

BIS | Department for Business
Innovation & Skills

STRATEGY DOCUMENT

Further Education – New Horizon

Investing in Skills for Sustainable Growth

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Investing in Skills for Sustainable Growth

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FOREWORD



The Coalition Government believes skills are vital to our nation's future. We know education is the greatest civilising force and understand that a skilled workforce is necessary to stimulate the private-sector growth that will bring new jobs and new prosperity to Britain. Of course, in the current economic climate, difficult decisions about funding have had to be taken and further education must work with a more limited budget.

Through efficiencies and a rebalancing towards areas of greatest need we believe that savings can be made and this represents an opportunity for truly radical reform. The new thinking stimulated by an urgent need for cost effectiveness means that at last the rising value of vocational learning can be fully recognised.

This document sets out an investment strategy for the further education system that will deliver a truly lifelong approach to learning, nurturing sustainable economic growth and social renewal.

So, the destination we want to reach is clear. In addressing the issues affecting how best to get there the most important step is to secure a genuine transfer of power from Government to individuals, employers and training providers.

Our plans are founded on three principles.

The first is fairness. We believe those first in line for help must be those least able to help themselves. So we are paying special attention to young people and those without basic literacy and numeracy skills.

The second is shared responsibility. While Government has a role, employers and citizens must take greater responsibility for ensuring their own skills needs are met.

The final principle is greater freedom. Freedom does not just mean abolishing stifling bureaucracy and meaningless targets. It means trusting people to do their job. The adult education movement was not born of Government, but of the people. And its primary accountability today should be not to the Government, but to the people it serves.

This Skills Investment Strategy sets out how we will reduce bureaucracy; remove unnecessary interference from intermediary agencies whether local, regional or national; streamline the organisational skills landscape; remove unnecessary regulation; and, introduce new freedoms and flexibilities. Collectively, these measures will ensure the sector is better able to meet the needs of individuals, businesses and local communities.

It will be important that colleges and training organisations work directly with their local partners, including the new local enterprise partnerships, to inform skills priorities at all levels and how they can best be delivered.

To truly deliver the skills needs of the economy, employers and learners, the relationships between colleges, local authorities, charities, training providers, voluntary organisations and social enterprises must become stronger. Wherever possible they should work collaboratively with the aim of efficiently delivering both back office functions and front line services.

For individuals, we will ensure that they get accurate and impartial information about the learning available and the associated benefits: empowering people – from wherever they begin - to reach their life and career goals. We have set out our vision for the first all-age careers service in England. It will build on the best of Next Step and Connexions to provide, for the first time a fully joined up service for all age groups.

We believe we should support young people making the transition from education to work; in giving adults who do not yet have functional levels of literacy and numeracy a second chance; and in supporting those seeking work help to gain the skills that will improve their prospects of getting a job.

Adult and Community Learning is not only valuable in its own right, but also stimulates progressive learning, often leading to employment. Still more, it sustains democratic citizenships and will continue to be supported. However, we will look to reform it radically reducing the complexity and bureaucracy that hampers providers from responding to community needs.

We know that Apprenticeships are valued by learners and employers alike and there is clear evidence that they will support our growth ambitions. We will continue the focus on expanding the number of Apprenticeships while looking for them to be delivered as cost-effectively as possible.

We also recognise and value quality training provided by employers in the workplace. In support of this we will focus on exploring across Government professional standards, training levies and licences to practise, creating new opportunities to drive up private investment and offset the fall in public investment. To support individuals aged 24 or over studying qualifications at Level 3 or above, we will make income-contingent loans available.

Our objective is to deliver a skills system driven from the bottom up, able to respond to the needs of individuals, communities and an increasingly dynamic economy.

It is a vision of a system, shaped by our shared belief in the value of learning we build together and we hope that you will think hard about what part you can play in making sure that change happens; change which will fuel opportunity and power prosperity.

So now we have amplified our priorities, redefined the contributions to growth to be made by Government, employers and individuals and set out our plans to re-engage with communities, rebalance the economy and support the building of a Bigger Society. It's over to you.

A handwritten signature in black ink, appearing to read 'Vince Cable', with a large, sweeping underline.

Vince Cable,
Secretary of State for Business,
Innovation and Skills.

A handwritten signature in black ink, appearing to read 'John Hayes', with a horizontal line underneath.

John Hayes,
Minister of State for Further Education,
Skills and Lifelong Learning.

INVESTING IN FE AND SKILLS: 2011-2015

1. Over the period of this Spending Review (SR), up to 2014-15, the further education resource budget will be reduced by 25%. Dealing with these reductions will be a challenge and individuals, training organisations¹ and colleges will have to adapt to change. Nevertheless, this challenge has stimulated fresh thinking about priorities and how we finance them. Savings will be made by driving efficiencies through the system. This will include: policy changes; unit cost reductions; reforming the statutory entitlements to fully subsidised training; rebalancing the investment from public spending towards greater contributions from individuals and employers who benefit most and can afford to pay². Whilst public investment has to reduce, we will at the same time free the sector from top-down targets and direction to enable a truly demand-led system to develop.
2. The SR settlement takes us through to the 2014-15 financial year. This has enabled the Department for Business, Innovation and Skills to make funding decisions for financial year 2011-12 with indicative funding levels for the following years up to 2014-15. Within the terms of the settlement we will progressively introduce a new loan facility, which will remove grant funding from the 2013/14 academic year, providing the capacity to sustain learner participation with Government-backed fee loans for individuals aged 24 or over studying qualifications at Level 3 and above. There will be no up-front costs and the repayments made on an income-contingent basis. The Government has made available £129m in 2013-14 and £398m in 2014-15 for these fee loans. This document starts further consultation on the loan scheme.
3. As outlined in *Skills for Sustainable Growth*, the case for state investment is strongest for young people and those with low skills. To reflect this, we will prioritise funding support to focus upon learners with very low levels of skills; young people aged 19 up to 24 seeking to make a successful transition from education to work by fully funding first, full qualifications at Levels 2 and 3. We will fund literacy and numeracy courses for adults and young people and also support adults moving from welfare to work by helping them gain the necessary skills.
4. In 2011-12 the total Teaching and Learning budget will be £3.1bn, of which £605m will be earmarked for adult Apprenticeships. Spend on adult Apprenticeships will increase by up to £250m by the end of the SR period, relative to the previous Government. We will protect, but reform, spending on informal adult and community learning. During the coming months we will undertake a major piece of collaborative work to reinvigorate and reform adult and community learning so that it builds the Big Society, engages the disadvantaged and offers progression routes for those looking for a way into

¹ Training organisations include the Third Sector where appropriate, recognising their expertise particularly in meeting the specific needs of hard-to-reach or disadvantaged groups.

