Department for Education

Costs and cost drivers in the Further Education sector

Research report
February 2020

acl Consulting

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Executive summary

Background to the project

1. acl Consulting was commissioned in November 2018 to undertake research for the Department for Education [DfE] aimed at understanding costs and cost drivers in the Further Education [FE] sector. The main aim of the research was to provide estimates of the cost of delivering good quality FE provision. Specifically, to:

    - Provide information on the average full economic cost to providers of an FE qualification at each of levels 1 to 3
    - If practicable, disaggregate findings into a range of cost components (e.g. teaching costs, support costs, and equipment and premises costs)
    - Test how findings vary by course and provider characteristics
    - Develop a conceptual framework for costings for the sector.

2. The methodology was piloted with four providers around Christmas 2018. The pilot confirmed a need to raise the level at which the fieldwork was undertaken as providers generally do not routinely delegate resources, and therefore do not compare costs and income, at individual course level – and could not readily do so 'for us' in a way that would yield meaningful data at that level. More appropriate levels for our work were at:

    - Occupational/programme area level for independent learning providers [ILPs] – i.e. construction, engineering, hair and beauty therapy etc.
    - Departmental level for general further education colleges [GFECs] – again generally construction, engineering, hair and beauty therapy etc. In some cases at the School (i.e. multi-departmental) level
    - Whole institution level for sixth form colleges [SFCs].

3. Even at these levels, for ILPs and GFECs the extent to which budgets and/or financial responsibilities were 'delegated' was almost invariably limited to direct staff costs only.

4. There being little value in determining the financial cost of poor-quality provision, we identified a longlist of providers that could be deemed, through a variety of means, to be delivering provision that was good. The 33 providers visited (18 GFECs, 5 SFCs and 10 ILPs) were drawn from this longlist.

5. A typical fieldwork day lasted for between two and six hours and included interviews with a range of each provider's senior managers and curriculum leads in up to three curriculum areas[1].

[1] To simplify matters, and to provide some concentration of qualitative information, we focused these interviews on 11 programme areas – Employability Skills, English, Maths, Hair & Beauty Therapy, Social

6. During the course of our visits we asked our providers for:

- Descriptions of their curriculum/business planning process and how they budgeted for and subsequently monitored learner numbers, income and expenditure
- Financial information on provision sufficient to establish programme areas'/ departments' attributed direct costs and income – and therefore margins or, in the most commonly used terminology, 'contributions to overheads' [CTOs]
- Qualitative and/or quantitative information that would enable us to consider:
  - Whether the resources available to providers are sufficient
  - The impact of funding levels on the activities of providers
  - The overall sustainability of provision.

Budgeting, planning and in-year review/monitoring

7. Providers were asked to explain how they planned what to deliver, set a budget for that plan (i.e. priced and costed it), and monitored delivery against the plan and budget.

8. Our primary purpose in doing this was to establish the robustness – or otherwise – of these processes; in essence, if the budgeting and planning processes are not thorough and robust then the reliance that can be placed on the data and on the conclusions that can be drawn from it is compromised.

9. We found that providers in the sector use a range of means appropriate to their individual circumstances to carry out these activities to a generally high standard for both curriculum and non-curriculum areas. Specifically, there is nothing to suggest that any financial challenges that our providers may be experiencing are due to poor planning, budgeting and/or monitoring of their provision.

Quantitative data

10. We collected data on the income providers receive for and the costs they incur in delivering programmes to learners across the full range of their provision. Whilst providers were generally able to distinguish between the sources of revenue (from 16 to 19 study programmes, Apprenticeships, adults, HE learners etc.), apart from some ILPs, direct staff – and any other attributed – costs were not usually broken down in this way so the focus for our analysis has necessarily been at departmental level.

Care, Construction, Engineering, Science, IT, Business Studies, and Accounting. At each provider visited we selected up to three of these areas and interviewed the programme leader, or another member of staff nominated by the provider, for each.

GFEC direct staff costs

11. Our analysis confirms that by far the largest single component in the costs of delivering an FE programme is the cost of tutorial/teaching staff. Keeping this expenditure under control is the single major factor in ensuring that a GFEC department operates within its income. The same is true of GFECs as a whole.

12. Our data shows a significant correlation ($R^2 = 0.045$, $p < 1\%$) between departmental income and direct staff costs – though the value of R^2 is not high. Beyond this, most of the outlying values – i.e. those above the trend line and/or above the 100% line, the point at which departmental staff costs exceed departmental income – occur in small, often very small, departments. These conclusions appear to be independent of the vocational area of the department.

13. From an analysis of the median values of the costs of direct staff expenditure as a percentage of income by department:

    - The GCSE (English and Maths retakes) median is considerably higher than all other departments – 80.47%, possibly reflecting difficulties in recruiting staff and the level of pay required and/or the associated income not being fully credited
    - Otherwise, median percentages for class-based provision are the lowest – generally around 40%
    - Construction, Engineering and Motor Vehicles are in a mid-point grouping within workshop-based subject areas (52.06%, 52.36% and 56.15% respectively); Science is slightly higher (60.71%) – salaries in these areas tend to have to be higher than the norm in order to attract and keep staff
    - Hospitality & Catering and Agriculture top the list – 66.13% and 66.01% respectively.

14. It is also quite clear that keeping tutorial staff expenditure under control is easier in larger departments. This again is intuitively plausible. Where a department is small, it is difficult to maintain class sizes at the level one might want. Having a greater number of learners means that more effective class sizes can be planned and delivered[2].

15. Of course, it is also true that no college can survive for long if a very large department is significantly over-spending on lecturing and tutorial staffing.

GFEC fully absorbed departmental costs

16. We examined fully absorbed departmental costs as a proportion of income and found that:

[2] "Effective" in this context simply refers to the effectiveness of resource utilisation/allocation. The figures tell us nothing about the *educational* effectiveness of smaller and larger groups.

- Those departments spending more than they earn are generally smaller departments (though the data shows there are still many small departments that manage to spend less than they earn – i.e. to make a CTO)
- Of the higher income departments – i.e. those with a departmental income of at least £3m – only four spend more than they cost, and only marginally so
- As soon as departmental income passes £2m, there is a definite trend towards lower spending as a proportion of income. Regression analysis shows a definite correlation, significant at better than the 1% level, though the association is weak ($R^2 = 0.041$) and the trend line only just negative.

17. We also analysed the data set to determine whether particular departments tend to spend more or less than they receive in income on average. As might be expected, overall classroom-based provision is more likely to be subsidising workshop-based provision – i.e. there are considerably more fully absorbed cost:income ratios that are "<100%" than ">100%" for class-based provision (by a factor of almost 4 to 1); for workshop-based provision the split is much closer to 50:50.

18. In more detail our data suggests that:

- Particularly Health & Social Care and Travel & Tourism, but also Business Studies and Information Technology, are all cross-subsidising other departments more often than chance alone would suggest
- Public and Uniformed Services is very nearly in this cross-subsidising group
- Hospitality and Catering is being cross-subsidised more often than chance would suggest.

19. However, the effect we have identified, though statistically significant in some cases, is not great. A more intuitive review of the data suggests that Media/Design, Hair & Beauty, and Performing Arts could be added to those identified above as cross-subsidisers; GCSEs – i.e. retakes of Maths and English in the main – and Science could be added to those being cross-subsidised. However, at departmental level, for any given curriculum area there are GFECs that appear to be delivering at a surplus and others that are delivering at a loss.

GFEC costs per GLH

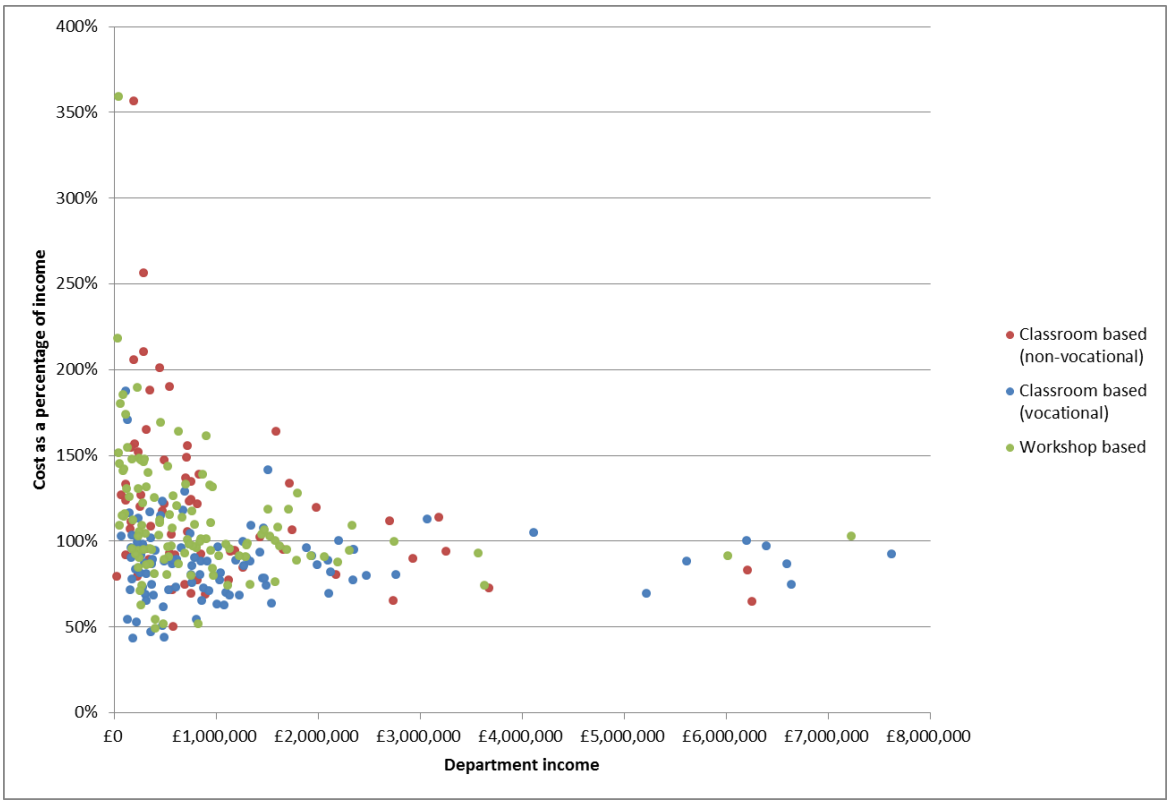
20. As might be expected, in terms of fully absorbed costs per GLH[3] the data suggests a tendency for larger departments to have lower costs per GLH. However, the association is again weak ($R^2 = 0.05$), though still statistically significant ($p < 1\%$).

[3] Here and throughout this report it is cost per *learner* GLH that is being described. Thus (for example) if the cost per learner GLH for a particular department is £7.00 then the cost per delivered GLH to a class of 10 learners would self-evidently be around £70.

21. Looking at costs per GLH by vocational area:

- With one or two exceptions (Public & Uniformed Service and Travel & Tourism), the cost of class-based provision is remarkably close – median costs per GLH of between £6.54 and £6.70
- For all but Sports & Recreation, the cost per GLH for workshop-based provision is significantly higher than for class-based; within this group:
  - the equipment/materials-heavy – and higher staff salary – curriculum areas (Construction, Engineering and Motor Vehicles) are of course more expensive per GLH than most of the rest (between £9.12 and £9.61 compared to £7.48 to £8.44) apart from …
  - … Agriculture and Hospitality & Catering are further outliers (£11.54 and £12.62 respectively).

22. The graph and table below present some of the key data summarised in the preceding paragraphs.



The relationship between departmental income and fully absorbed costs as a percentage of income, whole GFEC sample, coded by nature of department

Common department name	Fully absorbed cost per GLH			Direct staff expenditure as % of departmental income			*n*
	Median	Lowest	Highest	Median	Lowest	Highest	
Mainly non-vocational 'classroom-based' provision							
A Level	£6.99	£3.70	£15.24	48.6%	28.4%	75.7%	*22*
GCSE (including English & Maths)	£10.58	£5.88	£15.57	80.5%	48.6%	159.6%	*12*
Basic Skills	£7.94	£3.85	£26.42	58.4%	19.7%	292.4%	*29*
High Needs	£7.70	£4.83	£13.90	59.7%	36.5%	96.0%	*13*
Mainly vocational 'classroom-based' provision							
Business Studies	£6.58	£3.21	£13.86	39.8%	12.7%	125.8%	*24*
Health & Social Care	£6.54	£3.73	£12.65	41.1%	17.6%	80.8%	*29*
Information Technology	£6.61	£4.69	£7.73	47.2%	25.7%	70.7%	*13*
Media & Design	£6.70	£4.72	£8.34	42.6%	33.7%	62.7%	*17*
Public & Uniformed Service [PUS]	£5.92	£4.55	£8.64	33.8%	21.0%	72.0%	*9*
Travel & Tourism	£6.02	£3.46	£6.56	38.7%	18.6%	45.8%	*9*
Mainly vocational 'workshop-based' provision							
Construction	£9.14	£4.35	£19.39	52.1%	23.2%	143.4%	*21*
Engineering	£9.61	£7.14	£12.78	52.4%	28.7%	74.4%	*17*
Agriculture	£11.54	£9.12	£13.95	66.0%	38.3%	93.7%	*2*
Hair & Beauty Therapy	£8.44	£4.59	£16.45	44.3%	27.8%	86.1%	*23*
Hospitality & Catering	£12.62	£7.52	£16.83	66.1%	35.3%	85.0%	*15*
Motor Vehicle	£9.12	£7.09	£14.58	56.1%	39.4%	80.2%	*8*
Performing Arts (including Music)	£8.25	£6.57	£9.36	42.8%	6.5%	54.5%	*9*
Science	£7.48	£4.02	£11.42	60.7%	23.1%	112.7%	*8*
Sports & Recreation	£6.02	£3.46	£6.56	42.5%	30.8%	103.0%	*17*

23. Two other points to note are that:

- In any particular GFEC, the effect of any slight under- or over-weighting of individual curriculum areas in the funding model is swamped by the major within-college variation in cost:income ratios
- For any given department there are GFECs that appear to be delivering at a surplus and others that are delivering at a loss

GFEC structure and cost:income ratios

24. Looking at organisational structure as a factor, the only GFECs that do not display major internal variations are those that delegate to a few "Schools" rather than many departments. This is due to an averaging effect.

25. The composition of multi-departmental "Schools" does not appear to make a material difference to CTOs – it is the consolidation of departments into Schools that matters, not the pattern of allocating departments to particular Schools adopted by individual GFECs.

SFCs

26. As already noted, SFCs do not break down either income or costs to departmental level. Analysis of income and expenditure at a whole-college level indicates that the SFCs we saw are, at best, breaking even on an earnings before interest, tax, depreciation and amortisation [EBITDA] basis.

ILPs

27. For ILPs we have details of the costs of individual Apprenticeship programmes on a per-learner basis from some providers. The data shows a consistent relationship between the tariff on offer for a particular Apprenticeship and the ability of the provider to deliver the Apprenticeship concerned at a surplus.

28. The data suggests that it is very difficult for an ILP to deliver Apprenticeships that are funded at the lower end of the range to an acceptable standard whilst making an acceptable return. Broadly, any Apprenticeship that has a tariff of £3,000 or less over twelve months is unlikely to be making any contribution to an ILP's overheads: this is the case even in an entirely employer-based delivery model.

29. More highly funded Apprenticeships are more profitable if non-centre-based providers deliver them. When delivery is centre-based, their profitability is reduced considerably – effectively to zero even for the highest funded Apprenticeships.

30. Beyond the points made above, 'cost endogeneity' means that the quantitative data and our analysis of it does not shed particular light on whether the income FE

sector providers receive is sufficient[4]. We therefore explored this issue in qualitative discussions with our providers.

Qualitative data

31. Our discussions with providers demonstrated that, a time when the base unit of funding has been fixed for a number of years, increasingly providers have had to go to considerable lengths in order to make the income they receive cover the costs they incur.

32. In terms of the curriculum:

- Course content has been – and continues to be – reduced
- Courses/Apprenticeships have been – and continue to be – lost
- Whole programme areas are under threat – some have already been lost
- Group size is increasing, particularly for SFCs and GFECs
- Use of non-tutor-led learning is increasing.

33. In terms of staffing, for all staff, academic and non-academic, and particularly for GFECs and SFCs:

- Workload is increasing
- Headcounts are down and staffing structures are consequently squeezed
- Less staff development and CPD is taking place
- Pay rises are made infrequently; when they have been given, they are invariably less than inflation.

34. These factors make recruitment and retention of all staff, academic and non-academic, more difficult. More attractive employment opportunities exist outside the sector.

35. The impact of unfunded increases in pensions and other pay-related costs over which providers have no control is potentially extremely serious for SFCs and GFECs.

36. The resourcing of English and Maths provision for those without a GCSE at grade 4 or above poses considerable – and increasing – challenges for GFECs.

37. There is a widespread belief in GFECs and SFCs that the pressure on budgets has led to levels of learner support that are inadequate to meet current and anticipated needs:

- Additional responsibilities have been placed on providers without any (or

[4] Cost endogeneity dictates that, wherever possible, providers will shape what they do, how programmes are delivered, where efficiencies are made and costs are cut etc. to ensure that, overall, their expenditure at least matches their income.

without adequate) additional funding

- Resources are currently insufficient to meet the increasing (and increasingly diverse) needs of the cohort, now and going forward
- The availability of professional support for mental health-related issues is a particular cause for concern.

38. Little capital expenditure is taking place in most GFECs and SFCs:

- Sufficient funds for necessary capital expenditure are generally not available
- IT (and other 'kit'), whilst generally still serviceable, is now sufficiently obsolete for efficient delivery and the credibility of the curriculum to be increasingly at risk
- Delivery of elements of the curriculum offer is being compromised by the lack of necessary equipment.

39. Non-pay costs have suffered cuts disproportionately. In particular, the fabric of the college estate (GFECs and SFCs) is in gradual and continuing decline with often only essential (Health & Safety critical) work being undertaken.

40. Other cost-related concerns include:

- For smaller ILPs in particular, because they do not have the volume of learners to recover them, any fixed/flat rate costs. Examples include the costs of apprentice recruitment, end point assessments [EPAs], awarding body registration and other membership and licence fees. SFCs and GFECs share some of these concerns
- Utility costs, which are expected to increase by at least inflation over the next three to four years
- For GFECs in particular, transport costs, which can have an impact on learners' ability to get to college and therefore on recruitment
- The capacity of GFECs to carry the extra costs of High Needs learners.

Overall assessment

41. Our quantitative data presents a picture of providers who are providing good quality FE whilst largely balancing their budgets. Our qualitative findings from the same group of providers show a sector under considerable pressure and with serious concerns about its future relating to:

- The financial viability of the sector as a whole
- The ability to keep the offer sufficiently current that GFECs in particular (but also for centre-based ILPs) continue to be relevant to learners and employers.

42. With regard to financial viability, our project suggests that GFECs and SFCs are currently facing significant cost pressures which, without an immediate (and

significant) increase in income, many providers will have difficulties in meeting: this will have significant impacts on the sector.

43. These will go beyond further reductions in relatively 'easier'-to-cut costs and further rounds of the incremental changes already seen (group sizes further increased; options within programme areas further reduced; self-directed learning used more widely etc.). The risk is that whole curriculum areas will be lost and that colleges – including some of the good/excellent ones we have seen – will disappear. The position of SFCs appears to be particularly acute.

44. A key strength of GFECs and centre-based ILPs is the currency of their vocational offer. Traditionally they have:

- Tutors who have recently worked in the sector (some who may continue to do so, teaching on a part-time basis)
- Equipment that is current – of a type generally in use in the workplace
- A curriculum that is continually updated to ensure that learners are acquiring the skills they now need for their sector
- Staff who keep up to speed with developments in their sector.

45. Increasingly a lack of funds for investment in staff and equipment means this currency is at risk.

46. More positively, albeit based on the more limited information made available to us, we have fewer concerns for ILPs than for GFECs and SFCs. In broad terms, an ILP that is:

- Delivering standards that are funded at or over £4,000 …
- … for an average of 12 to 15 months on programme …
- … using an employer- (non-centre-) based delivery model …
- … to support c.40 apprentices per assessor/educator …

… is probably making a sufficient level of return.

47. If some of the above criteria are not met, an ILP is likely to be generating a lower, but probably still viable, rate of return – particularly if it is able to supplement its income with private work. However, if most or all of the above criteria are not met, then an ILP is likely to be non-viable under current funding.

48. Overall, our work suggests that, if the FE sector to survive "as is", consideration needs to be given to relaxing the financial pressure it is currently operating under.

1 Introduction

49. Following a competitive tender exercise, acl Consulting was commissioned in November 2018 to undertake research for the DfE[5] aimed at understanding costs and cost drivers in the FE sector[6].

The background to our research

50. The context for this project is one of continuing change and challenge for the FE sector. Described as being in a "near-permanent state of revolution" by the Institute of Fiscal Studies in its 2018 report on education spending[7], the sector providers face is complex, evolving and perpetually challenging, both financially and more generally.

Curriculum changes

51. For vocational programmes, T Levels form part of the systemic restructuring of technical education proposed in 2016's Post-16 Skills Plan[8] and are being introduced on a phased basis. The Skills Plan envisaged fifteen routes covering all technical education between Levels 2 and 5 in occupational areas where there is "a substantial requirement for technical knowledge alongside practical skills". Eleven of the routes would be college- or school-based; the remainder delivered

[5] A glossary of acronyms and terminology is included at the end of this report – see Annex 5.

[6] This project adds to DfE's evidence base on the costs of provision in FE; the following are of particular relevance:

- *The costs of providing levels 4 and 5 in further education*. Aldaba Limited. December 2017. DFE-RR760. ISBN: 978-1-78105-854-1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669738/The_costs_of_providing_levels_4_and_5_in_further_education.pdf
- *Costs and behaviours in the 16 to 18 apprenticeship system*. Frontier Economics & GFE Research. October 2016. DFE-RR610. ISBN: 978-1-78105-671-4. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/562403/Costs_and_behaviours_in_the_16_to_18_apprenticeship_system.pdf
- *Joint review of Further Education cost drivers*. McKinsey. March 2015. https://www.aoc.co.uk/sites/default/files/Joint%20review%20of%20Further%20Education%20costs%20-%20BIS,%20DfE,%20HMT.pdf

[7] See the IFS's most recent annual report on education spending, their *2018 Annual Report on Education Spending*, at https://www.ifs.org.uk/uploads/publications/comms/R150.pdf (page 38). Other references to the IFS in this section are also drawn from this report.

[8] See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/536043/Post-16_Skills_Plan.pdf. The Plan draws heavily on the 2016 *Sainsbury Review* – or, more formally, *The Report of the Independent Panel on Technical Education*; the Executive Summary of the report is included as Annex A in the Skills Plan.

primarily through Apprenticeships. Each route would have up to five occupational pathways ("specialisms"), each with a substantial work placement element[9].

52. Amongst other curriculum-related developments we would identify the following:

- Colleges now having to provide retakes for GCSE English and Maths
- Apprenticeships in the process of moving from a frameworks and provider-based model to one that is standards and employer-led and with an increased, though still proportionately relatively small, focus on Levels 4 and 5 (rather than 2 and 3, which are presently the staple for many providers)[10]
- A Levels moving away from continuous assessment to a linear structure with end of course examinations.

Funding and financial viability

53. The impact of reductions in funding for FE over time have been well rehearsed elsewhere; inevitably, the scale of the real terms cuts has raised financial concerns in the sector. Data from the ESFA identifies a total of 42 GFECs and SFCs under Notice (… "of Financial Concern" for GFECs and … "to Improve" for SFCs) as at 31st March 2018[11].

54. Figure 1 below shows how the IFS considers post-16 funding has changed in the period since 2002-03[12].

[9] For more information on the implementation of T levels see the latest T Level Action Plan – 2018's is at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/779002/T_Level_action_plan_2018.pdf – and the Institute for Apprenticeships & Technical Education's website at https://www.instituteforapprenticeships.org/t-levels/what-are-t-levels/

[10] At the time of writing, the Institute for Apprenticeships & Technical Education website lists 674 standards.

[11] See the ESFA Annual Report & Accounts for the year ended 31st March 2018 (page 28). (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727360/ESFA_ARA_2017-18_PRINT.pdf).

[12] Figure 1 is from the IFS's *2018 Annual Report on Education Spending (p. 45)*. The graph has been redrawn from the original data.

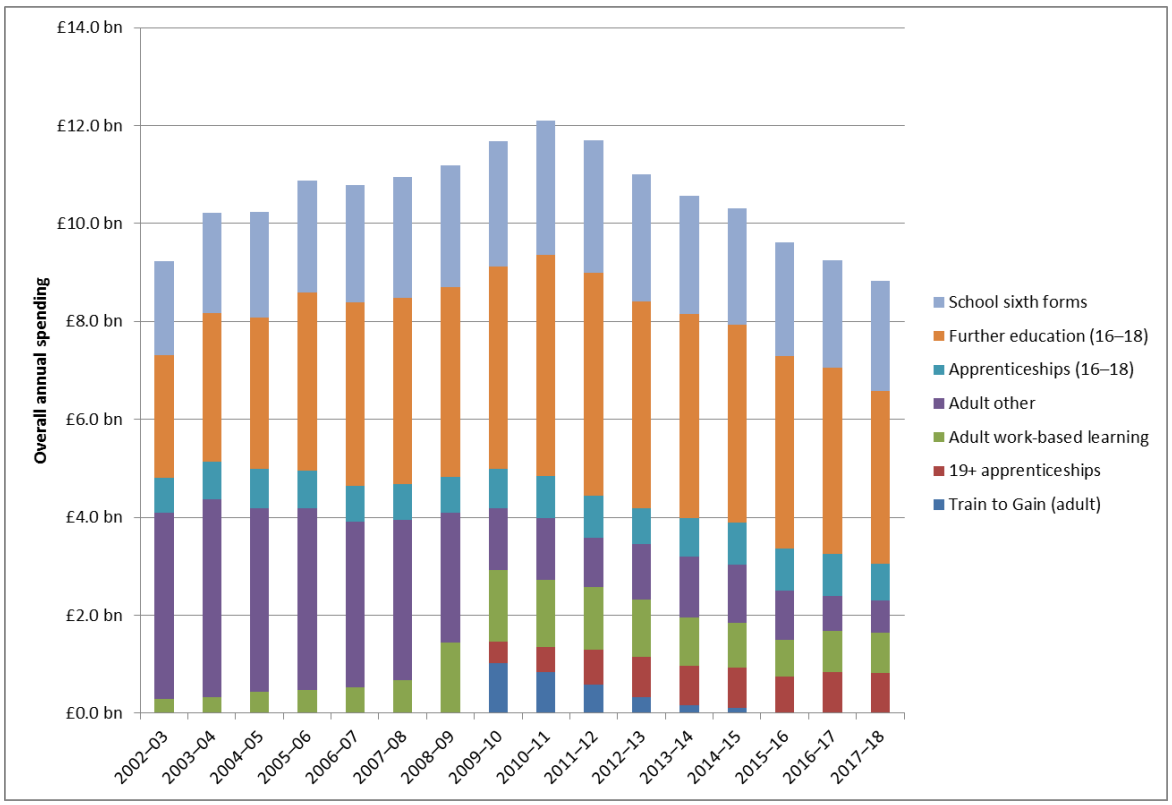


Figure 1. Total spending on further education and skills, 2002-03 to 2017-18

55. The base funding rate in the 16 to 19 funding formula for full-time 16- and 17-year-olds has remained unchanged in cash terms (£4,000 per learner) since 2013-14; for 18-year-olds the full-time rate has been £3,300 since it was introduced in September 2014. The IFS calculates that spending per full-time equivalent 16 to 18-year-old learner in GFECs and SFCs fell from £6,478 in 2011-12 to £5,698 in 2017-18 (a 12% fall in real terms)[13].

56. Total spending on adult education was largely constant in real terms between 2002-03 and 2009-10, at around £4 billion (in 2018-19 prices). It then fell by about 45% in real terms (to £2.3 billion in 2017-18, in 2018-19 prices). Within this total budget, the IFS found the composition of spending has shifted significantly towards work-based learning (from 7% of adult skills spending in 2002-03 to over one-third in 2018-19)[14]. In real terms, spending on 19+ further education has been relatively constant (around £1,000 per learner), suggesting that the fall in adult education spending over time is due to reduced learner numbers rather than by reduced spending per learner.

[13] *Ibid.,* page 47. Figure 4.5. The data behind Figure 4.5, from which the exact figures quoted are taken, can be downloaded at https://www.ifs.org.uk/publications/13306. The IFS's real-terms estimate is quoted on page 48.

[14] *Ibid*., pages 46 and 47.

57. In 2017, an employer payroll levy was introduced to support the public funding of Apprenticeships. It is relatively early days and not yet possible to determine what the impact of the change on the level of spending on Apprenticeships will be. In the first year of the levy, starts were down by around 25% on the previous year[15], though the position has recovered somewhat since then.

New providers

58. Post-16 learning provision has become ever more diverse in nature with academies (now including converting SFCs[16]), free schools (especially University Technical Colleges and studio schools), city technology colleges and new schools-based sixth forms all with offerings that compete, to varying degrees and extents, with the programmes offered by GFECs and (particularly) sixth form colleges.

59. In response to competition and financial pressures, rationalisation of FE provision continues, often through Area Review-encouraged mergers. AoC data indicates that 11 college mergers took place in 2016; 29 in 2017; 12 in 2018; and 9 in the first quarter of 2019[17]. Local structures to enable ILPs in particular to continue to deliver Apprenticeship-related training, and the implications of the levy- and non-levy-based funding of provision, continue to evolve and be worked through.

The focus of this project

Project scope

60. The main aim of the research was to provide estimates, at course or department level, of the cost of delivering good quality FE provision, disaggregated by the main cost drivers. Specifically, to:

- Provide information on the average full economic cost to providers of an FE qualification at each of levels 1 to 3
- Disaggregate findings into a range of cost components (e.g. teaching costs, support costs, and equipment and premises costs).
- Test how findings vary by course and provider characteristics
- Develop a conceptual framework for costings for the sector.

[15] See a House of Commons briefing paper, published in February 2019: *Apprenticeship statistics: England.* https://researchbriefings.files.parliament.uk/documents/SN06113/SN06113.pdf

[16] FE Week reported that, at the beginning of May 2019, 22 SFCs had converted to become academies, leaving 59 designated SFCs, 3 of which were in the process of converting. https://feweek.co.uk/2019/05/03/dfe-set-to-reopen-academisation-option-for-sixth-form-colleges/.

[17] See https://www.aoc.co.uk/sites/default/files/College%20Mergers%20List%201993%20to%202019%20updated%2015%20April%202019.pdf. SFC mergers are also listed here.

61. Although (as discussed below) the costs of provision are inextricably linked to the funding available to deliver it, our research was directed at getting 'under the skin' of the simplistic finding that those providers not in deficit (the seven-eighths of GFECs that are not 'under Notice' referred to above) seemed to be managing within the funds available. We therefore asked our providers for:

- Descriptions of their curriculum/business planning process and how they budgeted for and subsequently monitored learner numbers, income and expenditure
- Financial information on provision sufficient to establish programme areas' costs and income – and therefore margins or, in the most commonly used terminology, 'contributions to overheads' [CTOs]
- Qualitative and/or quantitative information that enabled us to consider: whether the resources available to providers are sufficient; the impact of funding levels on the activities of providers; and, the overall sustainability of provision.

62. Our qualitative interviews with senior staff in our participant organisations were aimed at eliciting 'what it was like' to deliver post-16 qualifications under the current funding regime; what compromises had to be made; and what was the impact of these compromises. We were particularly interested in the impact of current funding levels on what we have termed the 'bellwether' indicators[18] of:

- Spending on learner support (in all its various forms)
- Spending on maintenance, equipment, capital development, etc.
- Spending on staff development.

Our suspicion was that reductions in these areas, particularly if carried out with the declared intent to maintain as far as possible current levels of spending on teaching and learning, would be a symptom of a sector under financial pressure.

Project design

63. There being little point in identifying the cost of poor quality FE, we identified a longlist of providers that could be deemed, through a variety of means, to be delivering good quality provision:

- For GFECs we referred to recent Ofsted reports and the NICDEX index[19] to develop our longlist
- For SFCs, we asked the SFCA for their views on which of their members we

[18] The term is used here to refer to the early manifestation of a trend: the first sign that some situation is starting to change.

[19] As developed by *FE Week*. An overall score (out of 40) for each college is calculated based on DfE data and using a balanced scorecard approach, covering satisfaction (learner and employer) and progression (16 to 18 year olds into 'any sustained education or employment destination' and adults progressing into employment. See the description of NICDEX on the FE Week website (https://feweek.co.uk/wp-content/uploads/2018/11/NICDEX-2018-digi.pdf) for an explanation of the approach.

should consider and referred to their recent Ofsted reports for confirmation of good quality provision

- For ILPs, AELP helped to develop our longlist; again, we then referred to recent Ofsted reports for confirmation of good quality provision.

64. Our sample of 33 providers visited was drawn from the longlists; it comprised:

- 18 GFECs – two per region
- 5 SFCs – each from a different region
- 10 ILPs – mainly from London, the South-East and Yorkshire & the Humber.

65. The methodology was piloted with four providers around Christmas/New Year 2018 – two GFECs, one SFC, and one ILP. The remaining interviews took place in February and March 2019. The principal change resulting from the pilot was to shift the focus from a study of individual courses (e.g. a Level 2 Diploma in Hairdressing) to, ideally, a study based at programme area ('department') level (e.g. Hair and Beauty Therapy). This was because the pilot confirmed that providers generally did not routinely compare costs and income at individual course level and could not readily do so in a way that would yield meaningful data.

66. The briefing documents we prepared for participating providers (see Annex 1) give further detail on the approach we followed with our interviewees and the questions asked.

67. A typical fieldwork day included interviews with at least some – and for GFECs and SFCs often all – of the following:

- Principals/Chief Executive Officers
- Other senior colleagues – Deputy Principals, Directors/Vice Principals of Finance & Resources and other senior managers
- Senior staff from finance, data and registry roles
- Senior staff from programme areas[20].

68. Visits lasted for between two and six hours; financial data was discussed at the visit, and either collected at the time or provided after the visit.

This report

69. The remainder of this report is in seven further sections as follows:

Section 2 A review of the ways in which GFECs, SFCs and ILPs design, implement and subsequently monitor their revenue income and expenditure budgets

[20] To simplify matters, and to provide some concentration of qualitative information, we were asked to focus these detailed interviews on 11 programme areas – Employability Skills, English, Maths, Hair & Beauty Therapy, Social Care, Construction, Engineering, Science, IT, Business Studies, and Accounting – and within these to select up to 3 for programme leader (or equivalent) interviews at each provider visited.

Section 3	An introduction to the way in which we collected the quantitative data for our project and what can and cannot be deduced from it. This section includes a discussion of cost endogeneity
Section 4	A description of the data we were able to collect
Section 5	An analysis of the quantitative data collected
Section 6	An analysis, based on the qualitative information gained from our interview programme, of the impacts of the current funding level (and particularly the lack of recent increases to it) on provision
Section 7	An outline assessment of the overall state of the sector
Section 8	Some suggestions for future work.

Acknowledgements

70. We are most grateful for the support and willing engagement we received from our providers. Because we were asking for financial data, we promised all our interviewees anonymity in any outputs arising from this project.

71. We have, as always, had full and wholehearted support from both policy and research colleagues in the DfE, who have helped steer our thinking and acted as a sounding board for our emerging findings.

2 Budgeting, planning and in-year review/monitoring of costs and income

Introduction

72. In this section we describe how FE providers plan what they will deliver, how they set a budget for that plan (i.e. price and cost it), and how they subsequently monitor delivery against the budget.

73. Our primary purpose in doing this is to establish the robustness – or otherwise – of these processes; in essence, if these processes are not thorough and robust then the reliance that can be placed on the data and on the conclusions we draw from the fieldwork are compromised.

74. What follows is a generic description of these processes; whilst the precise detail may vary, we expect most of our providers would recognise the key elements of what is described. We present a description of the process as it operates in GFECs first, then review what happens in SFCs (broadly this is similar to GFECs) and ILPs (which are somewhat different).

GFECs

Curriculum/business planning

75. Curriculum/business planning in GFECs runs through most of the academic year with the majority of activity taking place during the Spring Term.

76. Broadly speaking, a typical annual planning cycle runs as follows:

- October/November/December – self-assessment and quality review; review of learner data for at least the last complete year plus current year to date; market analysis
- January/February – review of provision
- February/March – curriculum planning, using the information from the activities above to formulate an offer for the next academic year; SMT review(s) of the draft plan
- March/April – curriculum plans agreed and locked; staff planning; timetabling.

The following paragraphs describe these elements in more detail[21].

[21] For completeness, once curriculum/business planning is complete GFECs continue their planning cycle as follows:

- April/May – budgets are set; the priced-out curriculum/business plan is fed into the rolling (usually three year) corporate plan

77. GFECs tend to wait until after the October half term before starting to plan for the next academic year. By this point, the previous year's financial statements are closed, if not formally signed off, and the current year's recruitment for most programmes is finalised. The period from then until the Christmas break is typically focused on self-assessment and quality reviews, developing the corporate strategy to set the strategic context for the curriculum plan, and gathering evidence to inform it – in particular:

- Leaner data: recruitment trends and applications, prior year numbers, analysis of performance data
- Market analysis: of government policy, customer research, LEP priorities, local labour market data, competitors etc.

78. The core period for curriculum planning is January to March. Almost invariably the current year's curriculum is rolled forward before a line-by-line review of programmes identifies which courses will clearly continue and those where more detailed consideration is required; all proposed additions to the offer will receive detailed consideration as a matter of course. The process is incremental and iterative, with those preparing the plans (i.e. departmental heads) consulting and deciding on changes in the light of comments and advice from senior colleagues, both formally and informally, until a final draft is formally presented to SMT.

79. The SMT and other senior staff review each department's plan in detail [22]. Key points of challenge are:

- For the curriculum:
  - Are we (the GFEC) offering the right courses – is there sufficient demand; does the offer meet local (LEP) priority areas; can we deliver quality provision?
  - Are learner profiles and numbers sensible (a) for the programme area and (b) for the GFEC as a whole, given expected ESFA core funding?
  - Can the groups required be resourced (i.e. roomed, staffed and provided with any necessary equipment and materials)?
- For new provision in particular, what is the downside risk (i.e. the costs that will need to be incurred regardless of whether learners are recruited)?
- For revenue:
  - Are the GLH for the programme appropriate given the requirements of the curriculum and funding bands?
  - Are forecasts for income and direct pay expenditure realistic?
  - What are the direct non-pay budget implications (i.e. training,

- June – governor approval of plans and budgets for the academic year starting in September.

These elements are covered in the next sub-section.

[22] Some or all of the following: Principal, Deputy Principals, Vice Principals, Directors of Finance and Human Resources, staff in charge of data management and staff with curriculum-facing responsibilities.

development, resources and materials) and can they be met?

- For capital, what are the equipment and building implications and can they be met?
- For marketing (particularly for new courses) what is needed to drive learner recruitment?

80. Any final revisions required to each curriculum plan are made; each is then signed off and at this point 'frozen' to enable staffing and other resourcing requirements to be planned for by curriculum heads and other staff as appropriate:

- Human Resources – hours required to deliver the plan are compared to hours available from current staff and any necessary adjustments (reduced hours, redundancy, recruitment, redeployment etc.) made
- Marketing – additional activity required to promote the offer, especially for new courses is assessed
- Finance – implications for capital and direct non-pay budgets are taken forward (i.e. adjustments to/submissions for direct non-pay budgets are made and formal bids for any capital expenditure required are submitted).

81. In no particular order, crucial factors in determining the provision to be offered are:

- Group size – GFECs use a variety of means through which to increase average group size:
  - mixed classes (by type of learner and/or by year group etc.)
  - class sizes differentiated by year group and/or Level (e.g. first years/Level 1s taught in smaller groups than second years/Level 3s)
  - class sizes differentiated by content (i.e. smaller groups for workshop-based practical sessions; larger groups for class-based theory lessons) etc.
- GLH – keeping GLH at or close to the minimum required to trigger the funding (540 for a 'fully funded' 16- to 18-year old etc.) [23]
- Mode of study – use of self-directed, usually on-line, learning activities as a

[23] *Funding guidance for young people 2018 to 2019: funding rates and formula* states that the expectation is that full time study programmes for 16- and 17-year olds will be 600 planned hours per academic year and that the funding rate is set on this basis. However, for funding purposes, the minimum threshold for 16- and 17-year olds' full-time programmes is set at 540 planned hours. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/707885/Funding_rates_and_formula_201819_.pdf

"Planned hours" are defined in *Funding guidance for young people 2018 to 2019: funding rates and formula: funding regulations* as either qualification hours (planned learning hours) or non-qualification hours (planned employment, enrichment and pastoral hours). To count for funding band purposes hours must be planned, make up a coherent study programme, and be "timetabled, organised and/or supervised by the institution and be within that institution's normal working pattern". More details are at paragraphs 70 to 82 of *Funding guidance …: funding regulations*. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723721/16_to_19_funding_guidance_Regulations_2018_to_2019-v1b.pdf

Our GFEC and SFC interviewees commonly referred to GLH and this is the terminology we therefore use in this document.

means through which to deliver a proportion of GLH

- Utilisation of teaching staff – utilisation rates are invariably over 95% and sometimes up to 100%: this typically equates to c. 25 contact hours per week for a full-time member of the teaching staff with no curriculum management responsibilities
- Hourly paid staff – GFECs vary in the extent to which they are willing and able to use more flexibly contracted staff
- Utilisation of non-staff resources – the extent to which rooms and equipment are in use.

82. These points are all covered in more detail in Section 6.

83. Frequently a GFEC's senior management will set a "target group size" (13, 14 or 15 are commonly quoted); it has been argued to us that provided such a minimum target group size is achieved "the finances will sort themselves". However, the responsibility to meet the needs of the local community is still a significant factor when determining what provision should be offered, meaning that some small groups will continue when the available evidence on learner numbers suggests they should not, particularly if some larger groups in the same programme area compensate for them[24].

84. Non-curriculum delivery departments (central and learner support-related services in the main) go through a similar service/business planning exercise but with a focus on how to provide the services that they need to deliver, rather than the curriculum.

> The efficiency of the organisation is largely created at the planning stage: thereafter, unless there is a major shortfall in learner numbers, the plan and the planned budget will be delivered[25].

Budgeting

85. With the curriculum plan finalised, departmental level budgets can be prepared.

86. Forecast learner numbers and profiles are used to generate departmental income, which is generally then ascribed directly to the relevant revenue-earning department. Disadvantage Block funds and additional funding that is outside the formula (e.g. high needs funding) may be retained centrally. Revenue is invariably

[24] This responsibility to meet the needs of the local community is particularly strong in colleges outside London, where usually there is only one GFEC to serve a particular area.

[25] We use text boxes to highlight points made in our interviews with providers; these are not verbatim quotes (we do not record our interviews) but are intended closely to reflect what was said. We would expect the interviewee(s) concerned to recognise the sentiment of what we have reported if not the precise words we have used.

taken as earned in the current year rather than as paid under the lagged funding methodology used by ESFA.

87. Direct teaching staff costs are calculated from the curriculum planning process, as described in the previous sub-section. Some GFECs use actual staff costs; others cost staff in at a standard rate or rates[26].

88. Direct non-pay costs, and the pay costs for departmental non-teaching staff (technicians, learner support staff, etc.) are determined through a variety of means:

- Non-formulaic incremental budgeting
- A rollover and review of the previous year(s), with the level of spending reviewed in the light of predicted learner numbers, known cost increases, where efficiencies can be found etc.
- A formula (e.g. based on turnover and learner numbers)
- Zero-based budgeting – starting with a clean slate and with all expenses having to be justified for each new period (in this case each academic year).

89. Most GFECs would stop at this point. A very few of the providers we interviewed attribute more costs to their departments (use of premises and equipment; use of English/Maths tutors for resits; individual learner support costs etc.).

90. The overall aim is to make departmental heads accountable for that which they can be reasonably held responsible whilst, at the same time, avoiding the risk that areas of expenditure that are less sensitive to cut are subject to reductions simply because others (staffing in particular) would represent harder targets.

91. The CTO that the department then subsequently makes to the centre (that is, its income minus direct pay costs minus any non-pay direct costs attributed to departments) inevitably varies between departments but is typically between 40% and 60% of attributed departmental income. Sections 4 and 5 have more detail on college financial management, particularly on the CTO approach: see paragraphs 172 and following. The fact that different levels of CTO are permitted effectively means that some programme areas are being used to cross-subsidise others.

92. Each departmental/cost centre budget is reviewed centrally by SMT to ensure (a) that maximum value for money is achieved and (b) that the budgets are internally consistent and fall within the financial parameters for the organisation as a whole.

[26] Since a full application the "contribution to overhead" approach (see below) will usually take account of the actual cost of staff charged to departments, using actual staff costs at budget drafting time is arguably preferable. However there is also something to be said by using standard rates (perhaps standard rates per grade of staff) both for budget setting and also for subsequently "charging" staff to departments. If this is done then the GFEC as a whole is effectively acting as a staffing agency as far as departments are concerned, and as a result bears the burden of any exceptional staff costs (extended sickness absence, etc.) This may be fairer, especially for small departments.

The budget then goes to governors for approval before the end of the current academic year, usually in June.

Monitoring income, expenditure and delivery

93. For September and most of October (after which learner numbers for the main programmes are broadly set for the year) the focus of GFEC management is almost exclusively on learner recruitment and retention. There can be considerable switching between courses, programme areas and providers in the first six weeks of the Autumn Term: GFECs run and review regular (often daily) reports during this period to keep track of how closely expected learner numbers and profiles are being delivered at departmental level.

94. Where it looks like the planned curriculum offer will have to be revised due to over- or under-recruitment, actions are taken wherever possible to remedy this:

- Merging courses, groups, year 1 and 2 provision etc. in any part of the college where numbers are lower than expected
- Splitting groups and/or identifying additional resources to enable delivery in any part where numbers are higher than expected.

95. There is general acceptance that a course cannot be discontinued once it has begun even if low recruitment makes it uneconomic. However, if the course has not actually started providers may attempt to persuade learners to take an alternative course instead.

96. At some point – as early as accounting period 3; as late as accounting period 5[27] – provision is deemed to have settled down for the year. At this stage:

- There is value in the college preparing and reviewing management accounts at a departmental level on a monthly basis
- Forecasts to the end of the year are prepared on the basis of learners actually recruited and still on programme (further reforecasts may follow for the rest of the year as necessary).

However:

- "The budget remains the budget"; it is not usually re-cast and variances are reported against it, not the forecast outturn.

97. Formally, on a monthly basis there is a series of meetings between senior finance and data staff and curriculum department and other cost centre managers to discuss their financial report and other key indicators. In practice, budget holders will generally have access to and therefore be on top of the detail – and probably have already discussed any areas of concern with finance/data staff – so these should be 'no surprises' discussions with all knowing where the issues and what the causes are.

[27] (Broadly) towards the end of November and early in the new year respectively.

98. In practice, most GFECs run systems that allow staff to interrogate their data in almost real time; the identification of issues and actions to address these need not wait until month end.

99. Corrective action is taken, as far as this is possible, when either income or expenditure deviates from plan – i.e. new sources of income or potential savings are identified. In practice the extent to which either can be done in what remains of the academic year and given operational and other constraints may be limited.

> If numbers are higher than expected the departments pretty much have to find ways to absorb the extra learners for the rest of the year because it is probably too late to do much constructive about it.
>
> Similarly, if numbers are below expectations then there will be discussions about how this is handled – most obviously by combining groups, if this is possible and would result in cost savings. However, often under-recruitment also has to be carried in-year [in the main costs are staff-related and may be difficult to adjust] but the data will be used to inform the next round of planning.

Apprenticeships in GFECs

100. Most GFEC provision would run through the planning, budgeting and monitoring processes outlined above; the principal exception is Apprenticeships. Planning and budgeting for Apprenticeships largely follow the processes outlined above. However, a key difference is that, as is the case for ILPs (see below), the focus is on maintaining a financially viable assessor caseload throughout the year rather than on recruitment, group size and GLH. September and October are often still the critical months for learner recruitment, though patterns are changing with Apprentices often being recruited throughout the year.

101. Considerable variations exist in how GFECs structure their Apprenticeship delivery and therefore how they account for it:

- Some operate their Apprenticeship provision as a separate cost centre (no income attributed)
- Some attribute all costs and income to a separate centre
- Some attribute all the income but no costs to a separate centre
- Some attribute all income but only non-delivery-related costs (i.e. pre-programme costs – marketing recruitment, assessment etc.) – within this model curriculum departments may or may not be able to charge the 'Apprenticeship Unit' for their time etc. in delivering off-the-job inputs to Apprentices (practice varies)
- Departments with many Apprentices may entirely run their own provision alongside an 'Apprenticeship Unit' that runs Apprenticeships, in any of the ways previously described, for the rest of the GFEC.

102. In terms of monitoring income, GFECs reported issues with the ESFA's payment processes and systems that made it 'extremely difficult if not impossible' to identify what payments received from ESFA for Apprenticeship provision were for. This made tracking Apprenticeship income extremely difficult – and our task in comparing expenditure to income within for Apprenticeships within GFECs entirely impossible. More detail is contained in the sub-section covering planning in ILPs, later in this Section.

SFCs

103. Much of the non-Apprenticeship GFEC process described above applies to SFCs but takes place at whole institution rather than departmental/programme area level.

Curriculum/business planning

104. Planning starts in November, once enrolments for the current year are confirmed. In most cases the task is incremental (i.e. the offer does not vary materially from year to year). The key determinant is learner numbers – if a class is full, and the appropriate teaching expertise can be sourced, then a course is likely to go ahead. Like GFECs, most SFCs have a 'target group size'" in mind – high teens typically, but up to 24 and as low as 10 often being quoted.

105. Courses that are no longer recruiting sufficient numbers will be subject to review. However, reasons/arguments for retaining provision can still be made – for example:

- Maintaining a broad curriculum is seen as being important to attracting learners – level, subjects and/or types of qualification are all potentially important dimensions
- The programme is significantly interrelated to another, meaning that there is a danger that discontinuing one might discourage an individual learner from coming at all (e.g. Modern Foreign Languages)
- The SFC believes it has responsibility to maintain the sub-regional local offer in minority/specialist subject areas.

106. Proposals for new courses are considered by the SMT, which makes the decision on whether or not the change should be made.

The curriculum is reviewed annually by Governing Body and SMT in the light of:

- Changes to national policy and other initiatives
- LMI on (sub-)regional skills needs, especially from the LEP
- Intelligence from feeder schools re. options and projected KS4 outcomes
- Cost efficiency and course viability data

- Departmental self-assessment reviews
- Application and progression route trends.

Taking all this into account, in the Autumn Term (for programmes to start in a year's time) an analysis of staffing is carried out comparing future need to current profile to identify changes required. The key time for decisions regarding the offer is either side of Christmas.

Budgeting

107. Once the curriculum plan is agreed, it is populated with learner numbers. Target group sizes are confirmed. Dividing learners by group size allows staffing requirements to be determined on a subject-by-subject basis. The process has become easier because most Year 12s now simply transfer to the second year of each course[28].

108. The teaching staff requirement is then reviewed on an overall and subject-by-subject basis to minimise the additional cost and potential for disruption. It may be possible for staff be redeployed or otherwise used to deliver in curriculum areas that are not their own specialism. Alternatively, additional hours can be offered to existing part time staff.

109. Estimates of the costs of delivering the proposed curriculum are prepared; these are updated during the Spring Term. A three-year rolling forecast of income and, via the staffing requirement (from curriculum planning exercise – see above) and review of other expense headings, expenditure is produced.

110. Technician/support staff, cross-college support and other non-academic/vocational department costs go through a similar annual review process to ensure expenditure in these areas is properly controlled.

111. Apart from a very small departmental budget[29], all resources are looked at/handled on a whole-college basis; income and expenditure are not split at department or programme area level. Subject-based academic/vocational departments are not 'cost centres' in the way this term is normally understood and applied in GFECs.

[28] The option to take a separate AS Level qualification at the end of Year 12 before dropping the subject or going on to take the full A Level in Year 13 still exists in theory but, because AS results no longer count towards A Level grades, no longer seems to happen to any great extent in practice. Partly as a result of this, the option to start four subjects in Year 12 before dropping one at the start of Year 13 also seems to have fallen out of fashion.

[29] Generally c.1% of the total expenditure, typically divided between departments on the basis of learner numbers and a qualitative assessment of the nature of the course and how demanding it is likely to be on resources.

Monitoring

112. As for GFECs, monitoring activity is initially focused on learner numbers and retention since this drives income and, assuming numbers and distribution across programme areas are as expected, ensures that staff, premises and equipment are being utilised as anticipated.

113. Actual income and costs are monitored against budget in monthly management accounts. However, increasingly the main concern for an SFC is to monitor cash flow month-by-month to ensure that payments can be made as they fall due.

ILPs

Business planning

114. For most ILPs, provision is roll-on roll-off and there is therefore no sense in which September is 'special' in terms of learner recruitment, certainly not in the way it is for GFECs and SFCs.

115. When deciding what to offer, many ILPs (particularly those that deliver mainly off-their-own-site) are able to respond to the demands from their sectors and employers as these emerge.

116. The key issue for an ILP is whether provision can be delivered to an acceptable level of quality whilst making an acceptable level of return; in turn, this is dependent on the level of funding available, the anticipated 'steady state' level of demand for the provision, and the costs of delivery. Provision that does not pass these tests will not be offered (or is likely to be dropped).

117. ILPs claimed that their business planning process has been complicated, and also to a significant extent compromised, by:

- ESFA not allowing providers to exceed the previous year's activity levels in the subsequent year without 'applying for permission', which may be withheld. There is a concern among ILPs that this will simply divert provision away from good providers, who would otherwise expand in a market-driven system, and keep it at other providers whose provision would otherwise contract
- ESFA systems not making it particularly easy to identify what the funds an ILP receives are for, particularly when a levy-paying employer has switched into contribution mode because the funds in their account are insufficient[30].

[30] If an employer does not pay or has not paid the levy but would like to train an Apprentice, they need to contribute ('co-invest') 10%; government funding covers the remaining 90% of the cost. The same approach applies to any levy-paying employer who wants to invest more in Apprenticeship training than they hold in their account – if in any single month a levy-paying employer has insufficient funds available in their account to meet the full costs of training and assessment, they need to contribute 10% of the outstanding monthly balance, with government paying the remainder.

GFECs, as already noted, reported similar issues

- When in contribution mode, the lag before an ILP finds out that an employer has 'underpaid' and a further delay whilst ESFA is invoiced and pays the invoice, both of which will have an impact on cash flow
- Reconciling income received with what was expected being complicated because payments do not clearly identify the Apprentice to which they relate. Clawbacks for leavers can be a particular problem which can run over multiple periods
- The various funding models in use – depending on when the Apprentices started, their age, whether they are on a standard or a framework etc. – further complicate the tasks of linking income to Apprentice, planning provision and profiling revenue
- Ongoing changes in the unit of funding, which mean that levels of income cannot be forecast over time with any degree of accuracy
- The lack of automatic indexing, meaning that rates can become entrenched over a number of years whilst costs increase.

