was that Option 2 (bands for Learner Characteristics) would be overly complex and unlikely to achieve the intended outcomes. This was because learners, particularly those with learning difficulties and / or disabilities, have differing needs and it would not possible to categorise them for funding purposes.
19. There were mixed responses to the question of whether the funding rates approach for 19+ Apprenticeship Frameworks should differ from other qualifications. A number of respondents commented that an Apprenticeship Framework was more than just the sum of its constituent qualifications, and the funding rate needed to reflect this. Others commented that the same approach should be used for 16-18 and 19+ Apprenticeship rates. Respondents seeking the same approach for rates across QCF and Apprenticeships stated that, provided the approach to setting a funding rate is robust and takes into account the costs of delivery, the funder should pay the same rate irrespective of whether the qualification is taken as a standalone or as part of an Apprenticeship Framework.
20. The majority of responses to questions on the detailed funding methodology were from colleges, training organisations and sector representatives of providers. Key themes emerging were that there is scope for a more open and transparent mechanism for determining funding. This included considering a more consistent approach to aspects of the “provider factor” as part of operating a single Adult Skills Budget and a simplified rates structure. It was made clear that there remained a need to recognise the additional costs that colleges and training organisations had to meet in responding to different learner groups and based on where they were located. The clear recommendation was that any proposed changes need to be tested in more detail with the sector and fit with the wider reforms set out in the consultation.

#### **Our response**

*“Investing in Skills for Sustainable Growth” sets out the proposed approach for the 2012/13 academic year to move to a rationalised rates structure based on the Qualification and Credit Framework which reflects the additional costs of delivering particular qualifications “programme weighting”. It is proposed that this approach will be used for setting Apprenticeship rates. However this is subject to further work to consider the alignment with 16-18 Apprenticeship rate setting.*

*This, together with wider changes to simplify the funding formula, will be developed over the coming months and will be discussed in more detail with the sector. This includes retaining area cost uplift as the only “provider factor”, aligning funding for disadvantage uplift in funds for Additional Learning Support, and considering what an expansion of outcome incentive payments may mean for the current success factor and achievement element of funding.*

### 3. Allocations, Procurements and Contracts

21. The consultation document asked for views on the way in which funding allocations were made, including whether there should be a marginal allocation determined through price competition. There was broad support for an allocation process that reflected historical delivery and Government priorities for funding going forward. While it was recognised that historical basis for allocations had some drawbacks, these expressed that the need for stability made its use more favourable. Respondents identified that a marginal allocation based on competition created a risk of differential pricing between providers bidding in the market and that delivery for a lower price did not necessarily equate to better value for money.
22. There was a large number of responses to the proposal for a Minimum Contract Level (MCL). It was recognised that this would enable greater efficiencies but the implementation of this approach risked the loss of specialist small-scale providers and the creation of a stagnant market dominated by large providers. Training providers and organisations linked to small business were also concerned about the exclusion of small businesses from the market, although a number of respondents also suggested that smaller providers would be able to compete through consortia arrangements.
23. Amongst those who support an MCL, there was a broad range of views on what this should be set at, ranging from £250,000 to £1 million.
24. There was also a mixed response in relation to whether exemptions should apply. Respondents suggested that consideration should be given to exempting those providers where there was a significant risk of losing specialist provision or provision delivered in rural localities. Also included were Local Authorities and Universities. This was on the basis that they deliver high quality provision and therefore entail a minimal administrative burden from managing a small post-19 contract. There was also a suggestion that all funding for Sixth Form Colleges should be routed through the Young People's Learning Agency which would negate the need to make an exemption for these providers. Third Sector organisations have voiced concerns that an MCL will have a disproportionate impact upon their members, but noted that a lot of work was underway by the Skills Funding Agency in this area to manage the impact.
25. The main risks of sub-contracting that have been identified were the possible impact upon quality standards and the overall administrative costs that could arise from the process. However, there was a general sense that there is significant experience of sub-contracting within the sector and that standards are already high. A number of respondents suggested that a strong quality assessment process and a clear set of national guidelines would help to share this knowledge and minimise the risks of sub-contracting drawing funding away from the front-line into meeting administrative costs.

### Our response

*“Investing in Skills for Sustainable Growth” outlines the approach to funding allocations for the 2011/12 academic year. It states that these will be based on historical delivery but will be adjusted to reflect the need to put in place capacity for growth in Apprenticeships over the spending review period.*

*A minimum contract level (MCL) of £500,000 will operate in respect of contracts for the 2011/12 academic year based on allocations for the 2010/11 academic year. Those falling below the MCL will be able to use their notional allocation to enter into discussion with larger providers or look to establish consortia with other smaller providers. “Investing in Skills for Sustainable Growth” sets out that where there is a risk of the loss of specialist provision or significant impact on choice available in particular localities, the Skills Funding Agency will need to consider whether alternative arrangements are required.*

## 4. Performance Management, Payment, Data Collection and Audit

26. There was clear support for a reduction and simplification of the data collection process and the corresponding performance management systems. The overall view was that, whilst the proposals will help to reduce some of the data collection burden, there are other areas that required attention.
27. A number of respondents asked for a review of the information that is being collated by different bodies to assess whether this could be consolidated into one reporting regime. More detailed suggestions include a move towards a single external audit; closer cooperation between the YPLA and Skills Funding Agency to reduce reporting duplication; and the simplification of the Individual Learner Record (ILR) which is seen as too complicated and costly to collect.
28. The majority of respondents support data collection on a quarterly basis, with the consensus being that providing data returns on a monthly basis will create an additional burden without providing a corresponding benefit. A strong view emerging through the responses to the consultation was that there is an urgent need for agencies across Government to agree on what data is needed and then, in consultation with the sector, determine where simplification can be achieved and to what timescales.
29. In terms of regular publication of performance information, respondents welcomed the move to greater transparency on provider performance and quality. The annual publication of key data was seen as a means of sharing this information, but respondents have been clear that this must be comparable across the sector in order to be effective. Feedback from learners provides a strong indication that they are keen to see a wider use of information to help inform the choices that they make. There

were mixed views on whether this should include the introduction of an FE league table, with a number of learner respondents indicating that they would find feedback from former students more helpful.

30. Regarding payment and reconciliation, there were mixed responses, with strong recognition from colleges, training organisations and their representative bodies that in-year reconciliation was burdensome. Moves being made to a more automated approach were welcomed although this needed to remain under review to respond to feedback from the sector. Some respondents also argued for a single approach across colleges and training organisations.
31. On auditing arrangements, there was strong support for a more proportionate approach to auditing against risk. It was also recognised that the move to a single Adult Skills Budget provides an opportunity to review current audit arrangements, but it was questioned whether a move to greater reliance on external auditors was feasible across all providers.

#### **Our response**

*“Investing in Skills for Sustainable Growth” sets out a proposed approach to retain full data returns for funding purposes on a quarterly or termly basis with more frequent partial returns to support publication of information on the delivery of key programmes, for example Apprenticeships. Work is ongoing to support the rationalisation of existing data collection returns, in light of the move to a single Adult Skills Budget, through a consolidate data return. The detail of these changes will be worked through with the Information Authority and sector representatives.*

## **5. Other Issues Raised**

32. The consultation was focused upon post-19 funding provision, but a number of respondents referred to the fact that it would be helpful to have a single 16-18 and post 19 budget approach. This was echoed in suggestions that the Young People’s Learning Agency (YPLA) and Skills Funding Agency (SFA) should be merged to ensure a single consolidated approach.

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