² The Department for Education and YPLA intend to publish details of the 16-19 settlement, including for Apprenticeships, before the end of the year.

formal learning. There will also be help for those who are unemployed on active benefits.

5. There will be some fundamental policy changes. SR 2010 sets out the abolition of Train to Gain. Henceforth, funding for workplace training on SMEs. will be prioritised. English for Speakers of Other Languages (ESOL) will also be refocused.
6. This document also initiates further consultation; on the implementation of some of our proposals; Government backed fee loans; and future arrangements for Student/Learner Support.
7. We are committed to reducing the bureaucracy faced by training providers and simplifying the further education and skills landscape by streamlining quangos and abolishing central targets. Colleges and training organisations will be more publicly accountable to learners, employers and their local communities. This will be supported by the introduction of Lifelong Learning Accounts and by the new All Age Careers Service.

WHO IS ELIGIBLE FOR FUNDING?

8. The Coalition Government has been clear from the outset that public funds should be focused solely on quality provision that delivers good value for money. In the 2011-12 financial year, we plan to invest £3.7bn in FE skills for post-19 learners. This supports the capacity for over 3 million training places in the 2011/12 academic year funded through the Skills Funding Agency. The SR10 settlement will see this investment reduce to £3.4bn by 2013-14 and £3.3bn by 2014-15.
9. FE colleges and training organisations will have the freedom and flexibility to use this funding within the eligibility and quality criteria outlined here. All providers will be able to offer the mode of delivery appropriate to the needs of learners. We expect them to offer the range and balance of programmes, from basic skills to higher-level skills, that will best meet the needs of learners, employers and communities.
10. Government funds are limited and we will prioritise funding support for learners with very low levels of skills or the disadvantaged, while there will be an expectation that learners and employers will co-invest alongside Government in meeting the costs of intermediate and higher level training courses from which they will derive private benefits. This reform journey will begin in the 2011/12 academic year.

From the 2011/12 academic year the following changes to funding will apply for all new and existing learners

- We will focus fully-funded provision on people who are unemployed; on people on Jobseekers Allowance and Employment Support Allowance (Work Related Activity Group) to help them obtain work. Such training could include units and awards as well as full qualifications.
- We will fully-fund ESOL for individuals on the benefits listed above. Co-funding for those who are settled here. ESOL delivered in the workplace is no longer eligible for funding.
- We will co-fund Level 2 provision in small and medium enterprises of up to 250 employees only.
- We will reduce funding rates by 4.3% compared with 2010/11 levels.
- We will remove the Skills for Life uplift for literacy and ESOL.

11. Following the legislative process required to reform the statutory entitlements, further key changes will be implemented, to apply from the beginning of the 2012/13 academic year.

From the 2012/13 academic year the following further changes will be made

- We will reform the statutory entitlements to fully subsidise first full qualifications at Level 2 or Level 3 for those aged 19 up to 24.
- We will review funding rates as part of the proposed move to the new rates approach and these will need to reduce in comparison to the 2011/12 academic year.

12. We will remove grant funding from the 2013/14 academic year, replacing it with Government-backed fee loans for individuals aged 24 or over studying qualifications at Level 3 and above. This will enable learners to access the funds they need to gain intermediate and higher-level skills. It is only fair for those who benefit most from training to make a greater contribution to the costs of their course, but also fair for them to make this contribution when they are indeed realising those benefits and earning a good salary.

WHAT IS ELIGIBLE FOR FUNDING?

TEACHING AND LEARNING

13. We have prioritised investment in teaching and learning, to support learners with very low levels of skills and the disadvantaged; Apprenticeships, Adult Safeguarded Learning and Offender Learning. The most significant component of this investment. The new single Adult Skills Budget - will enable FE colleges and training organisations to offer the range and balance of programmes, from basic skills to higher-level skills, in the mode of delivery that will best meet the needs of learners, employers and communities (classroom, workshop, on-line and in the workplace).
14. Alongside Apprenticeships, we will prioritise Government funding for workplace training in small- and medium-sized enterprises (SMEs) with fewer than 250 employees and co-fund level 2 qualifications. We will look to the sector to focus funding of at least £100m a year on teaching and learning in SMEs.

Adult Apprenticeships

- We will increase funding for adult (19+) Apprenticeships by up to £250m over the SR period, compared to the level inherited from the previous Government.
- By the 2014-15 financial year, we will have in place sufficient funding for 75,000 more adult Apprenticeship places.
- We will invest £605m in 2011-12, with an indicative budget of £648m in 2012-13.

15. In May 2010, the Government showed its commitment to Apprenticeships by redirecting £150m to adult Apprenticeships during the 2010-11 financial year, to deliver an additional 50,000 starts. The funding confirmed in the SR settlement allows us to carry forward those additional 50,000 places into future years together and add an extra 25,000 by the 2014-15 financial year. This reflects the consensus across the sector that Apprenticeships should be at the heart of the adult skills offer. When issuing contracts for the single Adult Skills Budget, the Skills Funding Agency will set a minimum expectation of Apprenticeship delivery. When fee loans are introduced, they will apply to Apprenticeships at level 3 and above.
16. We will also make sure there are clear routes into Apprenticeships to widen access to the programme (while maintaining standards) and to increase the numbers of young people who have the skills and attributes to secure and complete an Apprenticeship with an employer. We are exploring, jointly with the Department for Education, the best approach to this to ensure the Apprenticeship programme fully complements other education and skills training.

17. We are increasing our investment in Apprenticeships because they continue to be recognised and valued as high-quality programmes that deliver excellent results for both apprentices and their employers.
18. In a recent survey, 93% of apprentices stated they had improved job prospects, 80% said that they had had a wage increase and 90% had remained in employment immediately after their Apprenticeship had ended. Academic research also indicates significant wage returns.³ A Level 3 Apprenticeship is estimated to earn the individual over their life time an additional £105,000 more than someone with a Level 2 qualification and a Level 2 apprenticeship around £73,000.⁴ Research also demonstrates the benefits of Apprenticeships for employers. In the majority of sectors, employers recoup their investment in an average of two or three years. Other benefits include reduced staff turnover, the new ideas and innovation that apprentices bring, and a supply of skilled labour that is often not available through the external job market.⁵

Basic Skills

- Literacy and numeracy provision will continue to be fully subsidised for all adults who need it.
- With the exception of Skills for Life Entry Level numeracy provision, the programme uplift in funding for Skills for Life provision will be removed for the 2011/12 academic year.