Budgeting

118. In broad terms, income and direct costs are budgeted as follows:

- Income – the funding band and the targeted 'steady state' workload per assessor, typically between 35 and 45 Apprentices each, generates an expected level of income
- Direct costs – assessor salaries, on-costs and direct expenses in the main – are calculated and deducted from the expected level of income.

If income minus direct costs produces the required CTO within an acceptable period – bearing in mind that a new pathway can take up to two years to be fully established – then the standard will be run, or if it is already running will continue. If not, the decision is usually taken to close it.

> The key issue is assessor workload; 35 or so Apprentices per assessor with the majority completing to schedule will, as a minimum, cover direct costs and make the required contribution to overheads – these factors [workload and timely completions] are therefore the KPIs we use for monitoring our assessors.

> New programmes are costed using a financial model to determine if they are viable. Numbers likely to be recruited is critical: ideally, we would like to have 40 to 50 Apprentices for each instructor/assessor.

119. Beyond this, in general there is no particular budgeting of costs to programme areas. Some larger providers may construct budgets for 'centres' based on predictions of learner numbers by funding stream, with staff levels and salaries

calculated and with each centre then being made responsible for its own income, costs and a targeted level of gross margin (to meet central costs). Other large providers have moved away from this approach because it does not accord with how they operate – in particular, the move to greater use of supported on-line learning, which reduces or removes the need for an Apprentice periodically to visit a designated centre, is a contributory factor.

Monitoring

120. Income and expenditure are monitored monthly against budget. ILPs will tend not to re-forecast based on actual delivery, not least because variances may simply be due to delayed, rather than lost, starts. Actions are taken, if possible, where income and expenditure get out of step.

121. The unit that is monitored here tends to be the organisation as a whole (i.e. similar to SFCs rather than GFECs); larger providers may break this down to an extent – we saw instances where this was done to broad income stream or operational centres – but not routinely below this to programme area/sector level.

122. Monitoring focuses as much on the factors that affect profitability as on income, costs and gross margin. For example:

- The number of learners currently on Apprenticeships
- The proportion of completions that are timely and, within this, the number that are significantly past their end date. A degree of over-run is inevitable (e.g. awaiting EPA and certification): this is an issue because Apprentices remain on programme until they complete or leave – those over-running therefore still receive support from their provider, but are unfunded

and

- The number of 'live' learners (current and to be registered), since these will generate the income to cover the fairly stable expenses ...

… are all as important as financial data and any variances therein.

123. Therefore, whilst financial monitoring is at the level of the whole Apprenticeship programme, detailed scrutiny (including of assessor performance, and using the non-financial data outlined above) takes place at individual sector/programme area level.

Conclusion

124. Our primary purpose in this section was to establish the robustness – or otherwise – of the processes through which FE providers plan, budget and monitor delivery of their provision.

125. Our view is that providers in the sector use a range of means appropriate to their individual circumstances to carry out these activities to a generally high standard.

Specifically, there is nothing that we have seen that would suggest to us that any financial difficulties that ‘our’ providers may be experiencing are due to poor planning, budgeting and/or monitoring of their provision.

3 Quantitative data collection: introduction

The nature of data collected

126. As mentioned in Section 1, a significant part of our fieldwork involved collecting quantitative cost data from organisations participating in our fieldwork.

127. Given the complexity of many post-16 organisations, and the wish – shared by us and the Department – not to be burdensome on fieldwork participants, we did not ask participants to complete a specific proforma. Instead we sent them a 'worked example' of the kind of data we were looking to collect (see Annex 2). Participants were asked to give us whatever similar data they had in the format in which they held it.

128. We were particularly interested in the extent to which fieldwork participants divided their organisations into activity-related 'centres', and the extent to which they allocated expenditure and income to these.

129. On receipt of the data from participating organisations, we then converted it as far as possible into a standard format, based on Annex 2, and used this in our further analyses.

130. As might be expected, participating organisations varied in the extent to which their internal accounting structure followed our model. The variation covered both the way in which internal activity centres were defined for accounting purposes and the extent to which specific items of income and expenditure were ascribed to each. However, some generalisations can be made.

GFECs

131. Most GFECs in our sample found it straightforward to give us data about income at 'departmental' (cost centre) level, sometimes but not always broken down by source – though we have no reason to doubt that all could have provided a breakdown if we had specifically asked for it.

132. GFECs could also routinely supply us with information about the costs of teaching staff and, usually, technician/learning support staff and learning-related consumables at the same departmental level. Relatively few colleges attributed any other expenditure to departments, or indeed apportioned central costs to departments in any way. Most operated some form of CTO system, as described in the previous section, under which a share of the income 'earned' by each department is either returned to the centre to cover any unallocated (centrally retained) costs or a share of all central overheads is allocated to each department, on a formulaic basis (operating a CTO in reverse, as it were).

133. None of our fieldwork GFECs could readily identify any link between departmental costs and different sources of income that might allow, say, the costs and income of ESFA funded provision, of commercial provision, etc. to be assessed separately. Hence, we have worked with 'whole department' income and matched this against 'whole department' costs.

SFCs

134. As already noted, SFCs delegate virtually no resources to departments, and we were unable to obtain any departmental level data from any of our sample. The data we do have is therefore at whole institution level.

ILPs

135. Most ILPs could, in theory, supply us with planning data showing the surplus they intended to make on individual Apprenticeships (and other lines of business). However, as also noted, none of our fieldwork sample actually monitored expenditure by occupational area, and most did not break down income and expenditure at lower than whole-organisational level.

136. Of those who did have an internal structure for costing/monitoring purposes below the whole organisation level:

- One provider structured its business around 'product lines', of which Apprenticeships was one of four (the other three were other public funded training or allied activities outside the scope of this project)
- One provider assessed performance on a "four-region" basis
- One provider monitored the performance of different operating divisions separately
- Two used a local delivery-centre-based structure.

137. There was a degree of flux in these arrangements; some ILPs were changing or had recently changed their approach.

138. Another factor also came into play in our data collection from ILPs. Despite assurances regarding complete confidentiality, ILPs were, perhaps understandably, still reluctant to share detailed internal cost and profit data with us: this has limited the financial data that we have had access to. (Equally, one provider was sufficiently intrigued by our discussion to undertake a costing exercise on their Apprenticeships.)

Drawing conclusions from our data

Cost plus, price minus and cost endogeneity

139. It might well be thought, at this point, that in collecting data from our fieldwork participants about the income they receive, and comparing this income to their costs, we could shed some quantitative light on whether the funding received is sufficient, either specifically or in general. For reasons which we will now make clear, unfortunately this is emphatically not the case.

140. With very few exceptions, in instances where there is any form of "participant choice" the cost of goods and services closely reflects what the purchasers (clients, commissioners, etc.) are prepared to pay for them. Only when the specification of the good or service is laid down in extreme detail, can the cost of the good or service be derived entirely from first principles and the money subsequently sought to fund it. Where this approach is used, it is known as "cost plus" pricing and is found most frequently in major public projects.

141. An alternative approach could be called "price minus". This starts with the funding available for a project, good or service and then works out whether it can be delivered for what is on offer. Potentially post- some negotiation, the supplier then decides whether to offer the good/service concerned or not. What a supplier cannot do, if they are to survive financially, is regularly offer goods/services at a higher cost than clients are willing to pay – any ability to "absorb the difference" will at some point be exhausted.

142. Thus, in a "price minus" context, research into what it costs to deliver a good or service will almost inevitably lead to the conclusion that it costs just the same as the client is prepared to pay for it, once any internal planned surplus or return to shareholders has been allowed for. This principle is known as "cost endogeneity".

Cost endogeneity in our context

143. It is our contention that the provision of learning and Apprenticeships by post-16 institutions is, essentially, a "price minus" activity. In other words, institutions start by calculating the income they will receive for delivering the programmes and then specify the resources for the programmes accordingly.

144. We make this claim for two reasons. First, there is the entirely pragmatic point that, given there is little or no scope for an individual provider to renegotiate the funding it receives, any organisation that does not do this will quickly go out of business unless it can find alternative sources of revenue that generate sufficient margin to make up the difference.

145. The second, less profound but nevertheless significant, reason is that any post-16 organisation that "sets a deficit budget", or indeed sets a budget that does not

include an adequate contingency for emergencies, is likely to be classified as “at financial risk” by ESFA, whose field staff will subsequently be tasked to work with the organisation to put matters right. One might as well set an appropriate budget in the first place.

146. One might think that since what one has to do to deliver vocational (or academic) qualifications is laid down in reasonable detail the “cost plus” approach would apply. However, there is sufficient room within the specification, and in any case inflexibility in the price on offer, to allow “price minus” to operate. The following examples illustrate the point.

147. First, consider ILPs offering Apprenticeships. Most of the ILPs in our sample came up with a case load of around 40 to 45 “live” Apprentices per assessor in order for their provision to be financially viable – i.e. taking due account of any other sources of income, the income from these Apprentices would cover the associated costs of employing the assessor, make the required CTO to cover all the other costs that the ILP faces and allow for capital investments, a return to shareholders etc.

148. This figure of 40 to 45 is the result of a price-based calculation, not a driver for a specified cost. This can be seen because, for example, the frequency of visits an Apprentice receives from his or her assessor subsequently varies due to geographical and industry factors. Where Apprentices are traditionally concentrated in just a few locations, the time cost per individual visit is clearly lower: potentially one can see more than one Apprentice in one visit and make more frequent visits. Where Apprentices are largely singletons in geographically remote locations, fitting in even three visits per day can be demanding and the gap between visits is likely to be larger. These differences are the results of price pressure, and not necessarily the results of specific decisions made on what an appropriate number of visits to an individual Apprentice might be.

149. A second example comes from GFECs. In general, during the last few years GFECs have increased group sizes across the board in response to funding pressures. Group size is used as a “control” that, up to a point, ensures a college’s financial viability going forward. One of our colleges estimated that if its average group size across the college was systematically calculated, including difficult cases, and exceeded 13 then it would be solvent. Others, consciously or otherwise, use a similar methodology.

150. A “back of the envelope” calculation shows that an increase in average group size from 13 to 14 would save the college nearly 4% of turnover, if non-staff costs can be controlled[31].

[31] The increase is around 7.7%. Lecturing staff costs amount to around a half of a typical college’s expenditure, hence a saving of around 3.8%. Matters are a little more complex than this but the point stands.

151. No one is saying that a particular group size is “right”. Indeed, achieving an average group size of 13 in the context of difficulties recruiting to some programmes and space limitations for practical work on others may mean that some popular programmes without practical space limitation constraints may have very large group sizes indeed. The key point being made is that “13” is the result of a calculation that starts with the funding available, not a conscious decision of what a good average group size target should be.

A possible exception to the “price-minus” model

152. We are confident that much of the post-16 sector implicitly or explicitly operates on a “price-minus” model. However, we should mention one important exception.

153. SFCs, at least in our sample, arguably do not have the same flexibility to adjust their expenditure to match income in the way we have described. This is because, to attract learners, they are likely to be obliged to provide a similar level of provision to that offered by neighbouring school sixth forms, particularly for A Level study programmes and International or Technical Baccalaureates.

154. Specifically, SFCs may struggle to reduce GLH for National funding rate Band 5 learners to 540 – and will not be able to do so if learners want the option of studying for four or more A Levels, for the IB or for the TechBacc. These programmes cannot be completed in 540 annual hours. Whilst there is some additional funding available in the model for “large study programmes” such as these, payment is contingent upon learner performance at assessment/in exams and, even if paid, almost certainly does not fully compensate for the additional GLH involved.

155. SFCs may also struggle to:

- Increase class size, often because their accommodation was designed to be sixth form specific and therefore cannot accommodate larger groups (schools are more likely to have more larger classrooms available)
- Generate alternative sources of revenue to subsidise the costs incurred in delivering core activities.

The danger of false conclusions

156. We have already argued that, since FE provision is essentially a “price minus” activity, no conclusion can be drawn from comparing an organisation’s expenditure with its income. Simply because a particular provider is not spending more than it receives one cannot conclude that its income is “sufficient” in any meaningful sense.

157. We will, in the next Section, present figures which show that within any one college some departments are spending more than they receive in income and others are spending less. This does not automatically mean that the funding for

those spending less than they receive can be reduced, that these courses are over-funded, or that the departments delivering these courses are more "efficient".

158. Rather, given that, for the reasons already explored above, some departments cannot operate within the income they receive, for the GFEC as a whole to break even whilst maintaining the traditional breadth of provision GFECs offer it is necessary that other departments can.

159. It could be argued that providers could simply "cut" those departments that were failing to achieve their contribution targets, and keep only those that were profitable, and thus do rather better than at present. However – with the possible exception of major conurbations, and perhaps even only London – as a minimum, most GFECs are the exclusive providers of non-work-based *general* vocational education at Level 3 and below in their communities; to take such draconian action would cause significant damage to local businesses' prosperity and to local learners' prospects. No GFEC we spoke to was currently advocating such action[32].

160. However, there is some anecdotal evidence that ILPs as a group are starting to move away from Apprenticeships that in their view cost more to deliver than they bring in. We explore this in more detail in sections 5 and 6.

Conclusion

161. This section of our report has addressed the way in which we collected financial data for our project and outlined the conclusions that can be drawn from it. We have pointed out that conclusions about the sufficiency of funding overall cannot – indeed must not – be drawn from the observation that overall most providers' income and expenditure is in balance, or nearly so.

162. However, it is possible to illustrate differences in cost:income ratios between departments in GFECs, and similar differences between expenditure on Apprenticeship provision where ILPs maintain or can calculate programme-specific figures. We provide this data in Section 5 and draw conclusions from it.

163. Before doing this, in Section 4 we describe in detail the data we were able to collect from our providers.

[32] There is also the accounting point that to close these departments without reducing central services *pro rata* (which is almost impossible to do) would lead to a cascade of further problems – the remaining departments would have to work harder to recover their revised, increased, share of central costs. Put another way, it is worth continuing an activity that covers its *marginal* cost even if it fails to cover its *absorption* cost.

4 Quantitative data collection: the data available

Introduction

164. As mentioned in the previous section, the data collection that we undertook as part of our visits explicitly took account of the way that data was held by the organisations we visited; we neither asked them to undertake significant costing and pricing exercises nor had the project time to carry out such exercises ourselves.

165. Nevertheless, we were able to collect a range of data from most of the organisations we visited, albeit in different formats, and have been able to draw out four "studies" from this data; these are presented in Section 5.

166. First, however, we should describe in detail the data we were able to collect.

Our data collection

167. The data collection instrument in Annex 2, and in particular the "worked example" figures shown there, anticipated the level of data we hoped to be able to collect from our fieldwork participants. In practice, the data that organisations were able to give us was usually at a higher level of aggregation than the worked example might suggest.

168. In particular, participants' ability to provide data at the "departmental" level was limited, partly by the extent to which departmental delegation of resources took place.

169. As noted in Section 3, a number of commercial confidentiality issues were also raised with us, particularly by ILPs; these also limited the amount of data we were able to collect.

GFECs

170. GFECs, broadly speaking, gave us the most detailed financial information concerning their operations.

171. At a whole institution level, most GFECs shared with us statements of their income and expenditure by source and type. Each GFEC, as might be expected, maintained its own "chart of accounts"; these differed between GFECs so direct comparisons between one college and another are only possible with further work on the data.

172. GFECs in our sample also maintain financial records at "departmental" level[33], typically as follows:

- Learner fee and other income is generally attributed to the department responsible for the learner and the programme concerned
- Expenditure on staff working in the department, most typically lecturers/tutors but also some technicians and support staff, are usually "charged" to the department
- A small amount of non-staff expenditure, typically on learning resource consumables, is also sometimes allocated to the department.

173. When these staff and non-staff costs have been deducted from the departmental income, what is left is returned to the central administration of the college as a CTO. This is used to fund all the other costs, central and otherwise, the college faces apart from the departmental staff and non-staff costs identified above. Unsurprisingly, the percentage of income contributed by departments varies both within any individual college and between different colleges; within our sample the whole-college average was typically around 40%. Figures for individual departments varied more widely, as will be seen below.

174. What GFECs in our sample did not do – with the occasional exception – was allocate any of the following costs to departmental level:

- Learner support costs
- Library and information service costs
- Examination fees or other awarding body-related costs
- Costs of equipment, even where learning-related equipment was clearly assigned to a particular department[34]
- Space costs
- Costs of human resources, finance, marketing, etc.

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[33] Terminology varies: some GFECs refer to "Schools" or "Faculties". Most commonly, however, GFECs that use the term "Schools" use it to refer to groups of departments, and this is the usage we will follow here.

Usually departments are designed around a common single vocational area – Engineering, Health and Beauty, etc. Where a college operates on two or more sites each site may have its own departments; alternatively departments may be multi-site.

Also, some GFECs regard Apprenticeships (and indeed other forms of provision – HE etc.) as a "department", others include Apprenticeships, higher level qualifications etc. within the relevant department (e.g. Engineering Apprenticeships, HE etc. within the Engineering department). As noted in Section 2, others operate a different model: the picture varies considerably.

Differences such as these make comparisons between GFECs a little bit more difficult.

[34] Significant equipment purchases are in any case capitalised, and only appears on revenue accounts in the context of a depreciation charge. The depreciation charge is similarly generally not allocated to departments, even when a particular department's equipment is involved.

- External and regulatory costs.

175. In most cases, GFECs did not have the information to make such an allocation. Even when in theory it would be possible to do so, most did not choose to[35].

176. GFEC accounts (at both whole institution and departmental level) also did not make any correspondence between sources of income (16 to 19 study programmes, Apprenticeships, HE, etc.) and expenditure on the associated provision. It is not possible therefore to match 16 to 19 study programme income and expenditure, Apprenticeship income and expenditure, etc.

177. GFECs also did not routinely allocate totals of learners' GLH to departments. Funding claims were created by enrolment software and it was the resulting income, not the GLH count itself, that mattered and was attributed to departments as already noted. In any case, the link between funding and GLH is based on "bands" meaning an exact GLH count is not really relevant even if it is technically possible to produce (though see below). Other things being equal, from a GFEC (and SFC) perspective, the key is to produce a study programme that is sufficient – but ideally no more than sufficient – to meet the band's GLH threshold and trigger the funding.

178. Finally, it should be noted that no GFECs within our sample routinely made any allocation of costs to the level of an individual course or programme and none saw any value in doing so (quite the reverse in fact). GFECs have the lecturer/tutor timetable information that would enable them to apportion lecturers' salary costs to particular programmes, but no further information on individual programmes' use of resources beyond this. On its own, lecturer cost information is insufficient to inform any view about the costs of an individual course/programme.

179. In summary, therefore, our data set for GFECs is made up of

- A number of income and expenditure statements, indicating (*inter alia*) how the colleges' overall expenditure is distributed across various staff and non-staff categories. These are in a locally determined, rather than a standard, form but comparisons can be made
- Records of income (all sources), staff expenditure and non-staff expenditure, and the associated "contribution" at departmental level.

180. Of the 18 GFECs we visited, 14 gave us income, expenditure and contribution data for each of their departments. The data translated into 331 data points.

181. All the data points were based on full year data. The data was based on either the most recently completed college year (2017/18) or the budgets/revised forecasts for 2018/19, which gave a better picture of what the college was now doing.

[35] For example, it must by definition be possible to allocate examination entry fees to the departments where the candidates are studying, but almost all of the GFECs in our sample did not see the need to do so.

Otherwise, and given the scale of the conclusions we intend to draw, the inflationary impact between 2017/18 and 2018/19 is in our view negligible.

182. It is important to emphasise that our data relates to *all* income earned by, and direct costs allocated to, individual departments. Most GFECs (and ILPs) were generating a reasonable (in some cases a considerable) proportion of income from other (non-DfE/ESFA) sources[36].

> Keeping the college viable has meant diversifying income – moving away from 16 to 19 study programmes and towards Apprenticeships and commercial income, and [for flow through onto other programmes] 14 to 16 provision.

> Our 16 to 19 provision has the lowest EBITDA and is effectively being supported by other revenue streams, particularly Apprenticeships and commercial income.

> Growth in HE has just about enabled our 16 to 19 provision to continue largely unchanged; without it, the breadth of the FE offer would have to be reduced.

> There is a general and on-going need to continue to diversify income streams in order to maintain core FE provision to an acceptable standard.

SFCs

183. SFCs' finances work on a different basis to GFECs. Although they have a departmental structure, many learners study across more than one department (typically by following an A Level and/or a vocationally equivalent – generally BTEC-based – programme). Since ESFA funding is "per learner" not "per qualification", it is not entirely straightforward to allocate income to departments and none of the SFCs we visited did so.

184. As we have already noted, the only resources allocated to departments are for small amounts of revenue expenditure on local consumables.

185. We therefore have no financial information at departmental, let alone programme, level for SFCs.

[36] The proportion of a provider's income from non-ESFA sources varied widely. Many GFECs had considerable income streams from higher education courses or full cost recovery programmes; some had much less. Some ILPs only offered Apprenticeships while others provided programmes for other Government departments or agencies and generated additional commercial income. It is impossible to generalise, but Figure 2 and Figure 5 (pages 53 and 56) give examples for two GFECs. ILPs did not share this information. Though there are exceptions, SFCs do not, in general, have other material income sources.

186. We do have some breakdowns of income and expenditure at a whole-SFC level, again in locally determined formats, and can compare these.

ILPs

187. We visited 10 ILPs during our study. As mentioned above, some were reluctant to share cost and income data with us, citing confidentiality concerns. However, two multi-sector ILPs did give us a reasonable level of detail of the costs of individual Apprenticeship programmes on a per-learner basis.

188. One multi-sector ILP was willing to share with us their full annual budget provided we reported on it only in percentage terms.

Our approach to data analysis in GFECs

189. Our approach to analysing the data provided by our ILPs and SFCs is relatively straightforward – we can use it without much, if any, further work being required. However, this is not the case for the data GFECs have provided. This sub-section therefore focuses on our approach to analysing our GFECs' data.

190. A particular interest of our study was how expenditure compared to income in different vocational areas. For GFECs, it is possible to extract worthwhile estimates of programme costs through analysis of the data available to us. The approach is complex but, we believe, robust[37].

191. As already noted, for a particular GFEC in our sample we are likely to have the following departmental data:

- Income
- Departmental staff and non-staff expenditure
- The balance, forming the "contribution" to central costs that the department makes.

192. The contribution, as has been noted, funds the GFEC's central services – including any learner-focussed services that are not delegated to departments. Corporately, the GFEC will be aware from its budget setting process of the proportion of fee and other income that will be needed to fund these services. Probably, expressed as a percentage of income, the overall the figure will be around 40%, as already noted.

193. It might be thought that all departments could reasonably be asked to provide c. 40% of their income to meet this requirement. Implicitly, this is based on the principles that:

[37] For ILPs, the per-learner costs provided by two providers addressed this need directly; for SFCs, the information – as just noted – is simply not available.

- Central services are, ultimately, for the benefit of learners
- "Larger" departments are proportionately greater "consumers" of central services than "smaller" ones
- The most convenient way to assess the size of a department is to look at its total income.

194. These principles are of course open to challenge. In particular, attempts have been made over the years to track departments' and their learners' differential use of central services with a view to making better apportionment of their costs[38]. However, "in a perfect world" it might be argued that all departments would make the same percentage contribution to the costs of central services, as indicated above.

195. In none of our GFEC sample was this even remotely the case. Departmental percentage contributions varied widely within every GFEC, and in some instances were negative – that is to say, the costs of staffing and consumables directly attributed to the department were apparently greater than the income it generated, leaving less than nothing for the centre[39].

196. Intuitively, if one of our GFECs requires a college-wide contribution rate of 40% and a particular department is only contributing, say, 20% then it is not paying its share. At least one other department must be paying more than 40% in order to compensate; those departments contributing more than 40% are implicitly cross subsidising the underpaying one.

197. This intuitive principle can be translated into an assessment of departments' fully absorbed costs as follows.

198. Imagine a GFEC with (say) three equal sized departments which needs to set an overall contribution rate of 40%. In other words, central college costs account for 40% of the GFEC's income and 60% is available for departments (taken together) to spend on direct delivery of their programmes.

199. The contribution model implicitly suggests that the best way of allocating central costs across income-earning departments[40] is to charge them *pro rata* to the income departments generate.

200. If Department A's income is £1m and it is indeed making a 40% contribution towards central costs, then it is spending £600,000 internally and paying £400,000

[38] Including, but not limited to, space utilisation surveys, tracking learners' use of library and IT facilities, assessing full-time and part-time learners' differential use of leisure and recreation facilities, etc. None of these have, in our view, been particularly successful and (as noted) none have been adopted by any of our sample GFECs.

[39] These instances usually arose in very small departments, newly formed departments or other anomalous circumstances. We have thought it best to exclude them from our analysis.

[40] We shall ignore the possibility of central departments earning small amounts of income for the present. It merely complicates matters.

– its share – towards the centre. On a fully absorbed cost basis, under which this central contribution is seen as an indirect cost at departmental level, it is spending precisely what it receives in fees (etc.) on its provision.

201. Consider next Department B, which is making a 20% contribution only. If its income is £1m, then it is spending £800,000 internally. However, it should also be contributing of £400,000 towards central costs so, on a fully absorbed basis, the cost of its provision is £1.2m. Its costs are therefore 120% of its income and it is running at a significant loss.

202. On the other hand, Department C, which is making a 60% contribution of its £1m budget, is only spending £400,000 internally and "should" be charged £400,000 for central services. On a fully absorbed basis, its costs are therefore £800,000, or only 80% of its income, and it is making a significant surplus.

203. Note that the three departments' contributions, taken together, do total £1.2m, which is the 40% of £3m total fee income that the centre requires[41].

204. These percentages can, if required, be turned into notional per-learner figures in a self-evident way. On average, for every 16 to 19 Funding Model Band 5 learner in Department A that brings in £4,000 of funding, the department is indeed spending £4,000. Department B, however, is spending £4,800 and Department C £3,200[42].

205. A similar argument can be used to translate these notional costs per learner into costs per GLH[43]. The threshold for Band 5 funding is 540 annual planned learner hours and from discussions on our fieldwork visits it is fairly clear that few GFECs (and SFCs) can afford routinely to offer hours significantly above this level. We can therefore conclude that, for the purposes of comparing departments (and indeed institutions) broadly:

- Department A's costs are £7.40 per GLH (i.e. £4,000 divided by 540 GLH)
- Department B's costs are £8.88
- Department C's are £5.92[44].

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[41] A small but significant point is that this calculation effectively "factors out" differences in overall average contribution rates between different GFECs. Two GFECs may have different average contribution rates, so (for example) the contribution rates made by the corresponding Construction departments in the two colleges cannot be directly compared. However, once differences in contribution rate have been turned into cost:income ratios they can be compared directly.

[42] Being 100%, 120% and 80% respectively of £4,000. Of course, if Department B's vocational area attracts a programme weighting of 1.1 then it is receiving £4,400 per Band 5 learner and spending £5,280. And so forth. Given the necessary approximations involved in absorption costing, these are we believe very good estimates of what is going on.

[43] As already noted, it is cost per *learner* GLH that is meant here, not the cost of delivering a GLH to a group of learners (where obviously the group size would be a multiplier).

[44] Again, subject to correction if any department's programmes attract a programme weighting of more than 1.0. At the level of aggregation at which we are operating, it is fair to assume that all programmes within any given GFEC's department have the same weighting, and we will do this in our analysis.

Assumptions

206. It is worth being absolutely explicit about the assumptions used in this modelling:

- In the absence of any more detailed study of departments' differential use of central services[45], it is reasonable to assume that each department makes proportionately the same "level of use" of the central services provided – for example, a department of twice the size will make twice as much use of central services. It is also reasonable to measure a department's "size" in terms of its overall income from all sources
- All activities undertaken by departments are, in the absence of evidence to the contrary, equally fairly funded. In other words, if a department is spending 120% of its income (including a share of fully absorbed central costs) then as a first approximation it is spending 120% on everything that it does
- In particular, that the funding model bands are themselves fairly funded and there is no expectation of cross-subsidy – for example into or out of 16 to 19 Funding Model Band 5 in respect of other bands. If there were, the use of Band 5 alone to calculate a per GLH figure could be suspect.

207. These assumptions seem to us fair in the context in which this project is operating[46].

Data available for our GFEC sample

208. To conclude, the data we have available for our GFEC sample (331 data points) is as follows:

- Income, from all sources
- Expenditure (on a fully absorbed model)
- Local (direct) staff expenditure[47]
- Notional cost per GLH of programmes delivered within each department, based on the assumptions above.

[45] Which, implicitly, it will be clear we do not recommend.

[46] It will be appreciated that the calculation yields a notional cost per GLH that is most applicable to 16-19 provision. If a GFEC department offers a mix of 16-19 provision and provision funded in other ways then the calculation will yield an appropriate result provided there is no conscious and identifiable cross-subsidy into or out of 16-19 provision; to the extent that such cross-subsidies occur, the calculation of cost per GLH will be to some extent compromised. If a department has *no* 16-19 provision then the calculation will be purely indicative.

[47] Some locally budgeted staff expenditure may technically be non-direct (e.g. departmental administration). It is not in our view worth maintaining the distinction between direct and non-direct departmental staff costs, particularly as technicians' time (a direct cost) cannot be ascribed to individual programmes. A similar point applies to non-staff costs.

Conclusion

209. Having outlined the data we were able to collect and our approach to analysing it, in the next Section we present our analyses of the data.

5 Quantitative data: analysis

Introduction

210. In this section we present four different analyses of the data we have collected:

- A description of cost drivers at whole-organisation level for GFECs and SFCs
- An analysis of expenditure as a proportion of income in GFECs, and an estimate of the costs per GLH implied
- An analysis of direct staff expenditure in GFEC departments
- The perceived costs of delivering Apprenticeships within two sample ILPs.

A. Cost drivers at whole-organisation level: GFECs and SFCs

211. First, we present some comparisons of costs (and income) at whole institution level for some sample GFECs and SFCs.

212. The first three diagrams refer to a large multi-site GFEC. The figures have been rendered in percentage terms to ensure confidentiality.

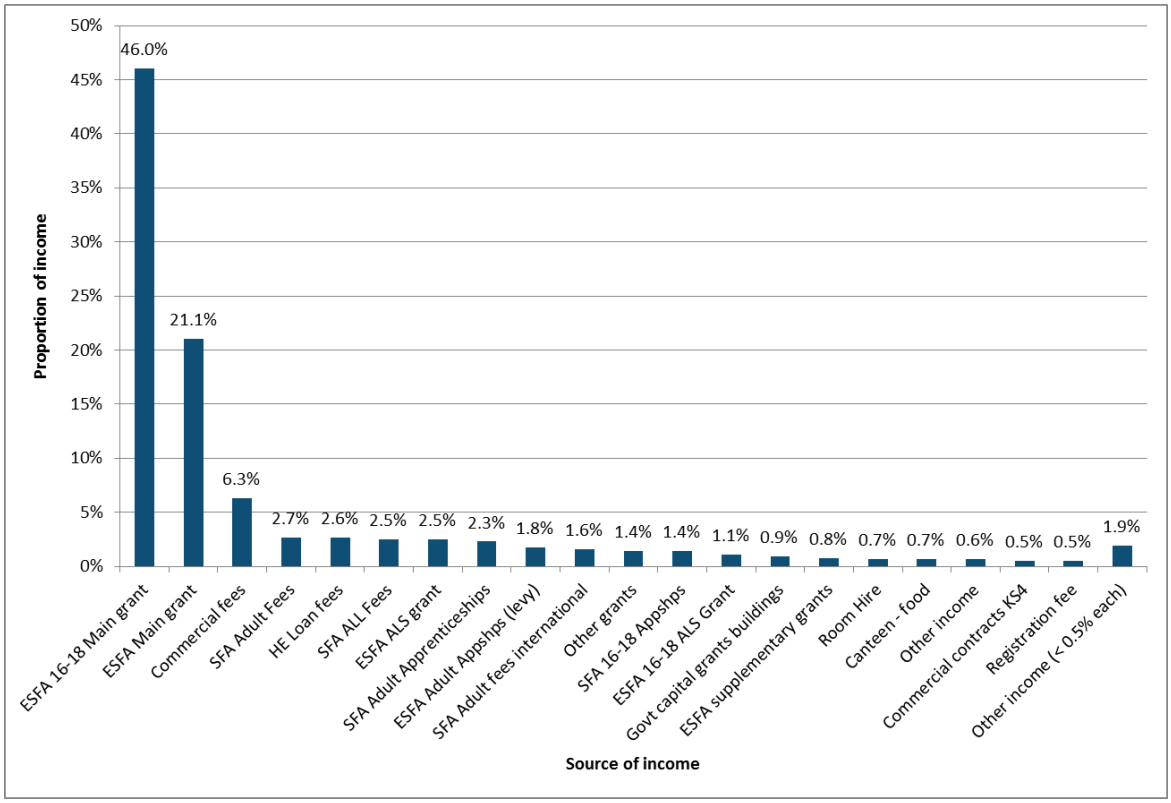

Figure 2. Sources of income, percentages, a multi-site GFEC

213. The bulk of this GFEC's income, c.90%, is derived from what it describes as (E)SFA-related sources: this would not be untypical for our GFECs, though there were some notable exceptions.

214. The expenditure analyses in Figure 3 and Figure 4 show staff and non-staff expenditure by category respectively: this is shown as a proportion of *overall* expenditure – e.g. expenditure on hourly-paid lecturers represents c.5% of overall expenditure.

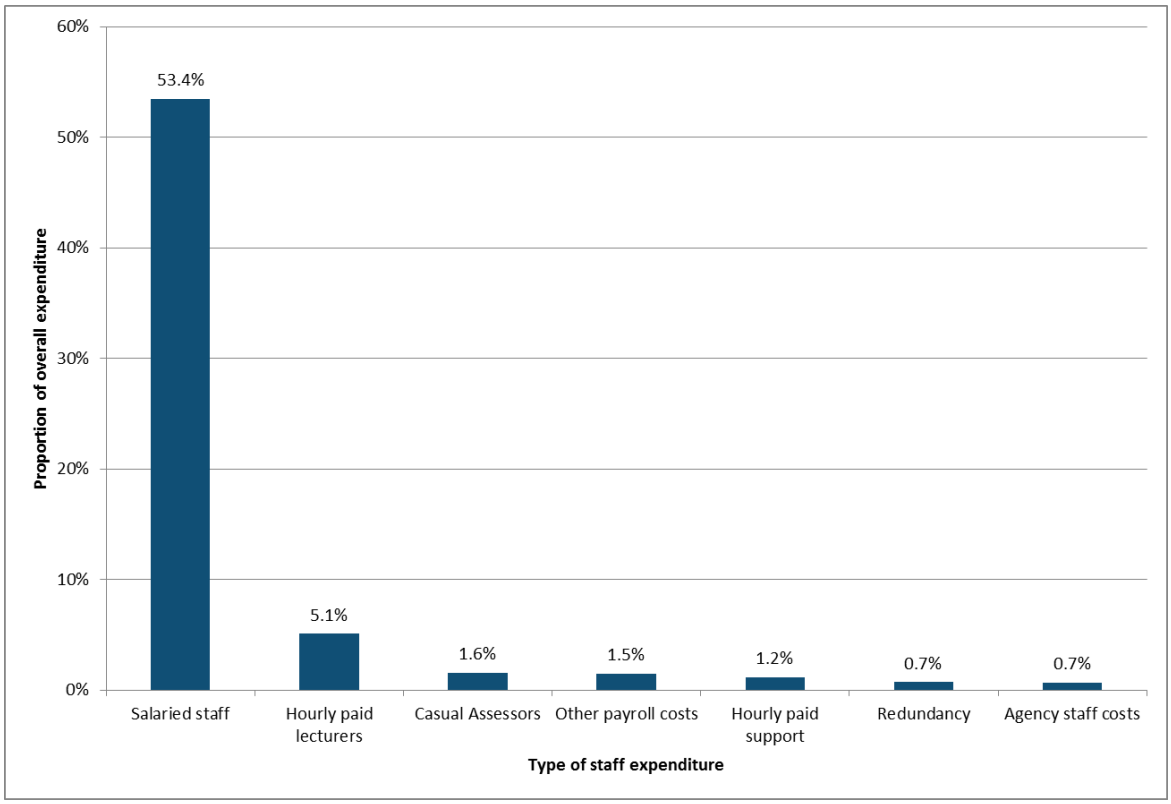

Figure 3. Staff expenditure by category, percentage of overall expenditure, a multi-site GFEC

215. In this instance, staff costs as a whole (i.e. the total of all the bars in Figure 3) amount to 64% of college expenditure. This profile of expenditure on staff would not be untypical of our GFECs.

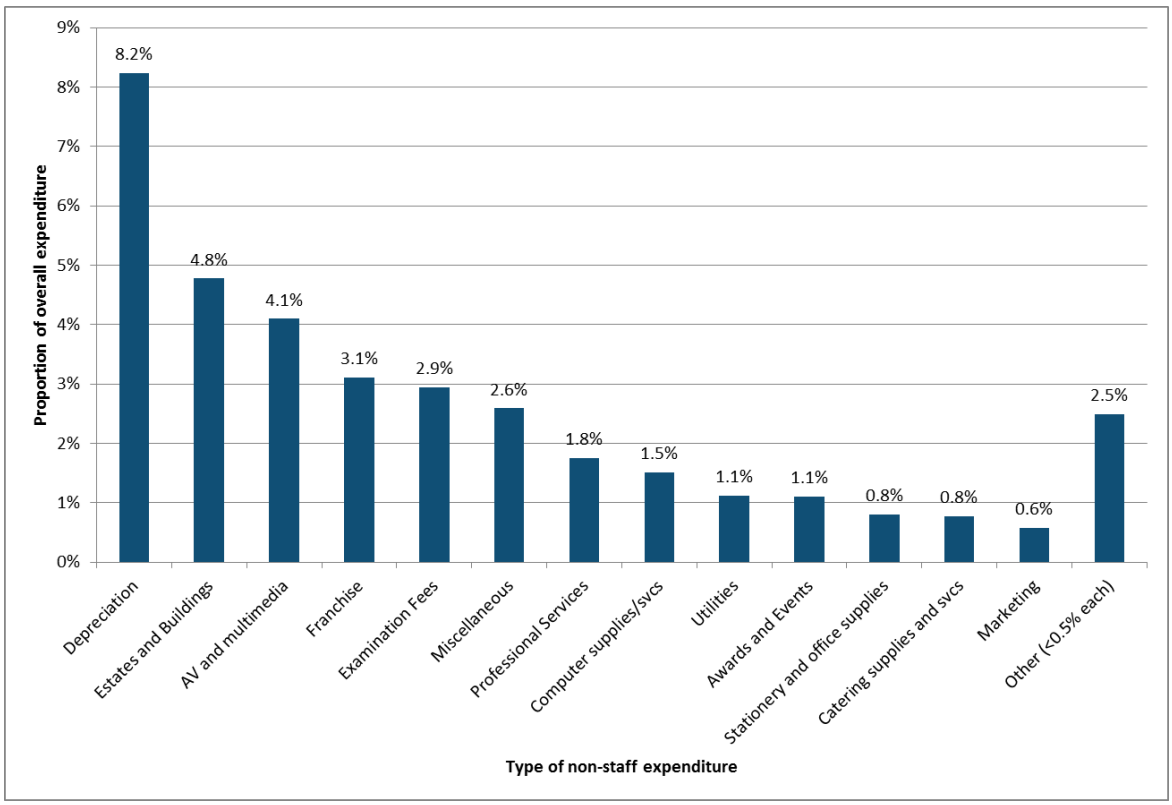

Figure 4. Non-staff expenditure by category, percentage of overall expenditure, a multi-site GFEC

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216. The next set of diagrams show the same data for another GFEC (this time on a single site). Although the actual categories adopted by the two GFECs are often different, there is a general correspondence between the major income and expenditure items and indeed their relative proportions. The single site GFEC's income is less reliant on ESFA funding.

217. In this instance expenditure on staffing represents 60% of overall expenditure.

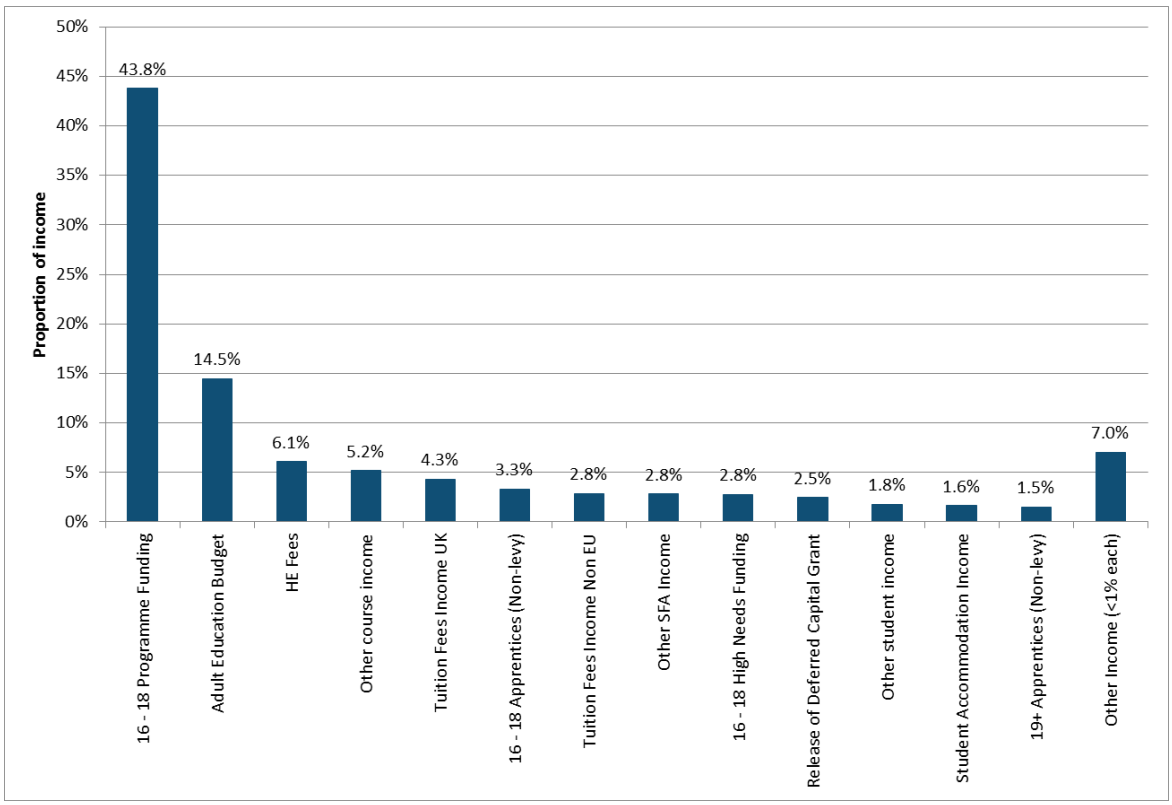

Figure 5. Sources of income, percentages, a single site GFEC

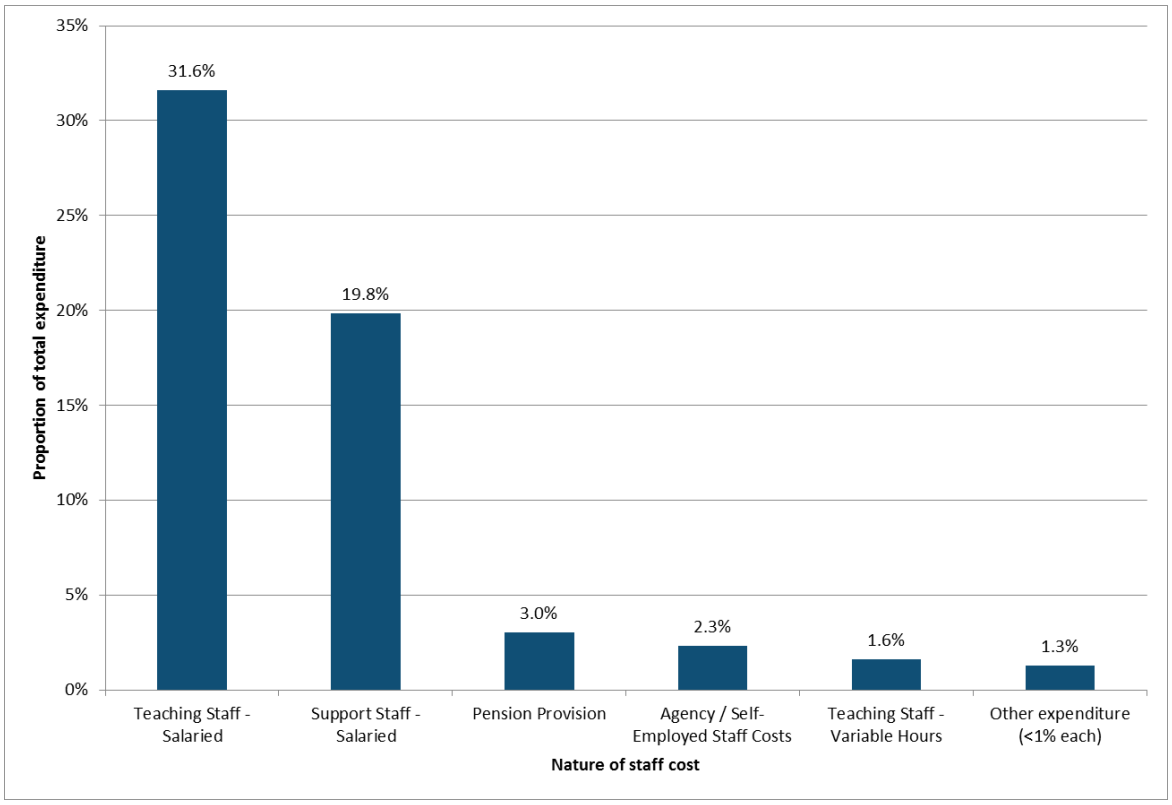

Figure 6. Staff expenditure by category, percentage of overall expenditure, a single site GFEC

218. Note that Figure 6 distinguishes between salaried teaching staff and other salaried staff (this was not true in Figure 3); total salaried teaching costs are broadly similar but the single site GFEC makes more use of agency – and less use of hourly paid – staff.

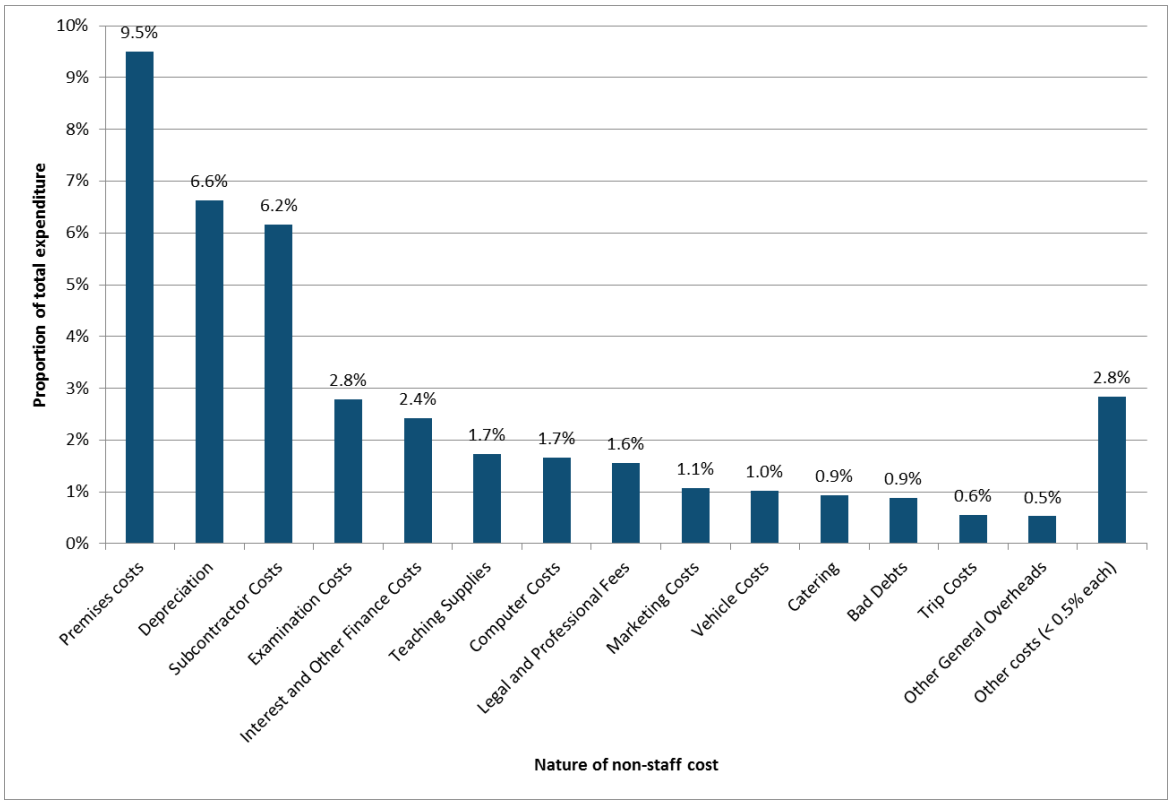

Figure 7. Non-staff expenditure by category, percentage of overall expenditure, a single site GFEC

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219. The next diagram gives expenditure information for an SFC. The income for the SFC in question was 96% ESFA and 4% other (mainly catering-related) income.

220. The proportion of expenditure on staffing, at 76%, is considerably higher than in either of the GFECs whose information has just been presented. The expenditure on learning resources is also considerably higher but this category brings together a number of categories which in the two GFECs were presented separately so direct comparisons are not straightforward.

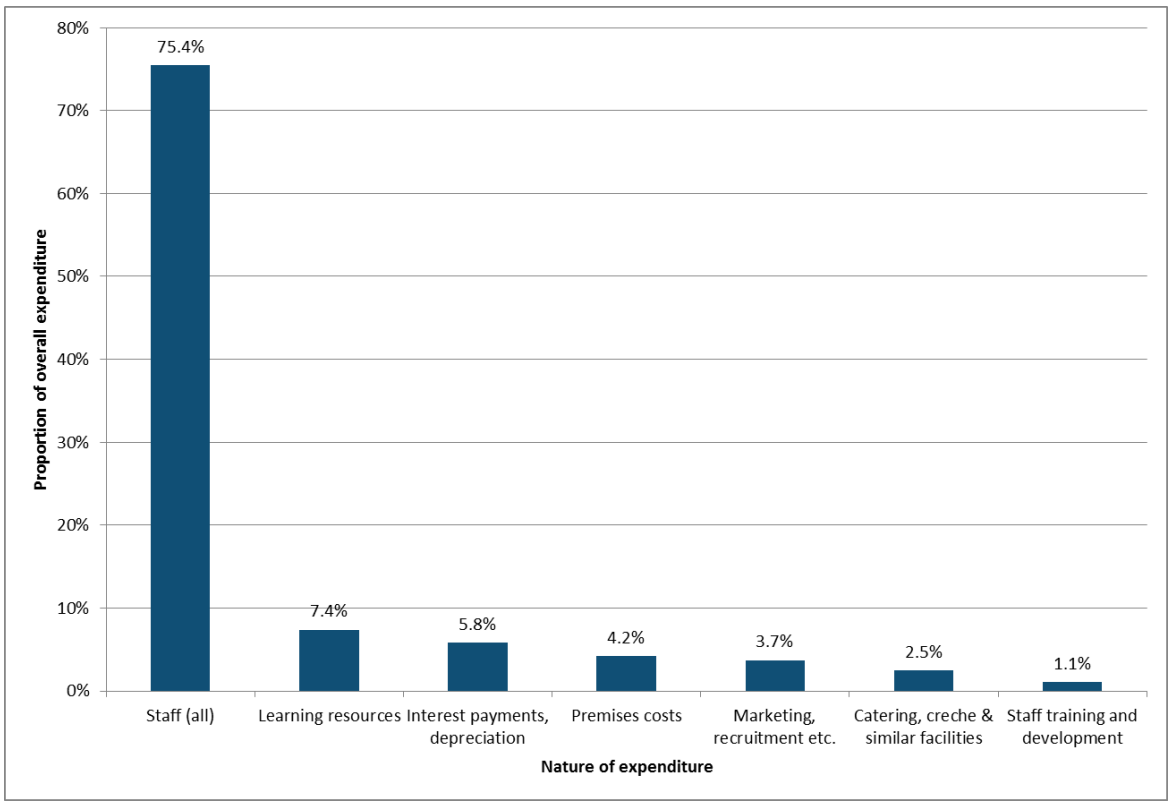

Figure 8. Expenditure by category, percentage of overall expenditure, an SFC

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221. These three case studies are only examples, and more could be given. However, were a systematic analysis of differences between institutions desired then it would be necessary to devise a standard classification of income and expenditure costs and issue a questionnaire request to colleges (SFC and GFEC) to complete income and expenditure returns according to this standard classification. This is eminently possible in theory, but, based on our piloting of such an approach for this project, in practice likely to prove (a) extremely difficult to design and (b) unpopular with the sector due to the time that would need to be invested in trying to map colleges' internal chart of accounts to the standard headings provided. Inevitably inconsistencies in treatment would arise, limiting the use that could be made of the data

222. As noted, our sample ILPs were unable to give us corresponding income and expenditure information.

B. Departmental costs as a proportion of departmental income: GFECs

223. We turn next to an analysis of the data collected at departmental level in GFECs. We have described the data available to us in paragraph 208 above. We start with an examination of fully absorbed departmental costs as a proportion of income.

224. The first point to make is that levels of expenditure as a percentage of departmental income vary widely within a particular GFEC – more widely than between GFECs. The figure below shows the variation in one GFEC.

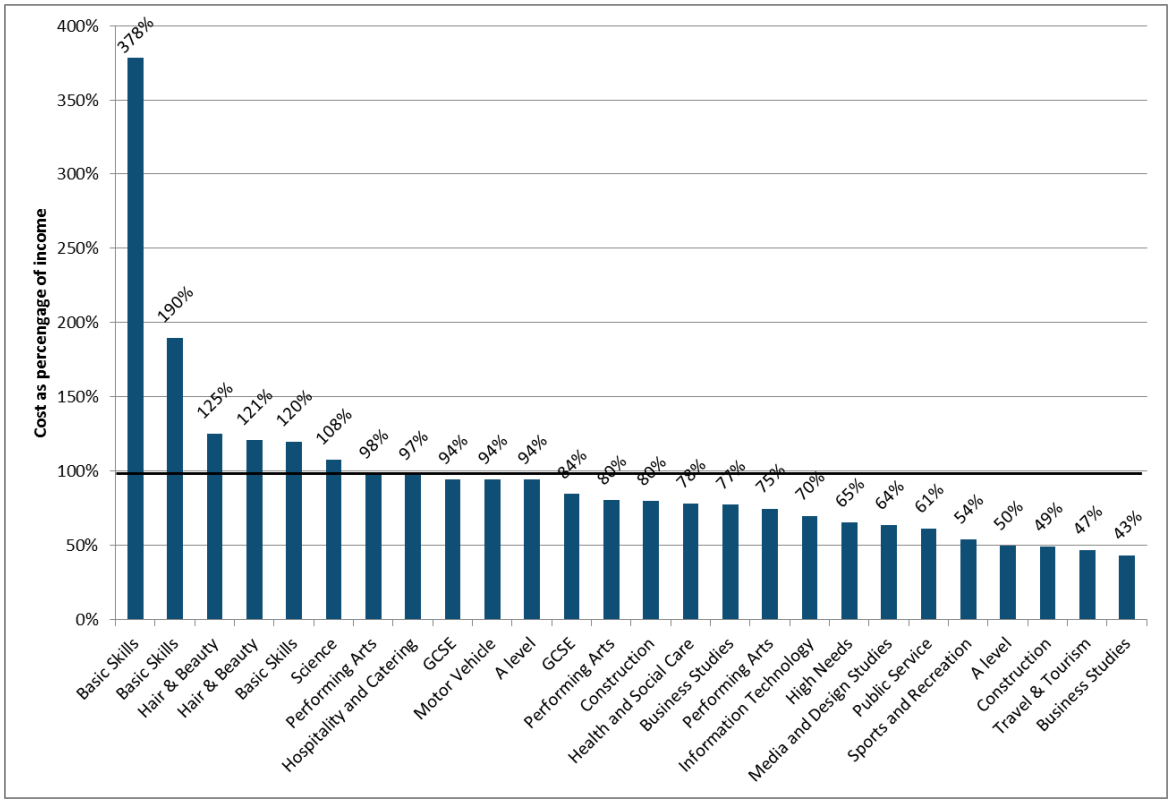

Figure 9. Cost as a percentage of income, a GFEC[48]

225. Not all the departments in the GFEC illustrated above are the same "size" (where for convenience annual income from all sources is taken as a proxy). Figure 10 below shows the relationship between annual income for these departments and the costs they incur as a percentage of income.