19. We have prioritised funding on literacy and numeracy skills as these are essential in enabling people to function in society, progress into vocational learning and employment, and to operate more productively in work. It is right to give adults who lack these skills a second chance to acquire them. Literacy and numeracy provision from entry level up to and including Level 2 will continue to be fully funded. With the exception of entry level numeracy provision, reflecting the continued need to build capacity in this area, the programme funding uplift for Skills for Life provision will be removed from the 2011/12 academic year. FE Colleges and training organisations, freed from central planning and control, are expected to develop innovative ways of responding to the needs of learners and employers, maximising what can be achieved through working with stakeholders and local communities.
20. We will review the way basic skills are delivered and take steps to ensure that individuals and employers are fully equipped with the literacy and numeracy skills they need. This reformed programme will move away from targets to focus on equipping individuals with the skills and qualifications they need to get a job, progress in work and play a full part in society. As part of this

³ *Benefits of Completing an Apprenticeship*, LSC survey (2009)

⁴ *A Cost-benefit Analysis of Apprenticeships and Other Vocational Qualifications*, McIntosh, University of Sheffield for DfES (2007)

⁵ *The Net Benefit to Employer Investment in Apprenticeship Training*, Warwick Institute for Employment Research (2008)

review, we will consider the use of Functional Skills qualifications as replacements for the Adult Basic Skills Certificates by the 2012/13 academic year.

21. Foundation learning (Entry Level and Level 1) provides an important progression route. For most learners this will remain co-funded. When the statutory entitlements are reformed from the 2012/13 academic year, full funding will be available for those with an entitlement to a Level 2 qualification who need help to make the step up from basic skills.
22. FE colleges and training organisations should also consider how to develop information communications and technology skills and the Online Basics qualification is now listed on the QCF. Fee remission will be available for those learners on the work-ready benefits (Jobseekers Allowance (JSA) or Employment Support Allowance Work Related Activity Group, (ESA WRAG)) outlined below who require digital life skills.
23. We will focus public funds for ESOL on active jobseekers (JSA or ESA WRAG) by fully funding formal training where English language skills form a barrier to finding work. Public funding will not be available for ESOL in the workplace, subject to conditions it will be co-funded for those who are settled here. In line with the increased accountability to their local communities, FE colleges and training organisations will be tasked to identify particularly vulnerable learners in their communities as part of their business planning and local engagement.

Training for people who are unemployed

- Full funding will be focused on training for people who are unemployed and receiving JSA or ESA (WRAG) for full qualifications and units from the QCF for training to help them enter employment.
- We will incentivise delivery of training for people who are unemployed through the piloting of new job-outcome payments for FE colleges and training organisations.

24. Subject to meeting the appropriate requirements of ACTOR, FE colleges and training organisations will be able to use their allocation under the single Adult Skills Budget training for people on active benefits, JSA or ESA (WRAG), to access fully funded accredited and labour market relevant training. This could be single units from the QCF or full qualifications, depending on an assessment of the needs of individuals seeking to obtain and remain in employment. Learners in receipt of other income-related benefits will not fulfil this criterion for fee remission.
25. In some areas, providers may choose to offer training through a Service Academy model for JSA and ESA (WRAG) claimants, working with the local Jobcentre Plus. We are also working closely with the Department for Work and Pensions to develop the new Work Programme, to encourage and challenge people to address barriers to employment; to move from welfare to work. As an integral part of this approach, where Work Programme providers

identify an outstanding skills barrier to work, they will be able to refer clients to the flexible skills training on offer locally.

26. As the Government takes forward its planned reforms to the benefits system, we will work with Jobcentre Plus as they consider how best to ensure that claimants are incentivised to address any skills gaps preventing them from getting and keeping a job. Where appropriate, this may include making participation in relevant training a condition of continuing to receive benefits. This is an important part of the Government's published commitment to providing help – including training - for those who cannot work coupled with clear sanctions for those who turn down reasonable offers of work or other support. DWP will be consulting on this approach in the coming months.

Learners with Learning Difficulties and / or Disabilities

27. FE and skills training for people with learning difficulties and / or disabilities are a priority for the Government and they will have the same entitlements and access to provision as others. We expect providers to recognise the needs of these groups within their local communities when planning delivery.
28. The Skills Funding Agency will work with the Young People's Learning Agency to ensure young people with learning difficulties and / or disabilities are aware of learning and work-based opportunities and can progress smoothly, supported by strong, impartial information, advice and guidance. We will work closely with the Department for Education on the forthcoming Green Paper on special education needs.
29. Learners up to the age of 25 with a learning difficulty assessment remain the legal responsibility of the Young People's Learning Agency. Funding for learners over 25 and those aged 19-25 who may have a learning difficulty or disability but have not had a learning assessment remain the responsibility of the Skills Funding Agency.

Offender Learning

30. In the 2011-12 financial year, we will invest £133m in training to support offenders to get into work and so reduce the likelihood of re-offending. Whilst in custody training will be vocational, personalised and relevant to "real jobs", with links to Next Step and progression routes available on release. Reforms to improve the efficiency and effectiveness of the service are expected. The outcome of the review of offender learning, to be published later in the year, will give greater detail on proposals to improve the service. Offenders in the community continue to have the same range of entitlements as other learners, with entry to employment the key aim. For those on active benefits (JSA and ESA (WRAG)), this entitlement includes fully-funded, accredited and labour market-relevant training. Support will be provided by Next Step, the coming All Age Careers Service, Jobcentre Plus and Probation Service staff.

Adult Safeguarded Learning (ASL)

- Through the SR, we have protected funding of £210m for informal adult and community learning, with increased flexibility across the four components.

31. Learning and skills development is not only about qualifications. We believe that a Big Society is one where all adults have the means, motivation and opportunity to acquire new knowledge, gain new skills and pursue their passions. That is why we have protected the budget for informal adult and community learning, which embraces a wide spectrum of activities supporting the development of individuals, families and communities.
32. We are committed to reforming and reinvigorating this area of learning to ensure that funding can be targeted effectively on the most disadvantaged communities and properly audited. During the coming months, we will work with the sector to develop a new model, building on responses to the two consultations *Skills for Sustainable Growth* and the *Simplified Further Education and Skills Funding System and Methodology*. The reformed model will support the development of the Big Society, focusing public funding on people who face barriers to learning, such as those who face the biggest challenges, start with the biggest disadvantages and come from the most deprived communities. We plan to build more effective progression routes for those people who want to progress to formal learning.
33. To enable providers to be more responsive to their communities, in the 2011/12 academic year we will combine the four components of ASL into a single budget line. Providers will be responsible for continuing to deliver a balanced offer that is responsive to, and shared with, local communities and focused on the following:
 - Neighbourhood Learning in Deprived Communities
 - Personal and Community Development Learning
 - Wider Family Learning
 - Family Literacy, Language and Numeracy

Growth and Innovation Fund

34. We intend to establish a new, demand-driven Growth and Innovation Fund of up to £50m per annum. This figure represents the BIS contribution only and the intention is that businesses will co-fund training costs covered by the Fund. The Fund will overcome obstacles to employer-led innovation and is aimed at raising skills. The Fund will pump-prime and pilot new initiatives developed by businesses to increase the contribution skills make to growth in their sectors. It will give urgent priority to those looking to boost business performance and enhance skills through the introduction of new professional standards, including occupational licensing, training levies, and the uptake of Apprenticeships. The Fund's investments will be time-limited. They will support initial start-up costs and risks associated with testing and piloting new initiatives, and they will be linked to outcomes.

Union Learning Fund

35. Unionlearn has been a success. It exemplifies the best of co-operation between Government, business and unions. Which is why we will continue to support Unionlearn and the Union Learning Fund by investing £21.5m in the 2011-12 financial year. This will enable Unionlearn to build on the impressive track record of Union Learning Representatives and the Union Learning Fund in promoting and supporting learning in the workplace, especially in reaching out to those who are poorly-qualified and most in need of support.

STUDENT/LEARNER SUPPORT

Lifelong Learning Accounts

36. We will offer Lifelong Learning Accounts to all adults from September 2011, helping learners to make choices about how and when they learn, and to invest in education and training. They will bring together information about funding and about learning opportunities, and will be underpinned by a combination of fee subsidies for eligible learners, employer and learner contributions and, from 2013/14, information on access to Government backed fee loans. We will explore as a priority the introduction through accounts of an online marketplace for skills, vouchers for learning and "credits" for volunteering. Before launching the new accounts, we want to increase significantly the number of "my Next Step" account-holders from the present 120,000 and have asked the Skills Funding Agency to take responsibility for this, working with colleges and training organisations.

Information Advice and Guidance

37. We have recently announced our vision for the first All Age Careers Service in England: a unified, consistent service that offers seamless support to young people as they make the transition to adulthood and has a true focus on lifelong learning. The All Age Careers Service will be founded on the core principles of independence and professionalism.
38. Both young people and adults will be able to begin accessing new arrangements for careers guidance from September 2011. The service will be fully operational by April 2012. It will build on the best of Next Step and Connexions and provide a fully joined-up service for all age-groups for the first time. Informed learners are empowered learners. The right guidance at the right time not only helps young people and adults to progress in learning, but also increases their confidence and motivation to succeed. Careers guidance is at the heart of increasing social mobility and is a vital part of the machinery of social justice.

Loans in Further Education and Skills

39. Professional and Career Development Loans currently offer individuals with limited resources greater scope to re-train or upskill to improve their employability. In the 2011-12 financial year, the Government will invest £33m in this scheme. The remit of Professional and Career Development Loans will be reviewed alongside the introduction of Government-backed fee loans.
40. We will introduce new fee loans for FE, supported by Government, from the 2013/14 academic year to help people aged 24 or over undertaking a level 3 or higher qualification to access the funds they need to gain intermediate and higher-level skills. It is only fair for those who benefit the most from training to make a greater contribution to the costs of their course, but also only fair for them to make this contribution when they are indeed realising those benefits

and earning a good salary. Separate funding provision has been made available for these loans: £129m in 2013-14 and £398m in 2014-15.

41. We are proposing that fee loans are implemented in line with the following principles:
 - Lifelong Learning Accounts will provide access to information on funding for training, including information on fee loans.
 - Learners aged 24 or over undertaking Level 3 and higher qualifications will have access to fee loans.
 - Fee loans will be available to individuals irrespective of whether they are training in or outside the workplace through an approved training provider.
 - The loan will be repaid on an income-contingent basis in line with the recently-announced approach for Higher Education fee loans. This includes a repayment threshold of £21,000 and writing-off any outstanding loan amount after a period of 30 years.
42. Over the next few months, we will engage with colleges, training organisations and others on the details of how this will be implemented, ensuring that it recognises the characteristics of different types of learners and identifies the particular delivery arrangements appropriate for the FE and Skills sector.
43. If you would like to provide your views on the principles above please send them to FEloans@bis.gsi.gov.uk by 31 March 2011.

Learner Support

44. Targeted financial support to enable students to access training remains a critical part of the FE and Skills system. In the context of a single Adult Skills Budget, the current arrangements for Learner Support will start to change from the 2011/12 academic year. The changes proposed will enhance and simplify the support available to learners and enable colleges and training organisations to better meet the needs of their learners. An enhanced, discretionary Learner Support Fund will be created within the next two years by combining the Discretionary Learner Support, Adult Learning Grant and the Residential Student Support Scheme funding streams.
45. We will undertake a separate review of the Adult Education Bursary with a view to implementing any changes proposed at a later date.
46. We will work closely with the sector on these changes and will move incrementally to a single Learner Support Fund by the 2012/13 academic year. This will take into account how changes can be made to the current arrangements without impacting on learners and within the contractual commitments already in place. This timescale takes into account recent changes to Learner Support for 16-19 year olds as recently announced by the Department for Education. We recognise that these budgets support those facing financial hardship whilst in learning and any reform needs to be managed carefully in consultation with the sector.

Additional Learning Support (ALS)

47. Additional Learning Support, including Additional Social Needs / Additional Learner Needs funding in Apprenticeships, provides direct support for FE colleges and training organisations to enable them to help learners access, progress towards and successfully achieve their learning goals. The need for ALS may arise from a learning difficulty and / or disability, or from support required to access a progression opportunity or employment, or from literacy, numeracy or language support requirements. From the 2011/12 academic year, we propose to align the current different approaches for ALS across funding streams in line with the move to a single Adult Skills Budget.

SKILLS INFRASTRUCTURE

Qualification and Credit Framework (QCF)

48. The QCF is now nearly fully populated with approximately 7,000 newly-refreshed vocational qualifications, including key brand-name vocational qualifications that learners and employers know and trust. Sector Skills Councils will continue to approve National Occupation Standards, within which all QCF qualifications must be designed. The Skills Funding Agency, working with Sector Skills Councils will approve qualifications for funding and continue to develop the new Personal Learning Record which will underpin the new Lifelong Learning Accounts.