[48] We have used common department names here and in some of the following diagrams and tables in order to ensure anonymity of the GFECs concerned and to allow for cross-comparison of the data. In some cases, different departmental names in use in the institution concerned map into the same common department name, hence there are multiple references to individual common department names in some of the figures (Construction, GCSEs, Business Studies and Basic Skills feature more than once in Figure 9 for example). For a fuller description of common department names see paragraph 240 below.

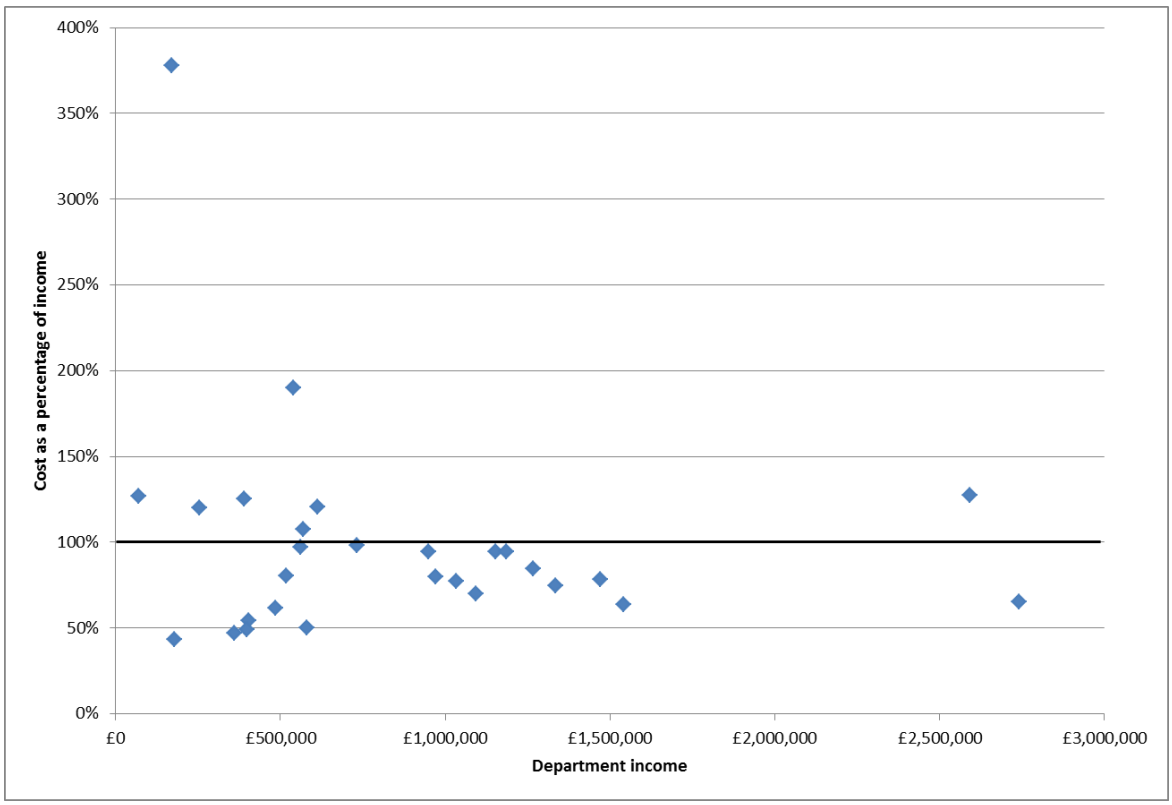

Figure 10. The relationship between departmental income and cost as a percentage of income, a GFEC

226. The department with the highest costs as a proportion of income (378%) is indeed one of the smallest (income c. £200,000) – though the fact that the department is a Basic Skills department may be a complicating factor (e.g. income may be credited elsewhere). More generally, the small department/high cost to income combination is intuitively understandable: if a large department in this particular GFEC was spending 378% of what it received, other departments would be hard placed to cross-subsidise it. Even leaving this outlier to one side, the figures show a considerable variation in cost-to-income ratios between departments, with nine departments spending 75% or less of what they receive and five spending around or in excess of 125% of their income[49].

227. The figure below shows data for another GFEC: this one is on two sites. 'Our' common department names have again been used.

[49] This is, to remind, a fully absorbed cost and not a delegated departmental direct cost that is being talked about.

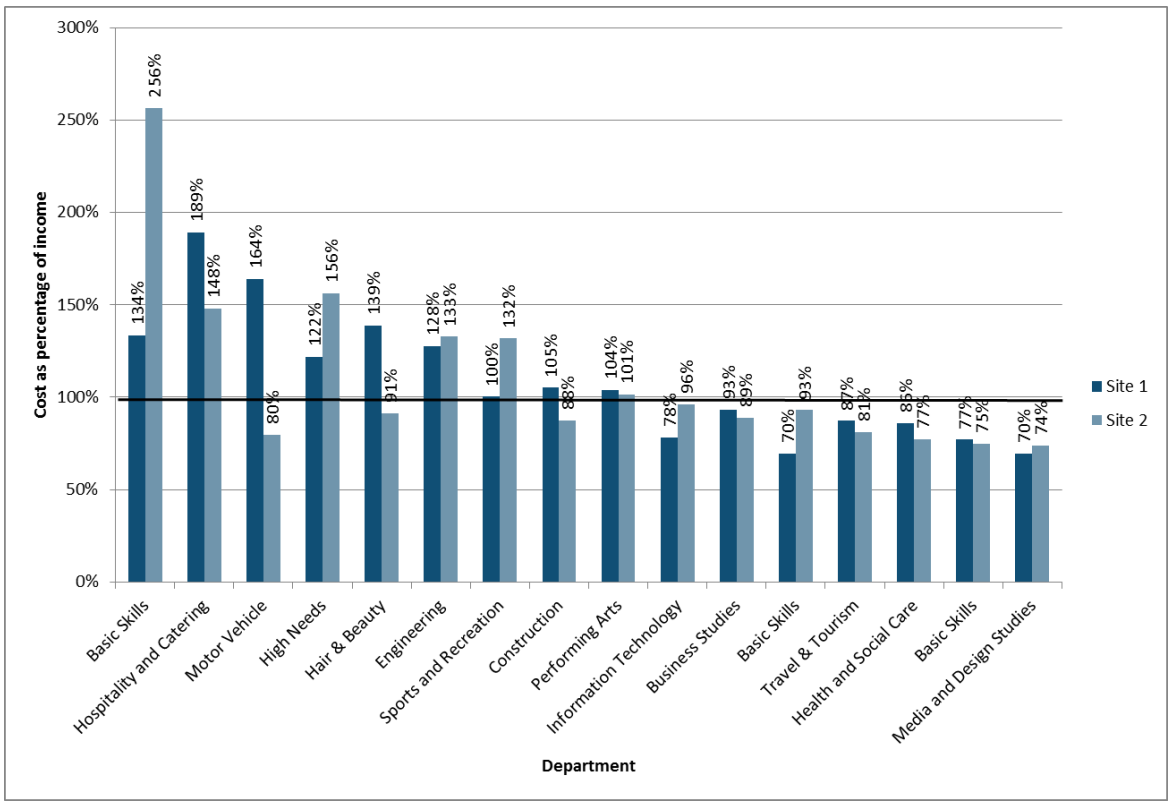

Figure 11. Cost as % of income, by department (matched), a GFEC on two sites

228. Two points can be made by comparing Figure 11 with Figure 9. The first is that the order in which the departments appear (from greatest cost on the left to least on the right) is different on the two figures – although there are arguably some similarities.

229. Comparing the two GFECs, broadly:

- Except for Performing Arts, departments that deliver with traditionally smaller groups/in workshops have higher costs as a percentage of income figures in the two site GFEC
- Programme areas that are classroom-based and able to run with larger groups have similar costs as percentage of income figures, both between the sites of the two site GFEC and between it and the other, single site, GFEC
- The single site GFEC has a longer and lower tail – 8 departments below 70% for example.

230. The second point to note is that the cost-to-income ratio for similar departments on the two sites shown in Figure 11 is itself often widely different. Indeed, the between-sites variation is as much as 2:1 in two instances (and in opposite directions in terms of which is the higher spending site).

231. Figure 12 (below) shows a scattergram relating department size to cost-income ratio for the same two-site GFEC. Again, there is greater variation in cost-income ratios among the smaller departments, but both sites show a considerable number of departments either at or below 75% or above 125% in their spending.

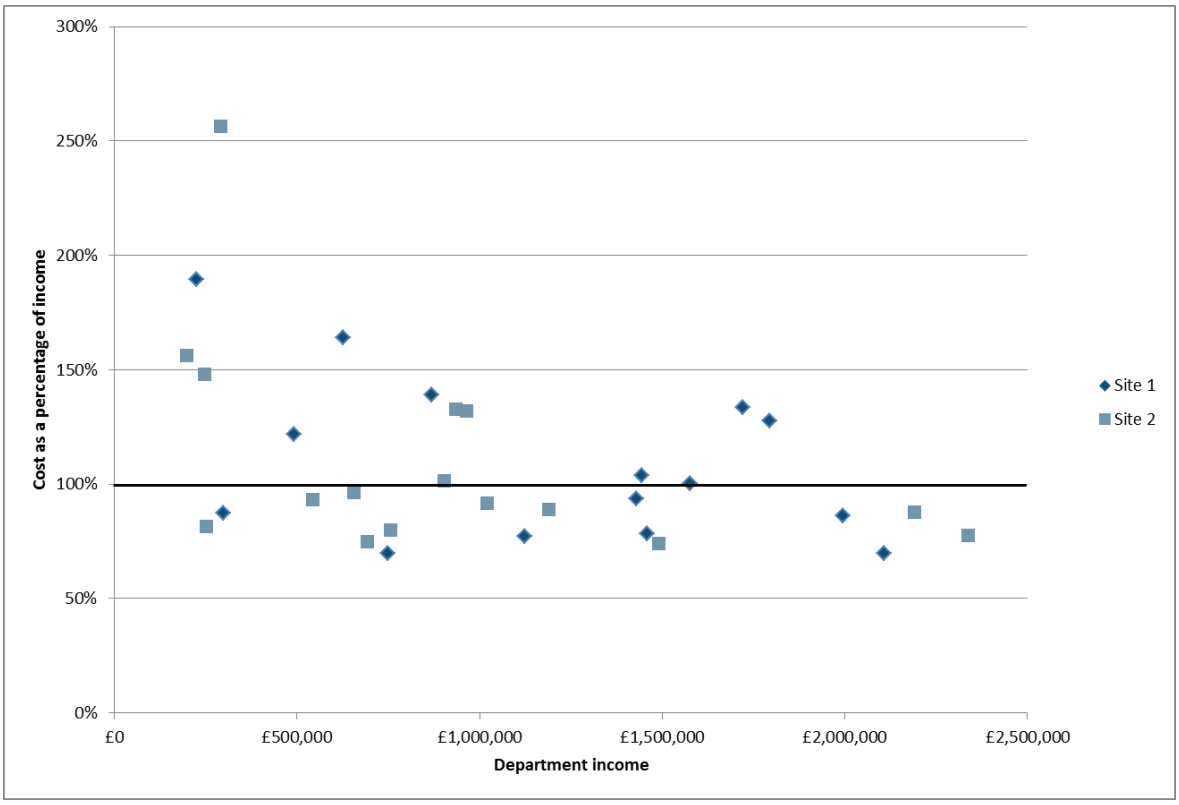

Figure 12. The relationship between departmental income and cost as a percentage of income, a GFEC on two sites

The whole data set

232. It would clearly be possible to reproduce similar graphs for all our remaining GFECs: they would show similar, though apparently to an extent random, variation. A more interesting analysis, however, would be to look at the entire data set from 331 departments across our GFECs in order to see what trends emerge.

233. Before doing this, some data cleaning is necessary. Firstly, we have excluded "departments" that were not in fact academic/vocational, revenue-earning cost centres and as a result showed unrealistically high cost-income ratios. Secondly, we excluded one department with an extremely high departmental income because it distorted the horizontal scale of the graph. This has left us with 298 data points, which are shown on Figure 13 below.

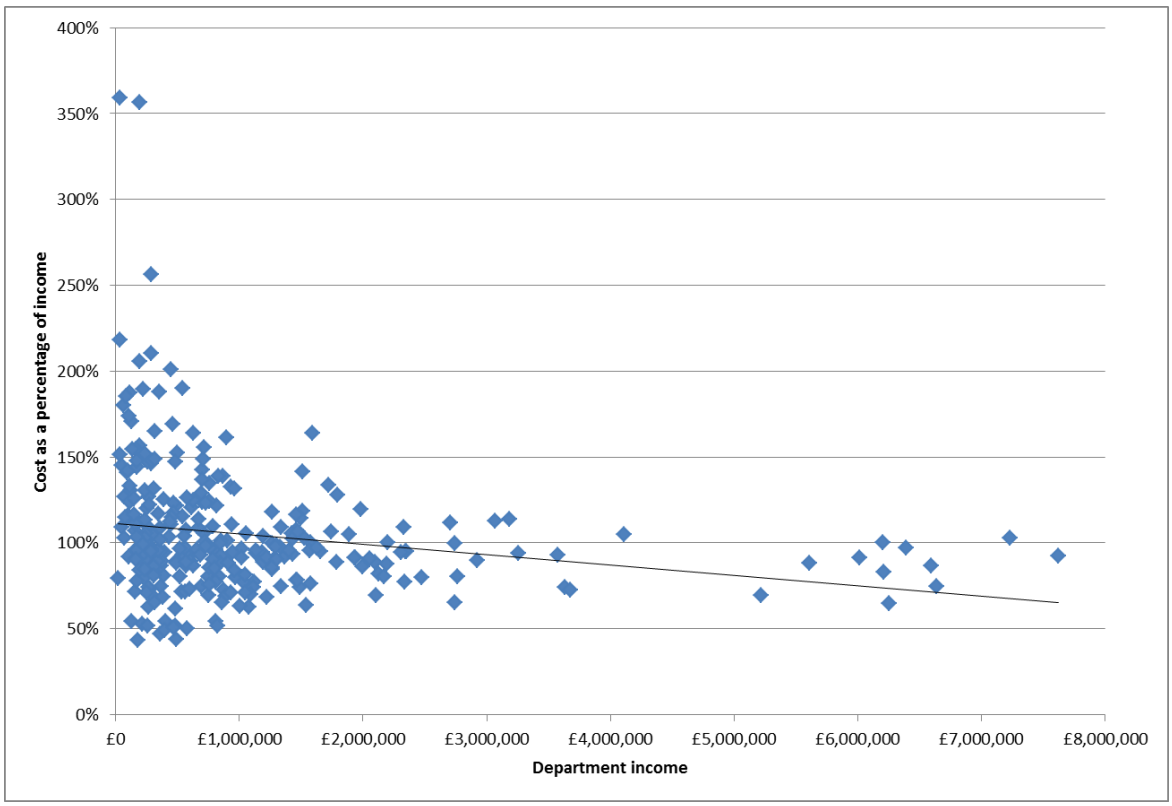

Figure 13. The relationship between departmental income and cost as a percentage of income, whole GFEC sample[50]

234. Figure 13 confirms that one of the points we made about our sample GFECs is indeed a general trend. The smaller the department, the more likely it is that its high spending can be absorbed within the GFEC's budget as a whole. The "top ten" data points in the figure above for example – those around and above 200% – all come from departments bringing in less than £800,000 of income.

235. However, it does not follow that all small departments are disproportionately expensive: the ten departments with the lowest costs as a percentage of income – those clustered around the 50% line (bottom left in Figure 13) – are in the same sub-£800,000 departmental income group.

236. It does however seem to be the case that as departments grow in size they tend to spend less than they receive. Of the twenty highest-income departments in Figure 13 – those to the right-hand side with a departmental income of at least £3m – only four spend more than they receive (on this fully absorbed model)[51], and this is

[50] The bold "100% line" has been omitted from this diagram and the remaining diagrams in this section, for clarity.

[51] It could be argued that the absorption costing implicitly used in this analysis – charging central costs to departments *pro rata* to their income – slightly penalises larger departments anyway, meaning that this effect might be slightly more pronounced were a more sophisticated absorption costing approach to be adopted.

only marginally so. More generally, as soon as departmental income passes £2m there is a definite trend towards lower spending as a proportion of income.

237. Indeed, there is a statistical relationship between department size (income) and cost as a proportion of income. Regression analysis shows a definite correlation, significant at better than the 1% level.

238. That said, the association is weak ($R^2 = 0.041$) and the trend line – shown in Figure 13 – is only just negative. In any case, the majority of departments in the sample do not pass the £2m mark (only one-in-six do) and, just as for our two sample GFECs reviewed at the start of this section, the variation in cost:income ratio shown is considerable.

Trends among individual departments

239. Another way to analyse the whole data set is to look at whether particular departments (Engineering, Hair and Beauty Therapy, etc.) tend to spend more or less than they receive in income on average. To do this, the data needs to be cleaned further as, as we have already noted, there is no common set of departmental names across GFECs and different GFECs tend to group departments in different ways. Also, as the figures above show, GFECs vary considerably in the number of cost centres (i.e. single departments and/or multiple departmental groupings) they have.

240. In order to make the data accessible for analysis, we have therefore adopted a set of "common department names", based on our sample, which compromises between failing to compare like with like (if too few common names are used) or reducing the number of departments with each name (if too many). The names we have chosen are shown in the table below.

241. We can now look at whether departments in each common-name group tend to be spending more or less than they receive. If our findings were random, then a particular department in a particular GFEC would (other things being equal) be as likely to fall into the group spending more than 100% of its income as into the group spending less than 100%[52]. If this does not seem to be happening in practice then perhaps a trend can be identified.

242. For an example, take the common department name "Public & Uniformed Services". This occurs nine times in our data set. Two of the departments in question are spending more than 100%, and seven are spending less. One may

[52] Our method of translating contribution rates into cost:income ratios, as described in the last section, effectively requires departments as a whole to "break even" by matching the total of modelled contributions they *should* make to the total of contributions they *actually* make. If, therefore, a particular college is aiming to make a surplus of 1% on its revenue budget, then under our model this is in effect "held centrally". This is near enough to what happens in practice for our purposes.

achieve two or fewer results out of nine in a random 50:50 distribution with a probability of 9%[53]. This is possible but not particularly likely. Statistically our result of two out of nine overspending what they receive is "significant at the 10% level" (since 9% is less than 10%)[54].

243. The full analysis of the data set, with significance, is given below. The standard significance levels (10%, 2%, 5%, etc.) are used; where the difference is not statistically significant the column is left blank.

Table 1. Distribution of cost-income ratios, common department names

Common department name	Instances of cost:income ratio…		Significance (one tail)	*n*
	…> **100%**	**…< 100 %**		
Mainly 'classroom-based' non-vocational provision	*[43]*	*[33]*		*[76]*
A Level	11	11	-	*22*
GCSE (including English & Maths)	8	4	-	*12*
Basic Skills	17	12	-	*29*
High Needs	7	6	-	*13*
Mainly 'classroom-based' vocational provision	*[22]*	*[79]*		*[101]*
Business Studies	6	18	2%	*24*
Health & Social Care	6	23	0.1%	*29*
Information Technology	2	11	2%	*13*
Media & Design	6	11	-	*17*
Public & Uniformed Service	2	7	10%	*9*
Travel & Tourism	0	9	0.2%	*9*
Mainly 'workshop-based' vocational provision	*[65]*	*[55]*		*[120]*
Construction	11	10	-	*21*
Engineering	8	9	-	*17*
Agriculture[55]	1	1	-	*2*
Hair & Beauty Therapy	9	14	-	*23*
Hospitality & Catering	13	2	0.5%	*15*
Motor Vehicle	4	4	-	*8*
Performing Arts (including Music)	3	6	-	*9*

[53] Imagine tossing a coin nine times. The probability of no heads at all is 0.2%; of one head 1.75%; of two heads 7.23%. These total 8.98%. It is easier to work with the smaller number (in this case the overspends).

[54] Statistically this is a "one-tailed test" criterion. The statement given is factually correct, but one could also say that the chance of getting a result as far from 50-50 as this (i.e. ***either*** two or less ***or*** seven or more) is 8.98+8.98 = 17.96%. Either way, the figures for Public Service departments are suggestive rather than conclusive.

[55] There are only two entries for Agriculture in our database; the provision is weighted at 1.3 rather than 1.75.

Common department name	Instances of cost:income ratio…		Significance (one tail)	*n*
	…> **100%**	**…< 100 %**		
Science	6	2	-	*8*
Sports & Recreation	10	7	-	*17*

244. Focusing on the vocational provision, departments are grouped according to whether provision is broadly "classroom" or "workshop" based. A quick review of the columns suggests that, as might be expected, classroom-based provision is more likely to be subsidising workshop-based provision – i.e. there are considerably more "<100%" entries in the table than ">100%" entries for the former (by a factor of almost 4 to 1); for the latter the split is much closer (almost 50:50)[56].

245. At departmental level, statistically one can say with some confidence that in our sample:

- Particularly Health & Social Care and Travel & Tourism, but also Business Studies and Information Technology, are all cross-subsidising other departments more often than chance alone would suggest
- Public and Uniformed Services is very nearly in this cross-subsidising group too
- Hospitality and Catering is being cross subsidised more often than chance would suggest.

246. Again, it is interesting to compare cost:income ratios with the sizes (in income terms) of the departments concerned. Scattergrams for each of these common department names shed further light on this data; there are 19 of them in Annex 3. In particular, the visual impression given by the scattergrams, though less analytically rigorous than the probabilistic approach above, may give a greater intuitive impression of the curriculum areas that either provide cross-subsidy (Hair & Beauty, Media/Design and Performing Arts could be added to those identified above), or receive it (GCSEs – i.e. retakes of Maths and English in the main – and Science could be added to Hospitality & Catering).

247. Another way to visualise this data is to show again the scattergram of Figure 13 with the point markers in different colours to correspond to different kinds of study, following the classification used in Table 1 above – i.e.:

- Broadly classroom-based departments (divided between vocational and non-

[56] Note that another way of looking at this is to say that workshop based provision, on the whole, makes a smaller contribution to the centre (CTO) than classroom based provision. This is counter-evidence, if any is necessary, to any suggestion that workshop based provision is being charged *higher* CTO rates to reflect the greater use this provision makes of centrally funded capital equipment, more expensive workshop accommodation, etc. In any event, we have seen little evidence of the kind of modelling of "central department usage" that would be needed to charge different departments different amounts based on their differential use of central services.

vocational study)

- Broadly workshop-based departments.

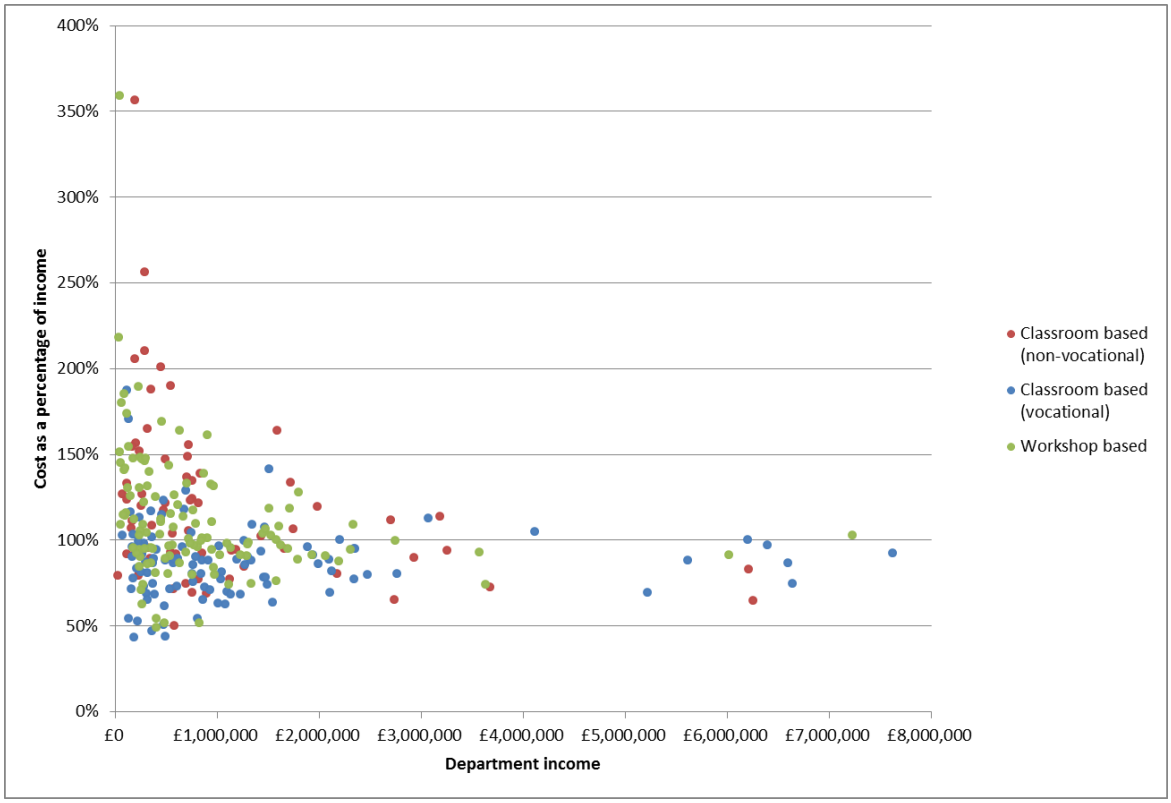

Figure 14. The relationship between departmental income and cost as a percentage of income, whole GFEC sample, coded by nature of department

248. The distribution of the markers clearly demonstrates the point that classroom-based vocational provision is likely to have a lower cost:income percentage and that higher-earning departments are more likely to be class- rather than workshop-based.

249. Annex 3, as already noted, contains individual scattergrams for each common department name enabling the variation within groups of specific departments to be shown more clearly.

Variation in costs per GLH

250. As noted in paragraph 205 above, it is possible to translate information about costs as a percentage of income into estimates of costs per GLH, based on national standard tariffs and planned learner hour bands. Figure 15 below shows the range of costs per GLH, calculated by this method, for the data points in our GFEC department sample. Again, costs per GLH are plotted against the overall size of each department in income terms.

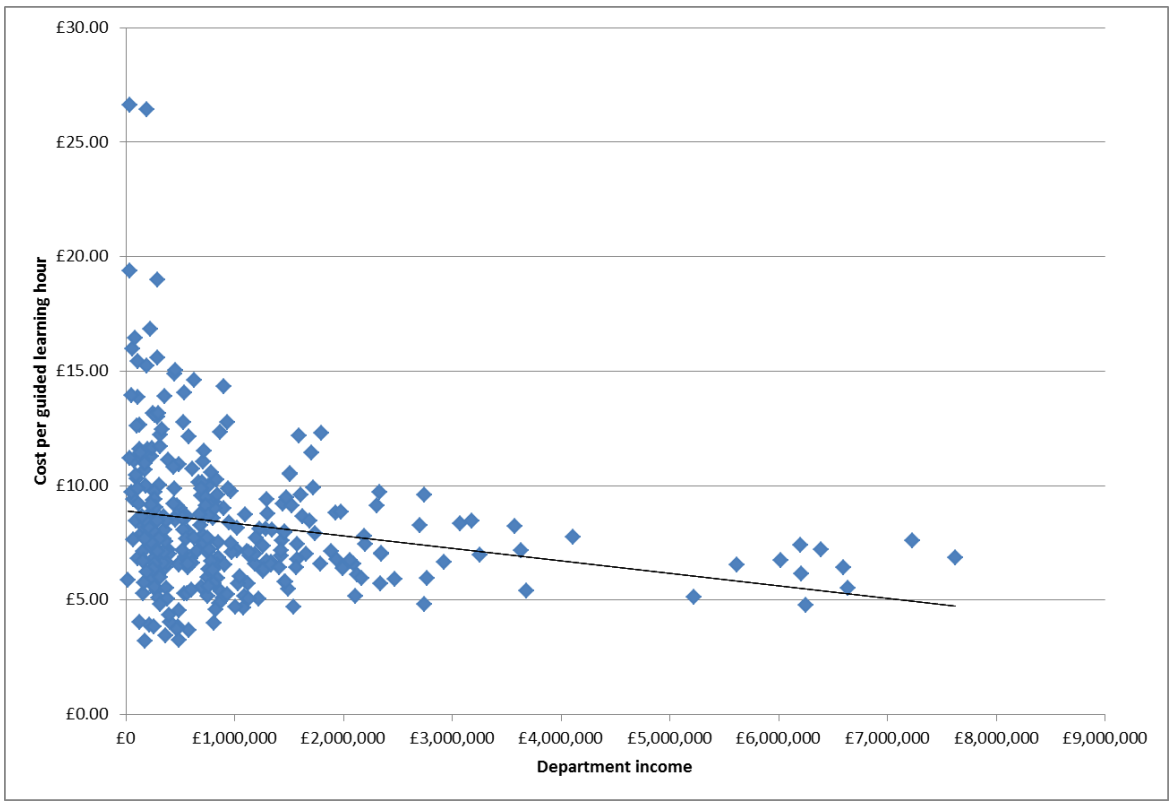

Figure 15. Range in costs per GLH by department size, whole GFEC sample

251. As before, a trend line is provided, showing a tendency for larger departments to have lower costs per GLH. As in the previous example, the association is weak ($R^2 = 0.05$) but statistically significant ($p < 1\%$ as before).

252. Costs per GLH are of course affected by programme weightings[57], in a way that cost:income ratios are not. We have therefore taken the opportunity to analyse costs per GLH by department and have included scattergrams for this analysis in Annex 3 as well[58].

253. Using the data in Annex 3, a summary of median values of costs per GLH by common department name are given in the table below. The range of values is also given. Where a value is clearly exceptional or unreliable (large or small) we have omitted it – the corresponding Annex 3 graphs show all values, so the values we have omitted can be seen there.

[57] For example, if a department is operating with costs equal to income – i.e. cost:income ratio of 100% – and is running a programme with weighting 1.0, then the calculation in paragraph 205 suggests the cost per GLH is around £7.40. If it is running a programme weighted 1.2, then the cost per GLH will be £8.89.

[58] We have not incorporated the area cost uplift in our calculations (though of course we have the information to do so). This is because – as we explain in Annex 3 – our tests for significant differences in cost:income ratio showed no significant differences by region of provider. As already noted, cost:income ratio findings are effectively independent of uplifts and adjustments, whether subject or area based. If adding an area cost adjustment subsequently created differences between regions, we would therefore have to explain them away by removing the area cost adjustment again. Better not to consider it in the first place.

Table 2. Median and range of costs per GLH, by common department names

Common department name	Cost per GLH			*n*
	Median	Lowest	Highest	
Mainly 'classroom-based' non-vocational provision				
A Level	£6.99	£3.70	£15.24	*22*
GCSE (including English & Maths)	£10.58	£5.88	£15.57	*12*
Basic Skills	£7.94	£3.85	£26.42	*29*
High Needs	£7.70	£4.83	£13.90	*13*
Mainly 'classroom-based' vocational provision				
Business Studies	£6.58	£3.21	£13.86	*24*
Health & Social Care	£6.54	£3.73	£12.65	*29*
Information Technology	£6.61	£4.69	£7.73	*13*
Media & Design	£6.70	£4.72	£8.34	*17*
Public & Uniformed Service	£5.92	£4.55	£8.64	*9*
Travel & Tourism	£6.02	£3.46	£6.56	*9*
Mainly 'workshop-based' vocational provision				
Construction	£9.14	£4.35	£19.39	*21*
Engineering	£9.61	£7.14	£12.78	*17*
Agriculture[59]	£11.54	£9.12	£13.95	*2*
Hair & Beauty Therapy	£8.44	£4.59	£16.45	*23*
Hospitality & Catering	£12.62	£7.52	£16.83	*15*
Motor Vehicle	£9.12	£7.09	£14.58	*8*
Performing Arts (including Music)	£8.25	£6.57	£9.36	*9*
Science	£7.48	£4.02	£11.42	*8*
Sports & Recreation	£6.02	£3.46	£6.56	*17*

254. With one exception (Public & Uniformed Service), the cost of class-based provision is broadly similar – median costs between £6.02 and £6.70 per GLH – and remarkably close if Travel & Tourism is also excluded – median costs per GLH of between £6.54 and £6.70.

255. For all but Sports & Recreation, the cost per GLH for workshop-based provision is significantly higher than for class-based provision; within this group, the equipment/materials-heavy – and higher staff salary – curriculum areas (Construction, Engineering and Motor Vehicles) are more expensive per GLH than most of the rest (between £9.12 and £9.61 compared to £7.48 to £8.44). As would be expected, Agriculture and Hospitality & Catering (small groups; high equipment

[59] There are only two entries for Agriculture in our database; the provision is weighted at 1.3 rather than 1.75.

and resource costs; and often the additional costs of running a semi-commercial element to the department) are further outliers (£11.54 and £12.62 respectively).

256. Again, it may be interesting to see the scattergram at Figure 15 analysed by whether the provision concerned is classroom- or workshop-based. As before, Annex 3 gives individual scattergrams for each common department.

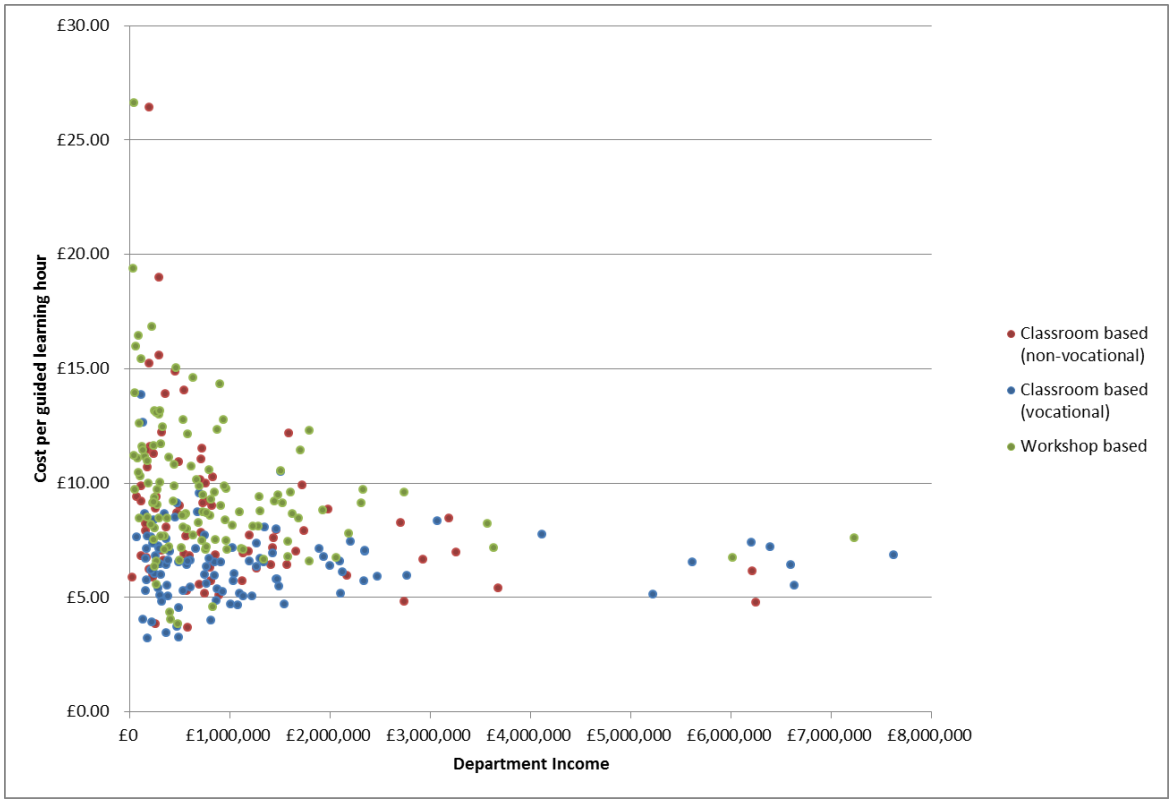

Figure 16. Range in costs per GLH by department size, GFECs, coded by nature of department

257. The distribution of the markers clearly demonstrates the point that [vocational] class-based provision is relatively cheap compared to either of the other categories – there are very few blue markers above £7.50 per GLH and relatively few red and green markers below this level.

C. Direct staff expenditure in GFEC departments

258. As noted in paragraph 208 above, in addition to the departmental level cost and income data just analysed we also have information concerning direct/attributed (departmental) staff and non-staff costs.

259. Of the various ratios that can be derived from the information in that paragraph, the most interesting, and probably most reliable, is the proportion of income that is spent on direct staff costs. This statistic is highly reliable, since both income and

direct staff cost are known figures, and it relies on no assumptions about apportionment of central expenditure.

260. Direct non-staff expenditure could also be analysed in a similar way but is likely to vary as local practice varies over what goods and services are purchased centrally and what are expected to be purchased by departments. In particular, in our sample there are instances of low values for direct (departmental) non-staff expenditure in departments known to be quite expensive to run in equipment terms – suggesting, as already mentioned, that the equipment concerned may be being purchased and capitalised centrally and neither the purchase price nor the associated depreciation allocated to departments.

261. Within our sample of 298 "cleaned" department data points, the proportion of income that is allocated to direct staff costs varies from 6.27% to 292.41%. The extremely high values are as stated to us; they may result from income not being fully credited to the department[60]. The extremely low values are likely to result from instances where provision is made by third parties rather than by staff employed by the department concerned, including provision by staff of other departments where no recharge system is in place. In either event, we have set them aside in our analysis[61].

262. The proportion of income that is spent on direct staff for our whole sample is shown in the figure below. Again, there is a significant correlation ($R^2 = 0.045$, $p < 1\%$). Again, however, this value of R^2 is not high. A trend line is shown, which is as before slightly downward. The interpretation of this is that larger departments are (other things being equal) better able to manage their direct staffing expenditure.

[60] Carefully apportioning income to the departments delivering the provision required – or equally carefully cross-charging departmental staff when they support provision being made in another department – is on the face of it good practice. However, it is also highly time-consuming, sometimes contentious, and does not lead in the end to any additional resource to the provider overall. Perhaps it is unsurprising that some providers do not always invest the time needed to carry out the necessary processes.

[61] For example, the department registering 6.27% of income being spent on direct staffing receives £565,000 for running a foundation year and reports £35,000 of staff costs and £85,000 of non-staff costs. Clearly much is being done for these learners elsewhere in the college.

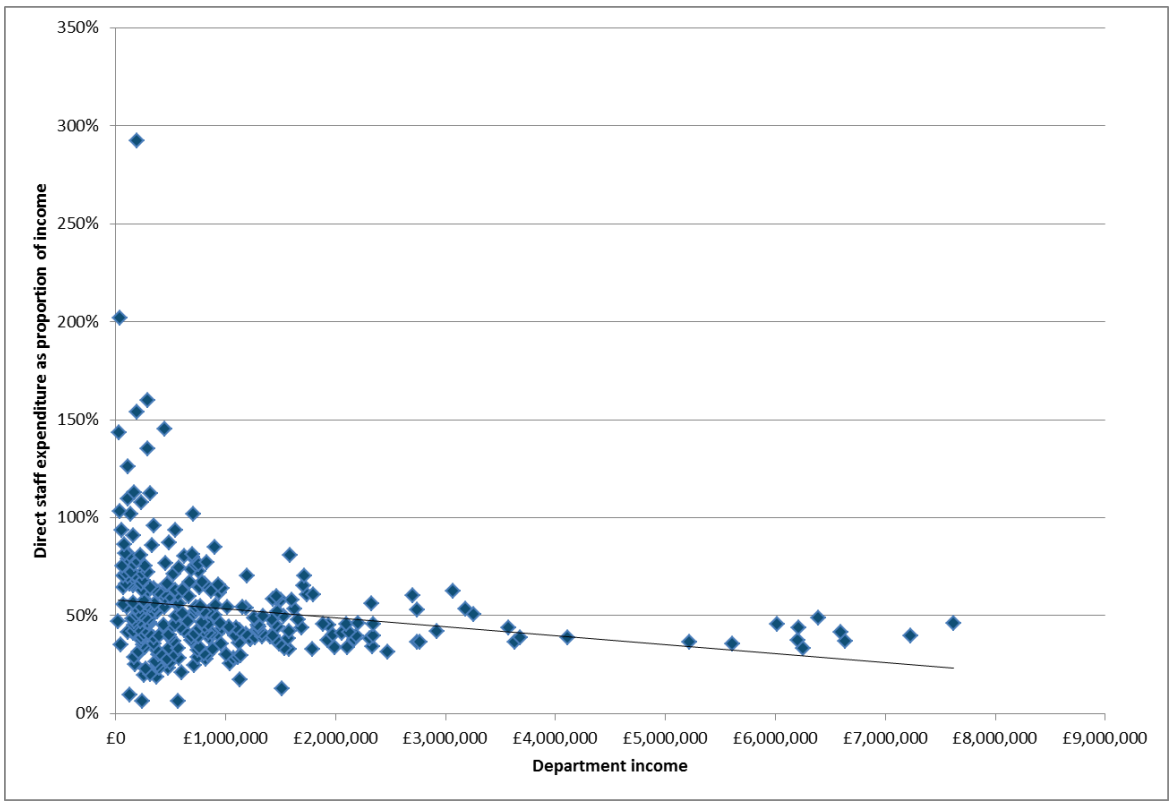

Figure 17. The relationship between departmental income and direct staff expenditure as a percentage of income, whole GFEC sample

263. It is worth pointing out that since staff costs are the largest proportion of departmental expenditure the three scattergrams (Figures 13, 15, and 17) are not fully independent, but instead are slightly different ways of presenting effectively similar data.

264. Beyond this, most of the outlying values for our variable of interest occur in small (often very small) departments. This again is consistent with the idea that small departments may find it difficult to cover necessary staff expenditure.

265. These conclusions appear to be independent of the department vocational area. However, as before, we can reproduce the graph in Figure 17 on a departmental basis and these graphs are included in Annex 3.

266. Again, a summary of median values of costs of direct staff expenditure as a percentage of income by common department name are given in the table below. The range of values is also given. As before, extreme values have been omitted. However, the root data used to calculate this statistic – income by department, cost of direct department staff – is precisely as supplied by our GFECs and not calculated or deduced in any way so we have not excluded many.

Table 3. Median and range of direct staff expenditure expressed as a proportion of income, by common department names

Common department name	Direct staff expenditure as % of income			*n*
	Median	**Lowest**	**Highest**	
Mainly 'classroom-based' non-vocational provision				
A Level	48.6%	28.4%	75.7%	*22*
GCSE (including English & Maths)	80.5%	48.6%	159.6%	*12*
Basic Skills	58.4%	19.7%	292.4%	*29*
High Needs	59.7%	36.5%	96.0%	*13*
Mainly 'classroom-based' vocational provision				
Business Studies	39.8%	12.7%	125.8%	*24*
Health & Social Care	41.1%	17.6%	80.8%	*29*
Information Technology	47.2%	25.7%	70.7%	*13*
Media & Design	42.6%	33.7%	62.7%	*17*
Public & Uniformed Service	33.8%	21.0%	72.0%	*9*
Travel & Tourism	38.7%	18.6%	45.8%	*9*
Mainly 'workshop-based' vocational provision				
Construction	52.1%	23.2%	143.4%	*21*
Engineering	52.4%	28.7%	74.4%	*17*
Agriculture[62]	66.0%	38.3%	93.7%	*2*
Hair & Beauty Therapy	44.3%	27.8%	86.1%	*23*
Hospitality & Catering	66.1%	35.3%	85.0%	*15*
Motor Vehicle	56.1%	39.4%	80.2%	*8*
Performing Arts (including Music)	42.8%	6.5%	54.5%	*9*
Science	60.7%	23.1%	112.7%	*8*
Sports & Recreation	42.5%	30.8%	103.0%	*17*

267. The median figure for GCSE (English and Maths retakes) is considerably higher than all other departments – 80.47%, possibly reflecting the difficulties GFECs face in recruiting staff and the level of pay required. Median percentages for class-based provision are the lowest – generally around 40% apart from IT (47.2%) and Public & Uniformed Services (33.8%). Within the workshop-based group, Construction, Engineering and Motor Vehicles again stand as a single mid-point grouping (52.06%, 52.36% and 56.15% respectively), reflecting the qualitative findings from the fieldwork that salaries for this group tend to have to be higher than then norm in order to attract and keep staff. Similarly, Science was

[62] There are only two entries for Agriculture in our database; the provision is weighted at 1.3 rather than 1.75.

reported as a high salary cost department and this is borne out by the data (60.71%).

268. Hospitality & Catering and Agriculture again top the list – 66.13% and 66.01% respectively – probably, as previously mentioned, due to the additional staff required to support the running of semi-commercial facilities in the case of Catering in particular and small group sizes for agriculture.

269. Again, it may be interesting to see the scattergram in Figure 17 coded by nature of provision (classroom or workshop) – see Figure 18 below. The distribution of green and blue markers above the 50% line and of red markers below it is worth highlighting. Again, Annex 3 contains scattergrams by department.

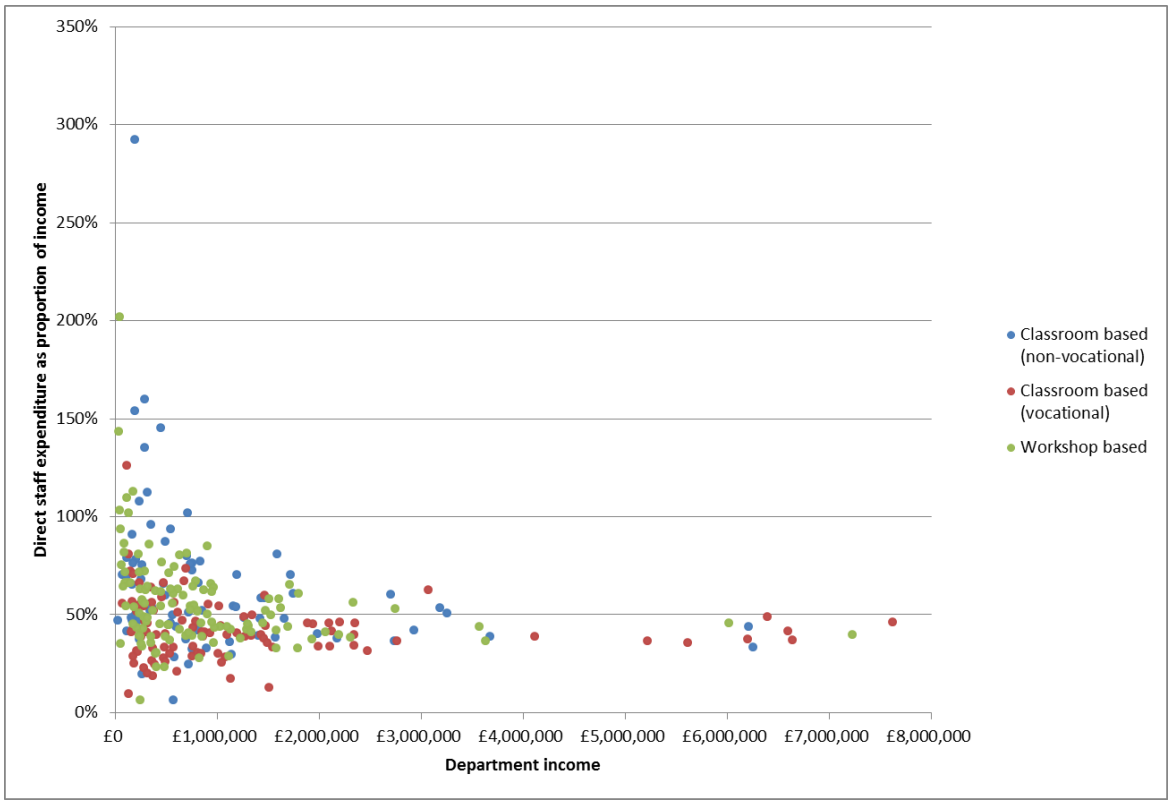

Figure 18. The relationship between departmental income and direct staff expenditure as a percentage of income, whole GFEC sample, coded by nature of department

Two specific examples of greater detail in departmental costs

270. Apart from direct staff costs, we have noted that in general it is not possible to state, at GFEC departmental level, what proportion of a department's income or expenditure is represented by any other cost element. Direct non-staff expenditure at departmental level (on which we do have information) is unreliable for the reasons stated above, while all other expenditure data for most of our GFECs is at whole-institution level only. Nothing is gained by assigning this

whole-institution expenditure by category to individual departments on a *pro rata* basis: indeed, to do so gives the impression that we possess information that we actually do not have.

271. However, two GFECs in our sample use a more systematic and comprehensive approach to allocating costs to individual departments than the simple direct staff/direct non-staff classification used by most. Inevitably, the format they decided to use is different, but the examples are nevertheless of interest.

272. The first example (below) is of a GFEC with a multi-departmental "School" or "faculty" structure. The second example is of another GFEC, in this case with a more conventional departmental structure.

273. In both instances we provide alternative diagrams: one in which the total height of the stacked bar represents the notional cost per GLH and one in which the total height represents 100% (i.e. all the bars are of the same height).