Capital

49. In the 2010-11 financial year, we are investing £580m in the further education estate. This investment will support 288 colleges, making a significant difference to learners across the country. The Skills Funding Agency will invest over £72m in the 2010-11 financial year in supporting National Skills Academies and non-college training providers. As part of this investment, we have supported Personal and Community Developmental Learning with £16m of capital investment in 2010-11.
50. The SR 10 settlement has provided £305m in 2011-12 with an indicative budget of £279m in 2012-13. In the early years of the spending period resource will be used to honour existing college capital commitments currently under construction but we expect there will be new investment in the FE estate later in the spending period focused towards colleges with the greatest need and which will deliver the maximum benefit to learners.

Learning and Skills Improvement Service (LSIS)

51. It is the sector's responsibility to drive up quality, with the support of LSIS. A sum of less than 1% of the Skills Funding Agency's Teaching and Learning will be made available. Subject to endorsement by the LSIS Council, made up of elected provider representatives, a sum of up to that amount will be granted to LSIS to fund sector directed improvement support for colleges and training organisations.

European Social Fund (ESF)

52. ESF is an EU Structural Fund that adds value to Member States' employment and skills policies, in line with the EU's strategy for growth and jobs. The current ESF programme runs from 2007 to 2013. So far, the Skills Funding Agency has used ESF to help 528,000 learners through over 1,300 contracts worth £532m.
53. Agency Co-Financing Plans for 2007-10 are coming to an end and new co-financing plans have been agreed for allocations covering 2011 to 2013, and

which allow delivery of provision to July 2015. Funding available for delivery of provision in these Agency Co-Financing plans is £475m⁶ for adults. The Agency will use ESF in 2011-15 to provide skills training for both unemployed and employed people. There will be a particular focus on disadvantaged groups: those not in education, employment or training; those who lack basic skills and qualifications. We will focus on those who need to upskill to improve their career prospects meeting employer skills needs (including “green” jobs in a low-carbon economy). Adding value to other Agency-funded provision will also be a key focus.

⁶ Actual expenditure against this ESF allocation may vary dependent on actual project delivery.

QUALITY AND TRANSPARENCY

54. We will invest in a competitive, simplified system, with colleges and training organisations having the flexibilities and freedoms to be more innovative, responsive and accountable to the needs of individuals and businesses. With no central targets and the removal of burdensome intermediary bodies, colleges and training organisations will be free to determine the offer that best meets the needs of their communities.

Freedoms and flexibilities introduced in the 2010-11 financial year

- All colleges, except those performing poorly, have a single budget for Adult Learner Responsive and 19+ Employer Responsive provision.
- Removal of the requirement to complete Summary Statements of Activity.
- Subject to the necessary legislation, removal of Ofsted inspections for colleges with continuing outstanding performance and a pledge to extend this to training organisations.
- Removal of the regulatory requirement for college Principals to undertake the Principal's Qualifying Programme.
- We will remove a raft of other regulations on colleges.

55. In exchange for the freedoms and flexibilities colleges and training organisations will now have, they must offer increased transparency about their delivery and performance by:

- Developing self-organised networks of flexible and responsive colleges and training organisations, where the relationship between providers and their direct customers is paramount. Colleges and training organisations must respond to the real demands demonstrated by employers and individuals.
- Engaging directly with local partners (LEPs, local authorities, Jobcentre Plus etc) by consulting them on their business plans so that providers can set out how their offer, and the public funding being provided to support it, contribute to local economic priorities.
- Publishing information on their plans and performance.

56. Whilst the FE Quality Assurance system involves a more proportionate and light-touch approach to monitoring and controls (for example, with exemption from Ofsted inspection for colleges judged "outstanding"), underperformance will be identified quickly and addressed robustly. Minimum Levels of Performance will continue to be applied and the Skills Funding Agency intends to increase the Minimum Levels to reflect improvements in success rates for the 2011/12 academic year. Those that fail to meet required standards will be removed from the register of providers (ACTOR) eligible to be considered for public funding. Should concerns be raised by local stakeholders that the system is not delivering, a peer review approach will be

adopted to identify areas for improvement. We will explore new operating models where an existing FE college is failing to meet the needs of its community.

In December 2010, we will publish comparable information gathered through the Framework for Excellence on the quality and outcomes of further education provision. This information will include the views of learners and employers on the quality of the learning and training they have received, including attainment of learning aims, and progression into further and higher learning and employment.

Learners, employers and their intermediaries will be able to access this information through a customer-facing website and so to judge whether the provision will meet their particular needs. This will form the basis for the work of the Further Education National Improvement Partnership Board.

Development of a more comprehensive range of public information will be published in January 2012 and will be widely available through the Next Step service and each providers' website.

The Role of the Skills Funding Agency

57. The commitment to rationalise and streamline public sector bodies, reduce bureaucracy and free the further education sector means that the role and purpose of the Skills Funding Agency is to change significantly. The Agency will be smaller, cost less and its focus will narrow to dispensing funding, including apprenticeships, calculated 16-19 grants on behalf of the YPLA, and monitoring information. Through the FE data service the Agency will also have a role in providing information to others and enabling information to be shared efficiently and properly. This will be enabled by a simpler, more automated funding system that is driven by success for learners, employers and communities and where intervention action is expected to be exceptional but proportionate to risk. An important element of this will be transparency, where colleges and providers report their own performance information to customers and stakeholders. The Agency will monitor FE delivery and financial data, and share with and gather intelligence from participants in the market. For example, we expect the FE Data Service to be able to supply the new Local Enterprise Partnerships with information to help them fulfil their role. This access to quality information will allow stakeholders to take assurance that the FE sector is delivering what its customers and communities need, efficiently and effectively. It will also allow early warning of potential problems, so that rapid action can be taken.
58. The Skills Funding Agency will issue grant agreements with FE colleges and contracts with training organisations that set out the criteria that apply to the public funds provided.

A SIMPLIFIED FUNDING SYSTEM AND METHODOLOGY

The recent consultation on a Simplified Funding System and Methodology for adult FE and Skills provision ran from the 22 July to 14 October 2010. This far-reaching consultation sought views on simplifying the process of funding for adults. It focussed on:

- Reducing the number of separate budget lines
- Simplifying the funding methodology to increase transparency and rationalise funding rates
- Reducing the number of direct contracts between the Skills Funding Agency and FE colleges and training organisations
- Reducing data burdens and the number and types of audit
- Streamlining the approach to supporting learners with differing barriers to participation and success in further education and skills training.

A large number of responses were received covering views from across the FE sector. These, along with more detailed discussions with a range of interested parties, have informed decisions for changes to the funding system over the SR period. A summary of responses to this consultation will be published alongside this strategy.

Budgets and Allocations

Budgets

59. From the 2011/12 academic year, there will be a single Adult Skills Budget, with earmarked delivery for Apprenticeships. As part of its allocation process, the Skills Funding Agency will set out a minimum expectation of Apprenticeships delivery. FE colleges and training organisations will be able to use their single Adult Skills Budget to expand Apprenticeships. However, any diversion of funding away from Apprenticeships is to be agreed with the Agency. The following participation budgets will remain separate and outside the single budget approach:
- Adult Safeguarded Learning Budget (which will be consolidated from 4 separate funding lines to 1)
 - Offender Learning and Skills Service (OLASS); and
 - European Social Fund (ESF).

Allocations

60. Funding Allocations will be based on historical allocations and delivery data, adjusted in line with the policy direction set out in this document. For example, they will reflect expectations of Apprenticeship growth.
61. The Banks Review of Fees and Co-Funding⁷ highlighted the low rate of fee collection by colleges and training organisations, and recommended introducing a matched-funding approach where public funding would only be payable where fee income had been collected. We recognise that the current

⁷ <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/i/10-1025-independent-review-fees-co-funding-fe-england.pdf>

fiscal climate presents a need for more funding to be generated from sources other than Government. This will include more co-investment, the volume of which will increase at level 2 from the 2012/13 academic year. This income remains a key means of securing a quality provision.

62. For the 2011/12 academic year, the fee assumption remains 50%. The Skills Funding Agency will monitor the collection of fees and this will influence future allocations.
63. All colleges and training organisations will need to be on the Approved College and Training Organisation Register (ACTOR) in order to receive adult skills funding for the 2011/12 academic year. As part of the registration process for ACTOR, colleges and training organisations will submit information on all areas of provision they plan to deliver. While initial allocations will be based on historical allocations and delivery, colleges and training organisations will be able to deliver provision in line with the areas assessed through their ACTOR submission.

Minimum Contract Level (MCL)

64. There is a correlation between our ambition for a more autonomous and efficient FE system and provider size. In an environment of declining budgets, it will become increasingly difficult for smaller providers to operate without realising the efficiencies of shared services or economies of scale through collaboration or sub-contracting. The Skills Funding Agency also needs to become more efficient and streamlined. In the 2010/11 academic year, around 40% of the direct contracts held by the Agency account for less than 4% of funding.

- From the 2011/12 academic year there will be a Minimum Contract Level threshold of £500,000⁸. This will be based on the 2010/11 academic year allocations. We would expect the threshold to increase over the SR period. However, no decision on this will be made before the impact of applying the MCL in 2011/12 has been evaluated.
- All providers falling below the MCL will receive a notional allocation for the 2011/12 academic year which they can take into the new arrangements. Where a provider chooses not to enter into new arrangements, they will be issued with a run-down contract to cover the costs of existing learners.
- The Skills Funding Agency will publish guidance setting out the process and timescales for providers to present alternative arrangements and how these will be handled by the Agency.
- Where there is a risk of specialist provision being lost, or a significant impact on the choice available in particular localities for example, in rural communities, the Agency will consider whether alternative arrangements should be made.

Outcome Incentive Payments

65. As part of our approach to simplifying the system, whilst ensuring it continues to deliver more for individuals and employers, we are introducing Outcome Incentive Payments (OIPs). These will provide a simple, transparent means of

⁸ This does not apply to 16-19 provision or providers.

incentivising colleges and training organisations to deliver wider economic outcomes. In the 2011/12 academic year, we will trial this approach through the introduction of a Job Outcome Payment. This will involve using approximately £80m to reward those colleges and training organisations who work effectively with unemployed people on JSA or ESA (WRAG) benefits to help them enter employment successfully. FE colleges and training organisations will be able to claim this in-year through the Individual Learner Record.

66. As we continue to work through further changes to the funding system for the 2012/13 academic year, we want to work with the sector to consider how this approach could be extended more widely to incentivise other economic outcomes, for example, the inclusion of Apprenticeship Framework completions.

Setting funding rates and funding methodology

Funding Rates

67. There is currently in excess of 6,000 different funding rates for post 19 FE and skills provision. Based on feedback from the consultation, we propose to develop a structure that provides a consistent, clear and transparent approach to the rates payable for qualifications across all modes of delivery. This will support the introduction of fee loans in the 2013/14 academic year, and will be based on:
- A significant simplification and standardisation of existing rates, with a reduced number of programme weightings, consistent across all adult skills delivery.
 - Size of qualification being in line with the QCF (reflecting the need to consider qualifications currently outside the QCF such as Skills for Life and Access to HE provision).
68. This is a significant change from the current system and it is important to ensure that its impact is worked through. The Skills Funding Agency therefore continues to work closely with sector representatives and will, in the 2011/12 academic year, provide a shadow rates matrix to aid the transition and to inform further consideration.

Funding Methodology

69. There is significant scope to simplify the funding methodology used to derive the amount of funding earned. In light of the significant interdependencies with wider aspects of the funding system, there will be further discussions with the sector on the following proposals for change from the 2012/13 academic year:
- Retention of the area cost uplift as the only “provider factor”
 - Consideration of aligning funding for disadvantage with Learning Support
 - Simplification of programme weighting across all provision and alignment to the new rates matrix.