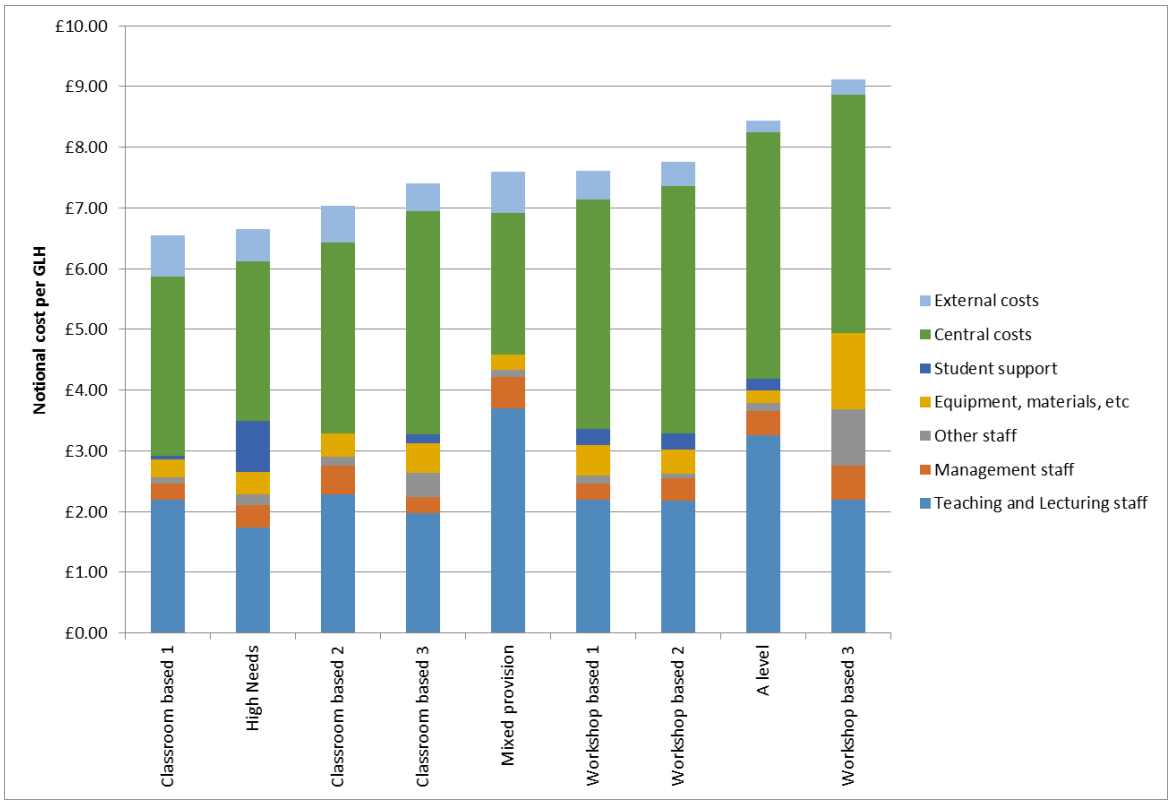

Figure 19. Cost breakdown by department, GFEC with a "faculty" structure, £s

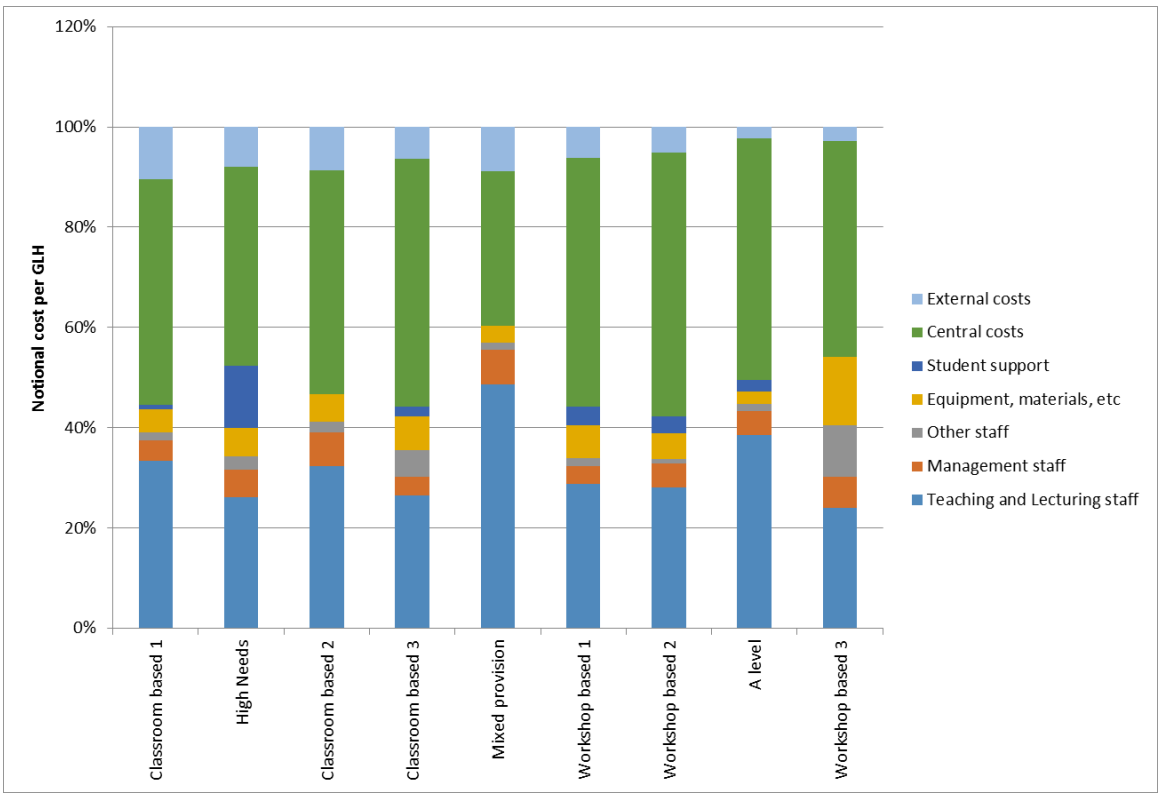

Figure 20. Cost breakdown by department, GFEC with a "faculty" structure, percentages

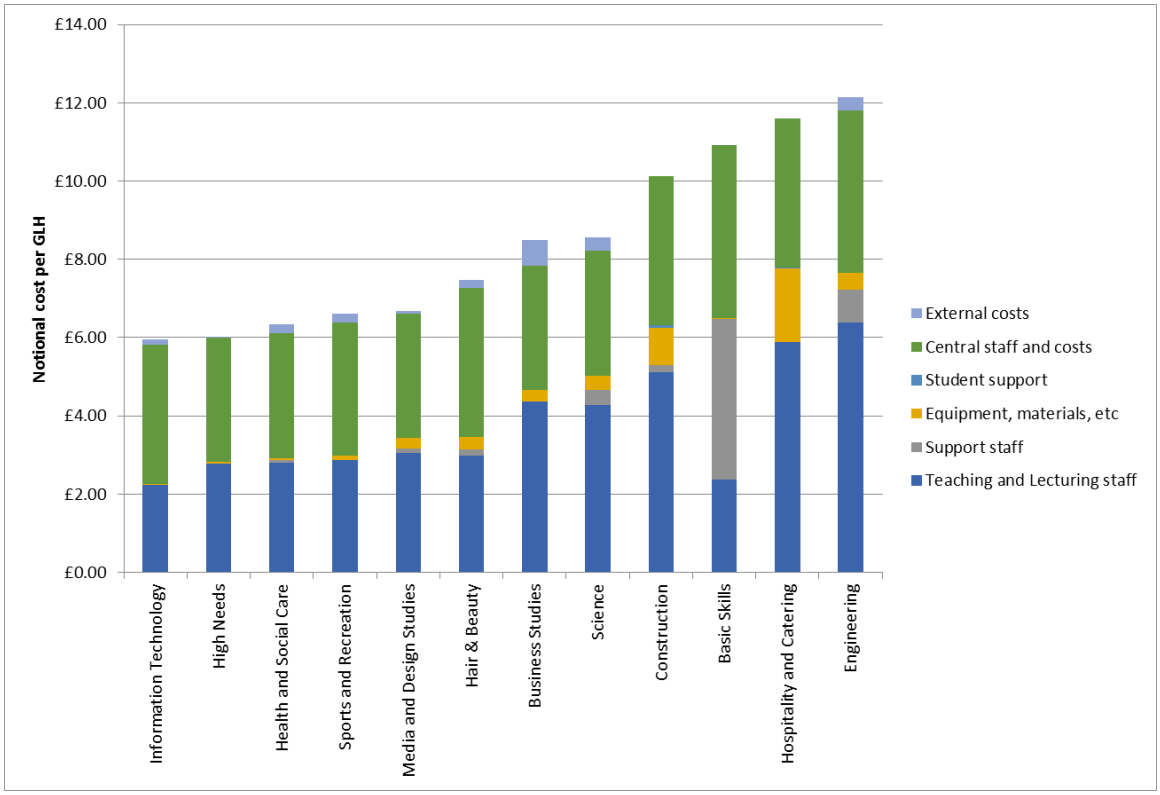

Figure 21. Cost breakdown by department, a GFEC, £s

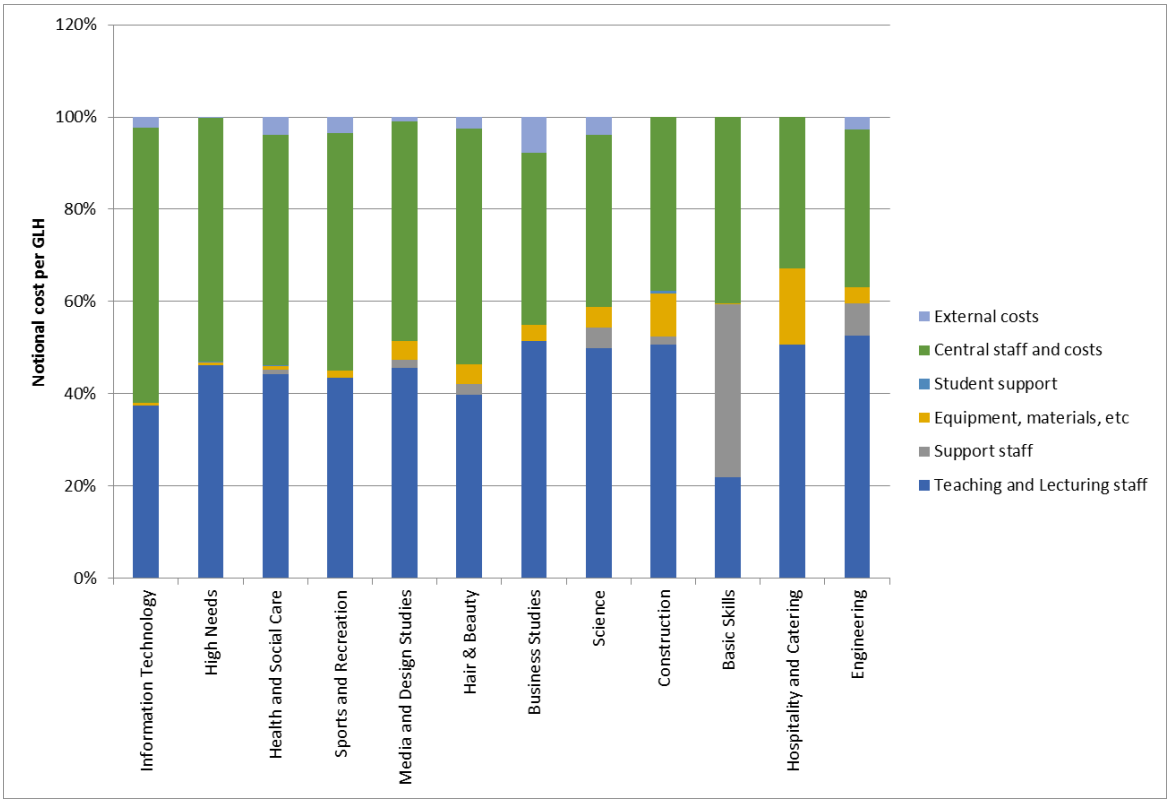

Figure 22. Cost breakdown by department, a GFEC, percentages

274. It will be appreciated that the internal costings of the two GFECs shown here are carried out on a slightly different basis: the second retains all management and support staff as central costs while the first apportions them to departments. Given this it is interesting to note that the "faculty structure" GFEC has no provision with an indicative cost per GLH greater than £10.00: this is probably due to an averaging effect. The other GFEC apportions fewer costs to the departments but still has four departments with an indicative cost per GLH that is greater than £10.00

D. Perceived costs of delivering Apprenticeships within ILPs

275. Our fourth study is based on information provided by ILPs on the costs of individual Apprenticeships. Within our sample, ILPs were the only organisations to cost Apprenticeships on a per-standard or per-framework basis; GFECs tended to incorporate their Apprenticeship provision within their overall departmental structure[63]. As noted above, two ILPs shared with us details of their costings of Apprenticeships on a per-learner basis. This information is analysed here.

[63] We have already mentioned the range of approaches relating to "Apprenticeships" – e.g. a separate Department/cost centre; "shadow departments" mirroring study programme departments ("Engineering

276. It is worth stressing again that ILPs, in particular, work on a "price minus" model under which their operations overall are designed to achieve a largely pre-set level of return to owners of their company (or the charitable equivalent). Thus, those Apprenticeships shown in the figures below as "profitable" are explicitly being used to subsidise those shown as "unprofitable". The diagrams are not, therefore, any justification for reducing the tariff for the "profitable" Apprenticeships, unless the tariff for the "unprofitable" Apprenticeships is proportionately increased. They do however record the ILPs' estimates of the individual profitability of particular Apprenticeships when they set out to deliver all the Apprenticeships in their portfolio to what they perceive to be the same quality standards.

277. In addition to assessor caseload and level of funding, the key factor in determining ILP profitability is the model of delivery.

278. In broad terms, ILPs deliver either 'in-centre', 'in the workplace' or in some combination of the two. The two ILPs referred to in this study both deliver predominantly in the workplace with little or no centre-based provision.

279. Any ILP that has any 'in centre' element to its delivery model automatically incurs additional costs (from running if not owning premises; from acquiring and maintaining equipment etc.) that make it less profitable than an equivalent provider delivering largely/entirely 'in the workplace'.

280. If an element of centre-based delivery, particularly in small groups, is combined with lower funding and/or less than optimal assessor caseloads then this will further impact on the ILP's profitability. We return to this point in sections 6 and 7.

281. Centre-based ILPs also potentially encounter cash flow difficulties as their income is based on a flat payment profile (the same amount is received over the life of the Apprenticeship) which does not necessarily match the pattern in which costs fall. Engineering Apprenticeships, particularly where the employer opts for a full year in-centre up-front element before the Apprentice enters in the workplace, are an example of programmes where the payment profile is potentially an issue.

Breakdown of costs in delivering Apprenticeships

282. The graphs below show the estimated costs of delivering Apprenticeships at various tariff levels for one of our ILP providers. These estimates were compiled as part of the annual budget setting process and represent best estimates of the costs that *will* be incurred, rather than a measure of those *actually* incurred. The ILP in question offered many different Apprenticeships: to fit into one illustration in the diagram they are therefore grouped by tariff level. The ILP did not track actual expenditure at an individual Apprenticeship level.

Apprenticeships" alongside "Engineering") etc. None of the approaches permitted the identification of the costs of individual Apprenticeships.

283. Since the length of Apprenticeships is not fixed, but varies to an extent on learner progress, the costs shown are for the full duration of the proposed Apprenticeship programmes concerned, rather than on a notional per-year basis.

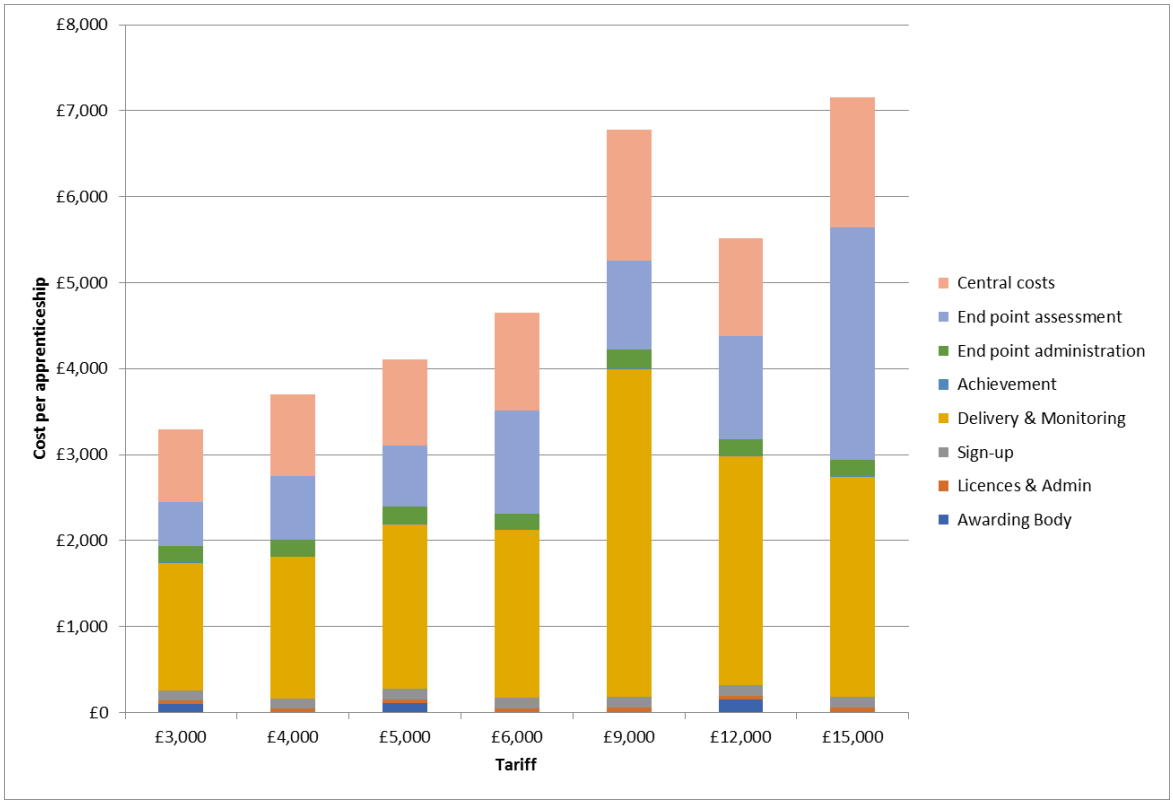

Figure 23. Analysis of planned Apprenticeship costs by tariff level, for ILP1, £s

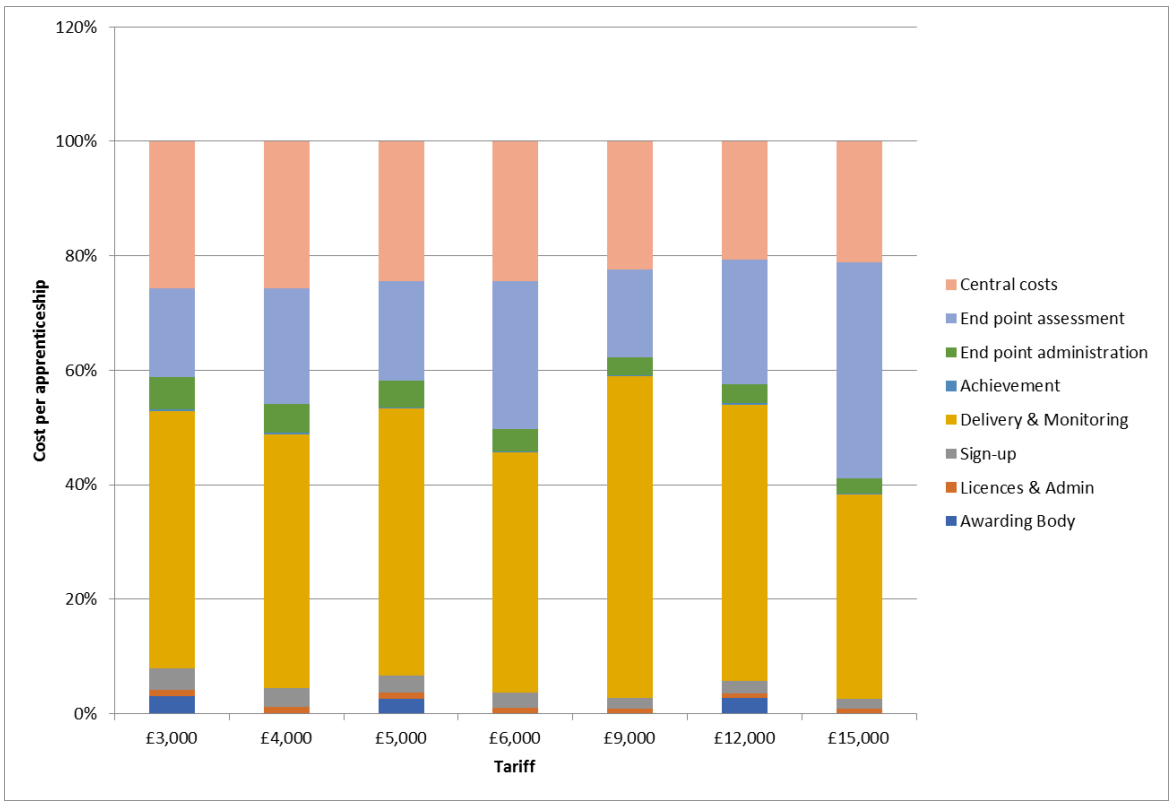

Figure 24. Analysis of planned Apprenticeship costs by tariff level, for ILP1, percentages

284. It will be noted that the overall height of the bars in the cost graph (Figure 23) does not match the tariff level entirely, implying that some of these Apprenticeships operate at a surplus and some at a loss.

285. Figure 25 below, shows the overall relationship between tariff level and estimated likely profitability for ILP1. The profitability is expressed as a percentage rather than a financial amount.

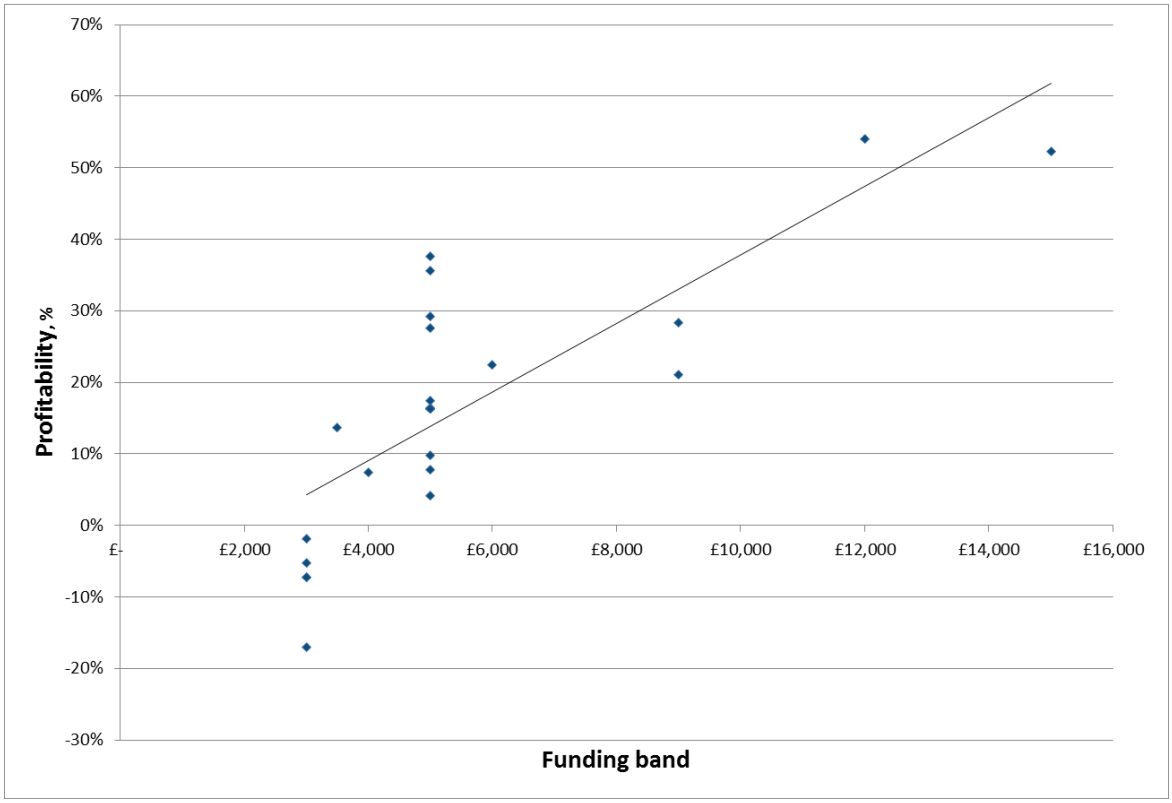

Figure 25. Relationship between Apprenticeship funding band and perceived profitability, for ILP1

286. Our second ILP that estimated costs in delivering Apprenticeships used a different way of breaking down costs – similar in fact to the approach adopted by SFCs and GFECs. Thus, the cost classifications in the diagrams below are different. As before, Apprenticeships at the same level have been averaged and the full programme duration costs, rather than annual costs, shown.

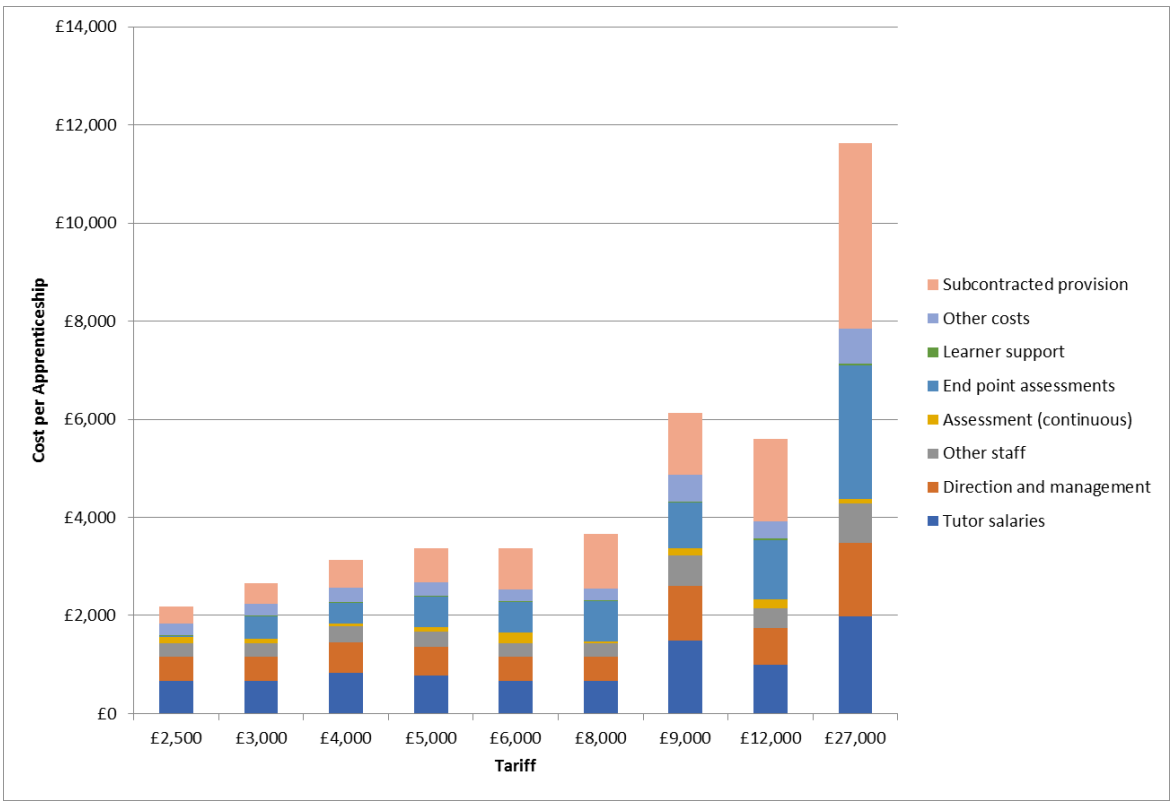

Figure 26. Analysis of estimated Apprenticeship costs by tariff level, for ILP2, £s

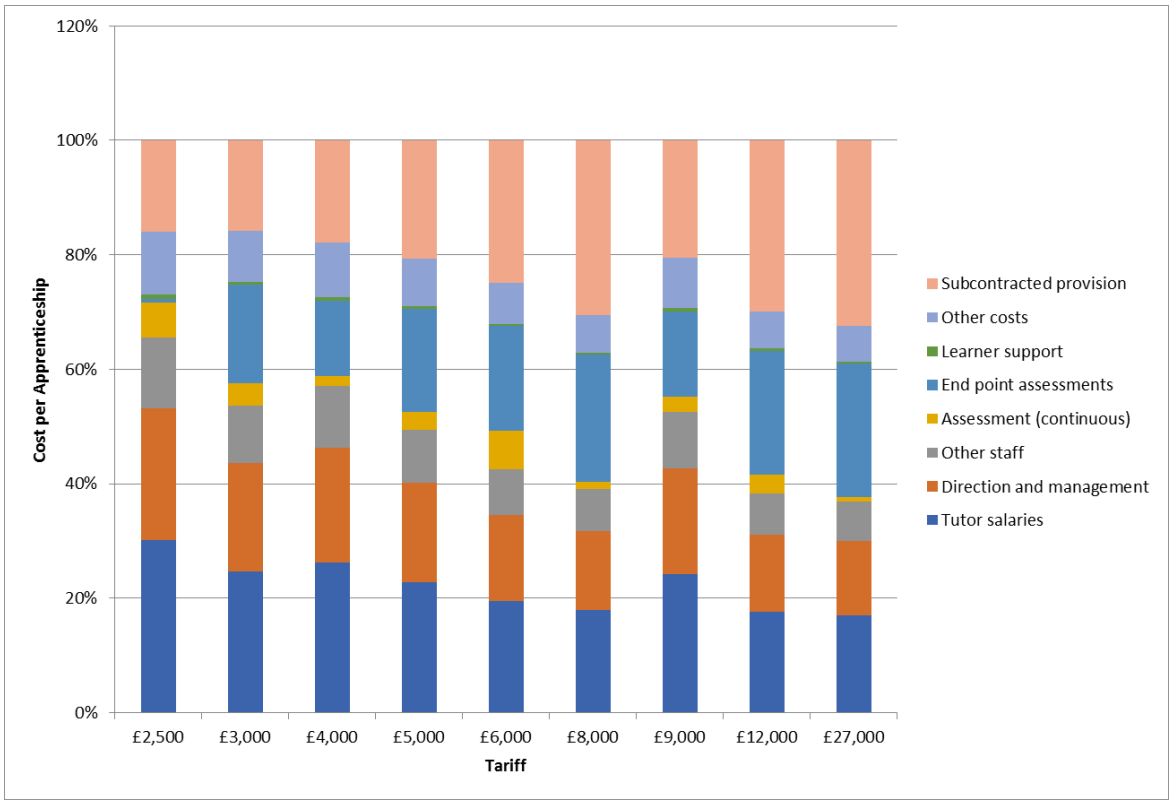

Figure 27. Analysis of estimated Apprenticeship costs by tariff level, for ILP2, percentages

287. Again, conclusions can be drawn as to the surplus or deficit likely to be made at each tariff level, and a scattergram plotted. Figure 28 below shows data for all but one of the Apprenticeships offered by this ILP (the £27,000 tariff Apprenticeship, which is included in the figure above, is omitted so as not to distort the diagram).

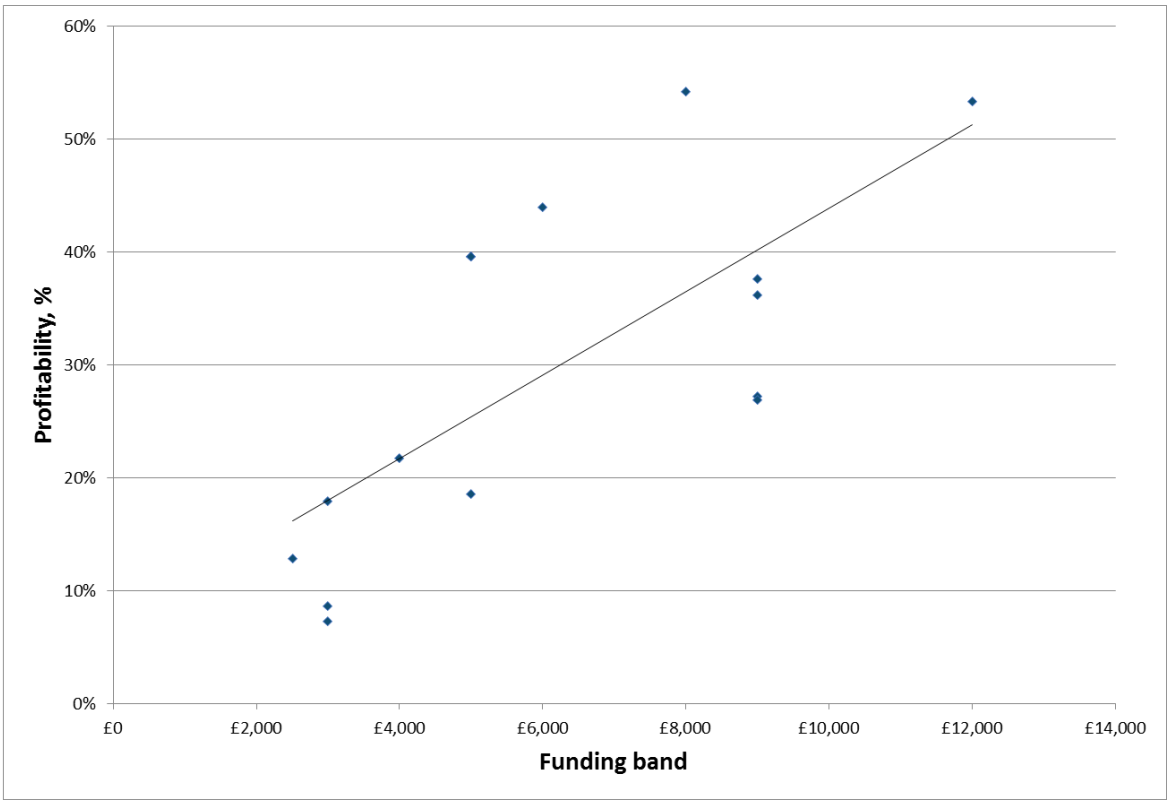

Figure 28. Relationship between Apprenticeship funding band and perceived profitability, for ILP2

288. Figures 25 and 28 show a very definite relationship between the perceived profitability of the programmes and the funding band into which they fall, with the higher banded programmes being regarded as a source of cross-subsidy for the lower banded for these two ILPs. The two ILPs concerned have taken different decisions about the profitability of the Apprenticeship programme overall that they wish to seek[64], but in both instances the trend is clear.

289. The slopes of the regression lines shown are 4.79 and 3.70 [65], meaning that for the two ILPs a £1,000 increase in funding band equates to a 4.8 percentage points and 3.7 percentage points increase in profitability for ILP1 and ILP2 respectively.

[64] Interestingly, one of the two ILPs (Figure 25) also delivered a programme of employment-based training for unemployed people under contract from another Government department; it believed that it cross-subsidised its Apprenticeship programme to an extent from this source. On this basis, it was prepared to run the £3,000 Apprenticeships at a loss, as shown. In both cases, profits are EBITDA.

[65] Times 10^{-5} in both cases.

290. Both correlations are statistically significant at the <1% level.

291. In a small sample such as this, no firmer conclusions can be drawn, but it is we believe significant that two ILPs, entirely independently, arrived at similar conclusions about the relative profitability of Apprenticeships at different tariff levels.

292. The data from these two ILPs is also consistent with qualitative findings from our interviews in two important respects.

293. Firstly, ILPs (and GFECs delivering Apprenticeships) reported that it was very difficult (if not impossible) to deliver those Apprenticeships that were funded at the lower end of the range to an acceptable standard whilst making an acceptable (or any) return. The general consensus was that any Apprenticeship that had a tariff of £3,000 or less over twelve months was unlikely to be contributing to an ILP's overheads, even in an entirely employer-based delivery model.

294. Secondly, whilst the figures above show more highly funded Apprenticeships being more profitable, it is important to note that this is for a primarily employer-based delivery model. Data from our interviews suggests that when delivery is centre-based, profitability is reduced considerably – effectively to zero even for the highest funded Apprenticeships – with Apprenticeship delivery being cross-subsidised by commercial income in some cases.

Summary and conclusions

GFEC direct staff costs

295. Our analysis has confirmed that the largest single component in the costs of delivering an FE programme is the cost of tutorial/teaching staff. Keeping this expenditure under control is the major single factor in ensuring that a GFEC department operates within its income. The same is true of GFECs as a whole.

296. Our data shows a significant correlation ($R^2 = 0.045$, $p < 1\%$) between departmental income and direct staff costs – though this value of R^2 is not high. Beyond this, most of the outlying values – i.e. those above the trend line and/or above the 100% line, the point at which departmental staff costs exceed departmental income – occur in small, often very small, departments. These conclusions appear to be independent of the vocational area of the department.

297. From an analysis of the median values of the costs of direct staff expenditure as a percentage of income by department:

- The GCSE (English and Maths retakes) median is considerably higher than all other departments – 80.47%, possibly reflecting difficulties in recruiting staff and the level of pay required and/or the associated income not being fully credited

- Otherwise, median percentages for class-based provision are the lowest – generally around 40%
- Construction, Engineering and Motor Vehicles are in a mid-point grouping within workshop-based subject areas (52.06%, 52.36% and 56.15% respectively); Science is slightly higher (60.71%) – salaries in these areas tend to have to be higher than the norm in order to attract and keep staff
- Hospitality & Catering and Agriculture top the list – 66.13% and 66.01% respectively.

298. It is also quite clear that keeping tutorial staff expenditure under control is easier in larger departments. This again is intuitively plausible. Where a department is small, it is difficult to maintain class sizes at the level one might want. Other things being equal, having a greater number of learners probably means that more effective class sizes can be planned and delivered[66].

299. Of course, it is also true that no GFEC can survive for long if a very large department is significantly over-spending on lecturing and tutorial staffing.

GFEC fully absorbed departmental costs

300. We examined fully absorbed departmental costs as a proportion of income and found that:

- Those spending more than they earn are generally smaller departments (though the data shows there are still many small departments that manage to spend less than they earn – i.e. to make a CTO)
- Of the higher income departments – i.e. those with a departmental income of at least £3m – only four spend more than they, and this is only marginally so
- As soon as departmental income passes £2m, there is a definite trend towards lower spending as a proportion of income. Regression analysis shows a definite correlation, significant at better than the 1% level, though the association is weak ($R^2 = 0.041$) and the trend line only just negative.

301. We also analysed the data set to determine whether particular departments tend to spend more or less than they receive in income on average. As might be expected, overall classroom-based provision is more likely to be subsidising workshop-based provision – for example there are considerably more fully absorbed cost:income ratios that are “<100%” than “>100%” for class-based provision (by a factor of almost 4 to 1); for workshop-based provision the split is much closer to 50:50.

302. In more detail our data suggests that:

- Particularly Health & Social Care and Travel & Tourism, but also Business Studies and Information Technology, are all cross-subsidising other

[66] Note that “effective” in this context simply refers to resource effectiveness. The figures tell us nothing about the *educational* effectiveness of smaller and larger groups.

departments more often than chance alone would suggest

- Public and Uniformed Services is very nearly in this cross-subsidising group too
- Hospitality and Catering is being cross-subsidised more often than chance would suggest.

303. However, the effect we have identified, though statistically significant in some cases, is not great. Intuitively Hair & Beauty, Media/Design and Performing Arts could be added to those identified above as cross-subsidisers; GCSEs – i.e. retakes of Maths and English in the main – and Science could be added to those being cross-subsidised. However, our scattergrams at departmental level show that for any given curriculum area there are GFECs that appear to be delivering at a surplus and others that are delivering at a loss.

GFEC structure and cost:income ratios

304. Looking at organisational structure as a factor, the only GFECs that do not display major internal variations are those that delegate to a few "Schools"[67] rather than to many departments. This is due to an averaging effect.

305. The composition of multi-departmental Schools does not appear to make a material difference to CTOs – it is the consolidation of departments into Schools that matters, not the pattern of allocating departments to particular Schools adopted by individual GFECs.

GFEC costs per GLH

306. In terms of fully absorbed costs per GLH, the data suggests a tendency for larger departments to have lower costs per GLH. However, the association is again weak ($R^2 = 0.05$), though still statistically significant ($p < 1\%$).

307. Looking at costs per GLH by vocational area:

- With one or two exceptions (Public & Uniformed Service and Travel & Tourism), the cost of class-based provision is remarkably close – median costs per GLH of between £6.54 and £6.70
- For all but Sports & Recreation, the cost per GLH for workshop-based provision is significantly higher than for class-based; within this group:
  - the equipment/materials-heavy – and higher staff salary – curriculum areas (Construction, Engineering and Motor Vehicles) are more expensive per GLH than most of the rest (between £9.12 and £9.61 compared to £7.48 to £8.44)

[67] As already noted, in most GFEs the term "Schools" refers to groups of departments, and that is the usage (with a capital "S") that we adopt in this report. When we refer to primary and secondary schools, we use a small "s".

- Agriculture and Hospitality & Catering are again further outliers.

ILPs

308. As far as ILPs are concerned, we have shown there is a consistent relationship between the tariff on offer for a particular Apprenticeship and the ability of the provider to deliver the Apprenticeship concerned at a surplus. Due to confidentiality concerns, we only have hard data to this effect from two of our providers. However, the similar findings from both – despite their very different ways of estimating costs – plus our qualitative discussions and the more limited data we have from other providers, suggest that the finding that lower tariff Apprenticeships (i.e. those funded at c. £3,000) are difficult to deliver to an acceptable standard whilst making an acceptable (or any) return may generally be the case.

Cost endogeneity – a concluding comment

309. Cost endogeneity, and the "price minus" principle, make it unsurprising that at the whole-organisation level costs generally match income to within a few percent at most. This says nothing about whether the resources available in total are adequate or inadequate, or about the impact of funding levels on the activities of organisations overall. For information on this, we must turn to the qualitative element of our project, and the responses that our interviewees gave in our more open-ended qualitative interviews: this forms the basis of Section 6.

6 Qualitative findings

Introduction

310. As described in the preceding sections, a significant proportion of providers in the sector are apparently "managing" with the funds they currently receive – though, as we have argued, it may be cost endogeneity, rather than any guarantee that "they are receiving the funds they need", that is responsible for this.

311. To explore the extent to which providers were indeed "managing" and the steps they were having to take to ensure they did so, our visits to providers included a detailed qualitative interview schedule. In this section, we discuss what the qualitative information tells us about the state of the sector.

Curriculum

312. The table below summarises what our interviewees considered to be the consequences for the curriculum of multiple years without an increase in the base rate. More detail is in the following sub-sections.

Table 4. The impact of no increases in funding on curriculum delivery[68]

Consequences …	… seen in …		
	GFECs	SFCs	ILPs
Courses are being lost	*	*	*
Additional courses and whole programme areas are under threat	*	*	
Content is being lost:			
• Core curriculum	*		
• Enrichment	**	*	
Class size is increasing	**	**	
Use of non-tutor-led learning activity is increasing	*		*
Delivery of English and Maths poses considerable challenges	**		

[68] Two asterisks represents significant impact; one, some impact; none, no impact. This is our (i.e. acl's) assessment of impact, based upon what all providers told us rather than each provider's own assessment – we did not ask providers to specify whether they considered the impact to be significant or something less than significant.

Curriculum range

313. Senior managers in all providers are aware which areas of their curriculum are likely to be higher cost through a variety of indicators:

- For classroom-based provision, where the class size does not meet the target set formally or informally within the organisation (typically 13 to 15 learners for a GFEC, 24 for an SFC)
- Within GFECs, where a particular department/cost centre is accepted as having to make a lower contribution to central costs (i.e. it is implicitly being cross-subsidised)
- For Apprenticeship programmes, where the ratio of Apprentices to an individual assessor is below target (a typical target is between 40 and 45) and the tariff is not sufficient to generate the level of income required to at least cover costs.

314. As noted elsewhere in this report, the apparently "easy" solution of simply discontinuing programmes that carry a higher cost than their income is not always available – such decisions may have knock-on consequences that in turn affect the viability of other programmes or may rob the local community of learning opportunities. Nevertheless:

- Reductions in curriculum offers have taken and continue to take place as providers seek to discontinue programmes that are not making a surplus and are not core to the provider's offer
- In particular, reductions in the number of courses available within programme areas have been made to try to ensure that those that remain form a viable whole.

> The college is determined to maintain, and where possible to extend, the offer rather than reduce it. However, funding pressures are hitting declining courses.

> Curriculum choice is decreasing. Within the programme areas that remain, the number of options offered is being reduced and provision is increasingly being delivered in mixed age [and funding model] groups.

315. In similar fashion, the standard post-16 offer is moving to 3 rather than 4 A Levels/BTEC equivalents – in part this is related to the switch to linear A Levels and the new BTEC specifications (generally these are seen as being more challenging than their predecessors). However, it also reflects the need to ensure that study programmes come in at or around (but not below) 540 GLH.

> Our main focus is on 540 GLH being met (but not over-met): this is closely monitored.

> We focus on GLH at course level – curriculum managers need to be very clear why they think we need to provide more than the minimum level of GLH necessary to trigger the funding band.

316. Another emerging trend is to develop more generalist programmes, with more specific qualifications (e.g. in specialist areas of catering such as bread and pastry) and programmes (e.g. for Level 1 provision) being dropped in favour of these.

> The college is developing a more generic offer at Level 1: this is cost driven. The programmes are being re-shaped [away from the range of vocational tasters towards more generic skills and less work-related activities] because the current approach cannot be sustained financially. The programme is becoming more generic and less pathway-specific in focus.

317. Alternatively, the range of options (e.g. in Modern Foreign Languages in an SFC) may simply be reduced.

318. The table below summarises the provision that providers mentioned had been recently lost during the course of our fieldwork.

Table 5. Summary of provision recently lost

Courses/curriculum areas lost …	… in …		
	GFECs	SFCs	ILPs
Hair & Beauty (range of options reduced)	✔ [69]		
Catering & Hospitality (range of options reduced) • Specialist programmes cut in favour of more generalist provision	✔ ✔		
Construction • Painting & Decorating (all provision lost) • Professional Construction (Level 3)	✔ ✔		
Performing Arts (options reduced) • Production Arts (Level 3) • A Level Art	✔ ✔	✔	
ICT	✔		

[69] A tick represents a course/curriculum area lost in one or more of our providers.

Courses/curriculum areas lost …	… in …		
	GFECs	SFCs	ILPs
• Forensic IT (Level 3) • Various proprietor-specific courses • IT (Level 2)	✔ ✔		
Business/Accounting (courses combined; options reduced) • A Level Accountancy • Leadership & Mgt. (Level 3 Apprenticeship) • Human Resources (Level 3 Apprenticeship) • Project Management (Level 4 Apprenticeship)	✔	✔	✔ ✔ ✔
Law	✔		
Land-based • Countryside Management • Horticulture • Outdoor Education	✔ ✔ ✔		
Sports & Leisure (options reduced) • Apprenticeship programmes (all)	✔		✔
Health & Social Care • Apprenticeships	✔		✔
Design & Technology (all)		✔	
Art • Art (Level 2)		✔	
Modern Foreign Languages • A Level German		✔	

319. Providers also commented that broader areas of the FE offer were under threat.

320. Adult education was widely reported to be in 'terminal decline', mainly due to changes to funding arrangements plus a degree of consequent confusion in the minds of potential users about whether they would or would not be charged.

> Adult provision is currently non-viable; even if the qualification is fundable, the hit to CTO cannot be taken.

> Adult provision is around a third of the volume it used to be at peak. This has real implications for the upskilling of adults (or lack of it). There is the real potential for

a ‘spiral of decline’ in adult education as more and more providers realise they simply cannot afford to offer it.

Historically the college was predominantly an adult education college; it has now lost almost all its adult provision – short programmes to attract adults in are no longer funded; fees are expensive and the financial support options (ALLs and/or employer-financing) relatively complex and often not available.

321. Bucking the trend, one GFEC had decided to not to charge adults fees for any of its Level 1 and 2 provision, largely on the basis that most would not pay fees anyway: this had led to a significant increase in adult take-up. The hope is that learners will continue to programmes at higher levels, on which they will pay fees.

322. Adult Apprenticeships were also considered to be non-viable by some ILPs and GFECs.

We no longer run any adult [Apprenticeship] provision.

The contribution made by an adult Apprenticeship is a little over half that made by a 16- to 19-year-old Apprentice.

Funding rates and rules for adults make most provision non-viable, especially for Apprenticeships. The demand for up- and re-skilling is there but the system and funding kills it off.

323. A Level provision has disappeared from many GFECs: in particular, the expansion of schools-based sixth forms has reduced the number of academically focused learners wanting to study A Levels (and Level 3 vocational options for certain subjects) at GFECs.

324. GFEC mergers have had an impact in terms of reducing provision at sites within (not un)reasonable daily traveling distance of each other.

[Post-merger] the campus we took over has had significant chunks of its provision cut, primarily due to low volumes there and the ability to consolidate provision here: this has been done in a fairly mechanistic way but has ensured that the cost-base has been managed.

Most mergers inevitably lead to provision being cut; we are trying to resist this but, if funding is not increased, further – more wholesale – changes will be required.

Curriculum content

325. Our comments here relate to the point made in the preceding sub-section regarding providers' focus on the number of hours required to trigger the funding for each band in the funding models for GFECs and SFCs. A key consequence of the focus on meeting (but ideally not exceeding) the hours threshold is the loss of enrichment activities – defined here as additional vocationally or educationally relevant inputs that make the learner more rounded and/or ready for employment in their sector than would otherwise be the case.

> Previously our Sports programmes had been run at 700 GLH per learner per year because this is what was required to produce a fully-rounded, industry-ready individual: this has been cut back to more usual levels [560 to 575 GLH] by removing the additional qualifications and experience previously included.

> Enrichment elements have been cut to an absolute minimum.

> Enrichment activities have been badly affected. The 'standard' 540 GLH is simply not sufficient in many curriculum areas to deliver what the college regards as a high-quality experience for the learner. Up to 700 GLH would enable us to do this but this is simply not do-able with current levels of funding.

Curriculum delivery

326. The length of study programmes is being reduced.

> For Levels 1 and 2 the core programme has reduced from 12 to 11 hours per week – plus three hours for English and/or Maths or other guided learning activities for those who do not need English/Maths. Hours for our Level 3 vocational programmes are also 13; Level 3 non-vocational programmes are run over 14 hours per week.

> A 'full time course' is now typically three days per week – two to two and a half vocational days plus time for English and Maths for most Level 2 learners; three vocational days per week for our Level 3s.

327. Within the total number of GLH, the balance between directed, tutor-taught, hours and self-directed learning activities has moved towards the latter – at this point 'creeping' rather than 'swung', but there is nevertheless a pressure on all providers in the sector to make more use of other forms of learning, in particular various forms of on-line delivery.

> The balance between taught hours and self-directed learning activities is inevitably moving towards the latter, though these still constitute a relatively small proportion of GLH [currently no more than c.10% for a Level 3 programme] and are not used at all for anything below Level 2.

> Tutor-led, whole-group teaching, GLH have been slashed to what we consider to be a minimum level [436] with the balance required by study programmes switched to self-directed study with minimal/no tutor contact. A three A Level programme is currently being run on 12 hours per week direct contact time.

> Our learners get fewer hours with a tutor in front of them – particularly 16 to 19-year olds on study programmes.

> We are looking at making greater use of various forms of independent/self-directed study to reduce direct contact time further.

> Whilst maintaining 540 GLH, we have reduced the teaching year – partly because this reflects the reality of exams being taken earlier but also further to reduce costs. We recognise that this is not necessarily ideal for learners.

328. It must be emphasised that providers are at pains to ensure that all self-directed learning activities meet the requirements for 'guided learning hours'.

Class size

329. Class sizes have been increasing steadily in GFECs; given the pressure on resources, this is not especially surprising. Because:

- The principal costs of a course, once a decision has been taken to run it, are essentially fixed (for a year at least)
- The marginal cost per additional learner is effectively zero (until a new group is triggered)

and

- The marginal revenue of having an additional learner is therefore considerable …

… the pressure to increase group size up to the point where a new group is required is almost irresistible.

330. For SFCs, this means that average class size is typically 14 or 15; for popular subjects classes in the mid- to high-20s are common, classrooms permitting. A typical median class size, 19 or 20 for our SFCs, is substantially above the

average, reflecting the fact that there are more groups towards the higher end of the spectrum.

> Our Level 3 class sizes are consistently high; the current median is 19 but all of the popular subjects now start with a class size of between 24 and 27. Smaller groups are found in Music, Geology and Spanish A Levels – but even these are still generally around 10 per group. Overall our average class size is currently 18 – up from 16 two years ago.

331. GFECs are generally reluctant to split a group until it has 30 learners. The principal exception to this is laboratory/workshop-based provision, where a maximum of 15 or 16 would be more typical – though these groups are generally combined for non-practical elements of their courses (i.e. anything that takes place outside a workshop-based setting).

332. Some GFECs are literally not built to take groups of this size.

> Our classrooms were designed [less than ten years ago] for what was then considered to be the maximum number of learners likely to be in the room – 16. Space constraints are therefore a significant driver of costs for us. We are attempting to create more flexible spaces that will accommodate larger groups but can really only do this at the margins.

333. Currently demographic trends are such that it is not always possible to grow class size as a means of making resources stretch further.

English & Maths

334. Whilst all interviewees believe passionately that young people should be helped to get GCSE grade 4 in English and Maths, the pressures that this is putting on GFECs are considerable[70]. One of our GFECs reported that currently three in every four of its 16-year olds have not got either English and/or Maths GCSE at grade 4; while this is extreme, between a half and two thirds was very common.

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[70] It is also a condition of funding that (subject to a 5% tolerance) all full-time learners without a grade 4 in GCSE English or Maths must continue to study for a GCSE qualification. Part-time learners without a grade 4 can study any qualification approved to meet the condition of funding – including qualifications that are a stepping-stone towards achieving a GCSE grade 9 to 4. Failure to meet the condition results in a proportion of funding being withheld from the provider.

For the academic year 2019 to 2020 the condition has been relaxed; full-time learners without a GCSE grade 3 will be able to study for a level 2 functional skills qualification instead of retaking their GCSE. Further details are in *Funding guidance for young people: funding regulations*. For 2018-19 see https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723721/16_to_19_funding_guidance_Regulations_2018_to_2019-v1b.pdf and for 2019-20 see https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806069/16_to_19_funding_guidance_Regulations_2019_to_2020_Final.pdf.

335. Indeed, the level of need for Maths and English GCSEs is such that GFECs often timetable these classes first, with specific time slots then allocated to curriculum departments according to their needs. Departments then have to schedule the vocational elements of their Level 1 and 2 programmes around their allocated Maths and English times.

336. Repeating GCSE English and Maths is so embedded into the curriculum that it is often difficult to offer any alternative for the few who do not need it. Some areas – particularly Business and IT – have enough learners with Grade 4s to enable them to put on some sensible 'enrichment' (an introduction to Sage Accounting; some Microsoft 'ticket' courses/qualification), though there is no specific funding for this.

337. For a GFEC that is operating close to the minimum GLH for a Band 5 learner (540 GLH, or 15 hours per week over 36 weeks), English and Maths may take three hours per week each leaving only nine for vocational study. GFECs can of course provide more hours but will effectively be doing so "at their own expense" since they receive no further funding for it[71].

338. As a 'rule of thumb', those with a grade 2 or 3 are generally entered for GCSE resits; those with a grade 1 do Functional Skills. However, the difference between 'just missed a Grade 4' (when some targeted inputs from tutors plus self-study may make a November resit possible) and just achieved a Grade 2 (in which case Functional Skills for a full year is almost certainly more appropriate) is considerable. Whilst GFECs can and do run their own diagnostics to try to establish a more granular picture of needs, often the mix of learners in any given group (particularly Maths) can be difficult to teach. Some GFECs reported difficulties in securing information from schools that would help them to adopt a more individually focused approach.

> Although schools have detailed information on which parts of the syllabus an individual learner has struggled with, they rarely if ever pass this information on to the learner's college. Time is therefore taken up repeating diagnostic procedures that are in fact unnecessary.

339. Most 16-year old learners arrive in GFECs having studied English and Maths for ten years, and GCSEs specifically in Years 10 and 11; having 'failed', not unsurprisingly, many find it difficult to re-engage with the subject(s). The fact that often they will need to do so in larger groups than they may have experienced at

[71] Funding for English and Maths is provided by ESFA as block 2 of "disadvantage funding", perhaps suggesting that (like block 1) it is designed to meet the additional costs of providing literacy and numeracy learning embedded within learners' learning programmes. (ILPs, as Apprenticeship providers, come closest to doing this when their learners need to meet literacy and numeracy requirements.) In practice GFECs run entirely separate English and Maths classes delivered by a separate group of specialist tutors. This perhaps suggests that the additional literacy and numeracy funding should be provided as funding for specific (additional) hours of guided learning rather than as "disadvantage" provision.

school – commonly between 20 and 25 for GCSEs; ideally less (around 15) for Functional Skills – certainly does not help.

340. Part of the reason why resit classes are so large is that recruiting sufficient qualified staff is so difficult – in part, because the pay and terms and conditions GFECs are able to offer are usually considerably below what is on offer in the schools sector and the client group is more challenging. Because GFECs find it difficult to recruit English and Maths staff, reducing group size is rarely an option.

> You need to be dedicated to your subject to spend your professional life in GFECs helping those who have 'failed' their GCSE, especially since many of them don't particularly want to be in your class.

> The department has 25 teachers who spend their entire time helping our learners achieve their GCSE English and Maths qualifications.

> Group sizes of 24 or 25 with a maximum of 32 weeks to get them up to Grade 4 represents quite a challenge – particularly as learners are coming to us from different schools having been taught, especially for Maths, in different ways. We could do with classes of no more than 15 but (a) this isn't affordable, and (b) it would be difficult to recruit enough teachers to have groups of this size anyway.

> Level 2 GCSE retakes in English and Maths are in classes of 24 – this represents a significant increase on two years ago [an increase of 6 learners for English and 4 for Maths]; these groups are too large but cannot be reduced under the current funding model and with the teaching resource available.

341. Unsurprisingly, given all these factors, we have seen data showing that the average national "success rate" (learners achieving grade 4 or above) for GCSE English in GFECs is 26%, and for Maths 16%[72]. Our GFECs generally were performing above this level.

342. Finally, at certain points in the year English and Maths provision affects the entire operation of GFECs. The logistical challenge of getting many hundreds of learners resitting the same GCSE exams at the same time is significant, often requiring GFECs to close to all other provision for entire days as the full resource (staff, IT and rooms) is focused on delivering these exams. GFECs cope with the challenge but are not built or resourced for this[73].

[72] Figures for 2016/17, supplied to us in good faith by one of our participating GFECs

[73] Functional Skills do not pose the same challenges as these can be taken at any time.

Staffing

343. The table below summarises what our interviewees considered to be the consequences for staffing of multiple years without an increase in the base rate. More detail is in the following sub-sections.