Procurement and contracts

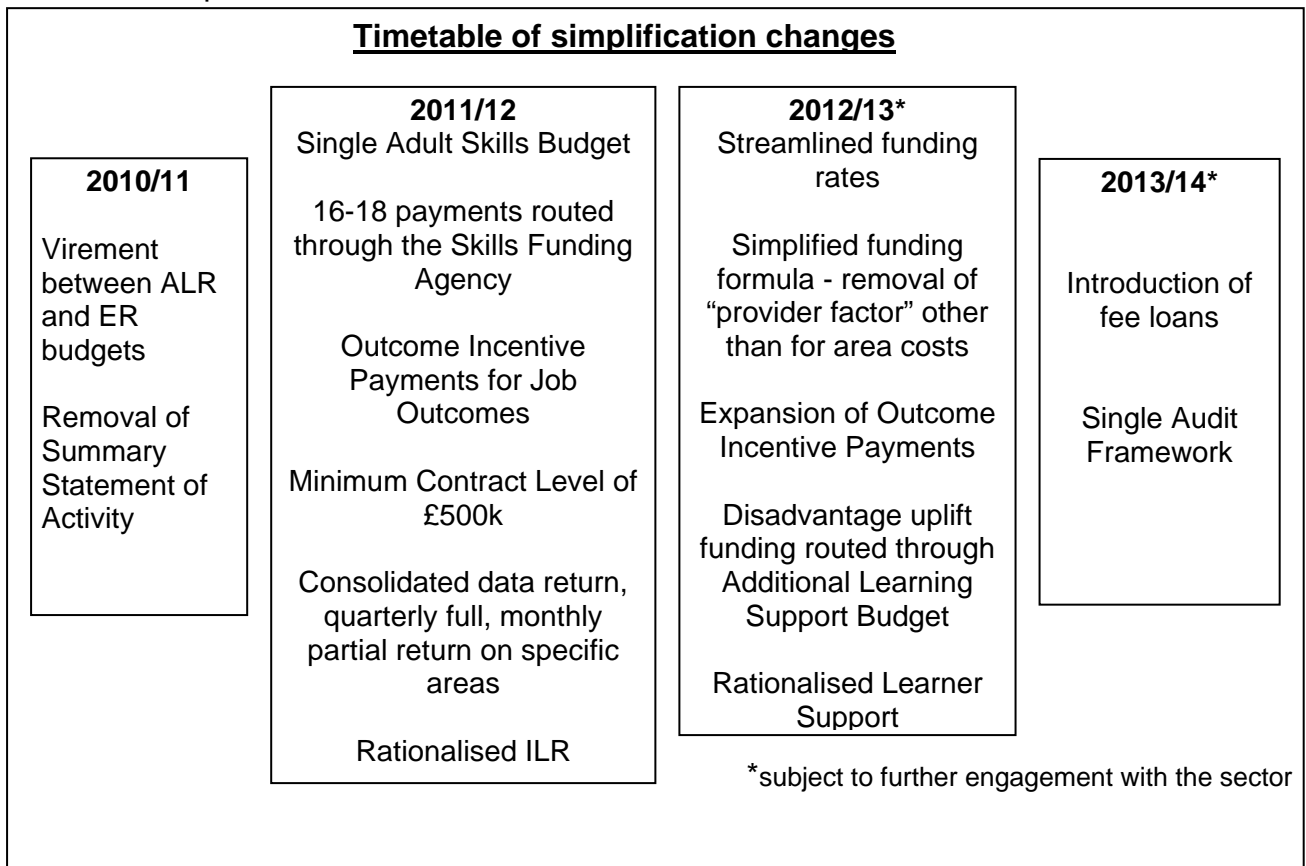
70. The Skills Funding Agency has recently introduced the new Approved College and Training Organisation Register (ACTOR) for the commissioning of adult

FE and Skills provision from the 2011/12 academic year. This will significantly reduce the burdens associated with previous contracting processes. It will also offer both existing and new providers a clear, transparent and streamlined route for becoming an approved training organisation.

71. By the 2011/12 academic year, the dispersal of 16-19 grants calculated by the YPLA for FE colleges and training organisations will be routed through the Skills Funding Agency's Single Account Management System. This means that FE colleges and training organisations will have a single contact point with one agency, with a single discussion on performance and audit.

Performance management, payment, data collection and audit

72. In the 2011/12 academic year, requirements for Minimum Levels of Performance will continue to be applied rigorously and swift action taken where standards fall below acceptable levels. FE colleges and training organisations will be accountable to their local customers and stakeholders and this responsibility will be supported by the regular publication of information, at both institutional and sector level, covering the type and quality of provision being delivered.
73. The introduction of a single Adult Skills Budget will enable the rationalisation of existing data collection, through the introduction of a single consolidated and simplified data return for adult skills. This will continue to be collected monthly, but on a limited basis, with fuller data collections required on a quarterly or termly basis. This change supports the Government's transparency agenda and will enable a better understanding of how public investment is being made. Again, we will work through the detail on this with sector representatives.



Annex 1: Investment

(£000s)	SR10 Baseline in 10-11 prices ⁽²⁾	Budget 2011-12 ⁽³⁾	Indicative Budget 2012-13
Teaching and Learning ⁽¹⁾			
Adult Skills Budget	2,835,871	2,795,542	2,685,969
<i>Of which Apprenticeships</i>	<i>360,810</i>	<i>605,000</i>	<i>648,000</i>
OLASS	134,828	133,600	131,800
Adult Safeguarded learning	210,747	210,747	210,747
Total Teaching and Learning	3,181,446	3,139,889	3,028,516
Student /Learner Support	227,206	232,414	248,206
Learner Support	144,398	151,398	163,768
Information Advice & Guidance	82,808	81,016	84,438
Skills Infrastructure ⁽⁴⁾	137,264	56,922	51,446
Total Skills Funding Agency programme	3,545,916	3,429,225	3,328,169
Capital Grants ⁽⁵⁾		305,000	278,900
Skills Funding Agency		3,734,225	3,607,069
SR10 FE and Skills		3,913,505	3,780,005
Funding not routed through the Skills Funding Agency ⁽⁶⁾	337,494	179,280	172,936

Notes

1. Funding for the Growth and Innovation fund will be demand led and up to £50m p.a. The funding will come from the Teaching and Learning Budget of the Skills Funding Agency and from FE and Skills budgets retained in BIS
2. The difference between the 2010 SIS figures and the SR baseline is that, in accordance with the SR guidance, it excluded one-off and time-limited funding, such as programmes for the unemployed.
3. These figures do not include the administration budgets of the Skills Funding Agency and other FE and Skills partner organisations.
4. The funding for the Learning and Skills Improvement Service is included in the Skills infrastructure budget.
5. SR10 took a zero based approach to the Capital budget. The current 2010-11 budget is £580m.
6. Non-participation budgets including the UK Commission for Employment and Skills, Joint International Unit Funding, Unionlearn and JISC programme funding.