Table 6. The impact of no increases in funding on staffing

Consequences …	… seen in …		
	GFECs	SFCs	ILPs
Recruiting and retaining staff is more difficult – more attractive opportunities exist outside the sector	**	*	*
Workload is increasing: • For staff academic/delivery • For staff non-academic/delivery and support	 ** **	 ** **	
Headcounts are down	**	**	
Less staff development and CPD is taking place	**	**	
Structures are squeezed	**	**	
The impact of unfunded increases in pensions and other pay-related costs is potentially extremely serious	**	**	

Staff recruitment & retention

344. GFECs are finding it increasingly difficult to recruit staff, certainly of the required quality – often simply at all: this is no longer an issue just for certain curriculum areas (STEM, construction, the professions – law and accountancy in particular – and English and Maths).

345. The main issue for the sector is the relative unattractiveness of the salary on offer compared to what is available elsewhere – from schools, from HEIs and from industry.

> Recruiting tutors to all areas is difficult, particularly where there are school-based alternatives but now also where this is not the case. For example, the college has failed on multiple occasions to recruit a Travel & Tourism tutor, primarily on grounds of salary.

> We are finding it very hard to recruit to almost all vacancies, mainly because level of pay is so poor relative to the market; we do not compete with what schools can offer.

> Salaries in Engineering, Construction and IT have to be higher than average if the college is to have any hope of recruiting. All our Engineering tutors are on Senior Lecturer grades but even then, with the top of scale at £35K, we are not really competitive.

> We are losing people and finding it harder to recruit simply because the pay on offer is nowhere near being competitive.

> Our biggest difficulty is recruiting good teachers with the poor wage currently on offer. If we develop less experienced staff with in-house training, we then can't afford to increase their wages to reflect their new skills and knowledge

346. The pay differential is also an issue for non-teaching staff.

> We cannot pay enough to tempt appropriately qualified and experienced Finance and IT staff into the sector. If they want to work in education, HE offers a better-rewarded option.

> We find it very hard to recruit staff to IT and data roles because the level of pay we are able to offer is so poor relative to the market.

347. The differentials in pay between the sector, other education providers and industry have opened up over the last five years; with no increase in the base rate, GFECs have generally only been able to afford to raise rates of pay by small amounts (typically averaging less than 0.5% a year – often with multiple years where there has been no increase at all).

> Although the college honoured the recommended 1% pay rise last year, this did not keep pace with inflation, nor with what schools have been able to offer. Pay pressures will continue to mount – schools got 3% this year, covered by additional funding; we did not.

> Our staff have received two 1% pay increases in the last two years – this is after no increase at all for the previous five. We estimate that our staff salaries are, in

real terms, now about 25% below what they were ten years ago – and therefore at least 25% down on what potential employees could be earning elsewhere.

348. Other aspects of employment in the sector also suffer by comparison with schools and/or industry. For example:

- Terms and conditions more generally, when compared to schools (i.e. aspects other than pay, which has been covered above)
- Opportunities for progression (see *Staffing structure* below)
- The challenges posed by the learners (see *Learner support* below and *English & Maths* above)
- Workload – in terms of the range of abilities covered (from entry level to at least Level 3 in most GFECs), and quantity (see *Staff workload* below).

We have recently advertised (twice) for a Head of Functional Skills - Maths – the salary was £10,000 less than someone could get in the schools sector, to work with a more difficult client group, with less holiday … [Eventually the college did manage to appoint.]

349. GFECs are attempting to cope with the recruitment and retention challenges they face in a variety of ways:

- Using technicians/instructors in place of tutors
- Using hourly paid staff – though the rates on offer are even less attractive than for salaried staff and some GFECs raised concerns about the impact on quality and the learner experience of using staff with a temporary attachment to the GFEC
- Using agency staff, which is costly and again often not especially positive in terms of the learner experience.

350. Ultimately, the need for a real and reasonably large increase in the salaries on offer in the sector was widely considered essential but may not in itself be sufficient. Some GFECs are contemplating no longer paying all lecturing staff broadly the same rate for the same point on the scale: this could allow salaries to be made more attractive in curriculum areas where it was proving to be particularly difficult to recruit.

The big question is whether to pay the market rate for staff based on their vocational area or to continue to pay a standard salary for all staff with similar responsibilities. So far, we have tried to do the latter but there is no doubt that it is tougher to recruit staff in well-paid vocational areas than it used to be [craft trades, for instance]. Soon we may have to differentiate by vocational area. Certainly, we cannot afford to raise all staff salaries just to address this issue.

351. ILPs reported similar difficulties in attracting staff – particularly in Construction, Engineering, Law and the Accountancy-based professions – but currently appear to be better placed to offer a competitive employment package than GFECs.

> Getting Engineering assessors and tutors can be challenging. Once they have completed their training, former Apprentices can earn £40,000 or more in their early- to mid-twenties. Whilst our staff tend to be older and to have reached a stage in their careers where they (a) want to travel less and (b) want to give something back, we still have to match this if we want to recruit staff of the right quality and with the drive and experience we need.

Staff workload

352. The impact of under-resourcing is seen in increasing staff workloads; potentially there are several dimensions to this:

- Contact hours are likely to have increased by at least 10% – typically GFEC tutors will have 24 or 25 contact hours per week (out of a total of thirty-seven contracted hours – or c.860 contact hours per year out of a total of c.1330) with little or no remission for additional responsibilities for any staff below programme leader level
- The way in which contracted and contact hours are used may have changed – some GFECs have moved to annual hours, enabling the hours available to be deployed in a non-uniform manner across the academic year
- Utilisation (i.e. the extent to which targeted contact hours are actually achieved) is high – at least 95%, often higher. This is partly explained by the increased use of fractional contracts – increasingly if all a programme area needs is 0.6 of an FTE then all that will be bought-in is 0.6 of an FTE. As a result, there is effectively no slack in the system
- Any ‘slack’ individual tutors might have effectively goes in “cover” for absent colleagues: few of the organisations in our sample buy-in agency or temporary replacement staff unless the absence is likely to be very long term
- The range of activities for which some remission from teaching might previously have been given (e.g. for curriculum development; time-off for non-qualified staff) has been radically reduced if not removed completely
- Number of groups taught – it follows from increases in contact hours and utilisation that the number of groups each member of staff has contact with will also have increased
- The number of learners in a group has increased. This complicates the task of teaching – particularly if, post-RoPA, there are learners who are at college under duress and/or the range of abilities in any given group is wider – and directly adds to the workload (more learners to support; more pieces of work to mark etc.). With median group size also increasing there is less opportunity for some respite from teaching the occasional smaller group

- Staff in what remains of middle management have greater accountability for a wider range of responsibilities (planning, budgeting and financial/data monitoring; recruitment, retention, progression and achievement; the curriculum, staff and learners etc.) – all across a wider range of programme areas that will almost certainly include provision that is outside their direct experience. Without exception, all GFEC SMTs (and the middle managers themselves) recognised the critical part that these managers played and the increasing stresses that now come with roles at this level.

353. Increases in workload are not confined to academic staff. If anything, support staff (pastoral and non-learner-focused management and support roles) have suffered disproportionately as the focus has been on maintaining learner-facing staff numbers as much as possible.

354. Non-academic staff are also now more likely to be on term time only contracts – it is not clear whether this fully reflects how the work actually falls, or whether the same work is now done in fewer weeks.

355. For some colleges – especially SFCs – the reduction in pastoral support staff has meant that tasks that they would previously have undertaken have been transferred to teaching staff without commensurate time being allocated, further increasing their workload. We return to this in detail in *Learner support* below.

356. There is less evidence of increased workloads in ILPs – for example programmes being cut, an increase in caseload per assessor and/or a reduction in the frequency of contacts with each Apprentice. For non-centre-based provision in particular, it is more likely that provision would be cut because quality and/or cash flow would be adversely affected were significant changes to caseload and visit frequency made.

CPD

357. Budgets for formal staff development have (a) been squeezed and (b) are now more likely to be held centrally and accessed via a departmental bidding process. Retaining central control over CPD enables senior leaders to ensure that all development activities that do take place are geared towards meeting agreed priorities.

> Our budget for staff development is notional in the extreme. Basically, this is not an area in which spending takes place.

358. However, the picture is not entirely as bleak as the above implies:

- Some GFECs retain a, albeit reduced, lead/advanced practitioner resource to support staff development
- Staff receive any necessary training to enable them to do their job – this includes support for non-qualified tutors to become qualified (though, as noted above, the remission given for this has often been cut – by almost 50%

in some cases) and awarding body training relating to new specifications, qualifications and/or standards (though this can be expensive, particularly when travel and other costs are taken into account)

- Providers are using their own Apprenticeship levies to support training where a suitable standard exists
- A minority of GFECs retain designated CPD days and/or still close for half a day per week (Wednesday or Friday afternoons) for departmental or whole-college development activities.

359. Whilst professional development is therefore still happening, it is (a) more likely to be informal and (b) more likely to be delivered by a college's own staff than previously. There is also a suggestion that for formal CPD in particular, but also elsewhere for centrally held budgets, there is an element of self-censorship taking place – because staff know that the resources available are limited, they are choosing not to submit requests for funding.

360. Again, the picture for our ILPs was generally more positive – most seemed to be better able to sustain expenditure on staff development than GFECs and SFCs.

> Almost all staff are undertaking some form of recognised training and development. Our assessors and the Internal Quality Assessor are on learning and skills teaching qualifications at Level 5; the main administrator is on a Level 3 team leader Apprenticeship.

> Investment in staff development remains a priority for us.

Staffing structure

361. Headcounts are generally down – there are fewer people to do the same, or an increasing, amount of work.

362. Management positions in colleges are being squeezed at all levels. In particular, the spans of control at multi-departmental head level and above have increased and are continuing to increase.

> As managers leave, the tendency is to try to reallocate their work/responsibilities rather than re-appoint.

> If a manager leaves, we tend to reallocate their role and responsibilities among existing staff rather than to recruit a direct replacement. As a result, over time effectively an entire layer has been lost from the structure.

363. In addition to stretching the remaining management resource, opportunities for internal progression are reduced.

> At SMT-level the structure feels very lean – a Principal; two Deputies [covering Curriculum & Quality and Finance & Resources]; one Assistant Principal; and a total of seven Managers, five of whom cover all aspects of provision in their areas [16 to 18, 19+, HE, adult education and Apprenticeships].

> We have consciously stripped out most management roles. An SMT of seven now runs the whole group rather than just one college [which was the case when the Principal joined]. One PA now supports the entire SMT on a four-days a week basis [when the Principal joined most senior roles had their own support].

364. There is a general feeling that the processes of structural delayering and role rationalisation have been taken as far as they can go – possibly beyond this point. One SFC, which had been losing staff due to the stress caused by the increased workload following delayering and role-merging, was reintroducing some of the management posts it had taken out.

Pensions and other pay-related costs

365. Staff salaries (and their associated costs) are the largest single cost item for all providers; any compulsory increases that are unfunded therefore place a considerable burden on all colleges. For many of the colleges we saw, if coverage of (as a minimum) the pension increases is not extended their financial viability will therefore be under threat: this is regardless of what happens to the base rate and to other costs.

366. GFECs were concerned about the uncertainty over continued funding of the increase in Teachers' Pension Scheme contributions beyond 2019/20. If the increase is not funded in full beyond this, then all GFECs commented that this would have a major impact on their finances – estimates started at £400,000 for a relatively small GFEC (c. £20m turnover).

367. We understand that SFCs that have academised have the latest increases for teachers (2.5% in pay and 7.3% in pensions) covered in full for 2019/20 but will be in the same position as GFECs thereafter; those that have not become academies have not had either increase covered at all.

> The college is looking at c. £150,000 of additional [pension] costs that are in no way funded.

> If there is no base rate rise to at least cover these costs [pay and pensions increases] – and the prospective pay rise for support staff [1.5%] – in full beyond 2020 then substantial cuts to our staff and curriculum will have to be made.

368. Increases in National Insurance contributions and in the National Living/Minimum Wage have also been unfunded and were further causes of financial concern.

Learner support

369. The table below summarises what our interviewees considered to be the consequences for learner support of multiple years without an increase in the base rate. More detail is in the following sub-sections.

Table 7. The impact of no increases in funding on learner support

Consequences …	… seen in …		
	GFECs	SFCs	ILPs
Insufficient resources to meet the "ever-increasing needs of the cohort"	**	**	
Mental health issues a particular cause for concern	**	**	
Additional responsibilities placed on providers without adequate funding	**	**	

Mental health

370. Against a background of increasing national concern over the mental health of young people and young adults, none of our GFEC and SFC fieldwork participants was able to report increases in the resources available for this aspect of learner support. All reported significant increases in demand for these services.

> The mental health needs of our learners have increased significantly and cannot be met by the college.

371. Some were just about managing to maintain the current level of spending; others had had to implement substantial cuts

372. A complicating factor that was widely reported was the lack of mental health services on offer from any other agency.

> More learners are declaring more – and more complex – needs; many others do not declare or have needs that only emerge over time whilst they are at college. Options to refer elsewhere, particularly to CAMHS, have all but disappeared. The burden that this places on the college is considerable.

> Learner mental health is a major area of concern. Investment by the NHS [in CAMHS] has not kept pace with demand, takes far too long to access [six to nine months] and – if support is accessible at all – is not being maintained for the required length of time.
>
> The college does what it can with the current level of funding but really this should be others' responsibility; if it is to be ours more resource is urgently needed.

> Increasingly there is simply nowhere to refer learners to; we either have to do our best or say we cannot help.

> Without what the college is able to offer, our learners would not be able to access any mental health support.

Other aspects of learner support

373. Providers across the sector recognised the importance of 'wrap around' learner support for progression and completion. Nevertheless, these aspects of learner support were not immune from cuts in provision.

> Pastoral staff – counsellors, staff providing support for work experience, and progress support staff in particular – have been cut significantly, with workloads for those staff who remain therefore increasing substantially.

> We have had to reduce our learner support budget by almost a third this year; the impact of this on retention, progression and achievement remains to be seen.

> We have tried to protect learner support as much as possible but there have still had to be cuts: this is despite a learner cohort that is increasingly complex and is placing more demands on the staff we have been able to retain.

374. Colleges are responding to cuts in resources for learner support in a variety of ways:

- Tutors having no, or only extremely limited, responsibilities outside the classroom with a separate team performing all 'pastoral' roles (very broadly defined)
- Tutors having full responsibility for 'their' learners – curricula and pastoral
- A mixed economy model where anything to do with the curriculum, broadly defined, is delivered by tutors and the pastoral role is delivered by a separate

team (sometimes on a more targeted basis to those in most need/at greatest risk).

375. Additional support in the classroom is generally now only available for learners with an EHC plan: often this has increased the burden already caused by larger groups, affected the welfare/well-being of staff, and proved disruptive to the education of other learners.

376. At a time when resources are limited, the range of support roles required is extensive and growing. In addition to curricular and pastoral staff, colleges also retain as part of their learner support service some/all of the following: assessors (to determine learners' support needs); counsellors; welfare officers; financial support officers/advisors; safeguarding officers; work experience placement coordinators; careers advisors; and learner voice 'champions'. Frustration at the lack of additional resources to provide the expected range of support was frequently expressed by GFECs and SFCs; safeguarding, counter-extremism, work experience and careers were specifically mentioned in this context.

377. Most if not all support roles are not optional – i.e. there has to be some level of service offered.

> There comes a point where you can cut no further. For example, our [already reduced] progress support team has a caseload of between 250 and 300 learners per person; loss of another post would increase this to an unsustainable 350 each.

> We now have only one [mental health] counsellor – removing another post therefore now removes the service.

378. The use of term-time only contracts for these staff is already common.

379. To make the available resource stretch further, more than one provider was running elements of learner support and counselling services using volunteers, albeit volunteers who were appropriately qualified, experienced and/or had received some training.

380. It is important to note that, for GFECs and SFCs in particular, the provision of learner support is taking place in the context of what is generally perceived to be a more challenging learner cohort.

> Those coming to us are not in any sense capable of working at the same level, do not have the same level of social and study skills and have more social problems than previous cohorts.

> Post-RoPA, there is a significant minority who are only at college because they 'have to do something until they are 18'.

Having 14 to 16-year olds in college presents a new and different set of learner support challenges.

381. The widespread belief in GFECs and SFCs is that the pressure on budgets, combined with increased demand for and an expansion of the range of services required, has led to levels of learner support that are inadequate to meet current and/or anticipated needs fully.

382. For our ILPs, learner support was generally very much part of the assessor role; a minority did have distinct staff performing all aspects of pastoral support (widely defined), with tutors solely focused on delivering the vocational elements. Whilst there was an acceptance that support would have to be cut if funding became tight, most of our ILPs did not consider that this point had been reached.

Capital expenditure

383. The table below summarises what our interviewees considered to be the consequences for capital expenditure of multiple years without an increase in the base rate. More detail is in the following sub-sections.

Table 8. The impact of no increases in funding on capital expenditure

Consequences …	… seen in …		
	GFECs	SFCs	ILPs
Sufficient funds for necessary capital expenditure are no longer available from within the organisation	**	**	*
Other sources of capital to meet providers' needs for investment are not available to us	**	**	*
Our IT is sufficiently obsolete for efficient delivery and the credibility of the curriculum to be at risk	**	**	
Delivery of elements of the curriculum offer is compromised by the lack of required equipment	*		*

384. For GFECs and SFCs, as noted in Section 2, the capital bidding round operates alongside curriculum planning. Either departments submit proposals for the capital investment each believes it needs for SMT/the governors to consider, or there is no bidding process and SMT/the governors decide what capital investment to make, based on consistency with the corporate strategy, curriculum priorities and the resources available.

385. Relevant cross-college managers (e.g. Estates and IT) are generally involved in the capital expenditure process. In the few cases where depreciation/costs of capital are attributed at departmental level, their involvement reduces the risk that curriculum departments will cut-back on necessary investment as a way of making their CTO target easier to achieve.

386. ILPs that operate on a non-centre basis (i.e. delivery at the employers' premises) have little or no requirement for capital investment to support programme delivery. However, centre-based ILPs require considerable investment in both premises and equipment. For these ILPs, decisions on where to invest are taken at Board level.

Sources of funding

387. Apart from non-centre-based ILPs, almost all providers, regardless of type, find it impossible to secure sufficient funds for their investment needs solely from internal sources.

> We have a process; we just don't have the capital.

> We have £1m worth of savings to identify for 2019/20 – in these circumstances, it is impossible to find any funds for capital investment.

388. Those that have a capital investment fund have, almost invariably, seen it decline in size.

> Our budget for capital expenditure is currently £250,000 – down from £800,000. Half is earmarked for curriculum-related IT investment; the balance is available for departmental bids – 'invests to saves', Health & Safety-required expenditure, and supporting growth areas in the curriculum are prioritised. Generally, a capital project requires significant support from an external funder if it is to go ahead.

> We have not had any funds for capital investment for four years.

> Our budget for capital expenditure is between £200,000 and £300,000; it really needs to be at least twice that.

> Our funds for capital investment have reduced from £1.4m to £0.5m in fairly short order; we can just about replace what needs replacing but cannot invest in anything new.

…but there are some indications that a small minority of providers are able to do more …

> We have increased our capital budget by 70% (to £1.5m) in order to enable us to invest in the curriculum and drive contribution.

389. Commercial lenders have revised their views of the risks of lending and were now widely felt to be disinclined to lend to the sector.

390. GFECs are primarily reliant upon LEP support to supplement what they are able to make available internally. As a source of funds for capital investment, LEPs were criticised by some of our interviewees on a number of grounds:

- The lack of any maintenance budget – previously (under the SFA) there was a fund for day-to-day maintenance work
- The bidding process – whether funding can be secured depends entirely on whether a GFEC can shape what it needs to match its LEP's priority areas. Programme areas that are not LEP priorities will struggle to secure investment
- The LEP has a wider brief and the funds it has available for investment are not restricted to applications from the FE sector, which means the resources it does have are more widely spread than was previously the case
- A higher level of matched funding is generally required[74] and there is less flexibility re. in-kind contributions – in the current climate this means GFECs struggle to meet the matching requirements.

391. We are also not clear whether bids solely for replacement of equipment, which is where most of the current need for capital expenditure is (as opposed to bids that include elements of kit but also 'bricks and mortar', ideally for new provision), are fundable/funded by LEPs[75].

392. More generally, any investment in equipment that requires a successful bid to the LEP will not necessarily be absolutely focused on what is required by the GFEC but have to be adapted to ensure it gets the LEP's interest. The timescale for bidding may also not match with when the GFEC's need for the investment arises.

393. Similar considerations apply to SFCs with regard to the inadequacy of internal resources, non-availability of commercial loans and the consequent need to look to Government – in this case the ESFA – for investment funding.

[74] A college contribution of 50% to *all* capital projects before LEPs will consider support seems fairly standard.

[75] Of course, the depreciation accounting convention should implicitly create a "fund" to replace existing equipment like-for-like. However, many colleges were only breaking even in cash (or EBITDA) terms rather than absolutely, and thus in effect not creating the fund required. Depreciation can also be unrealistic e.g. long depreciation periods for equipment that actually has quite a short life in learners' hands.

394. Centre-based ILPs (even if not-for-profit) have no non-commercial sources of funds for capital available to them; their ability to invest is entirely dependent upon their ability to generate a reasonable margin from Apprenticeships and other lines of business.

Areas where expenditure is required

395. For GFECs and SFCs the principal area in which capital investment is currently required is IT: this is primarily an obsolescence issue – the kit is often simply too old to cope effectively with current operating and similar systems (Windows 10, Office 365 etc.); the Wi-Fi is no longer fit for purpose; firewalls require upgrading; whiteboards are failing and replacements cannot be afforded etc..

> Our IT is increasingly obsolete. Nothing is less than eight years old and the inability of it to cope with the latest software is a major blockage to effective delivery of the curriculum.

396. It is also a matter of quantity – the general growth in the use of IT across the curriculum means that often there is simply not enough available. Whilst learners can (and increasingly do) bring in their own devices, it is unlikely that all these will fully support the systems and software used by a college. A “bring your own” approach also potentially creates issues relating to security and, for those who don’t have a suitable device, differential access to the curriculum.

397. The lack of investment in curriculum areas was also a cause of concern. The problems here are potentially two-fold: access to the equipment necessary to run new courses or modules within courses, for example:

- For Construction – courses in building services, renewable technologies and new construction techniques were proving difficult to resource
- For Engineering – many workshops do not have the equipment to support, for example, new areas such as robotics
- For Motor Vehicles – access to electric cars

and/or access to the equipment/kit that is currently found in the workplace, for example:

- For Music Technology (indeed arts-related programme areas more generally) – most of the equipment is specialist and rapidly evolving
- For Sports & Leisure – current gym equipment.

398. For some colleges the inability to invest in equipment is certainly shaping their curriculum offer within programme areas. Only having the equipment to run X but not Y becomes a particular problem when the opportunities within the sector are increasingly requiring Y rather than X.

399. Finally, there were also more general concerns about the quantity of equipment that was available with learners having to share time on pieces of equipment at less than desirable ratios, meaning that the curriculum took longer to deliver and behavioural issues in class developed. Construction, Engineering, Hair & Beauty Therapy – indeed most equipment-heavy laboratory or workshop-based provision – were specifically mentioned in this context.

400. Centre-based ILPs would recognise all of the above issues.

401. In this context, the "lack of investment bubble" facing those colleges that have recently (within the last ten years) moved to new buildings is a particular cause for concern. Invariably these colleges acquired a considerable amount of new equipment as part of the new-/re-build process: this is now all coming up for replacement at exactly the same time. The size of the replacement task is simply too great for most of these GFECs and SFCs to contemplate.

> Much of the equipment that was acquired for the re-build is now fully depreciated; we have no plans and, in practice, no resources for its replacement.

402. Faced with this problem, a minority of colleges were switching to operating leases as a means of more readily being able to refresh IT equipment as the need arises – of course the costs of doing this are taken above rather than below the line and therefore have an impact on EBITDA.

403. Only three colleges (all GFECs) suggested that they had a sufficient and sustainable approach to budgeting for capital expenditure.

> Currently IT is being replaced to a five-year cycle; departmental heads are required to factor this into their business plans.

> We intend to continue spending c.6% of our income on capital improvements. Predominantly this will be spent on keeping equipment in the curriculum areas up to date.

> Our capital budget [c£1m] has not been fully spent in recent years.

Non-pay costs

404. All non-pay costs are subject to regular annual (and often in-year) reviews and all have had to bear cuts. Particular areas of non-pay costs that were frequently mentioned in this context at interview are covered in the following sub-sections.

Repairs & maintenance

405. Repairs and maintenance budgets are invariably run centrally. The starting point for setting them is last year's actuals but there is an expectation that costs will be reduced year-on-year and a line-by-line review to identify where savings can be made – both at the time budgets are being drawn up and subsequently during the year (i.e. for underspends on the agreed budget that can be reallocated elsewhere).

406. This is an area where all colleges are economising. Often only essential (Health & Safety critical) work is being undertaken; the notion of a schedule of preventative maintenance and repair work being produced with the work identified being undertaken to the prescribed schedule simply no longer exists in most colleges. The fabric of the college estate is therefore in gradual decline.

> There is a backlog of work not done in previous years that now requires attention. The Head of Finance is working with the Head of Estates to identify, cost and prioritise this work, but with little idea of where the money to do any of it will come from.

> Work is done on a purely reactive basis now – there is no preventative work taking place.

> It is not possible to keep the estate up to standard. The prospect of any major repairs presents a huge concern.

407. For those with relatively new estates, the lack of a sufficient repairs and maintenance budget was not an immediate concern. However, these colleges recognised that the risk associated with not having such a budget was increasing year-on-year.

Transport

408. The costs of getting to college are considerable – typically between £500 and £550 per year for those using a college's own (subsidised) transport network; a similar or greater charge for using a public service provider's bus: this is a substantial cost for learners who are not eligible for travel concessions, exemptions or bursary support. For colleges that draw learners from a wide area, transport costs have had an impact on recruitment.

Utilities

409. Colleges have generally successfully hedged their utility costs; many of these arrangements are now ending and expectations of at least inflation-related increases over the next three to four years are common.

Non-materials/resources curriculum-related costs

410. Smaller ILPs in particular are concerned about any fixed, flat rate costs because they do not have the volume of learners to spread these over. Awarding body registration fees in particular were mentioned in this context but the issue applies more widely.

411. The high costs of EPAs were often referred to. EPAs can, seemingly, take a large proportion of the tariff available for a particular Apprenticeship (20% was widely quoted) in exchange for what can look like a comparatively small part of the programme.

412. ILPs in general but also some GFECs are concerned about the "sales cost" of an Apprenticeship (interviews, initial assessment, employer recruitment and matching, and Apprentice induction etc.) – estimated by one provider at about £330 per learner: this is specifically unfunded and makes a serious dent in the resources received for an Apprentice.

413. Finally, IT-related software and licence costs were also specifically mentioned in this context, as was the charge for Janet, to be introduced from August 2019[76].

High Needs provision

414. The increasing demand for colleges to take High Needs learners (with or without an EHC plan) was becoming an issue for some GFECs. Pressure on local authority budgets is considered to be the main factor in the increasing number of High Needs learners being referred to a local GFEC or SFC, rather than to a specialist (often out of area) provider.

415. Whilst the fact that funding is only partially lagged (50% paid in-year; 50% the following year) is helpful, the capacity of colleges to carry the extra costs at a time when their budgets are already squeezed was increasingly being questioned.

[76] Janet is a high-speed network for the UK's research and education community provided by Jisc, a not-for-profit company set up to provide computing support for the education sector. According to information on its website, Jisc expects that the subscription to Janet for a medium-sized single site GFEC will be £15K, for a large multi-site GFEC up to £50K, and for a large college group over £100k. Whilst the vast majority of GFECs are predicted to pay "less than £20K", for those that are only breaking even on EBITDA this still represents a significant expense.

416. Reluctantly, one college is considering withdrawing its dedicated High Needs provision – i.e. it will only take High Needs learners who can, with the necessary support, follow mainstream provision.

Summary and conclusions

417. The contents of this Section report the considerable lengths to which providers have had to go in order to make the current level of funding 'work', with impacts on the curriculum (range, content and delivery), staffing (structure, recruitment, retention, workload, CPD and salary and on-costs), learner support, capital expenditure and repairs and maintenance.

418. We are aware that the overall feel of this Section is quite downbeat/negative: this reflects the tone of the vast majority of our many discussions. Whilst most providers would concede that, six years ago, there was some 'fat' that could be taken out with little impact on the curriculum and the learner, most if not all now consider that all of this 'low hanging fruit' – and much of whatever else was ready for picking – has been taken.

419. The immediate threat of already, or soon to be, unfunded increases in pension contributions will provide a shock which GFECs and SFCs will find extremely challenging; based on our discussions some may not be able to withstand it. However, whilst an extension to the period over which the increase in pensions will be covered would be welcome, the financial issues faced by the sector and reported in this Section go wider than this, particularly for GFECs and SFCs.

7 Overall assessment

Introduction

420. This report may appear to be "of two halves":

- Our quantitative data presents a picture of providers who are providing good quality FE whilst, by and large, balancing their budgets
- Our qualitative findings from the same group of providers show a sector under considerable pressure and with serious concerns about its future[77].

421. How we reconcile these findings and our overall assessment of the current state of the sector comprise the content of this, the final section of our report. We have two broad issues to cover: the future financial viability of the sector; and the capacity of the sector to keep its offer sufficiently current for it to continue to be relevant to learners and employers.

Financial viability

GFECs (and SFCs)

422. Most GFECs are generating some level of cash (i.e. EBITDA is still positive) but reporting an extremely small operating surplus, less than a percent of turnover at best, or a financial loss (operating deficit). Why is this a problem?

423. On the "price minus" principle we have discussed at length in Section 3 above, and applying cost-endogeneity, it is at least theoretically possible to deliver vocational education at almost any reasonable level of unit funding. For those providers involved in the fieldwork for this project, the evidence would suggest that it is possible to deliver good quality provision at the current level of funding.

424. More efficient use of resources, partly achieved through GFEC mergers (plus, for some, the ability to increase learner numbers), for some time has enabled providers broadly to keep pace with reductions in core programme income (i.e. that from the ESFA and the adult education budget). However, there is now a general sense across GFECs and SFCs that the scope and capacity to continue to do this is no longer there[78].

[77] It is important to repeat that our sample did not include providers who had already "failed" or were demonstrably "failing to cope" with existing funding levels; we deliberately selected providers that were delivering "good quality FE", primarily because there seems little point in establishing what less than satisfactory provision delivered by potentially non-viable providers costs.

[78] There are a number of calculations of the impact of real-terms reductions in expenditure in the sector. Recently both the AoC and the SFCA have produced figures to illustrate this: see , the *AoC 2018 report on*

> We are rated good for financial health – nonetheless we have broken our bank covenants and are forecasting a cash flow shortfall in the period to July 2020: this will significantly reduce our working capital [to about two weeks' coverage of expenditure].
>
> We are now just about operationally sustainable, provided nothing unexpected happens.

> We are now as efficient as we can be – well past the point where there was any spare capacity in the system.

> If there is no increase in resources, by 2020-21 the college will need to radically cut provision; whole curriculum areas will go; there will be no capital investment; and more technicians will, in effect, be delivering the curriculum rather than just supporting tutors.

> There are no more efficiencies that we can make; we may just break even this year.

> The college is at breaking point. As a principal, you feel that there is now nothing you can do that will make a difference to the financial position.

> There is absolutely no slack in the system, and no resilience to cope with any additional shocks of any kind.

> We cannot reduce expenditure any more to cope with any further reductions in real income. Every year we are expected to do a bit more with a bit less money. The pressure is insidious, and often goes unnoticed, but when you compare "now" with say ten years ago the differences are all too clear.

college finances (https://www.aoc.co.uk/news/aocs-2018-report-college-finances) and London Economics' report for the SFCA (*Understanding the funding shortfall in sixth form education* at https://sfcawebsite.s3.amazonaws.com/uploads/document/LE-Funding-shortfall-in-sixth-form-education-1-1.pdf?t=1545389795), published in October 2018.

> Our surpluses have been eroded by the failure of funding to keep pace with inflation. The college is fragile and likely to be unable to survive any major financial shock.

425. This level of financial pressure is already having an impact on senior management in colleges. We were struck by the extent to which the entire SMT in every SFC and almost every GFEC is focused on financial issues to the exclusion of much else that, in more normal times, would be benefitting from their attention.

426. Unless there is an increase in the level of funding – a base rate rise plus funds for investment in equipment plus coverage of employment-related cost increases (pension contributions and minimum/national living wage) – the sense from our work is that we will start to see wholesale and significant impacts in the sector. These will go beyond more of the incremental changes already seen (group sizes further increased; options within programme areas further reduced; self-directed learning used more widely etc.) and further reductions in our bellwether indicators. Whole curriculum areas will be lost. It is certainly possible that colleges will disappear.

SFCs

427. In the context of widely shared concerns about the future, it is worth specifically highlighting the position of SFCs, which appears to be particularly acute. We visited five SFCs; what follows are the thoughts of each on their future.

> We have no reserves and are managing financially purely on a cash flow basis. Our cash balance is sufficient to cover around two week's expenditure – the risk of any shocks to the organisation are therefore considerable. For example, our ability to cover more than one more long-term sickness absence is very doubtful.
>
> If there is no increase in the base rate, cuts to the offer will have to be introduced. These will be to the additional inputs learners receive to help them succeed – therefore reducing their chances of success and progression and hindering social mobility – those curriculum areas that are currently marginal will go. If these changes adversely impact learner numbers, the college will find itself in a downward spiral and in a short space of time will close.

> We are currently budgeting to break even in each of the next three years. We will only achieve this if non-ESFA income increases substantially and we can use this to subsidise our under-funded core 16 to 19 provision.

> Our future is not sustainable on current levels of funding.

> Based on current trends, the college is unstainable. If we do manage to survive, then it can only be with fewer staff and fewer options for the young people.

> If we do not receive additional funding in real terms, quite soon we will fail financially – as will all the SFCs. Our aim is for this college not to be in the half of SFCs that fail first in the hope that, once half have gone – as they almost certainly will if current funding continues – something will have to be done.

428. SFCs' position is especially difficult because they are being squeezed by the growth of 16 to 18 provision in others parts of the education sector – schools in particular, which to some extent can cross-subsidise their post-16 provision from their 11 to 16 income, funding for which has been increased in the past six years. They are also considerably less well placed to broaden their income base, certainly when compared to GFECs.

Currency of the offer

GFECs

429. A key strength of GFECs has been the currency of their offer. Traditionally tutors had recently been working in their sector – some continued to do so, teaching on a part-time basis; the equipment was current – of a type generally in use in the place learners were or would be working; the curriculum was regularly updated to ensure that learners were acquiring the skills they needed for their sector; staff kept up to speed with developments in their sector etc.

430. Increasingly, as reported in detail in Section 6, the above is no longer the case.

> The consequences of non-/under investment are that the offer has become increasingly out of date and not relevant to what is current in the workplace: this undermines the whole *raison d'etre* of GFECs.

> There is now a real danger that GFECs will fall so far behind that they lose their relevance.

> The real terms level of funding cannot be significantly cut over an extended period, as it has been, without some impact on the quality of provision. Resources are ageing and investment is minimal because the level of funding is not sufficient.

There is no longer any resilience in the sector. The continuing and increasing struggle to achieve a surplus sufficient to allow for investment in the infrastructure has been lost. The relevance of what the sector has to offer is increasingly under threat.

The lack of funding for capital investment means that the sector is no longer in the vanguard for equipment and resources – essential for the quality of the learning experience, being innovative with the curriculum, and employer relations. It also ties the college into delivering less efficiently and effectively.

If GFECs fall too far behind in terms of resources for learners then they become irrelevant and mocked – we are now at that point.

ILPs

431. More positively, albeit based on the more limited information made available to us, we have fewer concerns for ILPs than for GFECs and SFCs. In broad terms, an ILP that is:

- Delivering standards that are funded at or over £4,000 …
- … for an average of 12 to 15 months on programme …
- … using an employer- (non-centre-) based delivery model …
- … to support c.40 Apprentices per assessor/educator …

… is probably making a reasonable level of return.

Apprenticeships dropped off a cliff in May 2017 with the change to the funding model [revenue fell by a third] but have been recovering since January 2018.

On balance, the introduction of standards and re-pricing of funding bands as part of this has been broadly positive, currently with an uplift in funding for most [assuming most Apprentices complete on time][79].

432. If one or two of the above criteria are not met, then an ILP is likely to be generating a lower, but probably still viable, rate of return – particularly if it is able to supplement its income with private/commercial work.

[79] Concerns were raised as to future levels of funding, mainly on the basis of the outcomes of early reviews of the allocations of standards to bands.

> The resource available … is proving sufficient, with employer support, to achieve successful outcomes from the programmes offered.
>
> In general, the programmes suffering recent reductions in funding deserved their higher rate funding and adjustments will therefore need to be made to the way we deliver if we are to continue to offer these. This may leave them looking slightly less satisfactory than they were. However, the crucial thing is to keep achievement rates well up, then the model (more or less) works.

> We should be broadly OK providing non-Apprenticeship revenue [c. a third of our total revenue] continues.

> An increase in funding [for the £3,000 tariff Apprenticeships] would stabilise their position and ensure that we remain committed to delivering them. In particular, it would allow for slightly more generous learner support in the workplace, which would in due course be reflected in achievement rates

433. However, if most or all of the above criteria are not met, then an ILP is likely to be non-viable under current funding.

> The quality of our provision remains good, but that quality is constantly under pressure and the all-round experience of the learner is under threat. If funding remains unchanged, there is a real danger we will go out of business by 2022.

> If funding genuinely remains unchanged in real terms [i.e. is not adjusted for inflation] then we can carry on as we are indefinitely (just). However, it is hard to see how any further real-terms reduction in income can be accommodated. Apprenticeships, and for that matter training, may become a market that we no longer wish to be invested in.

> There simply is not enough money in the system. We are being required to use our reserves to support an under-funded programme. There has to be a serious question over whether we will to continue delivering Apprenticeships.

Conclusion

434. Overall, our work suggests that, if the FE sector to survive “as is”, consideration needs to be given to relaxing the financial pressure it is currently operating under.

8 Some ideas for future work

An FE TRAC?

435. As part of our project, we were asked to see if we could refine a "cost model" that might be useful to the Department in future if and when it decides to collect cost breakdown information on a systematic basis: this is included at Annex 4.

436. Looking more broadly at modelling costs, apart from direct staff costs, at present most post-16 providers have little or no detailed information about the costs they incur in delivering individual programmes, or how these relate to the income those programmes generate.

437. Nor do they see it as a priority to gain this information, even though (presumably) it would help them identify how programmes (and/or departments) differ in the surpluses (or deficits) they generate on a fully absorbed cost model. Alternatively, whilst it may be of theoretical interest, providers (rightly or wrongly) perceive it as too difficult to collect.

438. There is a contrast here with higher education, where a Transparent Approach to Costing [TRAC] methodology has been in place since 1999/2000[80]. TRAC has been extended specifically to cover costs per undergraduate FTE student by subject department[81]. Completing a TRAC return is a compulsory condition of funding, but it presumably conveys useful information to Government and we would expect the findings of a TRAC return to be helpful at institutional level too.

439. Before FE goes down a TRAC-type path, it would be valuable to work intensively with a small number of providers to help them implement accurate costing methodologies at sub-whole institution level – certainly at departmental level, and possibly at the level of an individual programme. Such methodologies might cover estimates of the costs of new provision and/or the monitoring of the actual costs incurred when provision is delivered[82].

440. When complete, the project could help establish:

- How easy it is in fact to ascribe costs to individual departments, and possibly individual programmes, and what range of allocation methodologies for central costs are actually practicable
- Whether the information yielded was helpful to senior staff in providers, either

[80] See e.g. https://www.prao.admin.cam.ac.uk/resource-allocation/tractas-fec/trac-induction-academic-staff for a description of the TRAC process prepared by Cambridge University for the use of its staff.

[81] There is perhaps an assumption that in higher education the department is as far as one needs to go in costing, since (e.g.) most undergraduates in a History department are doing History degrees. Of course this assumption does not hold good in post-16 further education, where a department (however defined) will often have a more diverse variety of programmes.

[82] Some of our fieldwork participant GFECs tried the first. None tried the second.

as a monitoring tool or to help inform decisions about how the map of provision should evolve in future

- Whether any aggregation of this data would be useful at national level, e.g. to DfE or ESFA, or to individual colleges on an anonymised benchmarking basis. Equally, whether anonymised data at the level of a highly specific individual programme would be of value to (e.g.) the awarding body concerned
- Whether, on balance, the benefit of this information outweighed the cost of acquiring it.

441. We suggest the Department might want to consider a project along these lines.

Annexes

Annex 1

Briefing document for fieldwork participants

The briefing document sent to fieldwork participants is reproduced below.

In practice, there were minor variations depending on the type of provider, when in the process the document was sent etc.

This briefing sheet is intended to give you some guidance about the issues we would like to cover during our visit. You do not need to send us anything in advance. Equally, if there is information you could provide us with before we see you, we would be happy to receive it.

The annexed Word document (*Cost-related information for our visit*) details the cost-related and other data that we think we will need access to. The annexed Excel spreadsheet (*Costings proforma at area level*) may help you identify, collate and present this data for us.

We are most grateful for your help with this study.

Purpose of the study & our visit

The primary purpose of this study is to improve DfE's understanding of the cost of good quality further education provision, what drives costs and the impact of cost pressures on the delivery of that provision. All institution types and the principal modes of study – independent learning providers, sixth form colleges, general FE colleges; classroom-based programmes and Apprenticeships – are in scope. The Department is shortly due to make its submission to the 2019 Spending Review and the outcomes from this study will inform the case to be made for spending on further education.

Scope of our visit

Our visit has two purposes. The first is to gain some insight through qualitative discussions with you on the impact that cost pressures are having on the provision you make. We list in the next section of this document the questions we would like to ask. We envisage a general discussion with your Principal or Chief Executive, or a senior colleague, but it would also be good if we could talk to Heads of Department or course directors to gain their insights too.

To ensure that over the course of all our visits we obtain a mixed Head of Department sample, we're suggesting that in your organisation it would be good to meet with staff responsible for:

< three subject areas were inserted here, chosen to ensure there was a balance across our sample>

but if these colleagues are not available on the date chosen for our visit, we will be pleased to see others.

In addition to our discussing these qualitative issues, we have been asked to obtain information on the cost of provision in your institution on a per learner (or Apprentice) and/or a per guided learning hour [GLH] basis. We are particularly interested in how this cost varies between different departments, sectors or cost centres within your organisation.

As noted above, the annex, *Cost-related information for our visit*, describes the data and financial information we think we will need access to in order to do this. We have also prepared an Excel spreadsheet (also annexed) that may help you identify, collate and present this data for us. However, we'd be happy to take the necessary information from you in whatever form you have it readily available, rather than ask you to invest time in putting it into our format; whatever works best for you is more than acceptable to us.

Who we would like to see

1. Some time with the principal/other senior colleagues to discuss the impact that cost (and income) pressures are having on your organisation

2. Colleagues from finance (and possibly the MI team) to help us with the cost information and other data we need (see also *Cost-related information for our visit*)

3. The senior managers responsible for the three programme areas above (and/or others as agreed) so that they can comment on the level of resources available to them, how that impacts on delivery, and their views about the development of these areas.

Issues for discussion

0. Background

   - A brief introduction to the provider – recent history; size; range of provision offered etc. – would be helpful to set the general context for the rest of the discussions.

   - For the specific programme areas we have selected, an outline of the range of provision you offer (levels, mode of delivery, programme and class sizes).

1. Business planning

- What is your business planning cycle?
- How do you determine what provision to offer? What is your approach to planning the curriculum and what role do cost considerations play in this?
- What influences your decisions on when to start new programmes and to discontinue existing ones? What role do cost considerations and relative funding levels play in this? How and when are decisions to develop new (remove existing) provision taken?
- What is the process for planning capital expenditure? How do you determine what requests for investment get supported (and which are declined)?

2. Budgeting

- How is the split of resources between programme areas arrived at?
- What are the main cost pressures you are currently experiencing? How are they manifested? If they remain unaddressed, what will the consequences be?
- What impact does the mode of study (class-based, community, Apprenticeship; full- and part-time) have on the costs of provision? How do you factor this into your costings?
- What has the trend been in resourcing your provision, particularly (but not exclusively) in 'our' areas? What impact has this had on your provision (what you deliver; how it is delivered etc.)?
- Which programme areas are sufficiently well-resourced to enable good quality provision to be delivered? In which is quality under pressure because they are under-resourced?
- Which, if any, of your programme areas are being consciously cross subsidised from other programme income or other income sources? To what extent?
- Thinking about costs of delivery and programme weightings/funding bands used in the funding model, which programme areas would you say are under- and which over-funded. Which are appropriately funded?
- Thinking about differences between costs per learner and/or per GLH and/or departmental contribution levels, what are the main factors that explain these differences?

3. Income and expenditure

- How and when do you reconcile the income you receive with what it costs to deliver your provision?
- To what extent do you monitor actual costs against what was projected? At what level (organisation; programme area etc.)? How is this sort of information used?
- To what extent have you been able to maintain and invest in areas such as:

  a. Learner support

b. Curriculum development
c. Staff development and training
d. Investment in equipment
e. Premises and other repairs and maintenance
f. Capital investment?

What is the trend in expenditure in these areas? Is there any suggestion that they have had to bear the brunt of any reductions in resource in order to ensure that curriculum areas are supported?

- What other areas have had to bear the brunt of any reductions in resource?
- If funding remains unchanged, how do you see your provision changing in the medium term – say in the period to 2022?
- If there is an increase in resources which areas of expenditure would you prioritise?

Thank you again for your help with our project. We look forward to seeing you.

Annex 2

"Worked example" proforma for data collection

The spreadsheet illustrated below was sent to fieldwork participants in advance of our visit. The idea was not that participants should actually complete the proforma (though some did) but that they should provide us with whatever internal documentation they had to hand that most closely mirrored the proforma layout.

This approach was very largely successful with GFECs (the vast majority of our fieldwork sample). Sixth form colleges, as pointed out in the main text, generally did not devolve or delegate funding to departments (or indeed any subsidiary cost centres at all) so were unable to provide data in this form, while ILPs cited confidentiality issues and preferred to give us anonymised data or (in some cases) no data beyond that published in our accounts. While this was inconvenient for our project, we can sympathise with ILPs' concerns.

The proforma asked for numbers of learners, either as a GLH total or (if that was easier for the respondent) by ESFA funding band. Not all GFEC respondents found this information easy to provide. Moreover, it proved difficult for all providers to split out the income from other sources – and particularly the associated expenditure – from the ESFA-funded activity in the way that would be necessary if the departmental income and expenditure figures were subsequently to be divided by the learner total or GLH total to obtain "unit costs". Thus, the relative approach based on comparisons between departments of contributions to central costs, as explained in the main text, was adopted as the main analytic approach for the project.

Department for Education: Cost Drivers in Further Education

Proforma for financial information from organisations - worked example

This (fictitious) example is of an organisation that operates on the "contribution" system - that is, income is attributed to departments who are then asked to contribute a proportion of the income they receive to meet central costs.

Dept. names in this row >	Dept. 1 Engineering	Dept. 2 Personal Care	Dept. 3 Science	Dept. 4 Business	Dept. 5 Construction	Central	Total
ESFA Income							
Formula funding	£4,687,625	£2,457,368	£2,443,659	£7,265,542	£9,688,588		£26,542,782
Other ESFA-sourced income							£0
Other income relating to ESFA provision							£0
Apprenticeship-related income							£0
Expenditure (staff):							
Tutors, lecturers, assessors etc.	£1,362,511	£844,255	£695,220	£3,154,431	£4,562,815	£125,548	£10,744,780
Technicians, other programme support staff	£452,241	£188,142	£335,344	£155,442	£2,554,633	£466,332	£4,152,134
Other programme delivery staff costs							£0
Programme area/dept. administration	£62,254	£43,315	£64,432	£15,543	£55,424		£240,968
Learning support staff						£335,543	£335,543
Pastoral, welfare, student support, etc.						£226,654	£226,654
Other non-programme-related support staff	£65,546	£24,423	£25,543	£64,675	£155,457		£335,644
Central management and admin						£1,266,546	£1,266,546
Site/estate cleaning, maintenance, etc.						£1,554,462	£1,554,462
Expenditure (non-staff)							
Learning resources - equipment	£554,664	£533,426	£453,365	£126,645	£884,453		£2,552,553
Learning resources - materials	£166,232	£86,655	£155,454	£266,523	£166,566		£841,430
Learning resources - enrichment							£0
Examination/assessment fees etc.						£554,662	£554,662
Central learning resources/library						£646,654	£646,654
Staff training and development; CPD						£144,335	£144,335
Marketing, recruitment etc.						£334,221	£334,221
Catering, creche & similar facilities						£526,614	£526,614
Premises costs						£1,232,554	£1,232,554
Utilities						£188,576	£188,576
Interest payments, depreciation						£664,452	£664,452
Contribution to the centre	£1,191,389	£867,122	£934,187	£3,754,225	£1,531,230	*(£8,278,153)*	£0
(i.e. attributed income minus expenditure)							
Guided learning hours per prog. area/dept.	302,187	296,652	285,514	315,542	378,554		1,578,449
and/or							
Number of learners (FTE) per prog. area/dept.							0
and/or							
Number of learners per national funding rate band per prog. area/dept.							
- Band 5							0
- Band 4a							0
- Band 4b							0
- Band 3							0
- Band 2							0
- Band 1							0
and/or							
Number of apprentices per prog. area/dept.							0

Annex 3

Departmental size and departmental spending in GFECs

This annex contains scattergrams showing the relationship between departmental income and departmental cost-income ratios for the 298 data points in the GFEC dataset (see Section 5). The results are classified by common department name. The graphs have been produced by automated software and are therefore slightly different in appearance from the Section 5 figures, but the information is comparable.

The common department name is shown as a key at the top of each scattergram. A horizontal line has been added to indicate the 100% "break even" level.

Equivalent scattergrams are also provided showing the estimated cost per GLH for each common department set, again plotted against department size. Ranges and medians for this cost are also given.

Finally, for each common department set we include a scattergram showing the proportion of income each department spends on direct staffing, again plotted against department size.

As noted in the main text, the graphs give an impression of the main directions of cross-subsidy within GFECs. They should be compared with the statistically rigorous analysis in the main text.

Smaller departments are more likely to show particular deviation from the 100% level (up, as might be expected, but also down).

A particular point should be made about the "GCSE" data. GCSE programmes in English and Mathematics (for those without a grade 4 already) are funded through a Disadvantage Funding block (Block 2, at £480 for each of the two subjects). As such it is not necessarily "funding for the hours to deliver a qualification", but rather to address some of the additional costs of delivering these qualifications alongside learners' vocational studies. Nevertheless, many if not all GFECs in our sample regard it as "income" to an "English and Maths department"[83] and charge the costs of the lecturers delivering it to the same department for budgeting purposes. On this basis, it is unsurprising that many "English and Maths departments" make a loss. It is perhaps the more surprising that (in our sample) four do not.

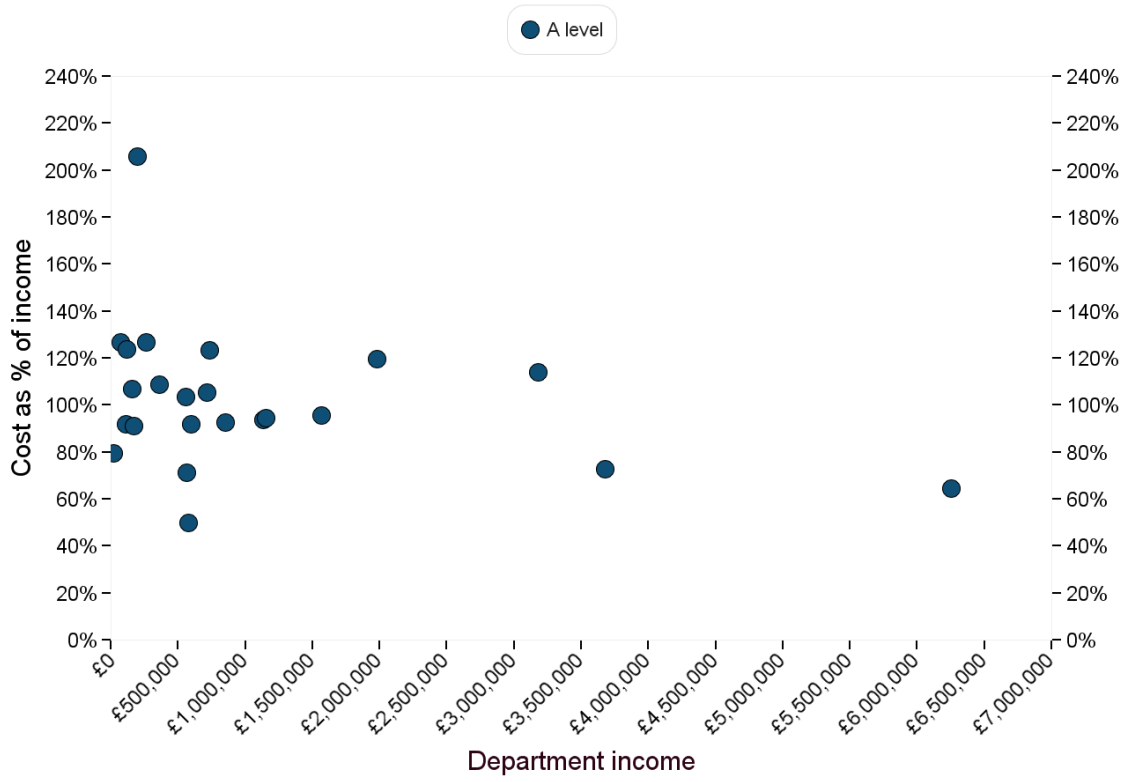
Note that all Travel & Tourism departments fall under the "100% line" in the first diagram. That is, they are all spending less than their income. The line has not been accidentally omitted from the diagram.

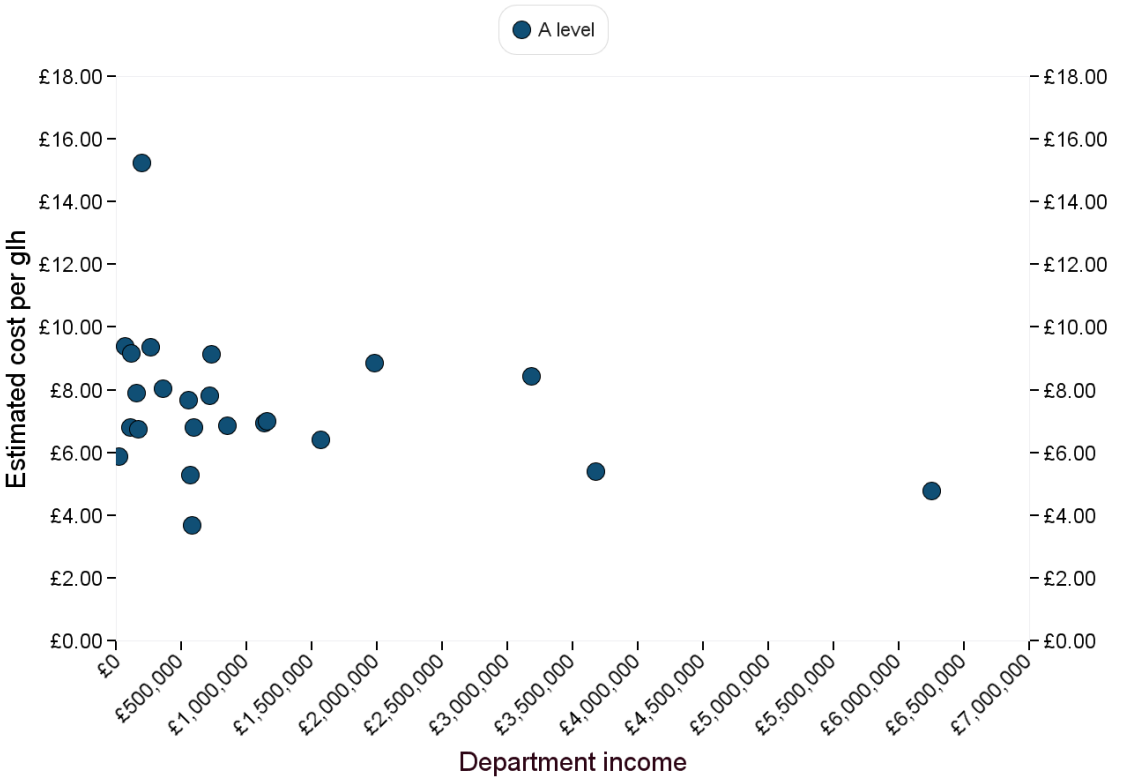
[83] Functional skills in English and Maths may also be delivered by "English and Maths" departments, or by "Basic Skills" departments. Our fieldwork did not cover this level of detail.

To reflect one of the original aims of our project, we also analysed our data by geographical region. The nine corresponding scattergrams did not differ in any material respect, suggesting no regional differences in the degree of cross-subsidy to be found within GFECs in our sample. Moreover, an analysis of variance calculation demonstrated no relationship between a college's region and any of the individual departmental parameters illustrated here.

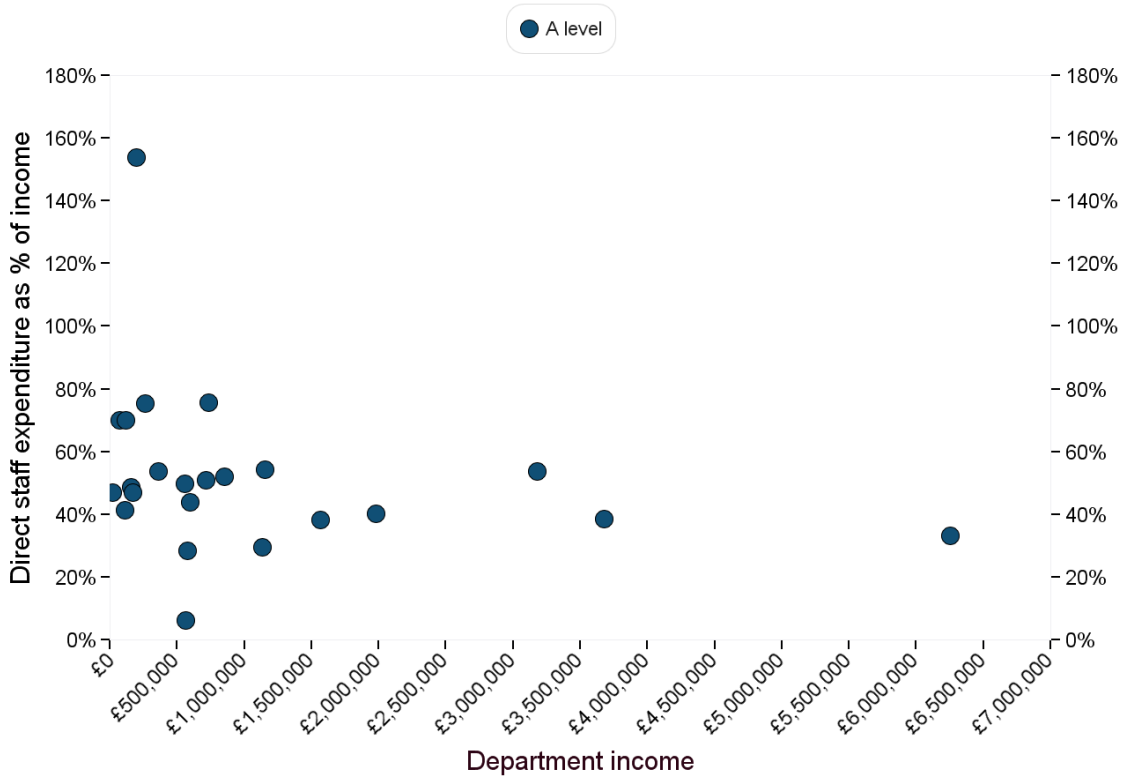
We have therefore not included any regional analyses in this annex.

A Levels





The cost per GLH varies between £3.70 and £15.24, with median £6.99. The figure of £15.24 is however for a very small department, and therefore probably unreliable.


A level
Direct staff expenditure as % of income
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
£0
£500,000
£1,000,000
£1,500,000
£2,000,000
£2,500,000
£3,000,000
£3,500,000
£4,000,000
£4,500,000
£5,000,000
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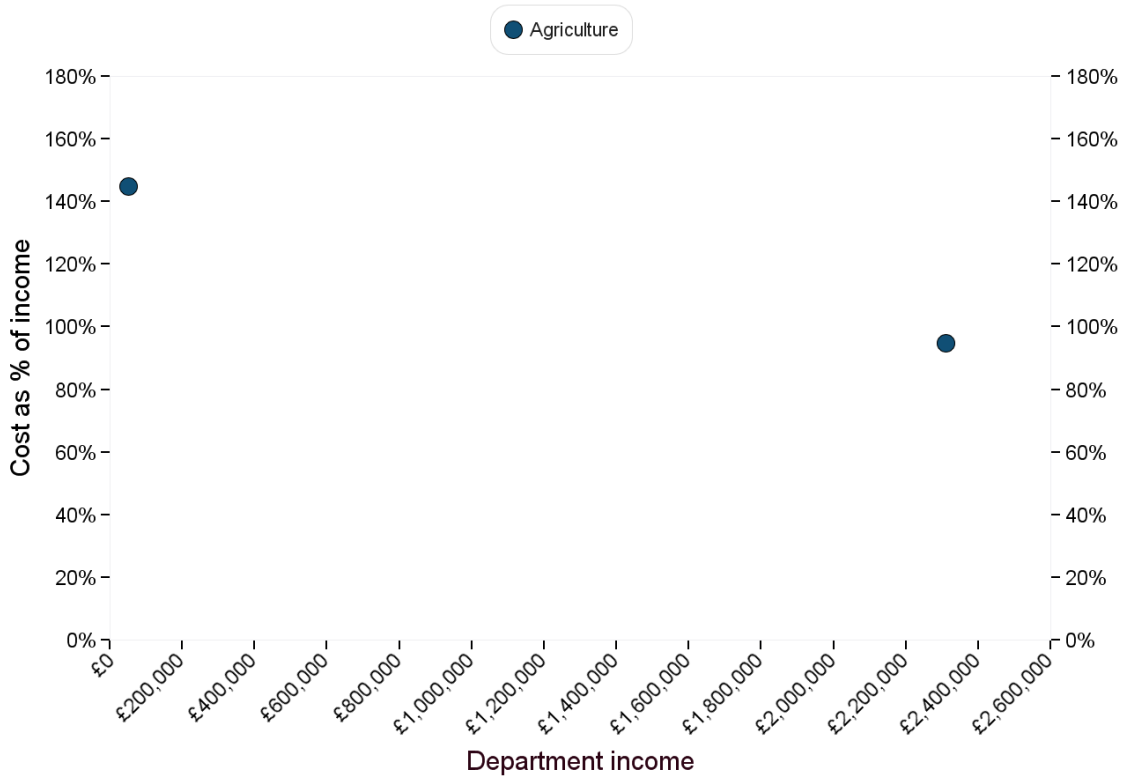
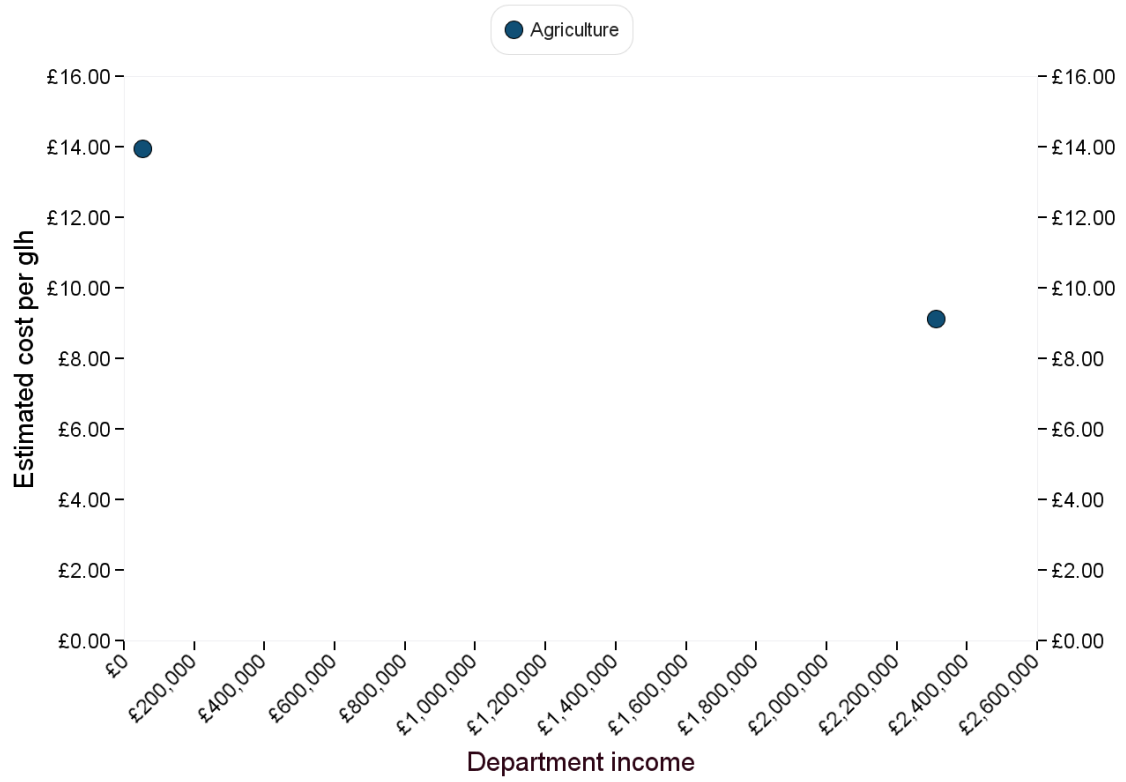
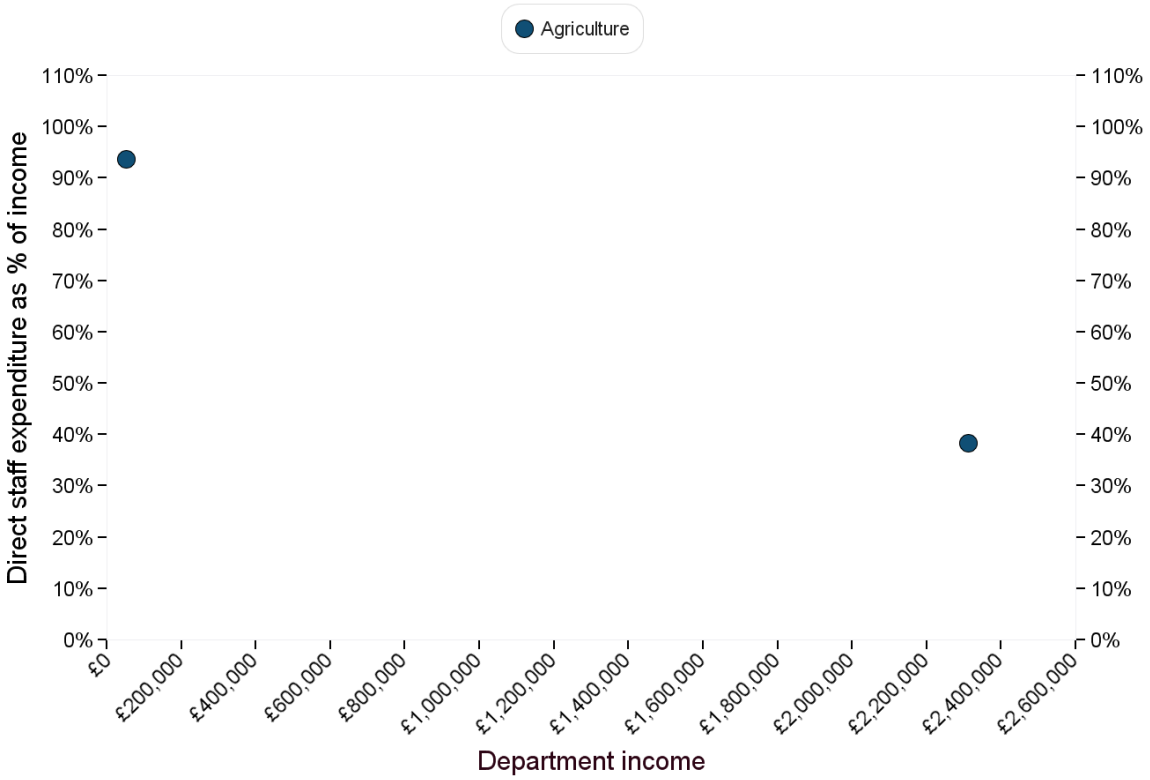
£6,000,000
£6,500,000
£7,000,000
Department income

Agriculture

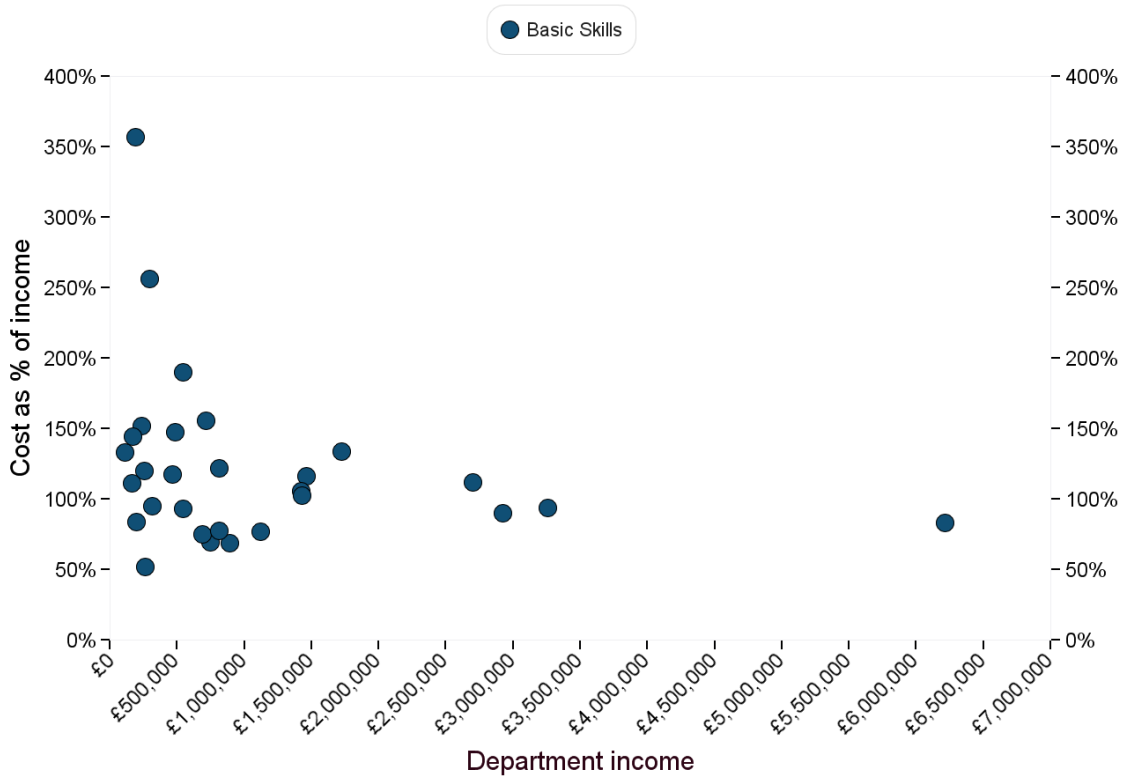


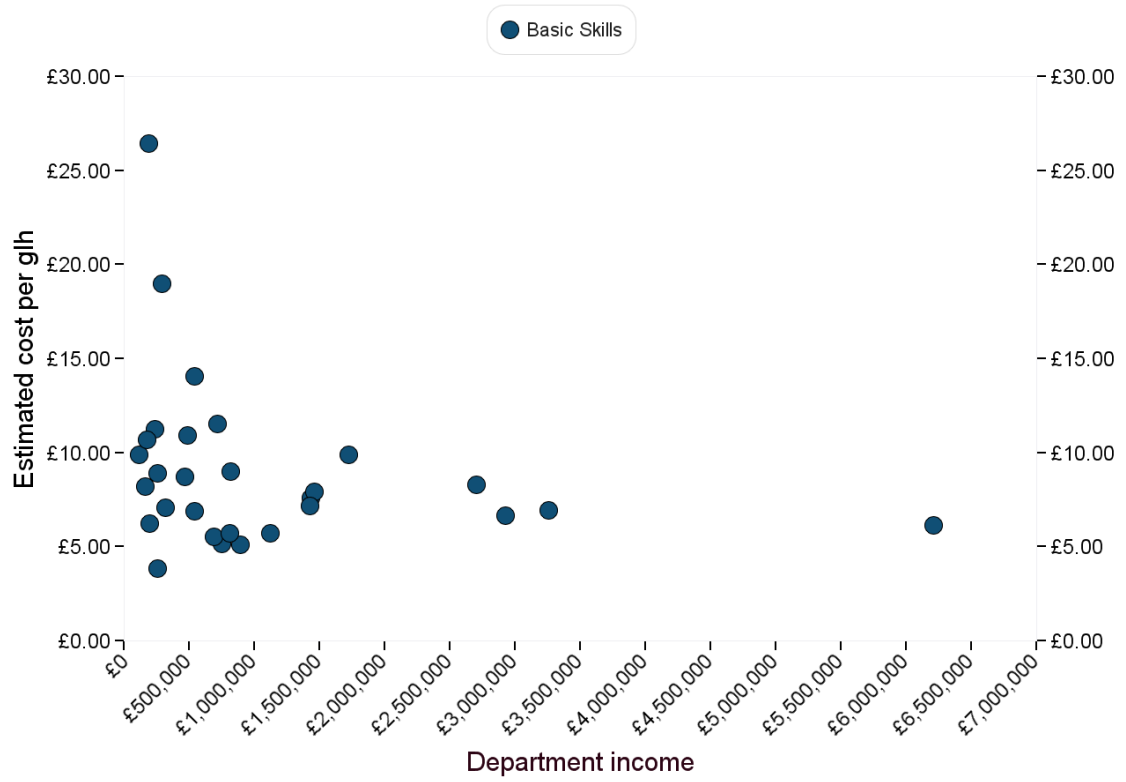


The costs here take account of the Agriculture weighting of 1.3.

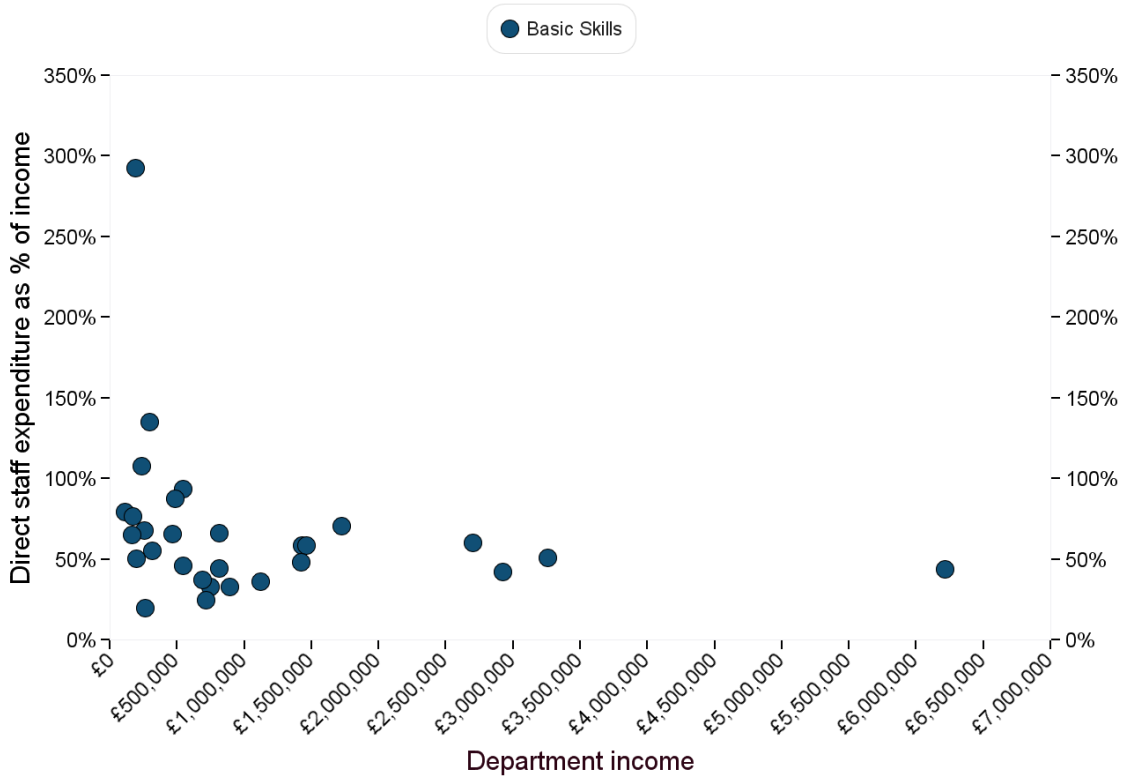

Agriculture
Direct staff expenditure as % of income
110%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£200,000
£400,000
£600,000
£800,000
£1,000,000
£1,200,000
£1,400,000
£1,600,000
£1,800,000
£2,000,000
£2,200,000
£2,400,000
£2,600,000
Department income

Basic Skills

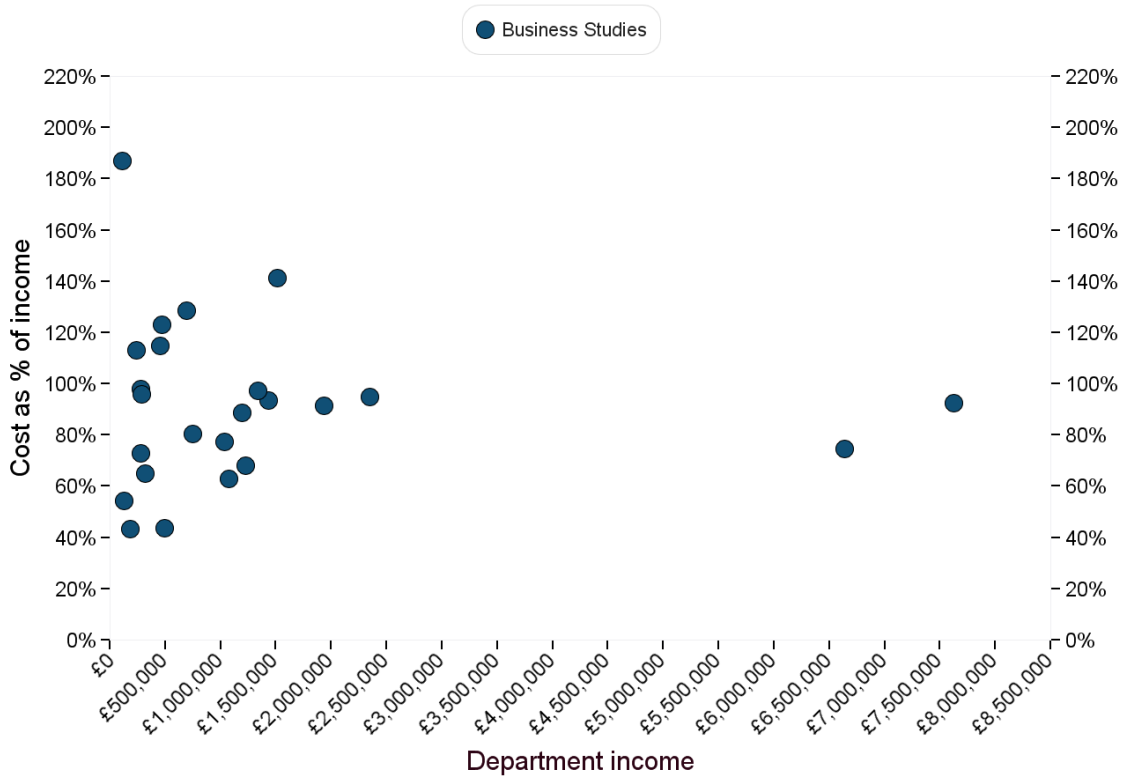


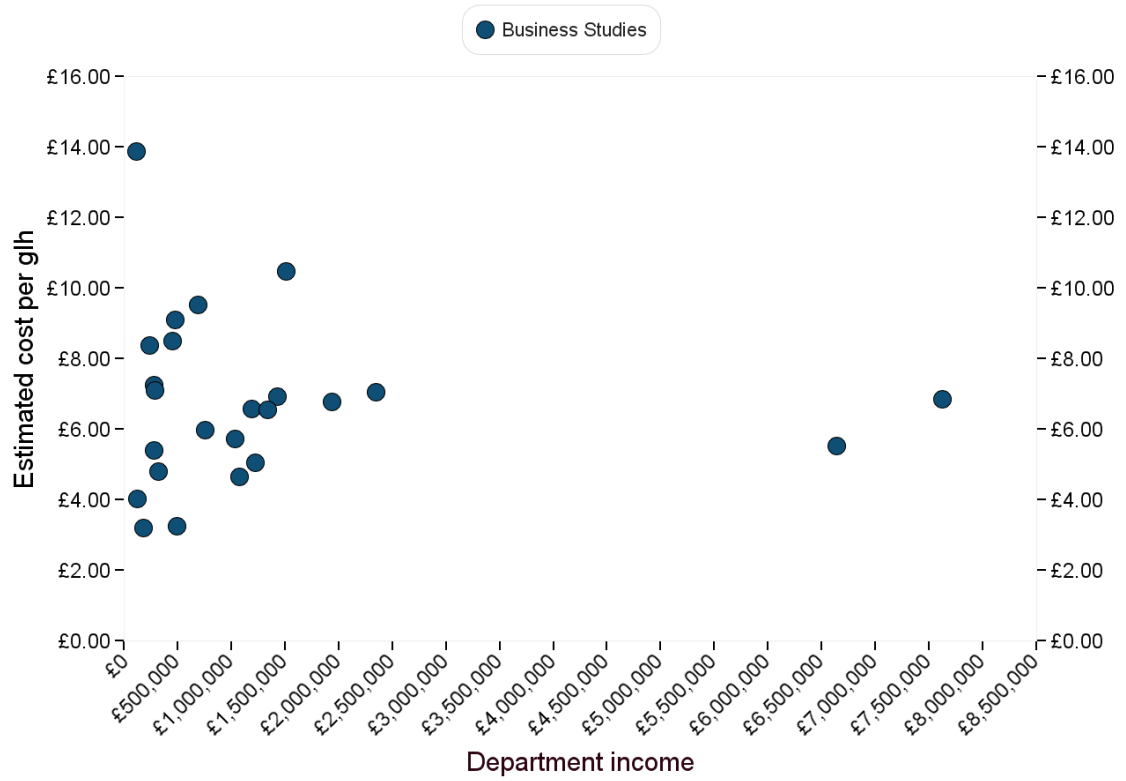


The range here is from £3.85 to £26.42, with median £7.94. Again, the extreme outlier (£26.42) is for a very small department and can probably be discounted.

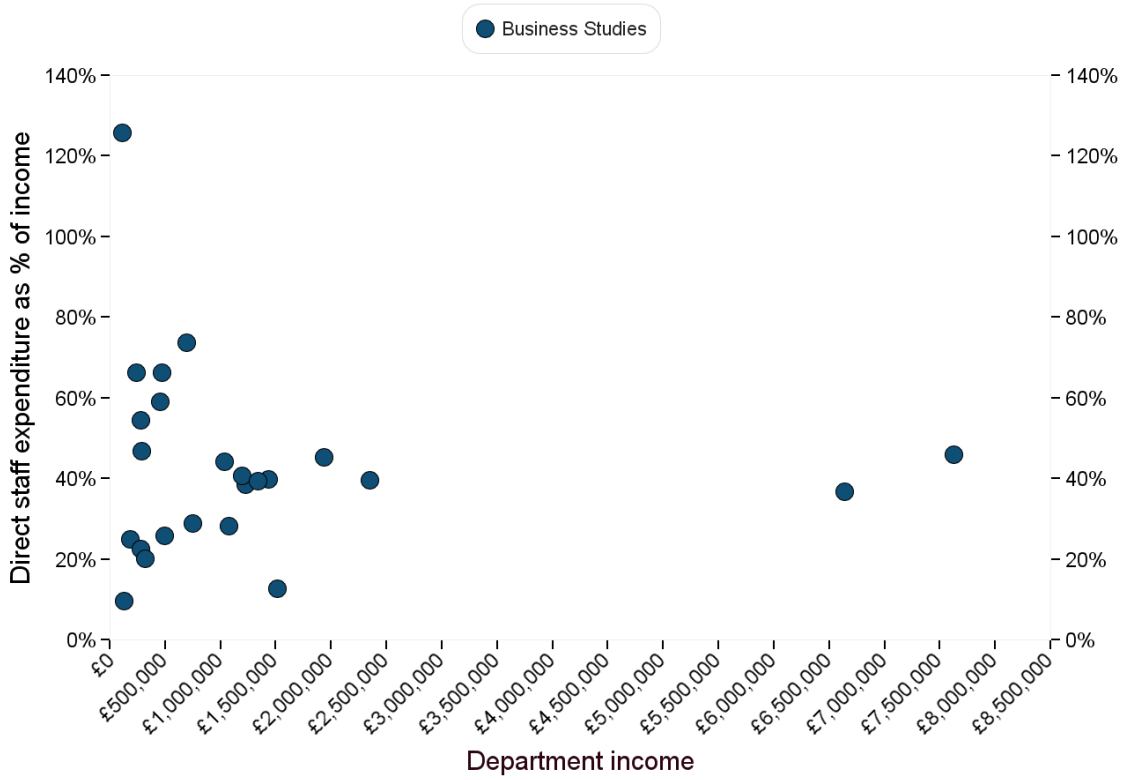

Basic Skills
Direct staff expenditure as % of income
350%
300%
250%
200%
150%
100%
50%
0%
£0
£500,000
£1,000,000
£1,500,000
£2,000,000
£2,500,000
£3,000,000
£3,500,000
£4,000,000
£4,500,000
£5,000,000
£5,500,000
£6,000,000
£6,500,000
£7,000,000
Department income

Business Studies

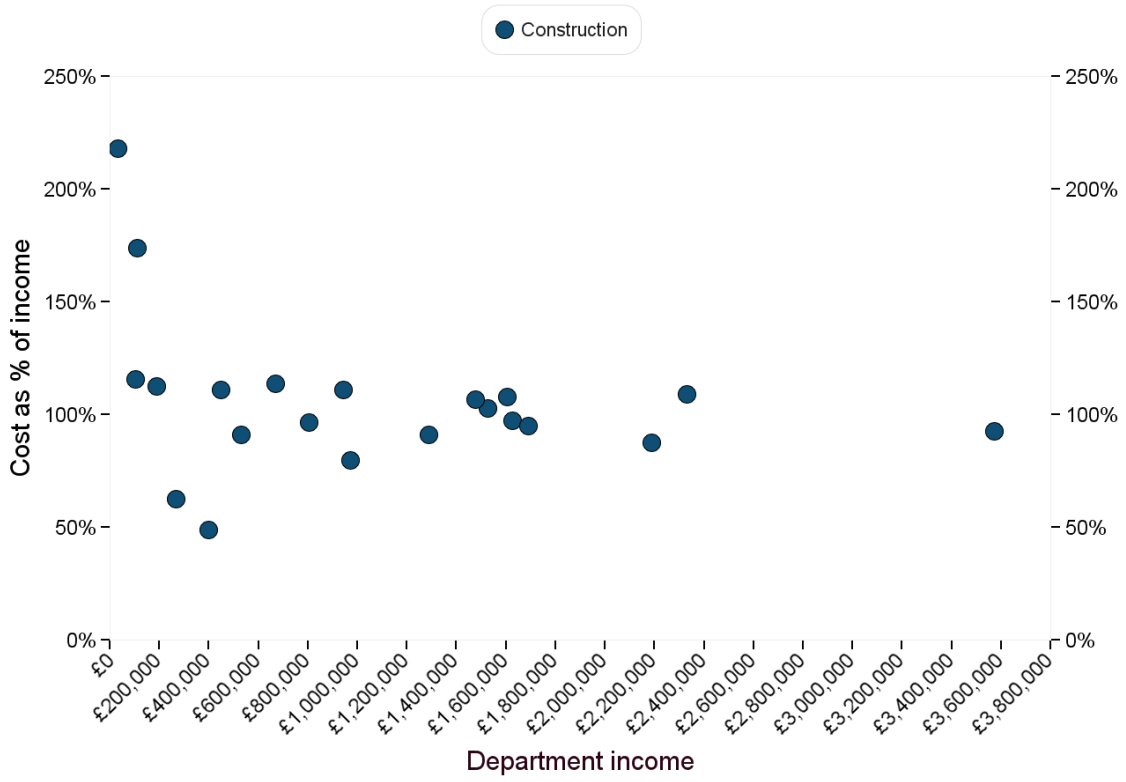


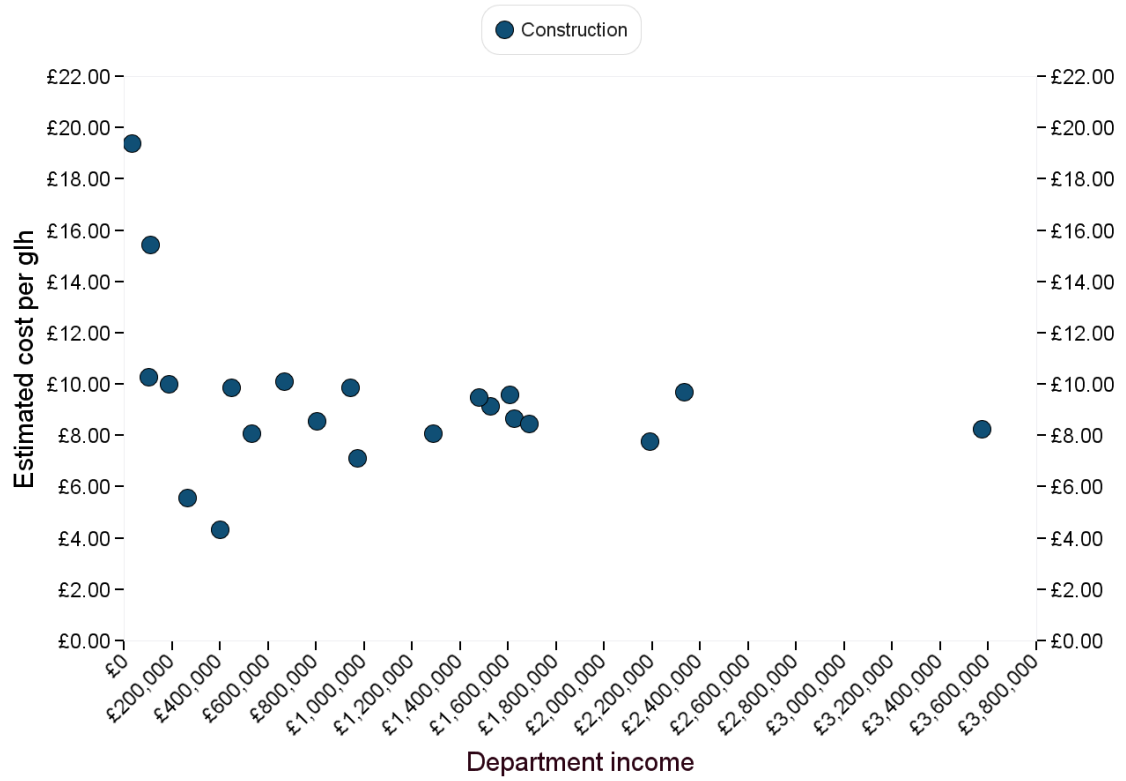


The range here is from £3.21 to £13.86, with median £6.58. Again, the extreme of £13.86 can probably be discounted (another very small department).

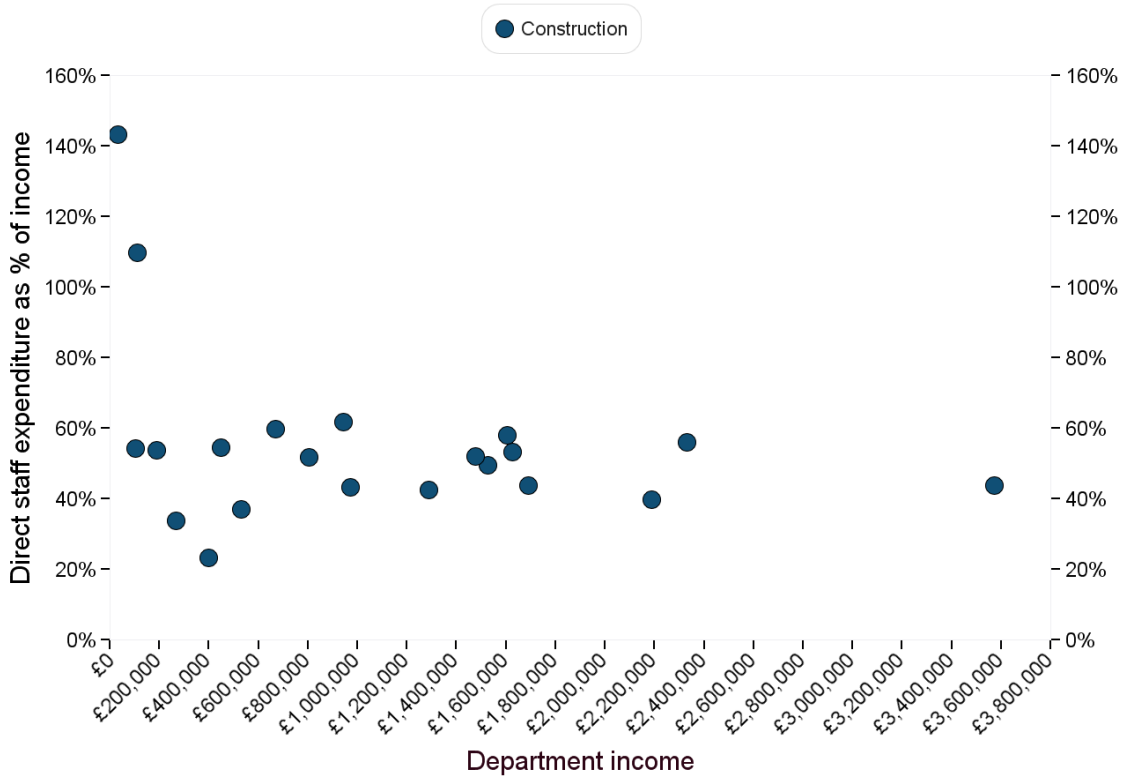

Business Studies
Direct staff expenditure as % of income
140%
120%
100%
80%
60%
40%
20%
0%
£0
£500,000
£1,000,000
£1,500,000
£2,000,000
£2,500,000
£3,000,000
£3,500,000
£4,000,000
£4,500,000
£5,000,000
£5,500,000
£6,000,000
£6,500,000
£7,000,000
£7,500,000
£8,000,000
£8,500,000
Department income

Construction





The range is from £4.35 to £19.39, with median £9.14. The two lower values look unlikely but correspond to the information given to us. Again, note small departments.


Construction
Direct staff expenditure as % of income
160%
140%
120%
100%
80%
60%
40%
20%
0%
£0
£200,000
£400,000
£600,000
£800,000
£1,000,000
£1,200,000
£1,400,000
£1,600,000
£1,800,000
£2,000,000
£2,200,000
£2,400,000
£2,600,000
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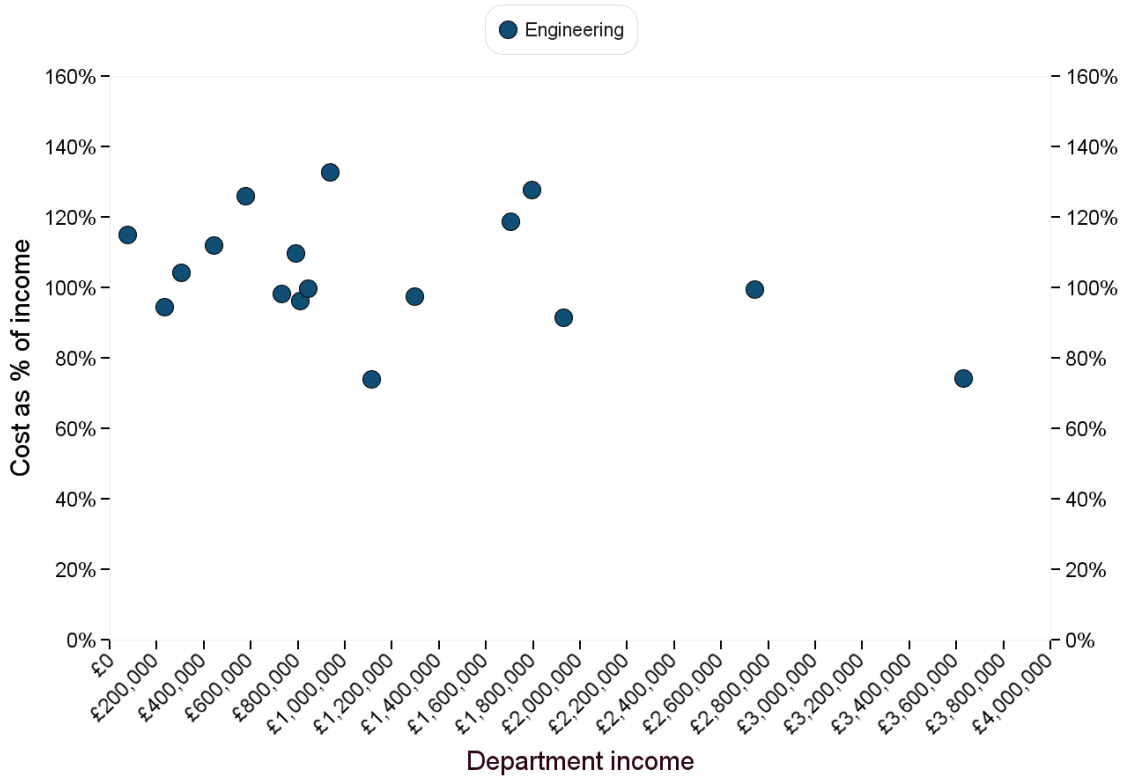
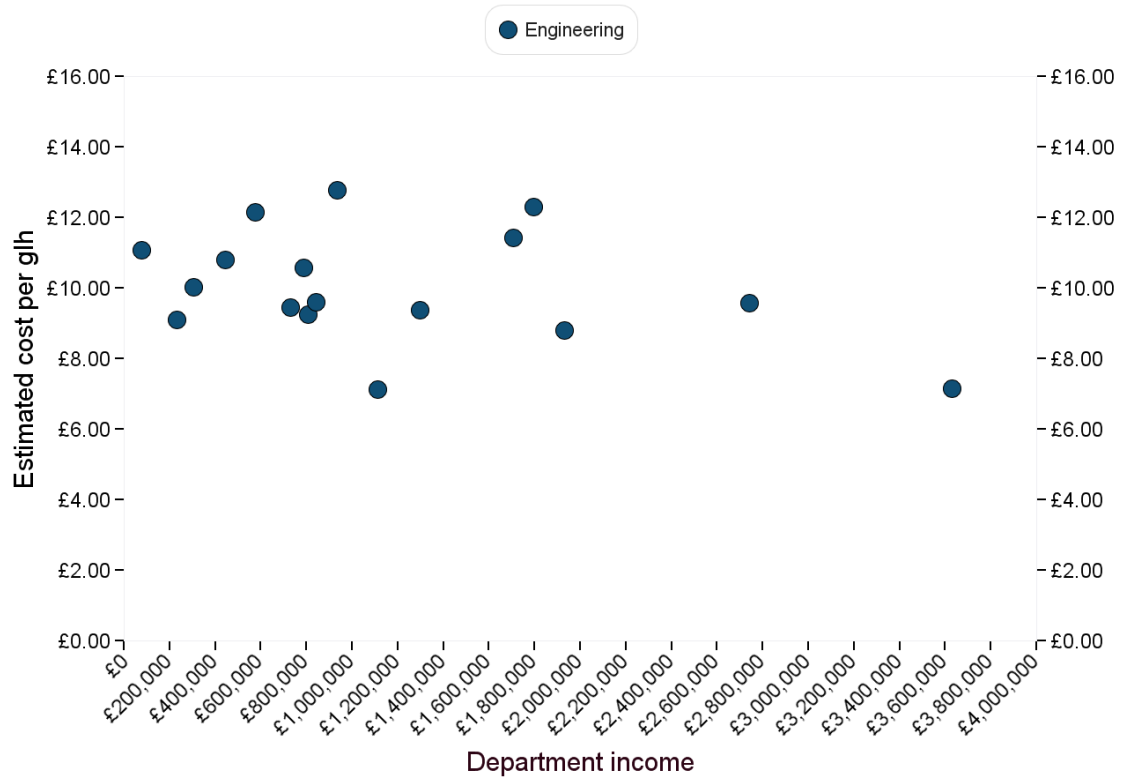
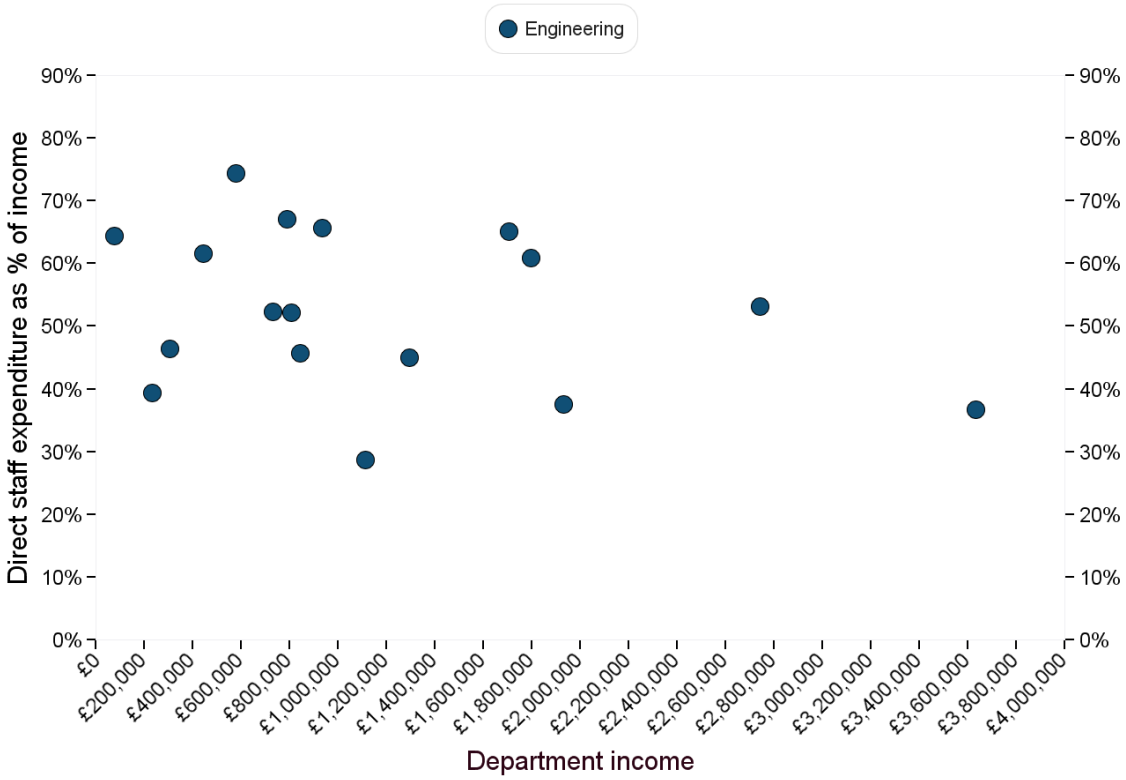
£3,000,000
£3,200,000
£3,400,000
£3,600,000
£3,800,000
Department income

Engineering





The range is from £7.14 to £12.78, with median £9.61. All these figures are reasonable.


Engineering
Direct staff expenditure as % of income
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£200,000
£400,000
£600,000
£800,000
£1,000,000
£1,200,000
£1,400,000
£1,600,000
£1,800,000
£2,000,000
£2,200,000
£2,400,000
£2,600,000
£2,800,000
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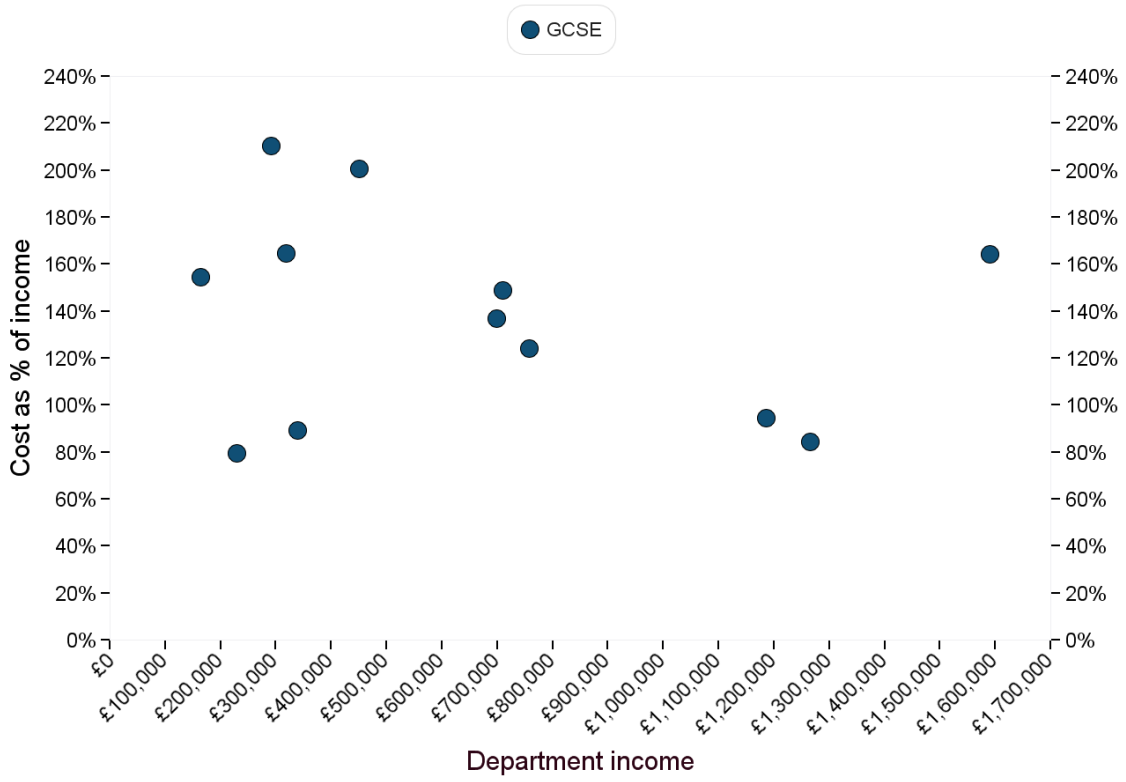
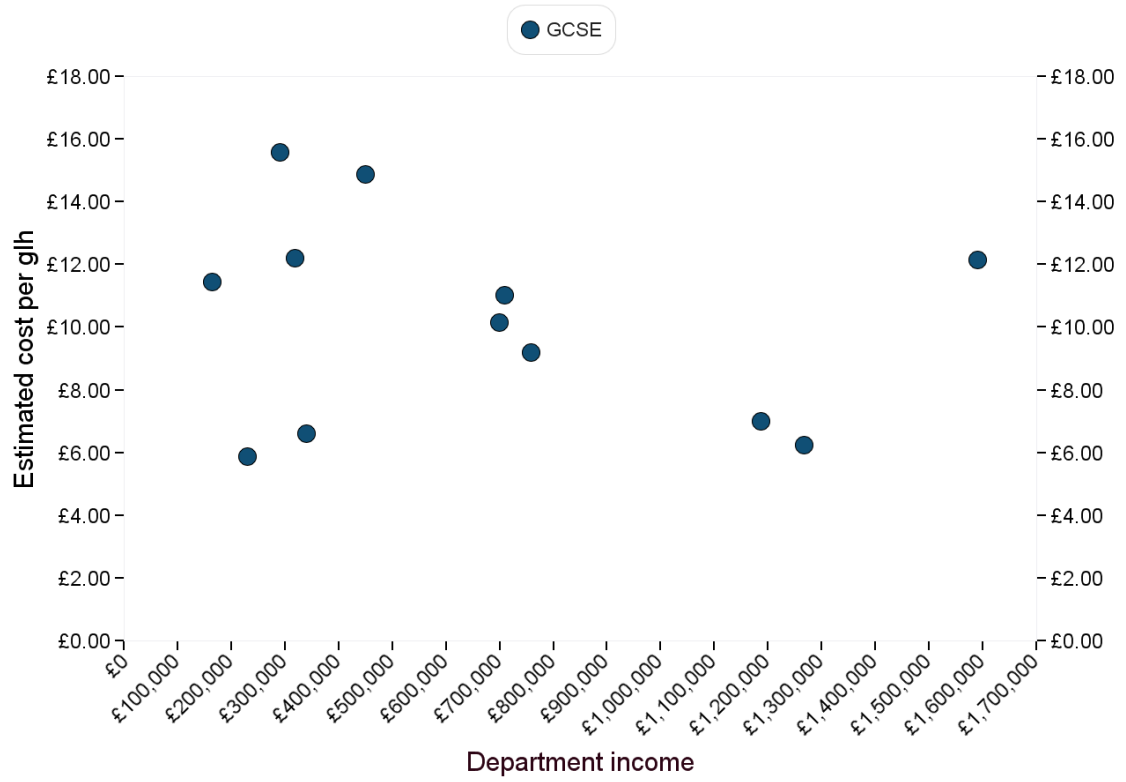
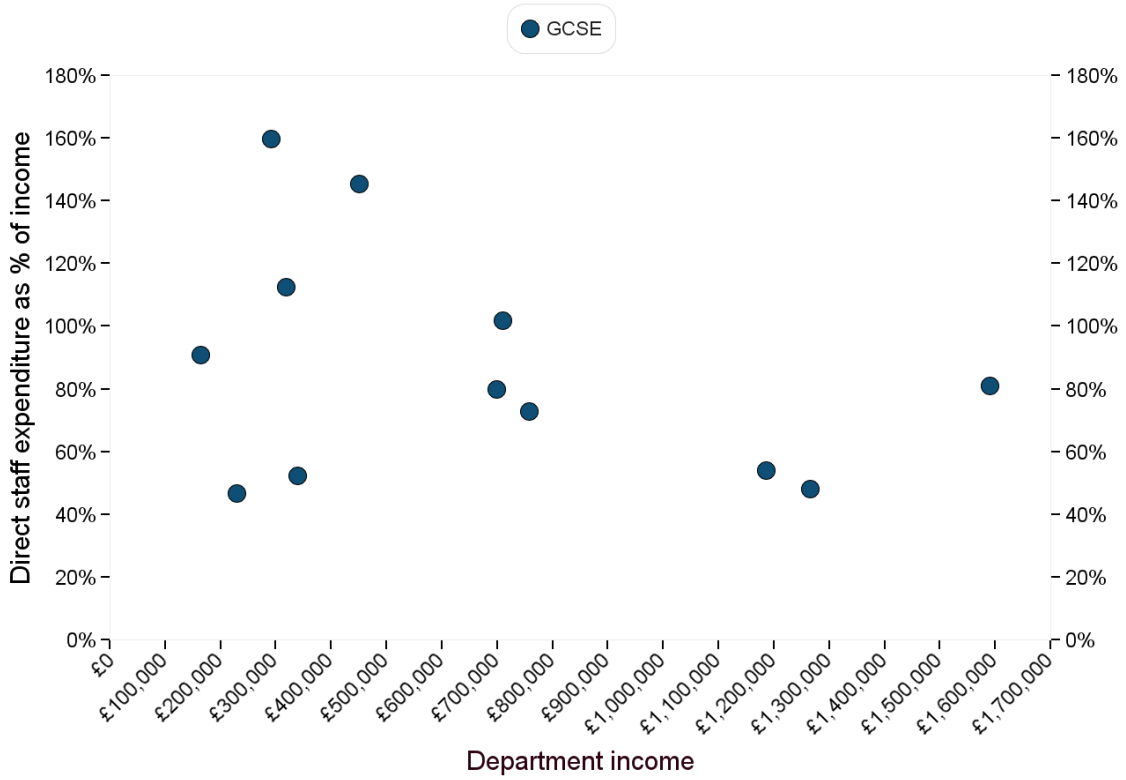
£3,400,000
£3,600,000
£3,800,000
£4,000,000
Department income

GCSEs





The range is from £5.88 to £15.57, with median £10.58. Colleges differ in how they treat GCSE “departments” so this variation may not be completely reliable.