Annex 2: Illustrative forecast Learner Numbers

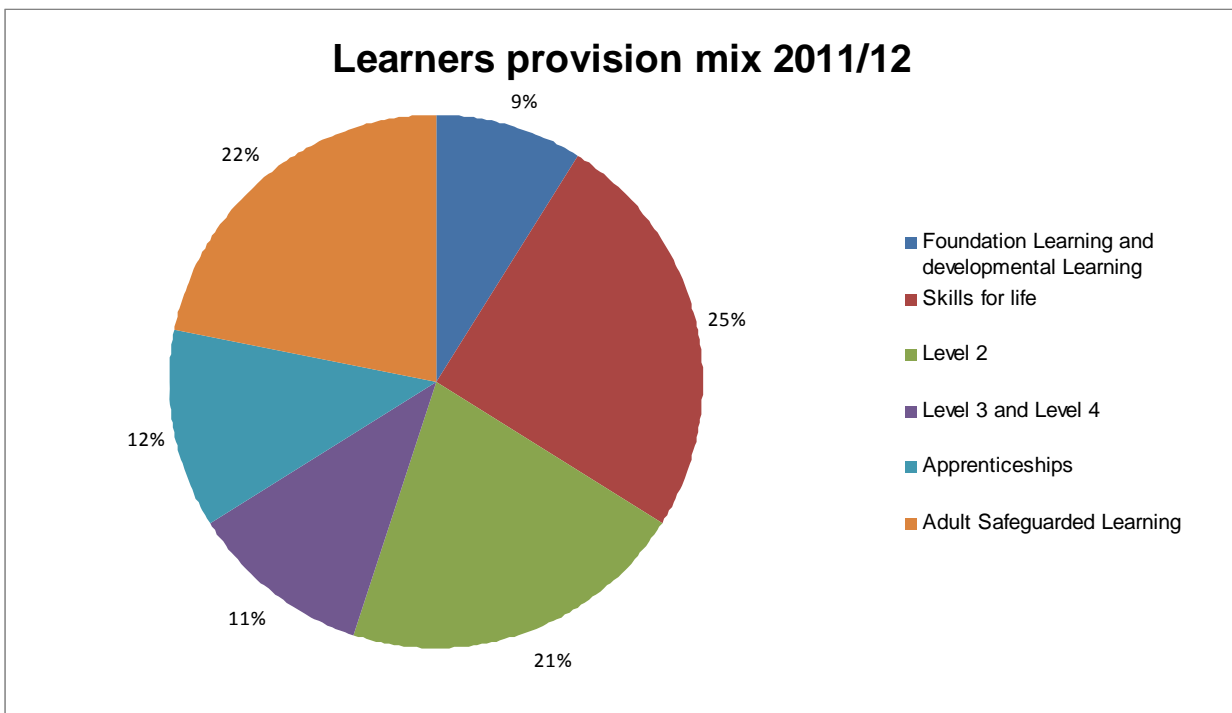
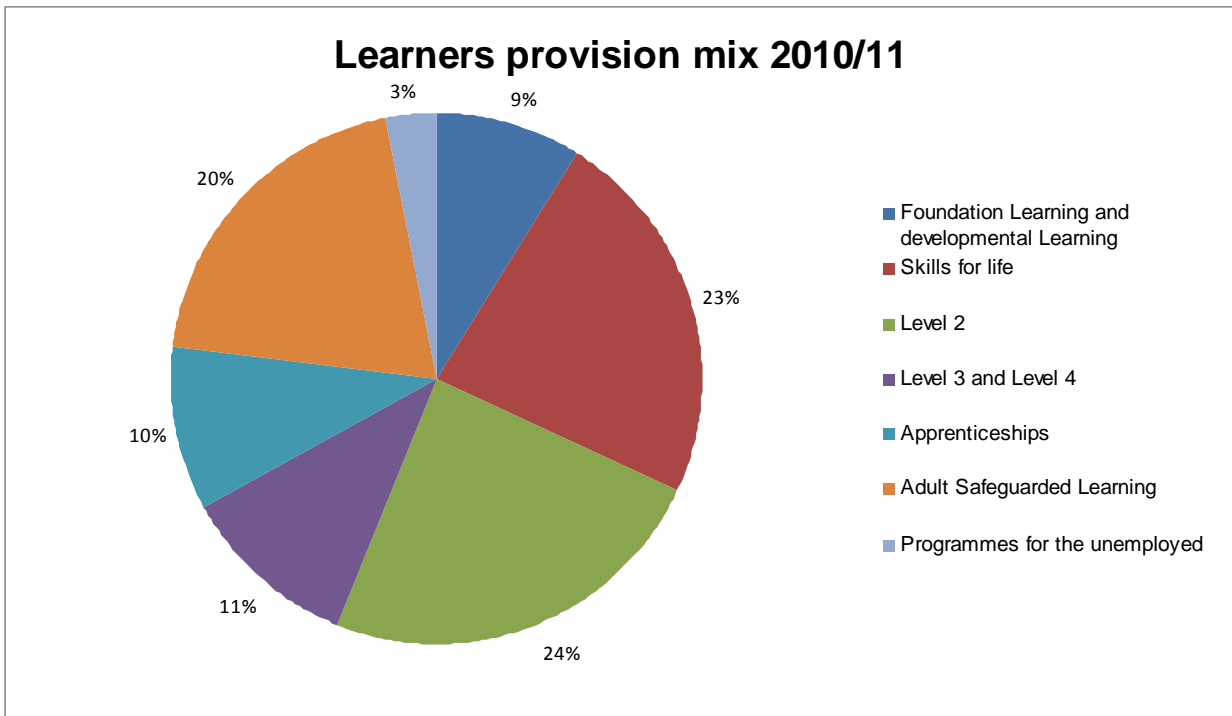
1. Provided below is an illustrative forecast of Skills Funding Agency-funded learners aged 19 and over in the 2010/11 to 2012/13 academic years. Also provided is the latest forecast of the provision mix for the 2010/11 and 2011/12 academic years. Following the introduction of the single Adult Skills Budget and increased freedoms and flexibilities for FE colleges and training organisations to meet the demands of employers, learners and their communities, this is a forecast of the capacity that can be supported by Government investment.
2. The Skills Funding Agency will continue to update these illustrative forecasts based on actual delivery data.

Skills Funding Agency Learners 2010/11 to 2012/13 (AY)			
Illustrative participation (learners) (1)	2010/11	2011/12	2012/13
Adult Skills	2,659,402	2,347,616	2,114,670
<i>.....of which</i>			
Apprenticeships total	388,490	437,068	497,044
Adult Safeguarded Learning	780,000	787,800	795,678
Total learners	3,439,402	3,135,416	2,910,348

Note

1. This table provides an illustrative forecast of in year learner participation. We are committed to funding 75,000 more adult Apprenticeship places by the 2014-15 financial year.
3. This illustrative forecast reduction in training places is mainly as a result of redeploying funding previously allocated to Train to Gain to support more Apprenticeship places which provide longer and more comprehensive programmes with higher economic returns. The broad assumption we have used is that one student place on the Apprenticeships programme and funded by the former Adult Learner Responsive is equivalent to 3 Train to Gain places.
4. Going forward, we will provide the capacity to sustain learner participation through a free-at-the-point-of-entry loan which will replace the currently available grant funding.

Illustrative learner provision mix academic years 2010/11 and 2011/12



Note

The budgets for discrete “programmes for the unemployed” do not continue into the 2011-12 financial year and so this provision category is not reflected in the forecast learner provision mix for 2011/12 academic year. Outlined earlier in this document is the Government’s approach to support training for people who are unemployed which will enable learners in receipt of Jobseekers Allowance (JSA) or Employment Support Allowance Work Related Activity Group (ESA WRAG) to take full qualifications or units across the range of provision that helps them enter employment.

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