GCSE
Direct staff expenditure as % of income
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
£0
£100,000
£200,000
£300,000
£400,000
£500,000
£600,000
£700,000
£800,000
£900,000
£1,000,000
£1,100,000
£1,200,000
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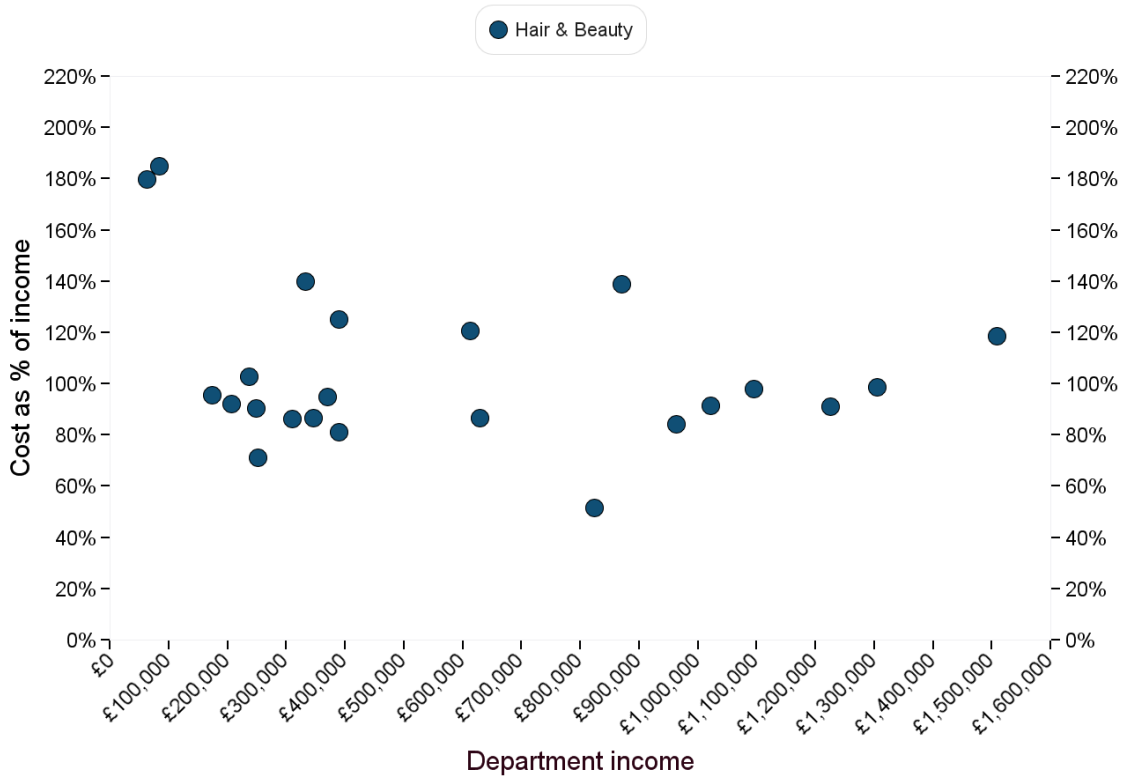
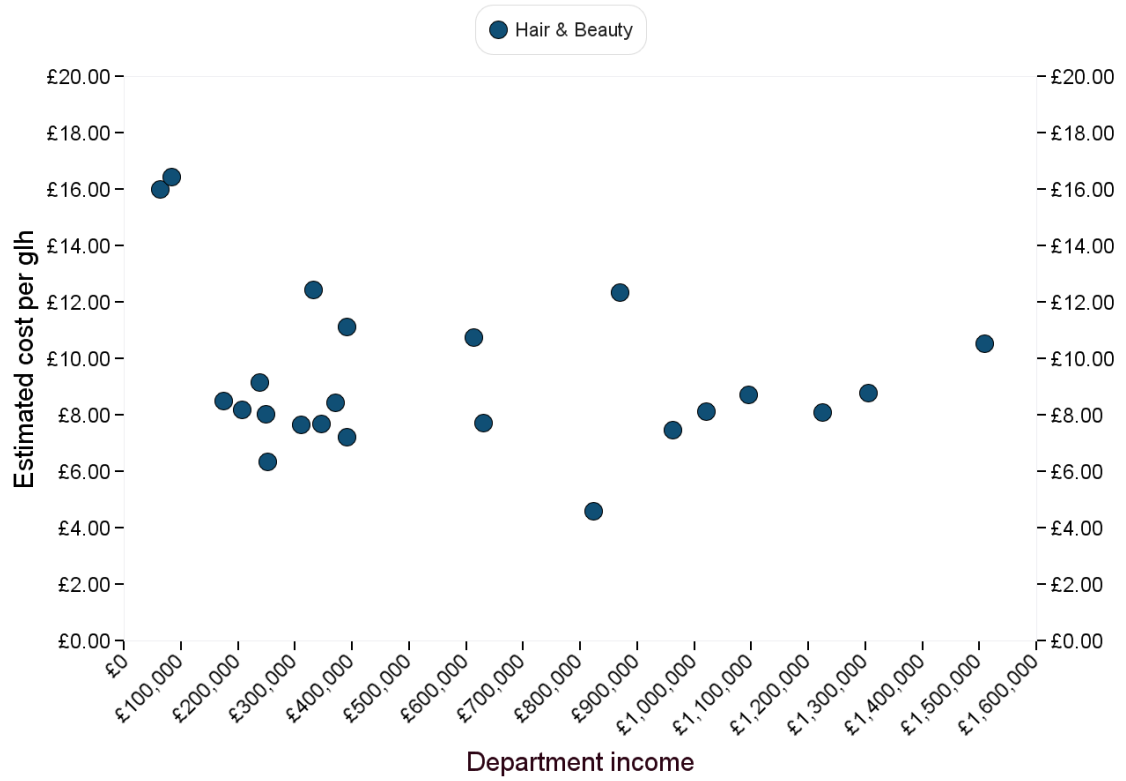
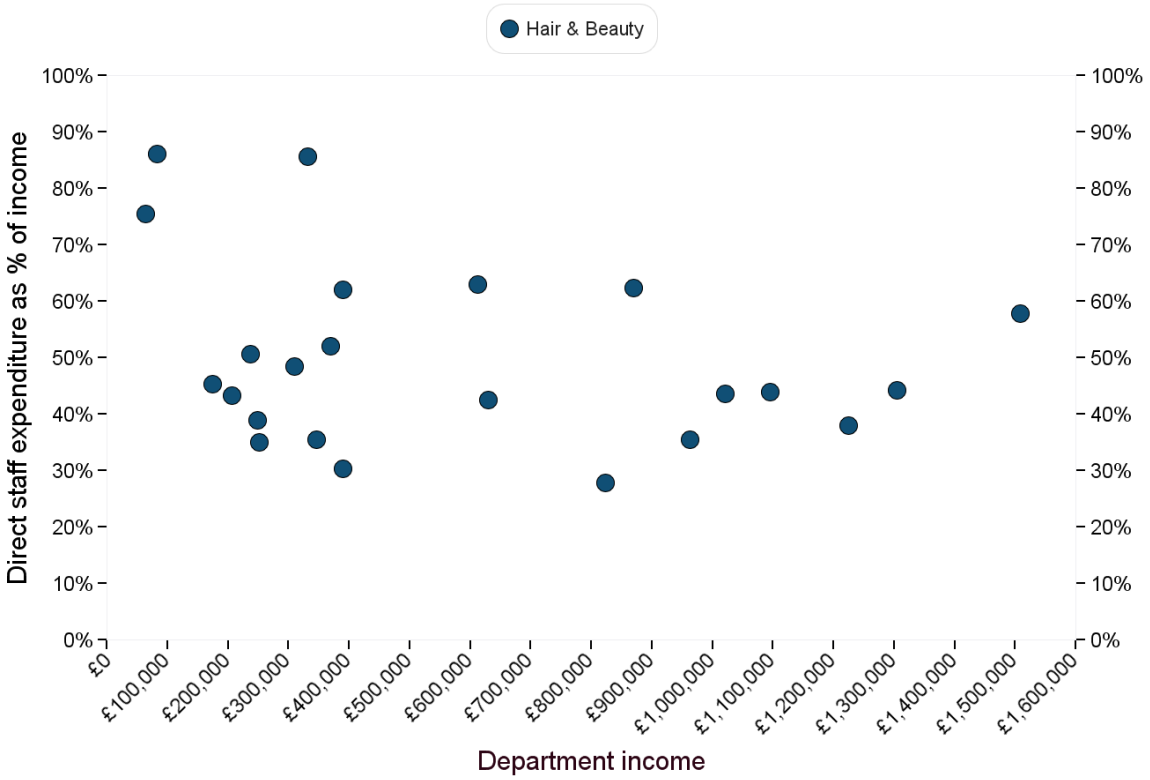
£1,400,000
£1,500,000
£1,600,000
£1,700,000
Department income

Hair and Beauty

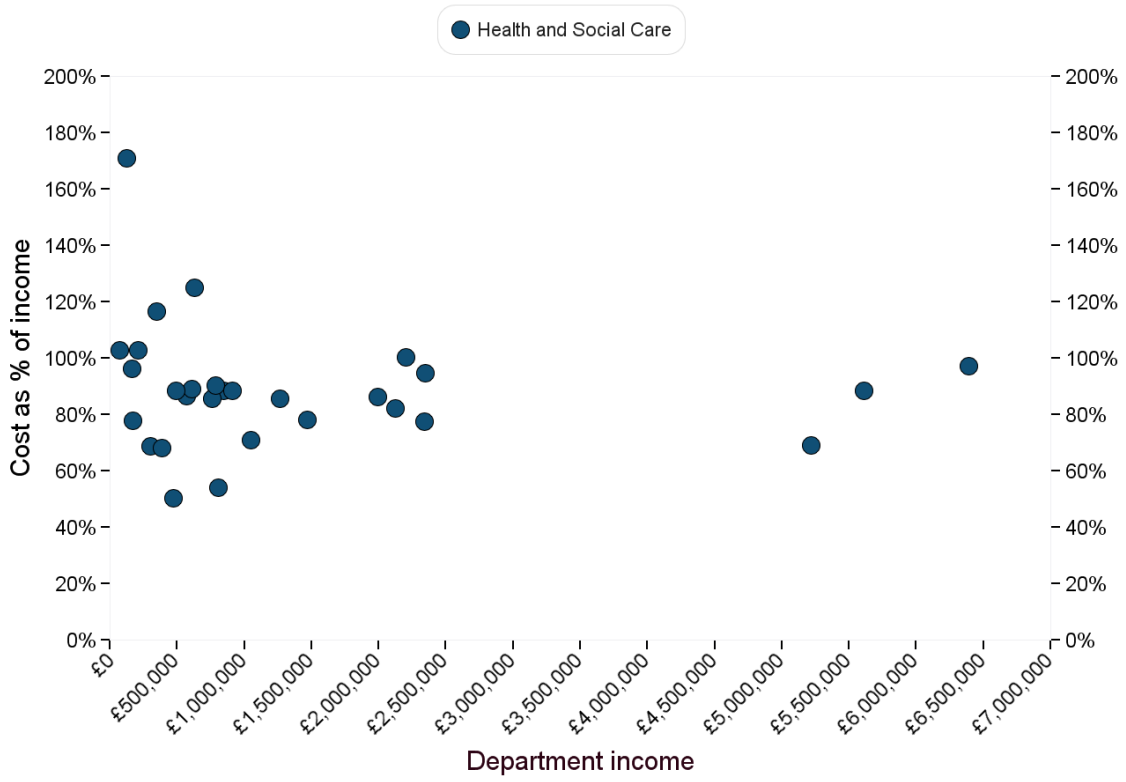


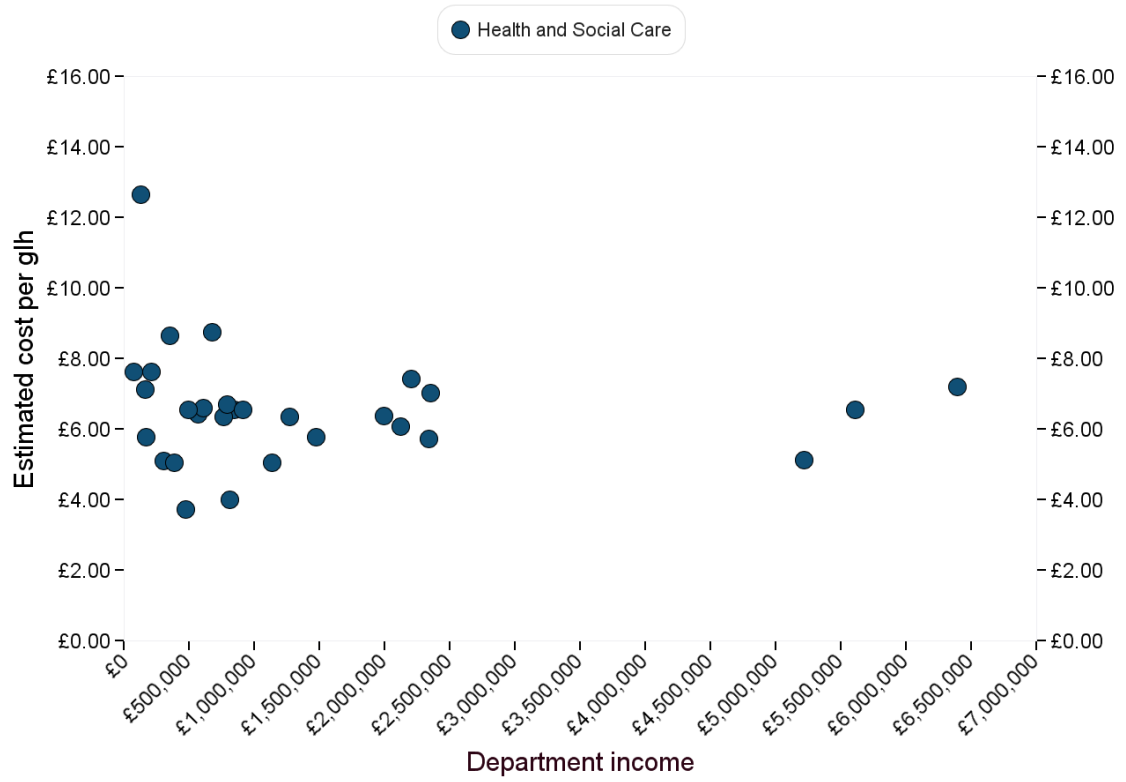


The range is from £4.59 to £16.45 with median £8.44. Again, it is no surprise that the highest figures are for the smallest departments.

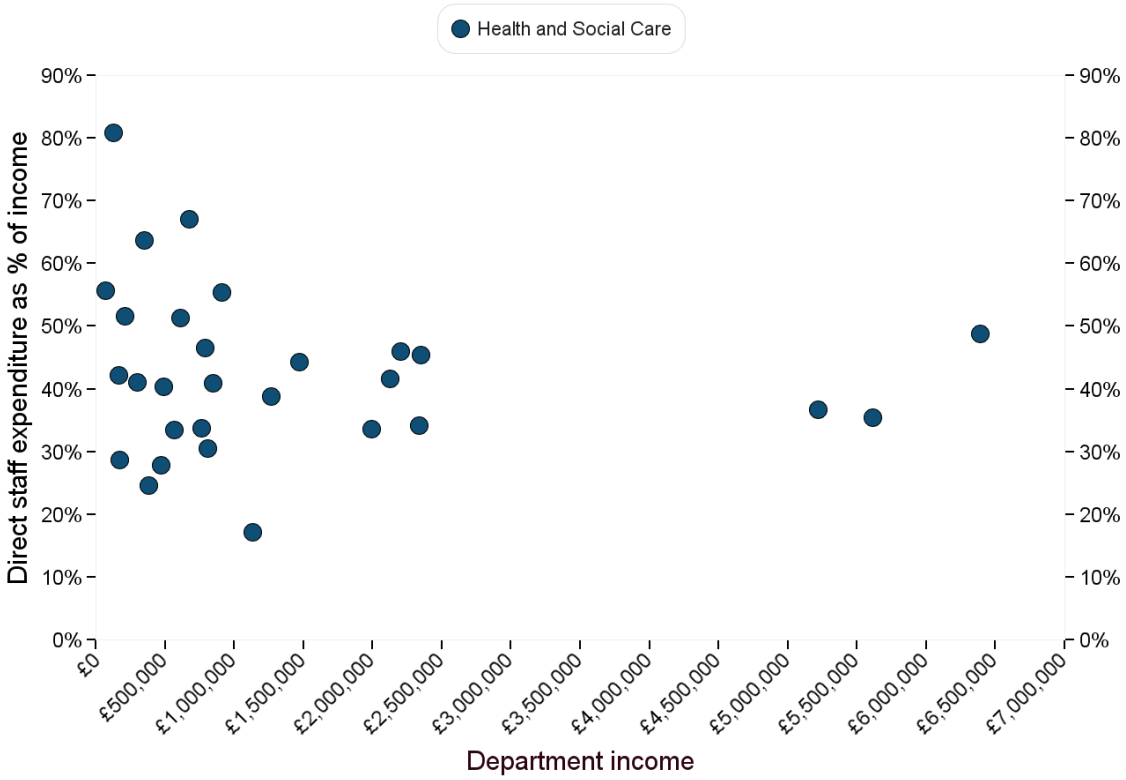

Hair & Beauty
Direct staff expenditure as % of income
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£100,000
£200,000
£300,000
£400,000
£500,000
£600,000
£700,000
£800,000
£900,000
£1,000,000
£1,100,000
£1,200,000
£1,300,000
£1,400,000
£1,500,000
£1,600,000
Department income

Health and Social Care

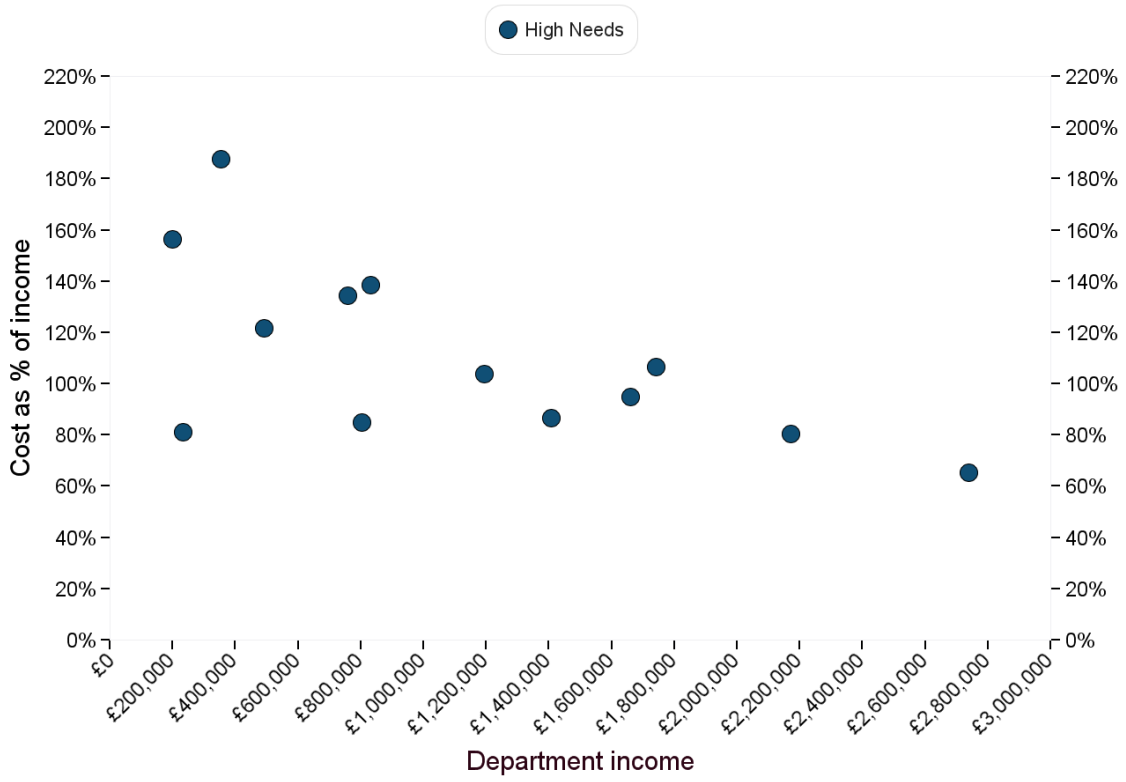


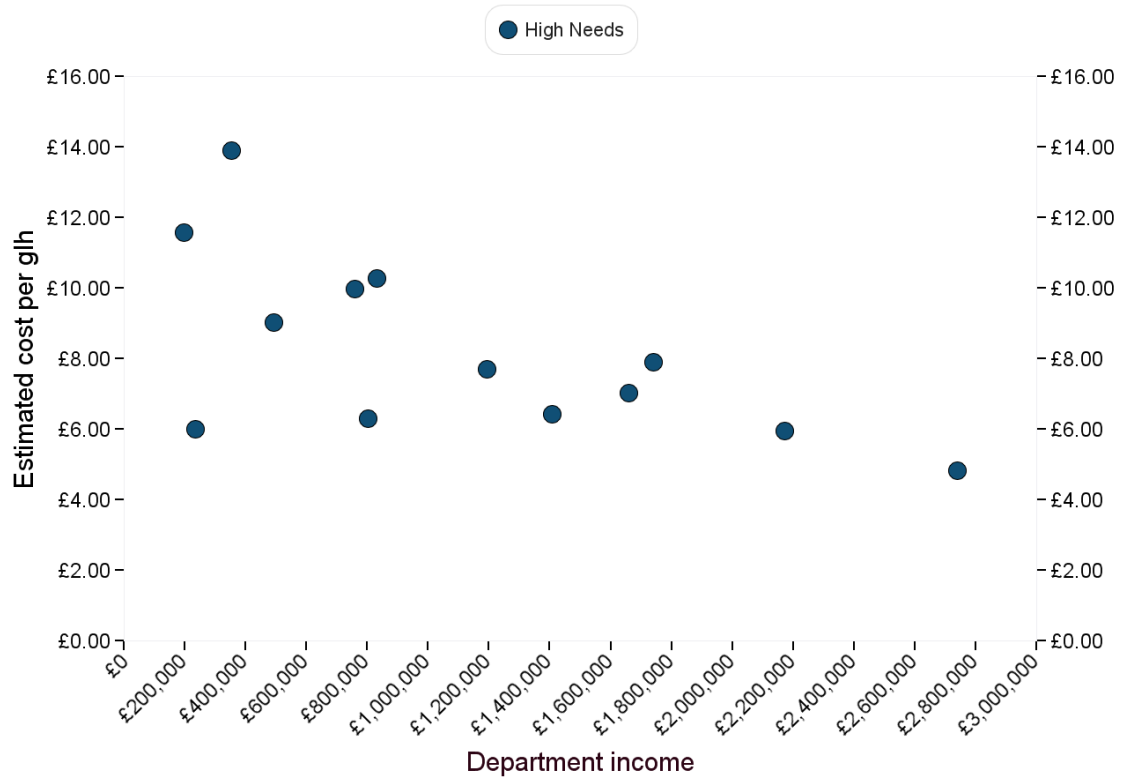


The range is from £3.73 to £12.65 with median £6.54. Again, the largest figure is for a very small department (though other small departments do well).

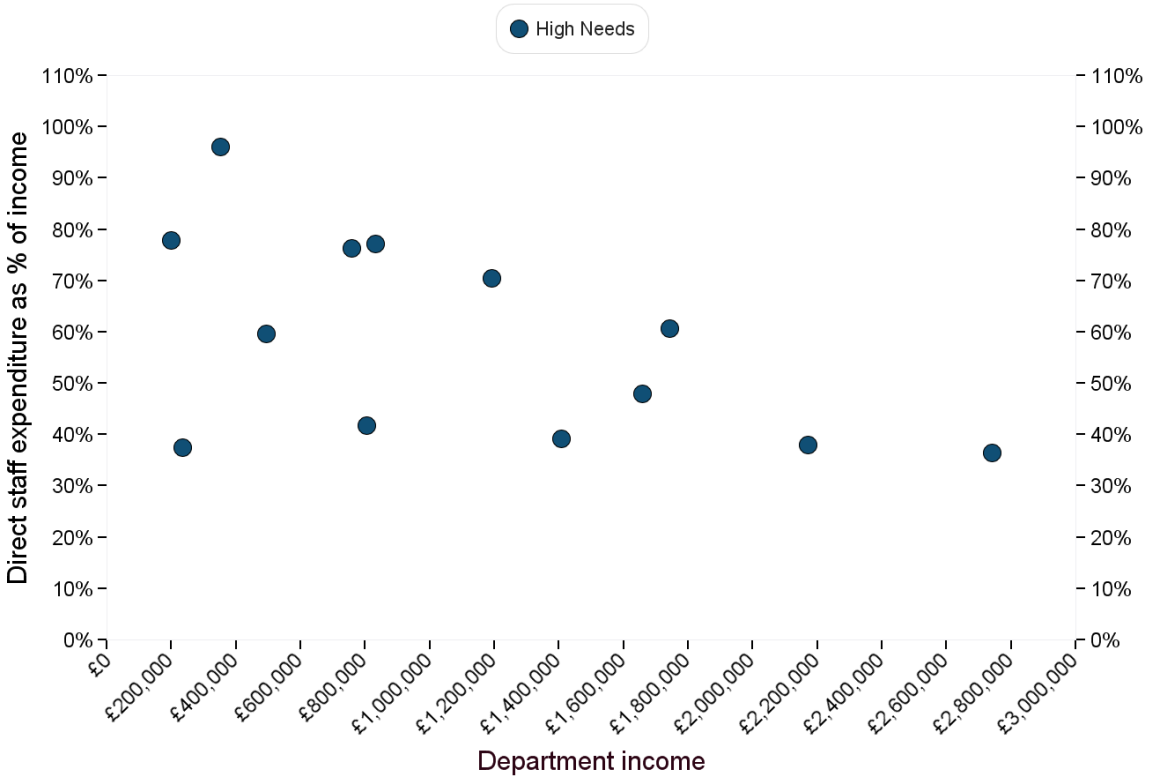

Health and Social Care
Direct staff expenditure as % of income
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£500,000
£1,000,000
£1,500,000
£2,000,000
£2,500,000
£3,000,000
£3,500,000
£4,000,000
£4,500,000
£5,000,000
£5,500,000
£6,000,000
£6,500,000
£7,000,000
Department income

High needs

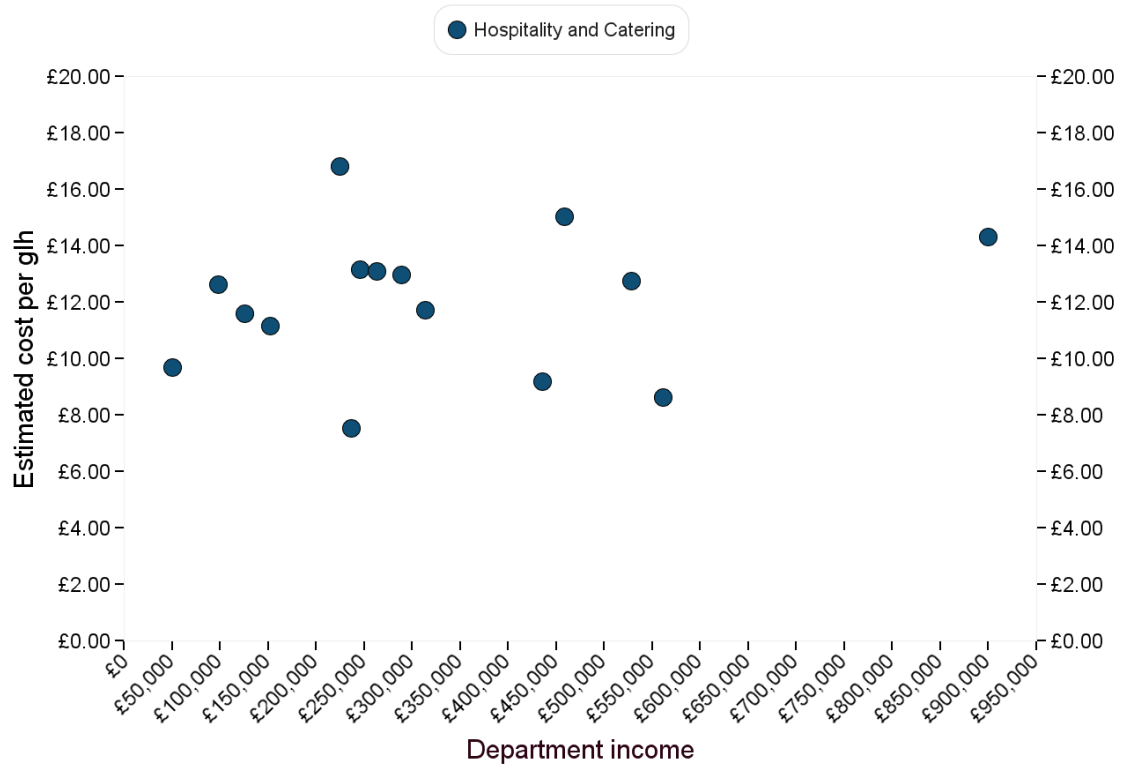




The range is from £4.83 to £13.90. The lower levels may appear improbable but do reflect the information supplied to us. The median is £7.70.


High Needs
Direct staff expenditure as % of income
110%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£200,000
£400,000
£600,000
£800,000
£1,000,000
£1,200,000
£1,400,000
£1,600,000
£1,800,000
£2,000,000
£2,200,000
£2,400,000
£2,600,000
£2,800,000
£3,000,000
Department income

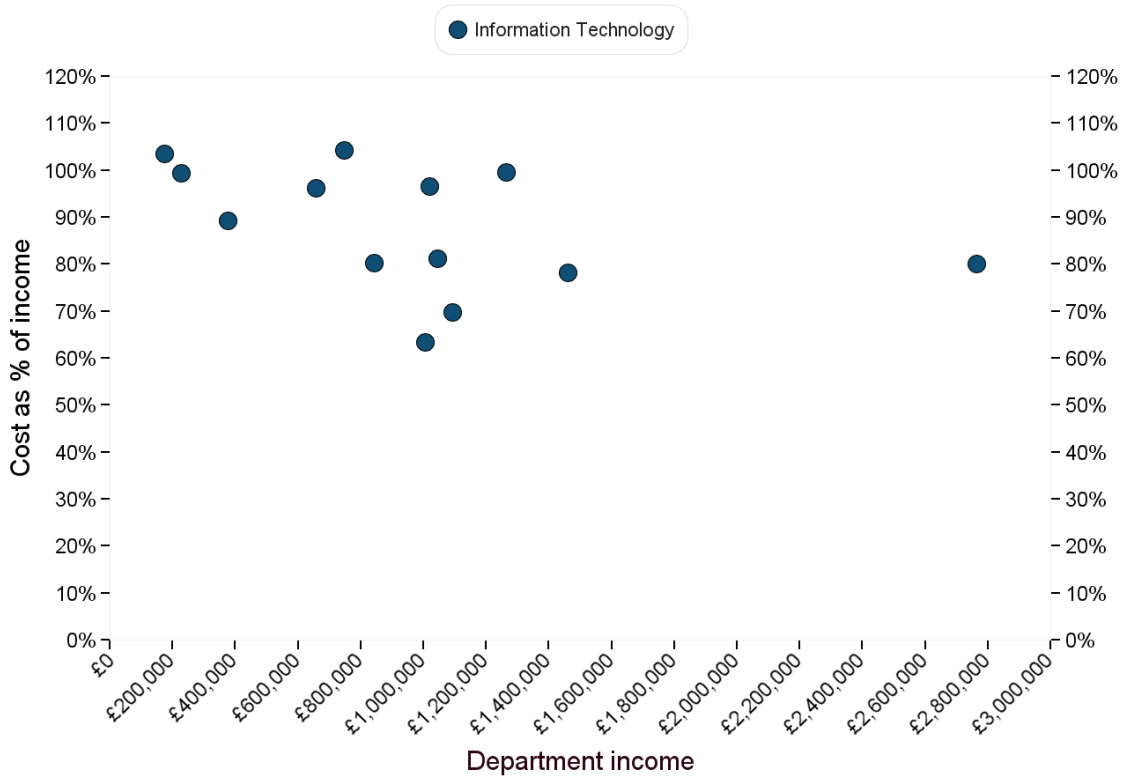
Hospitality and Catering

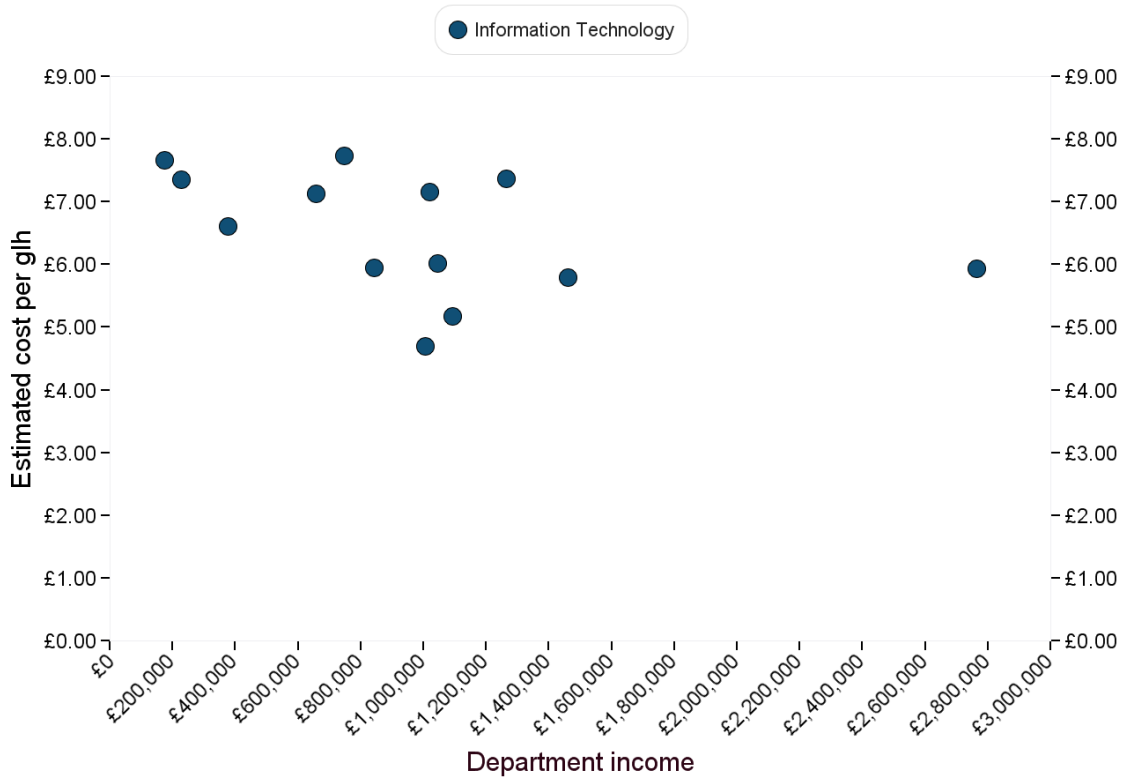


The range is from £7.52 to £16.83, with median £12.62.

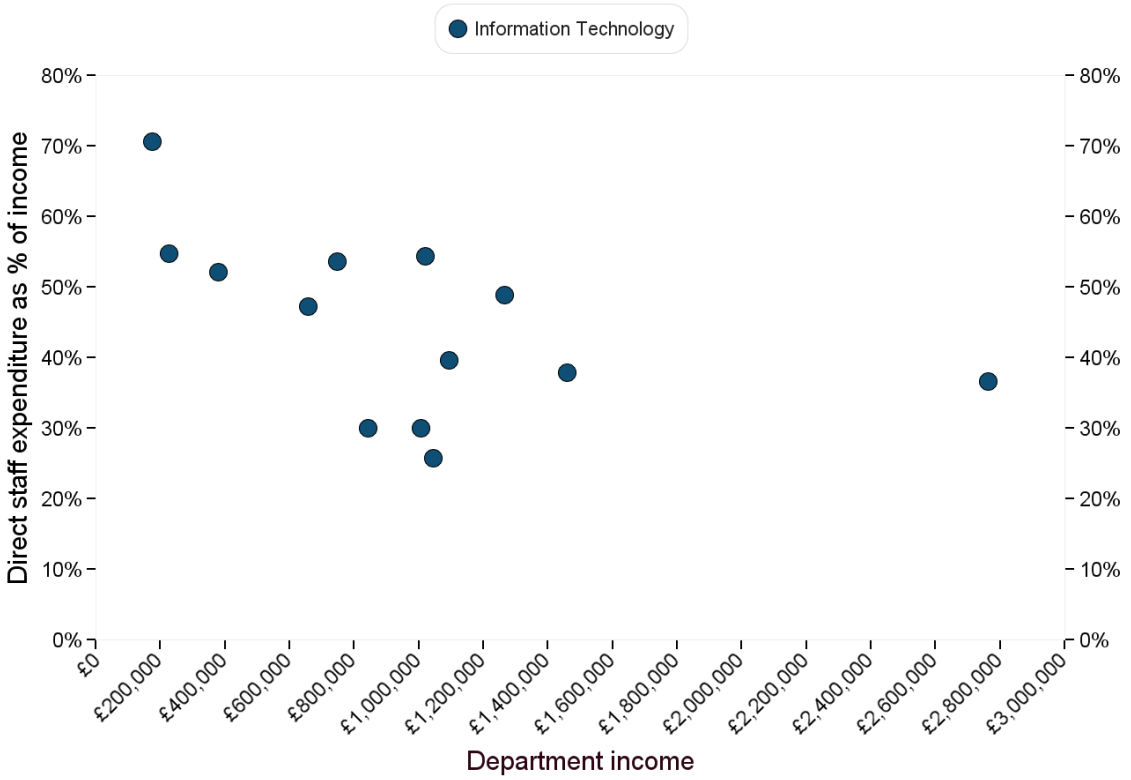

Hospitality and Catering
Direct staff expenditure as % of income
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£50,000
£100,000
£150,000
£200,000
£250,000
£300,000
£350,000
£400,000
£450,000
£500,000
£550,000
£600,000
£650,000
£700,000
£750,000
£800,000
£850,000
£900,000
£950,000
Department income

Information Technology

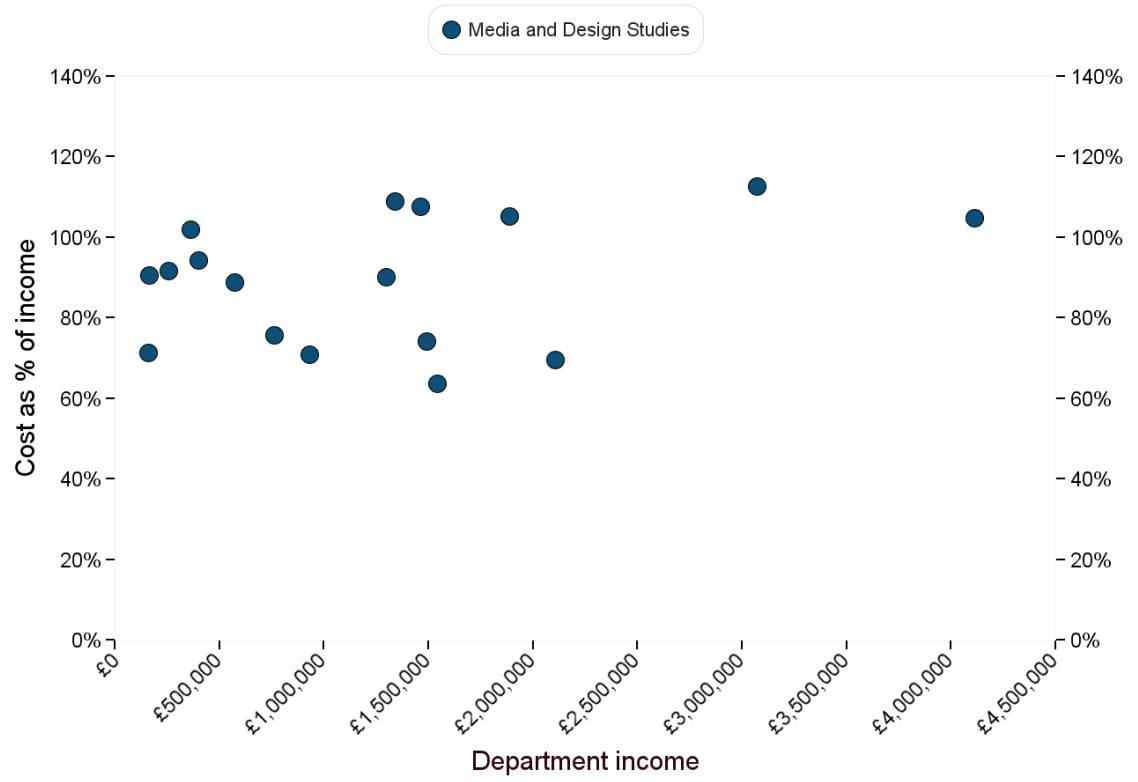


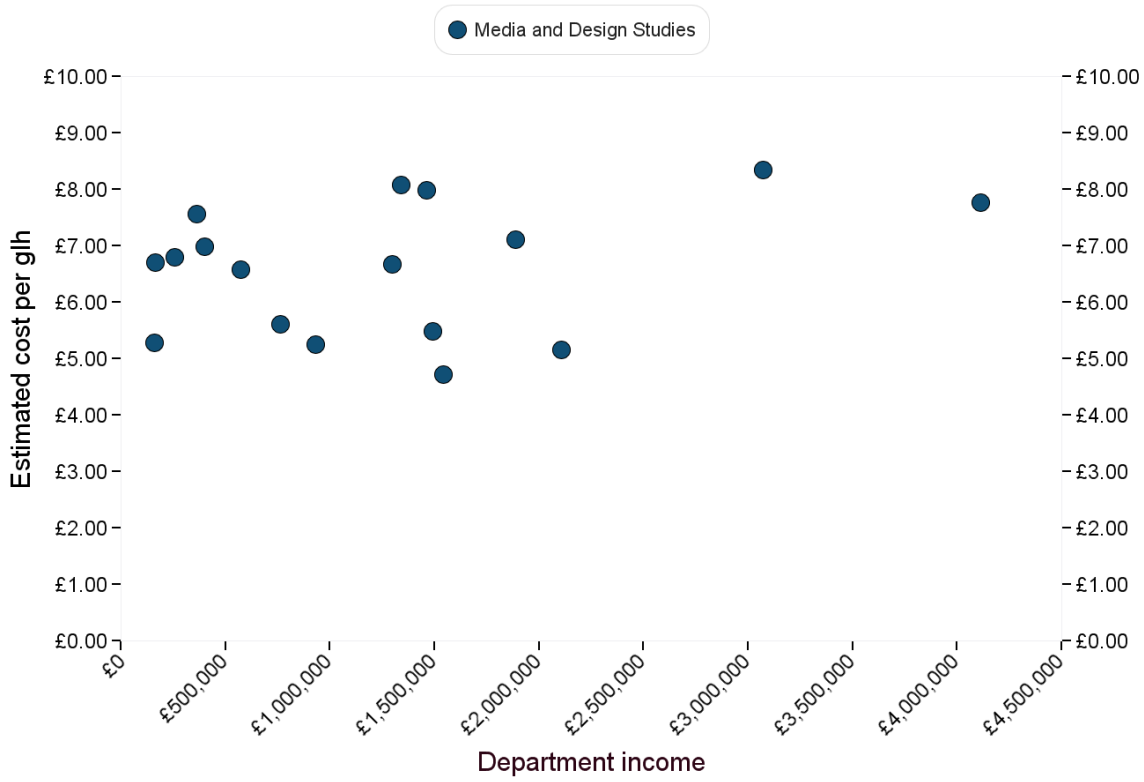


The range is from £4.69 to £7.73, with median £6.61.

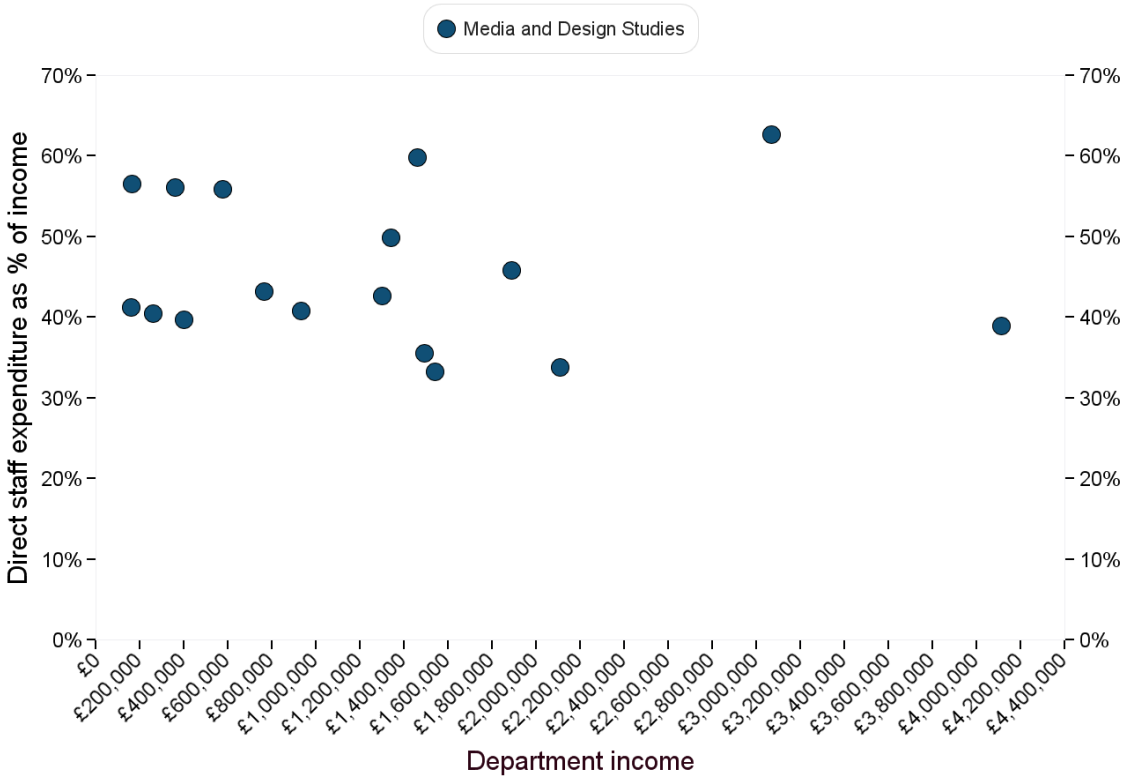

Information Technology
Direct staff expenditure as % of income
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£200,000
£400,000
£600,000
£800,000
£1,000,000
£1,200,000
£1,400,000
£1,600,000
£1,800,000
£2,000,000
£2,200,000
£2,400,000
£2,600,000
£2,800,000
£3,000,000
Department income

Media and Design Studies

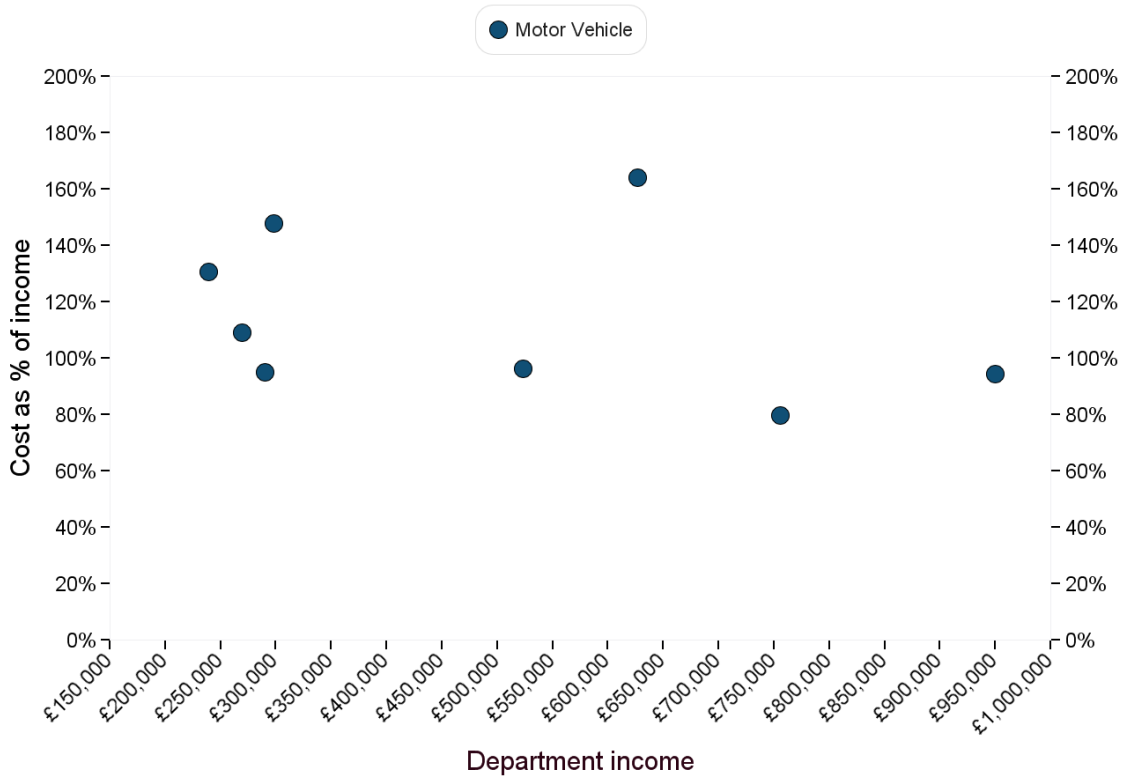


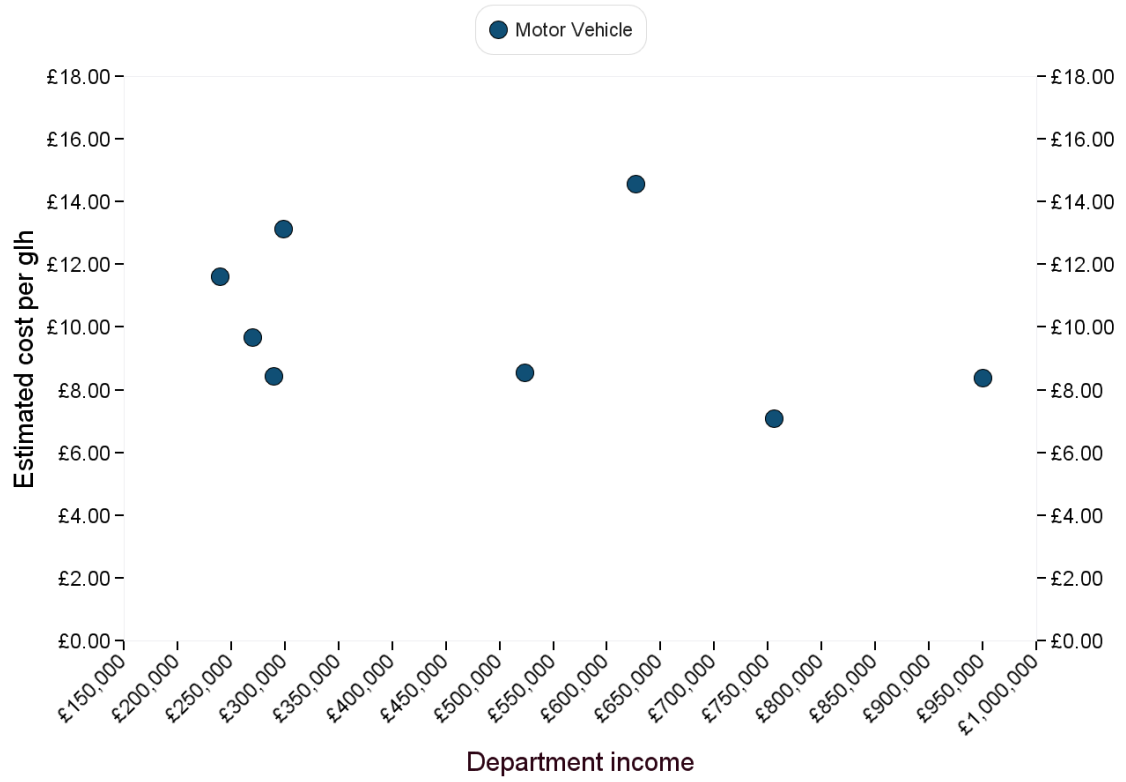


The range is from £4.72 to £8.34, with median £6.70.

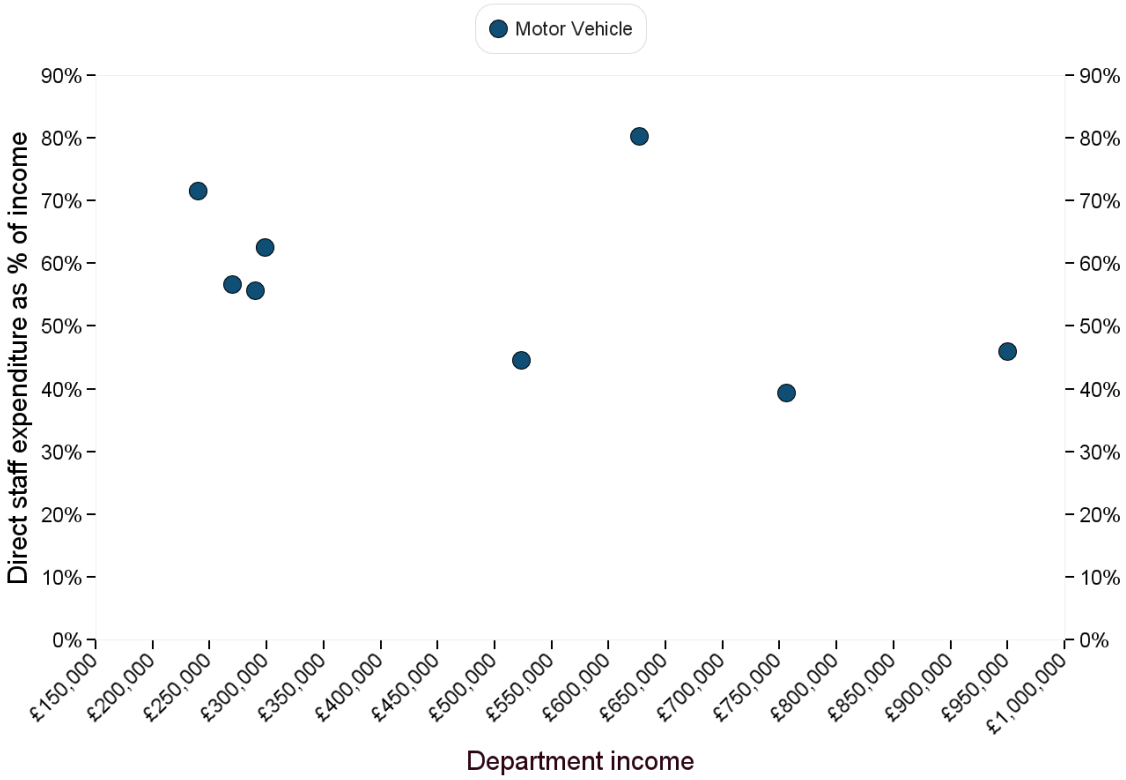

Media and Design Studies
Direct staff expenditure as % of income
70%
60%
50%
40%
30%
20%
10%
0%
£0
£200,000
£400,000
£600,000
£800,000
£1,000,000
£1,200,000
£1,400,000
£1,600,000
£1,800,000
£2,000,000
£2,200,000
£2,400,000
£2,600,000
£2,800,000
£3,000,000
£3,200,000
£3,400,000
£3,600,000
£3,800,000
£4,000,000
£4,200,000
£4,400,000
Department income

Motor Vehicle

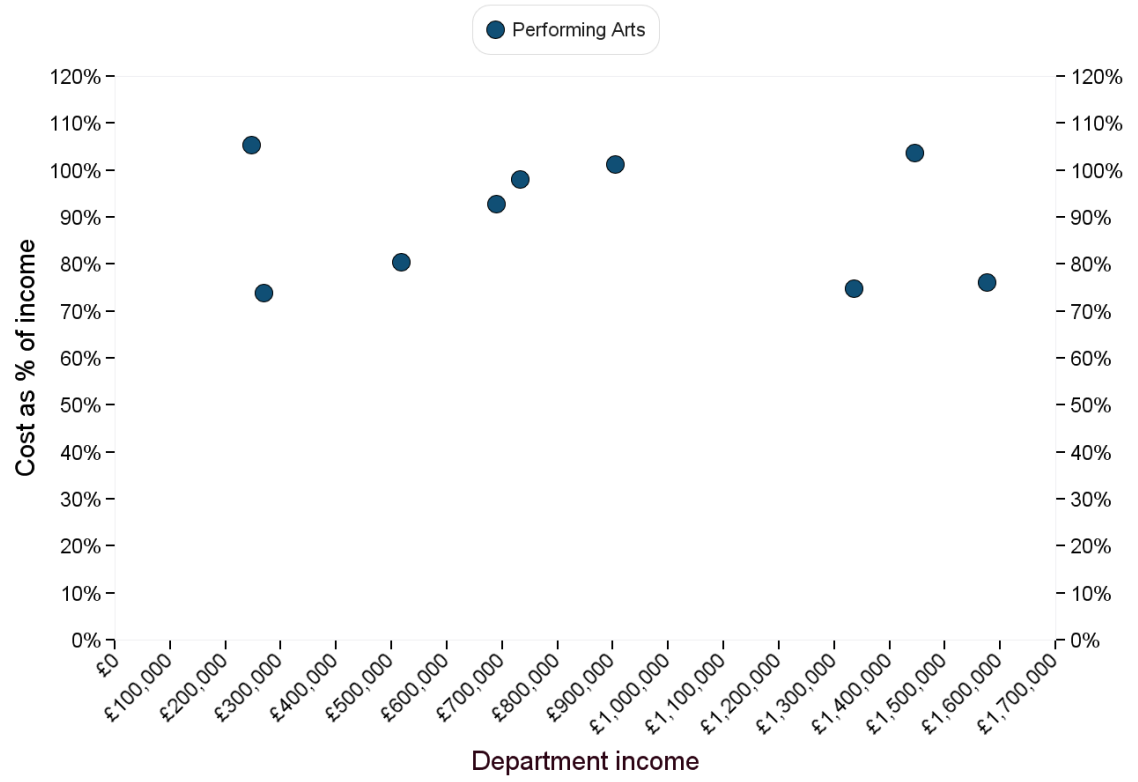


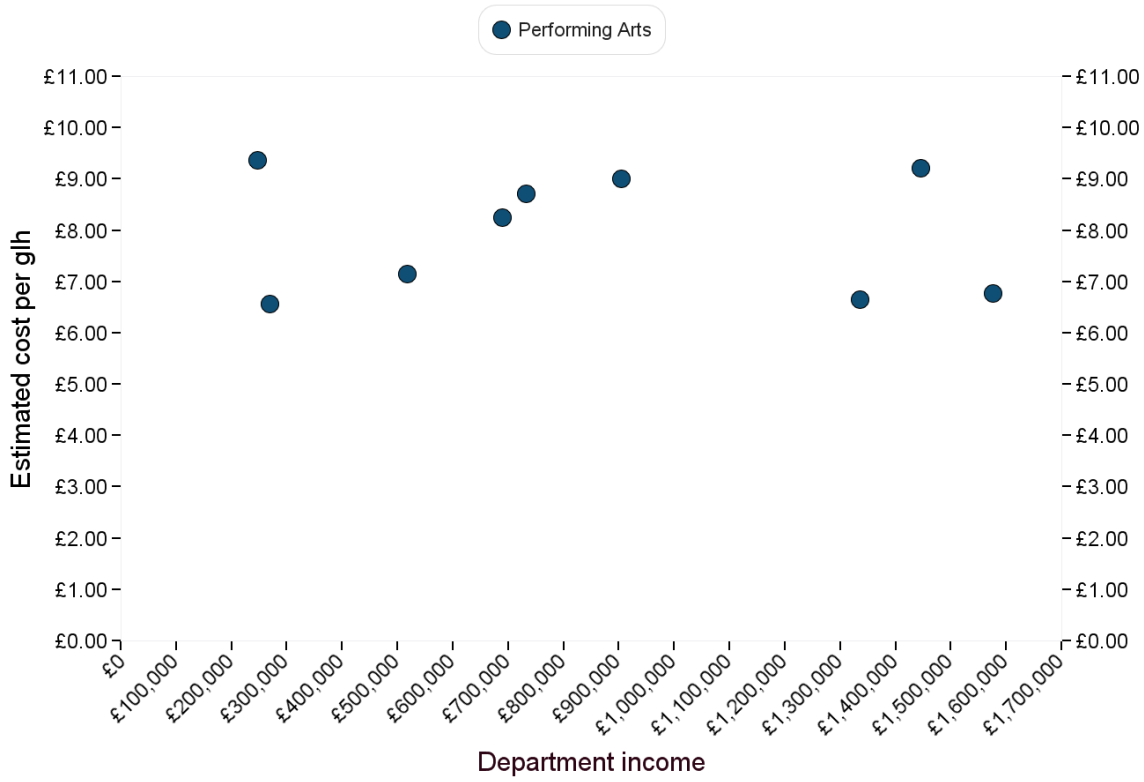


The range is from £7.09 to £14.58, with median £9.12.

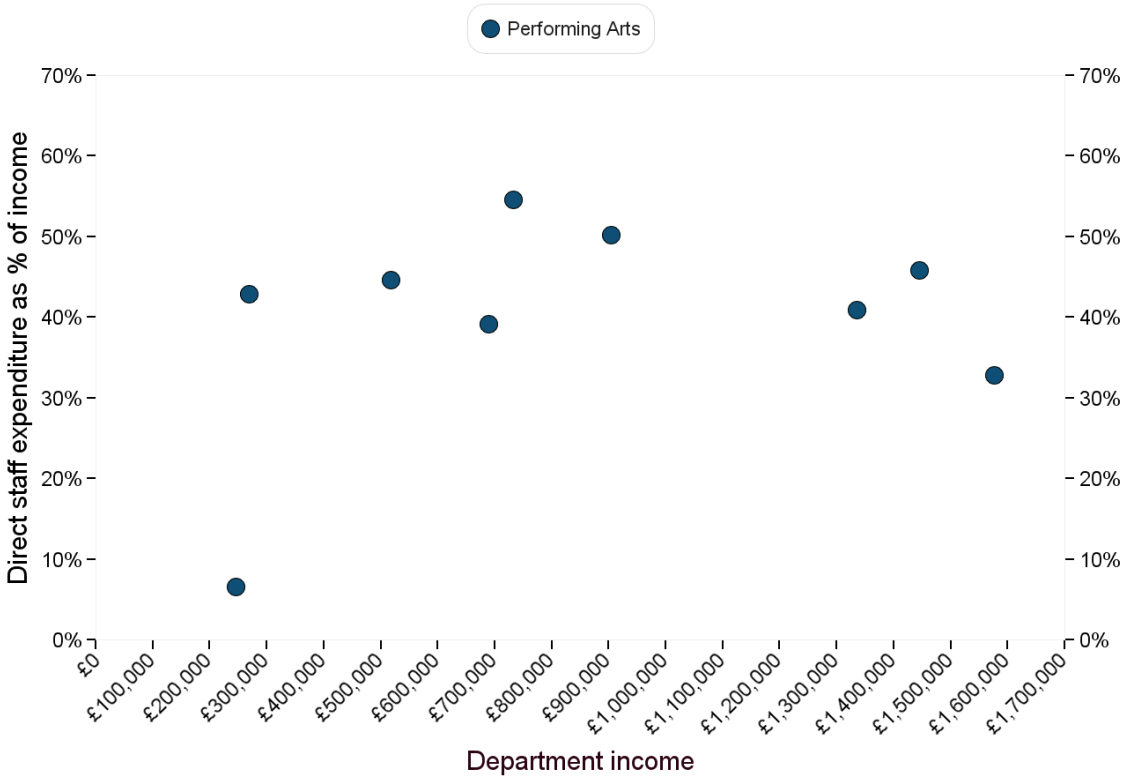

Motor Vehicle
Direct staff expenditure as % of income
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£150,000
£200,000
£250,000
£300,000
£350,000
£400,000
£450,000
£500,000
£550,000
£600,000
£650,000
£700,000
£750,000
£800,000
£850,000
£900,000
£950,000
£1,000,000
Department income

Performing Arts

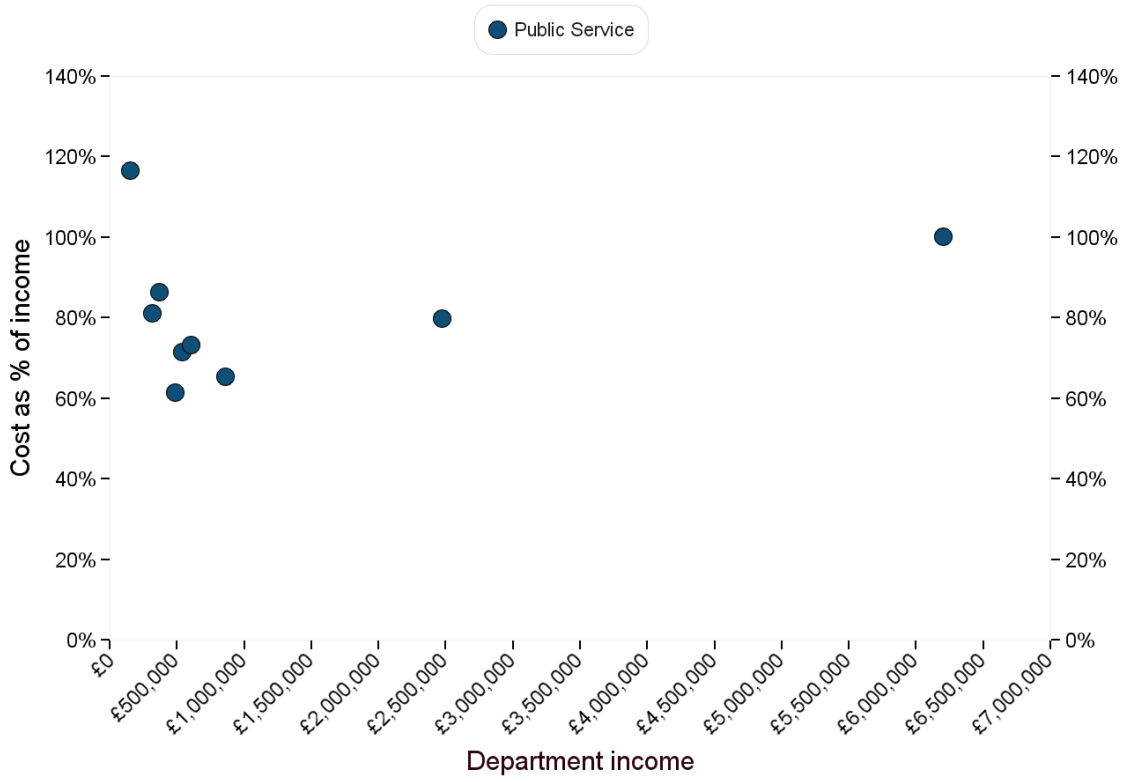


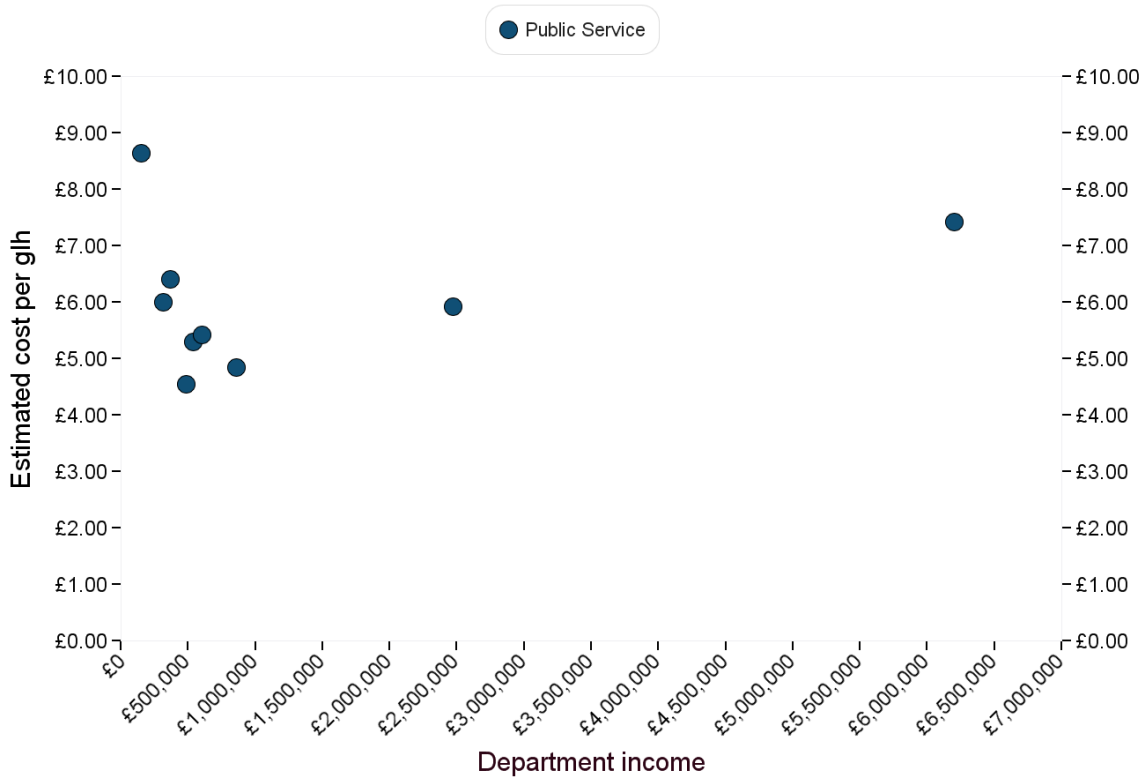


The range is from £6.57 to £9.36, with median £8.25.

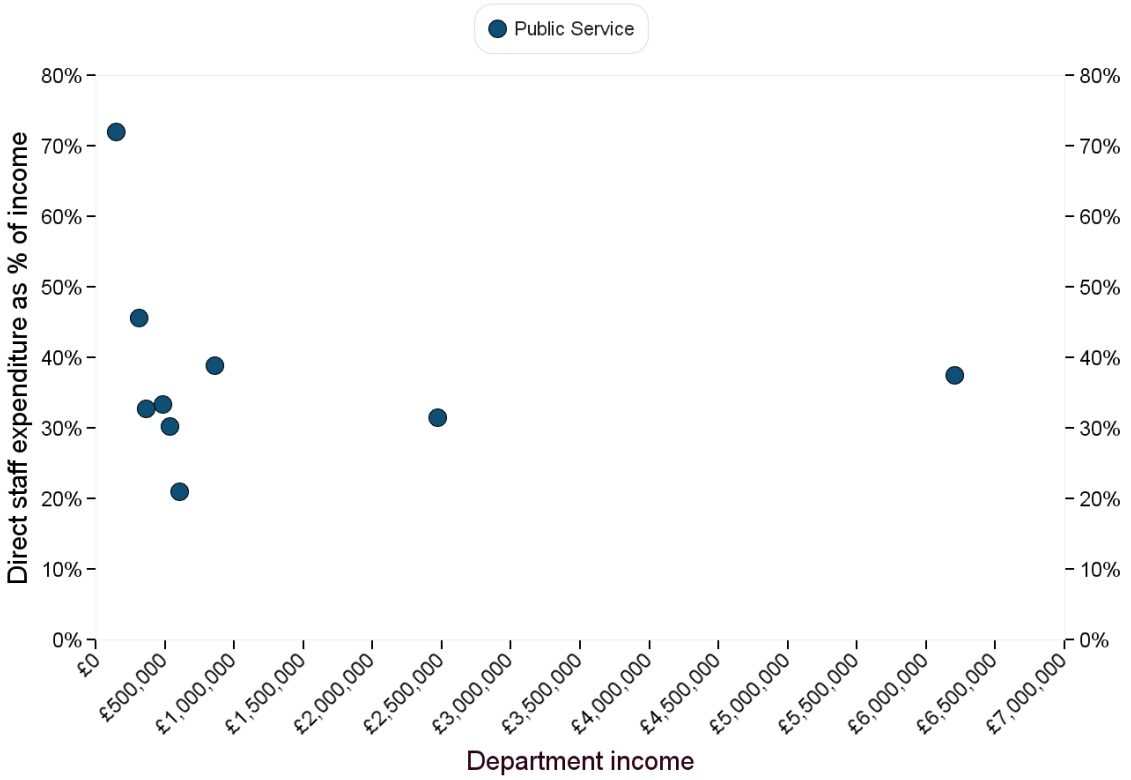

Performing Arts
Direct staff expenditure as % of income
70%
60%
50%
40%
30%
20%
10%
0%
£0
£100,000
£200,000
£300,000
£400,000
£500,000
£600,000
£700,000
£800,000
£900,000
£1,000,000
£1,100,000
£1,200,000
£1,300,000
£1,400,000
£1,500,000
£1,600,000
£1,700,000
Department income

Public Service

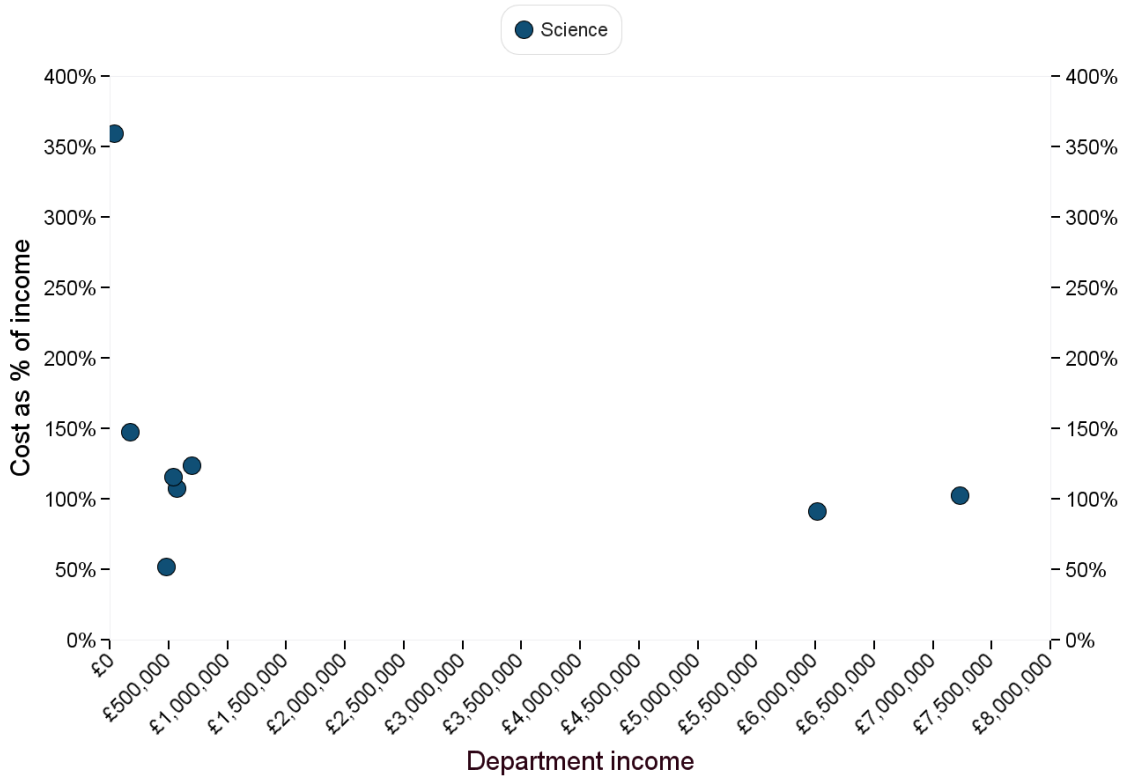


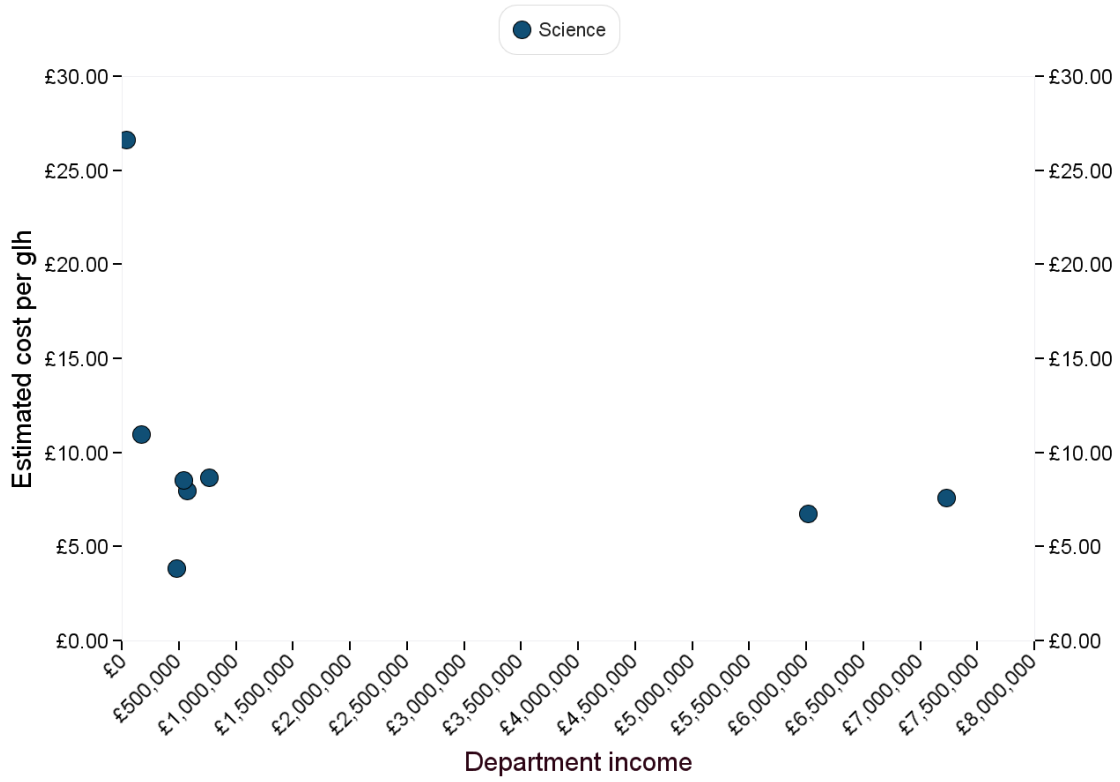


The range is from £4.55 to £8.64, with median £5.92.

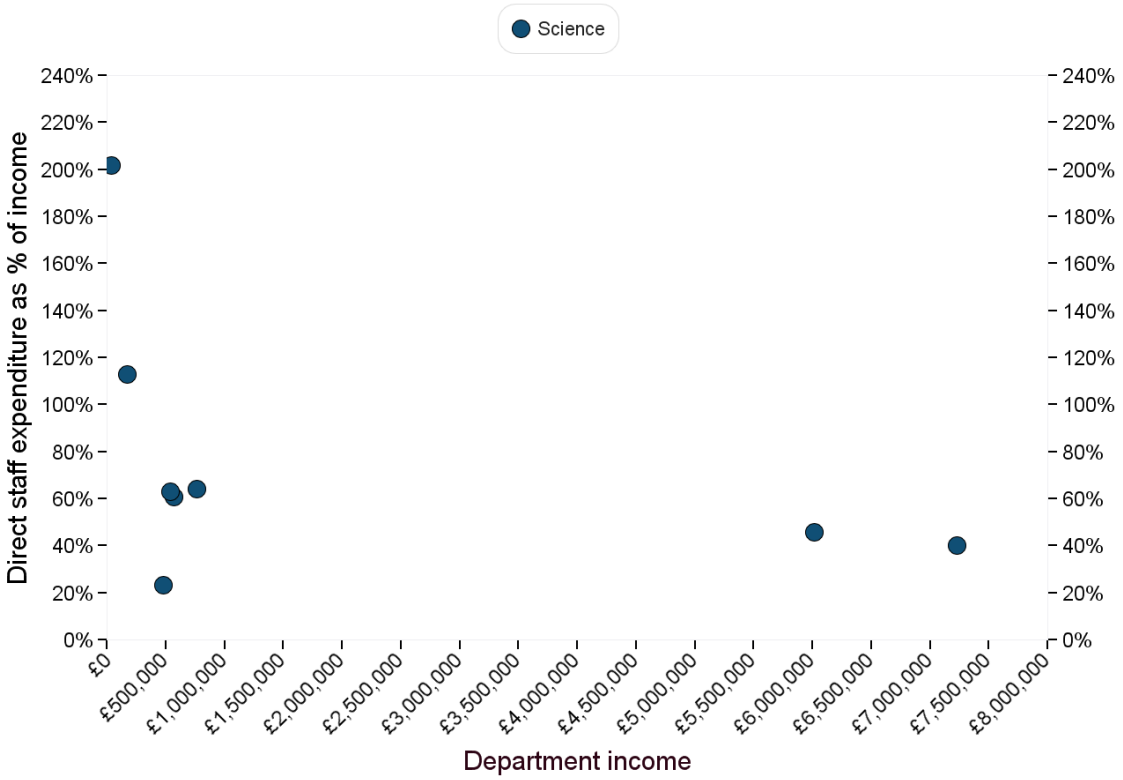

Public Service
Direct staff expenditure as % of income
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£500,000
£1,000,000
£1,500,000
£2,000,000
£2,500,000
£3,000,000
£3,500,000
£4,000,000
£4,500,000
£5,000,000
£5,500,000
£6,000,000
£6,500,000
£7,000,000
Department income

Science

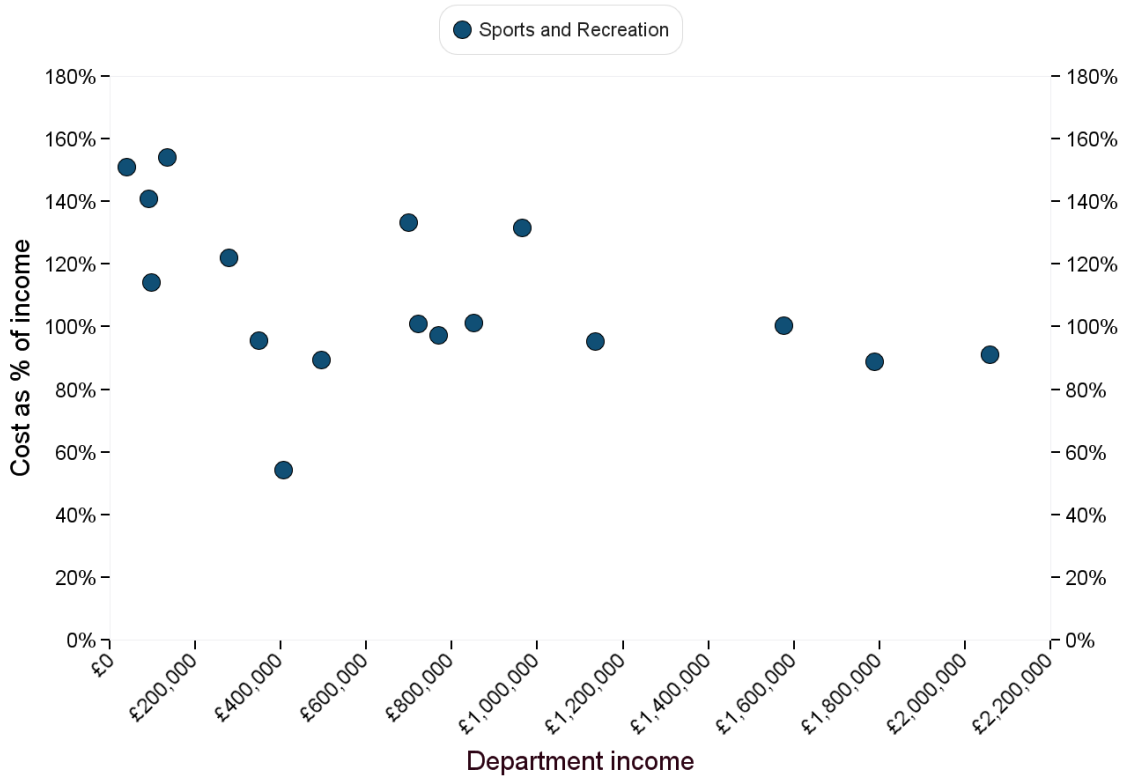


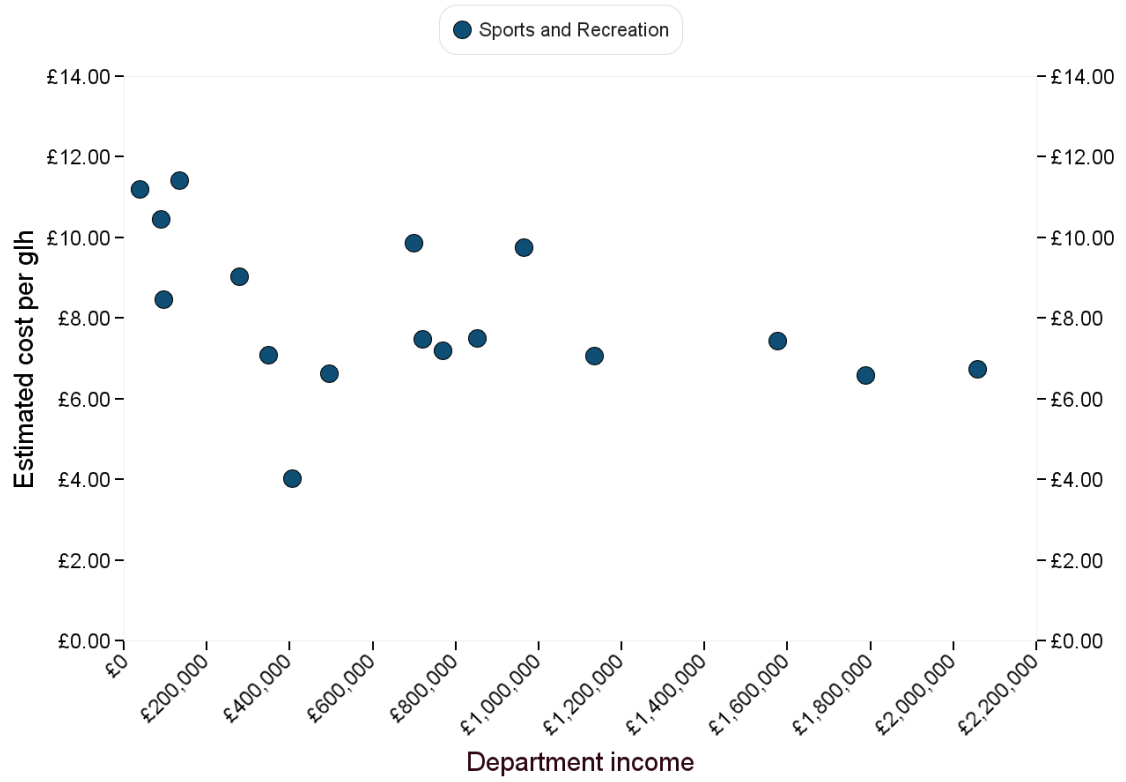


The range is from £3.82 to £26.61, with median £8.26. The highest value is unreliable. The remaining values appear correct though the lowest value £3.82 seems very low.

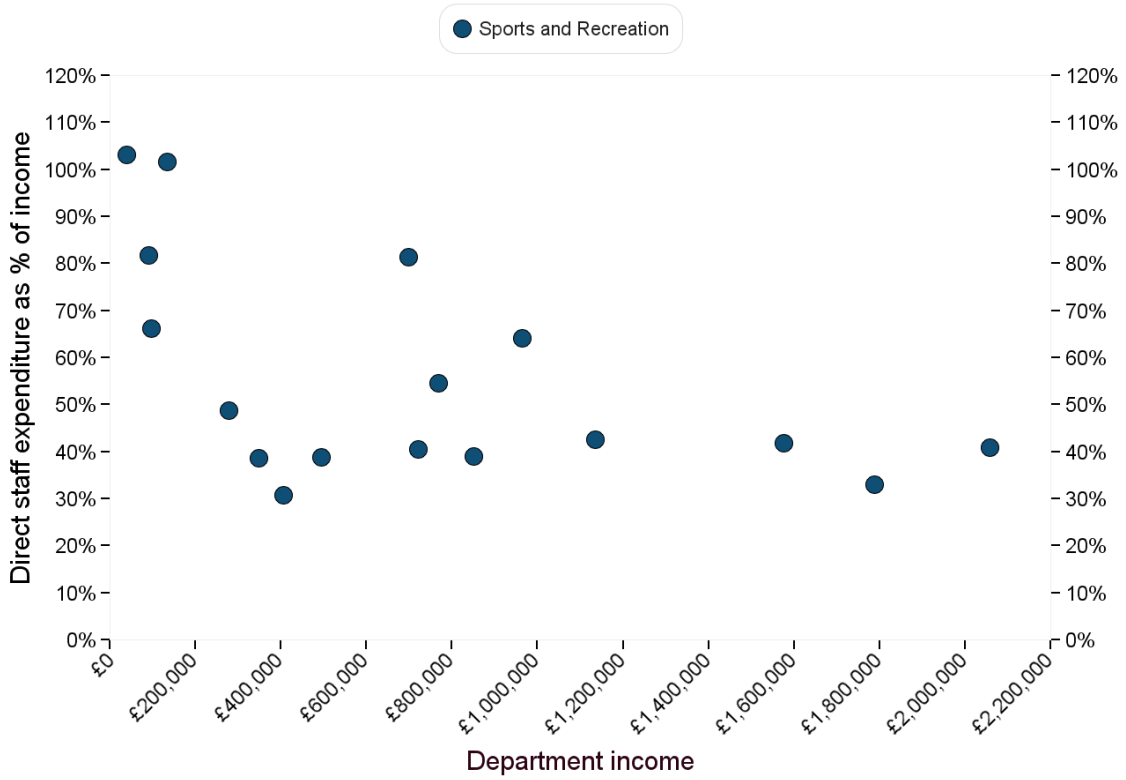

Science
Direct staff expenditure as % of income
240%
220%
200%
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
£0
£500,000
£1,000,000
£1,500,000
£2,000,000
£2,500,000
£3,000,000
£3,500,000
£4,000,000
£4,500,000
£5,000,000
£5,500,000
£6,000,000
£6,500,000
£7,000,000
£7,500,000
£8,000,000
Department income

Sports and Recreation

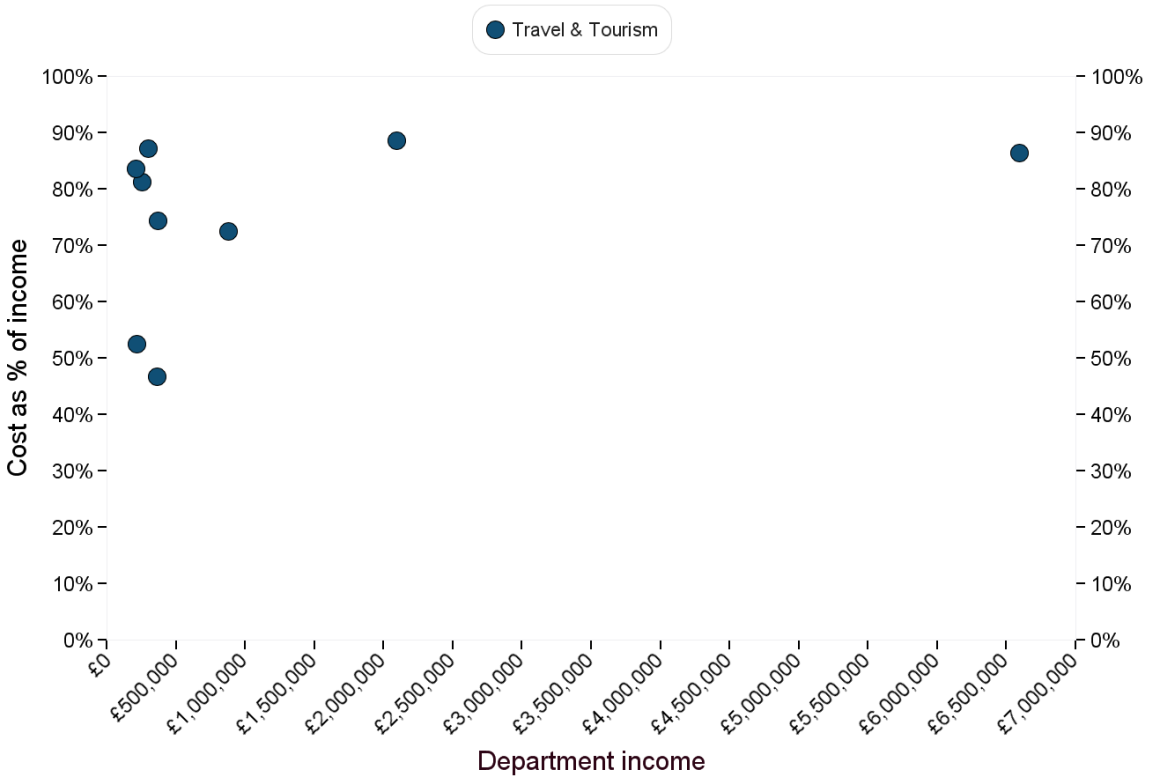


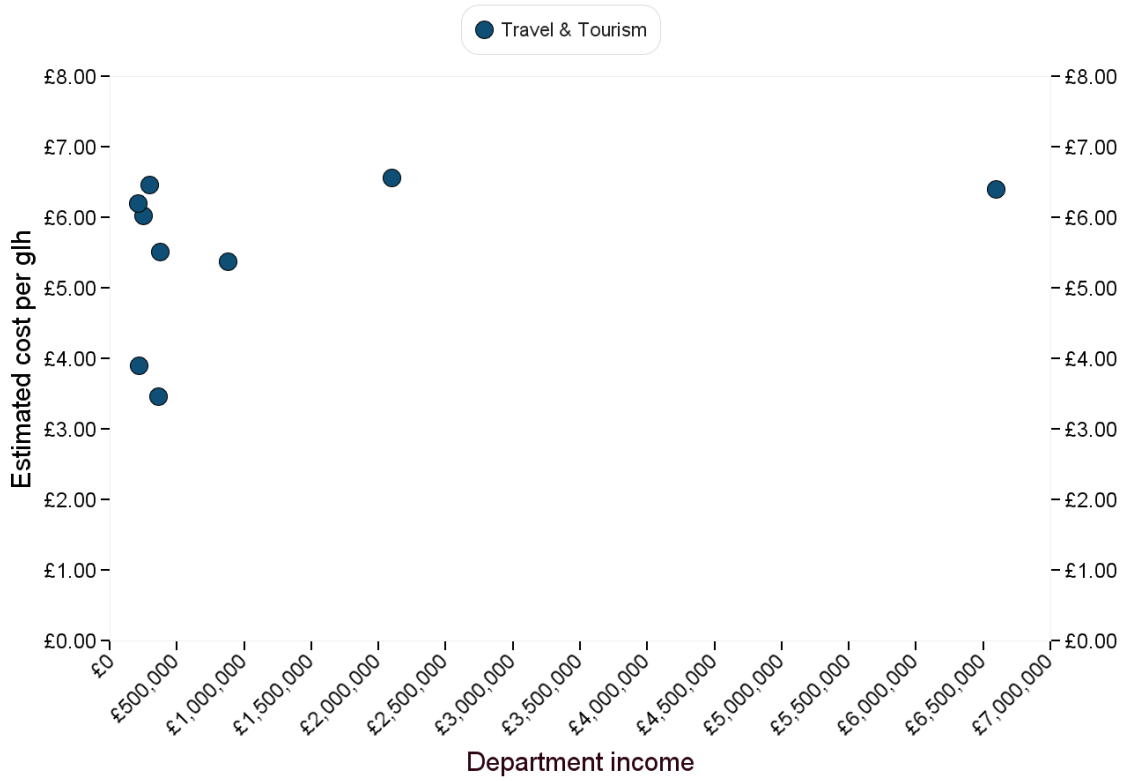


The range is from £4.02 to £11.42, with median £7.48. The high values for the smaller departments are consistent with findings elsewhere in the data set.

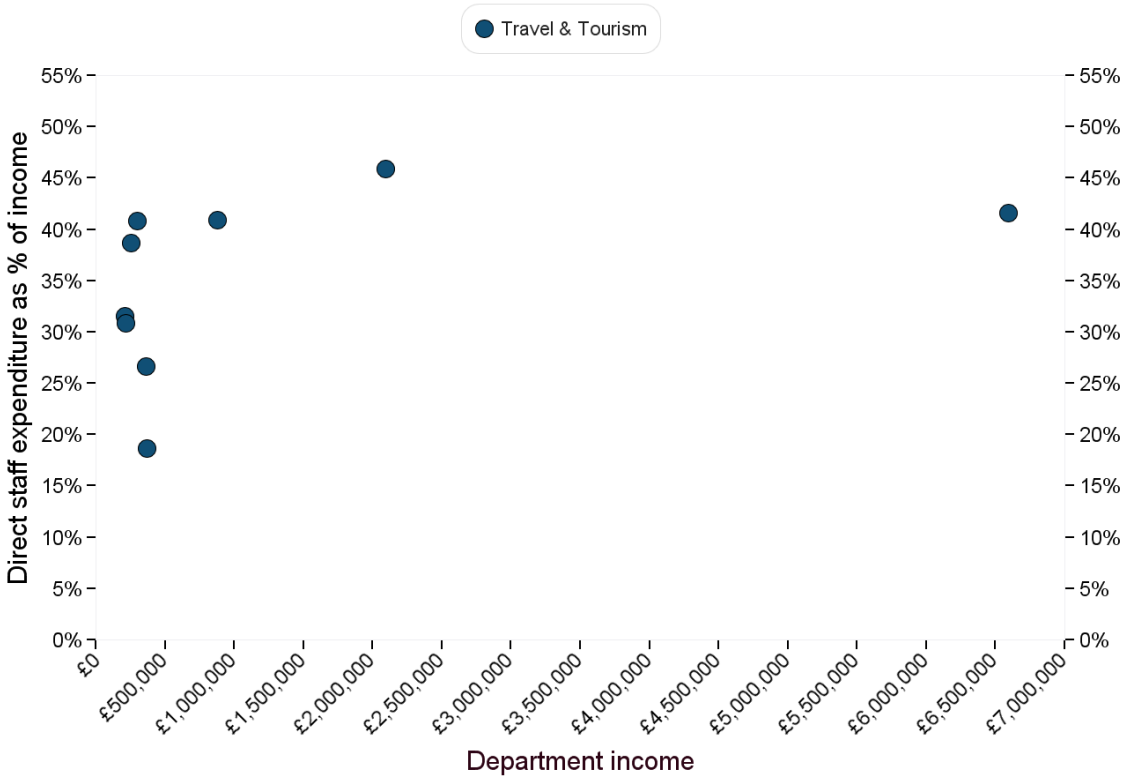

Sports and Recreation
Direct staff expenditure as % of income
120%
110%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
£0
£200,000
£400,000
£600,000
£800,000
£1,000,000
£1,200,000
£1,400,000
£1,600,000
£1,800,000
£2,000,000
£2,200,000
Department income

Travel and Tourism





The range is from £3.46 to £6.56, with median £6.02.


Travel & Tourism
Direct staff expenditure as % of income
55%
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
£0
£500,000
£1,000,000
£1,500,000
£2,000,000
£2,500,000
£3,000,000
£3,500,000
£4,000,000
£4,500,000
£5,000,000
£5,500,000
£6,000,000
£6,500,000
£7,000,000
Department income

A “cost model” for post-16 providers

As already noted, different providers visited had very different “charts of accounts”, differing both in level of detail and in the particular way in which income and expenditure were tracked. As part of our project, we were asked to see if we could refine a “cost model” that might be useful to the Department in future if and when it decides to collect cost breakdown information on a systematic basis. Such information might conceivably be collected at whole-organisation level or even at departmental level – notwithstanding the difficulties, discussed in our main report, that many providers would have in doing the latter.

Our proposed cost model is below.

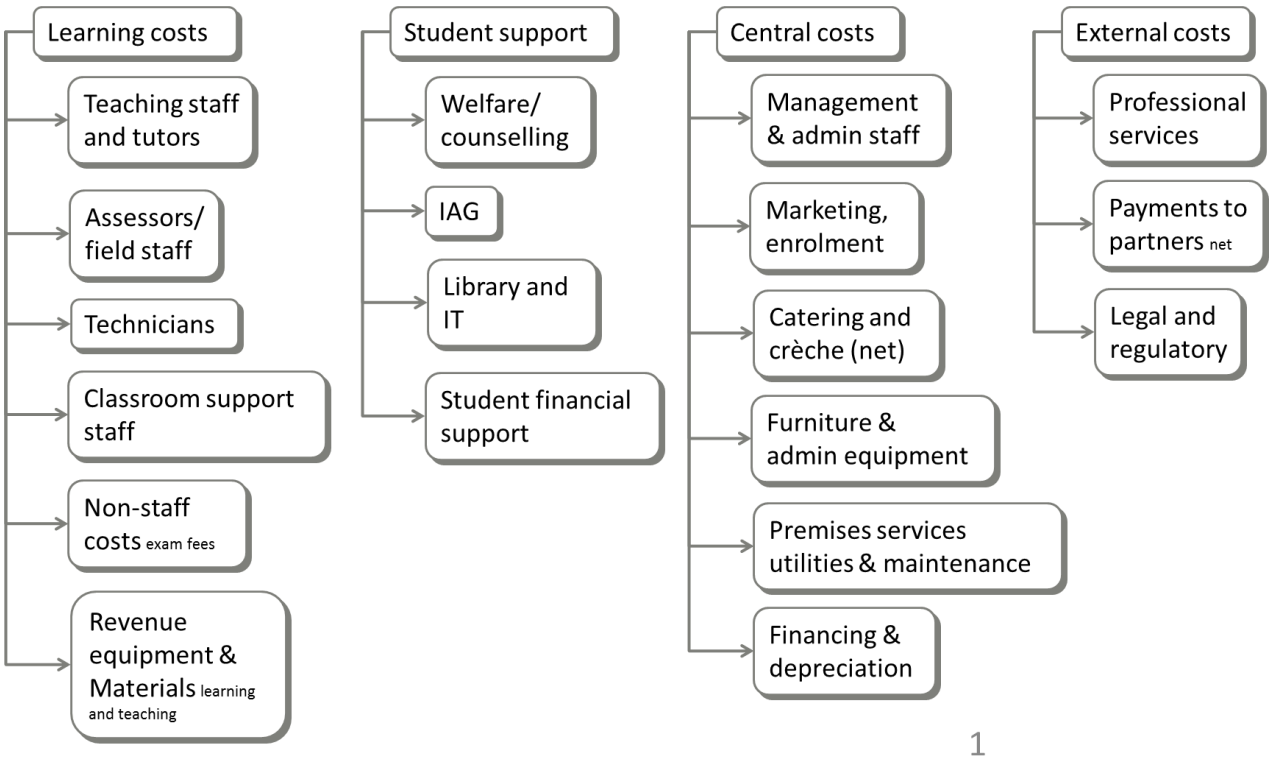


Figure 29. Proposed model of post-16 expenditure

We believe that (subject to piloting with the sector(s)) this revised model is sufficient to act as a common language when talking with providers.

Annex 5

Glossary of acronyms

ALLs	Advanced learner loans – government-backed loans to help adult learners pay tuition fees for a range of Level 3 to Level 6 qualifications
AELP	Association of Employment and Learning Providers – the representative membership body for ILPs
AoC	Association of Colleges – the representative membership body for GFECs
ALS	Additional learner support – funding to meet the cost of putting into place reasonable adjustments, as set out in the Equality Act 2010, to help learners who have an identified learning difficulty or disability achieve their learning goal
BTEC	Qualifications that are the vocational equivalents to qualifications such as GCSEs (at level 2) and A Levels (at level 3)
CAHMS	Child and adolescent mental health services – NHS mental health services that focus on the needs of children and young people
CPD	Continuing professional development – the maintenance and development of the knowledge and skills needed to perform in a professional context through formal and informal learning
CTO	Contribution to overheads – in this context, the amount of money available after attributed direct expenses are deducted from attributed direct income – i.e. what is left to help pay for the overheads (unattributed costs) of the provider – expressed in either monetary or percentage terms.
DfE	Department for Education
EBITDA	Earnings before interest, tax, depreciation and amortisation – a common measure of an organisation's operating performance
EHC plan	Education, Health & Care plan – a document that describes a child or young person with SLDD's special educational, health and social care needs
EPA	The End Point Assessment is the final element of an Apprenticeship; it tests that an apprentice is fully capable of doing their job and demonstrates that an apprentice can apply what they have learned in the real world before they receive their Apprenticeship certificate. The EPA is a synoptic assessment of the apprentice's performance across the whole standard rather than for individual tasks. The assessment is carried out using at least two different methods (tests, practical assessment, interview, presentation etc.) appropriate to the individual Apprenticeship

ERDF	European Regional Development Fund – a European Union fund that invests in the infrastructure and services of underdeveloped regions in member states
ESF	European Social Fund – a European Union fund that supports the creation of more and better jobs in the EU by co-funding national, regional and local projects that improve the levels of employment, the quality of jobs, and the inclusiveness of the labour market in the member states
ESFA	Education and Skills Funding Agency – the funding agency for further education (and other) learning providers
FE	Further education
GCSEs	General Certificate of Secondary Education – the exam usually taken at the end of Year 11 and retaken in further education if the learner has not achieved at the required level
GFEC	General further education college
GLH	Guided learning hours – a measure of study programme length
HE	Higher education
HEFCE	Higher Education Funding Council for England – a non-departmental public body which was responsible for the distribution of funding for HE to universities and GFECs in England between 1992 and 2017
IB	International Baccalaureate – a two-year educational programme primarily aimed at 16 to 19 year olds which provides an internationally accepted qualification for entry into higher education that is recognised by many universities worldwide. It requires six subjects to be studied rather than, in England, the traditional three or four at A Level
ILP	Independent learning provider
LEP	Local enterprise partnership – voluntary partnerships between local authorities and businesses, set up to help determine local economic priorities and to lead economic growth and job creation within their local area
LMI	Labour market information and/or intelligence – a distinction is generally drawn between ‘information’ (the raw data) and ‘intelligence’ (produced through analysis and interpretation of the information). Depending on the provider, regional and/or local LMI of one or both types may be relevant
PGCE	Post-Graduate Certificate in Education
RoPA	Raising of the Participation Age – from 2015 young people have been required to remain in some form of recognised education or training until the age of 18. Options include full-time education at a GFEC or SFC, an

	Apprenticeship or some other form of recognised work-based learning and part-time education or training if the young person is employed, self-employed or volunteering for at least 20 hours a week
SFA	Skills Funding Agency – the funding agency formerly responsible for, amongst other things, the funding of further education from April 2010 until April 2017, when its responsibilities transferred to the ESFA
SFC	Sixth form college
SFCA	Sixth Form College Association – the representative membership body for SFCs
SLDD	Special Learning Difficulties and Disabilities
SMT	Senior management team – in this context typically a GFEC's or SFC's Principal, Deputy Principals and Vice/Assistant Principals
TechBacc	A performance table measure which recognises the achievement of learners taking advanced (level 3) programmes which include a DfE approved Tech Level, level 3 maths and extended project qualifications
UTCs	University Technical Colleges – a taxpayer-funded, non-selective, free to attend and non-local authority controlled secondary school for learners aged 14 to 19. Key distinguishing features are that UTCs are new institutions (not conversions of existing schools), must be sponsored by a university and must offer technical, vocationally-oriented, courses.

Department for Education

Reference: DFE- RR969

ISBN: 978-1-83870-071-3

The views expressed in this report are the authors' and do not necessarily reflect those of the Department for Education.

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