Department for Education

Education Funding Agency

16-19 Funding formula review

Funding full participation and study programmes for young people

July 2012

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Foreword by the Secretary of State for Education Michael Gove MP

Professor Alison Wolf's ground-breaking report on vocational education argued that the current system for 16-19 education prevents young people leaving with the qualifications they need for work and study. It is therefore vital that we reform the system so that all young people are given the best chance of going to higher education, getting good jobs and succeeding in life. In *Study Programmes for 16-19 year olds*[1] we set out how the introduction of study programmes for 16 to 19 year olds represents a much needed change to the way we provide education and training so that more young people are ready to progress to further education or employment.

In order to achieve this shift in the quality of vocational education, we must remove barriers which prevent schools, colleges and training providers from offering young people high quality vocational education. One of the most fundamental barriers is the current 16-19 funding methodology. At the moment, schools and colleges are funded per qualification and per qualification passed. The more easy-to-pass qualifications students take, the more money schools and colleges receive. But these qualifications are often not valued by employers or universities.

I am introducing funding 'per student' to ensure that schools and colleges make decisions about programmes of study which are in the best interests of students. This will take effect from the 2013/14 allocations of funding.

I realise that these proposals may cause concern for institutions which offer a primarily academic programme of study. I very much value the commitment of schools, colleges and students to achieving academic excellence and entry to top universities. Ofqual is currently consulting on A level reform in England, looking at issues such as the involvement of Higher Education Institutions in the design of A levels, limiting resits and whether or not AS levels should continue. To protect institutions while discussions about academic qualifications are ongoing, I can guarantee that no institution will see its funding per student fall as a result of these changes for at least three years.

I am establishing a Ministerial working group to assist us in ensuring that these reforms work in the best interests of all young people. I will be inviting representatives from Further Education Colleges, Sixth Form Colleges, schools (including grammar schools) and other providers of post-16 education to consider the best way to implement the reforms to the programmes of study and associated funding changes.

We are also making changes to the information provided to students and their parents about which institutions best meet their needs. New measures of achievement will be available, including the destinations of previous students at each institution. The inspection framework will be improved to focus on weaker schools and colleges.

Taken together, the reforms I am announcing today will set us on a clear path to giving young people greater choice and higher quality provision.

Michael Gove MP
Secretary of State for Education

[1] The *Study Programmes for 16-19 year olds: Government Response to Consultation and Plans for implementation* document**.**

Summary Statement

Introduction

Our ambition is to see a step change in the quality of education young people receive post-16. All students should have the opportunity to undertake high quality and challenging study programmes tailored to meet their individual needs and ambitions.

Professor Alison Wolf's report, and the responses received to our consultations on study programmes and funding reforms, confirmed that the reform of 16-19 education can only be achieved if we reform the post-16 funding formula. The current system of "payment per qualification" encourages schools and colleges to "pile up" large numbers of qualifications that often have little value to the student in supporting progression onto more challenging courses, and no value in securing employment. Similarly, the use of success rates within the formula can lead to institutions steering young people onto courses they can pass more easily, sometimes to the detriment of encouraging young people to continue further study in English and maths – the foundation of successful progression into the labour market. The funding formula also makes it difficult for schools and colleges to fund 'non-qualification' activity such as work experience and other types of workplace learning, even though evidence shows this is of enormous value to some students.

We committed in the Schools White Paper *The Importance of Teaching*[2] to a simple, fair and transparent 16-19 funding system to underpin the introduction of the raising of the participation age. We have already ended the historic funding gap that existed between schools and colleges and this will ensure each full-time student is funded fairly. However, the current funding formula has led to wide variations in the funding attracted by young people doing similar types and levels of learning. That is true as much for academic programmes as it is for vocational ones. The result of this is that some institutions receive double the amount of funding per student compared with others. This cannot be right in a world where every 16 and 17 year old will be participating in some form of education or training. The reforms set out in this document will instead ensure each student is funded fairly.

We have already introduced a much simpler funding system based on lagged student numbers. We now need to tackle the lack of transparency and complexity of the funding formula that led Professor Wolf to comment in her report that "this is the only country, to the best of my knowledge, where institutions routinely spend money attending workshops which explain the latest wrinkles in the funding formula and how best to exploit these".

While changing the funding formula in this way is absolutely the right thing to do to ensure all young people are following an appropriate programme of study, it will mean a redistribution of resources. Many institutions that currently offer very large programmes – many of them very successful - would lose significant amounts of funding if we moved immediately to the new system. We do not want to destabilise high quality provision and we will therefore protect against that redistribution for at least the next three years, ensuring no provider loses funding as a result of these formula changes.

Schools and colleges should use the period of funding protection, the new freedoms the funding reforms offers and the introduction of study programmes to review their offer to young people across academic and vocational routes. This period will also allow us to consider the early experience of A level reform, with the first new A levels

[2] https://www.education.gov.uk/publications/standard/publicationDetail/Page1/CM%207980

expected to be available for first teaching from September 2014. We will wish to engage in further debate with the sector about whether and how to reflect larger study programmes within the funding per student approach. We will consider the position on any further protection in the light of this debate and in the context of the next spending review.

16-19 Funding Formula Consultation

In order to deliver our ambition of a simple, fair and transparent funding system, we consulted with institutions and other stakeholders on options for revisions to the 16-19 funding formula which would:

a) **be clear and transparent** - the funding formula should have as few basic elements as possible, underpinned by clear funding calculations drawn from accessible data which is easy to understand;
b) **enable data simplification** - the minimum data necessary to provide the required level of accuracy in allocations and assurance of public funds should be collected;
c) **be fair** - funding should be comparable regardless of institution type and should follow the student;
d) **be clear what additional funds are being targeted at young people from disadvantaged backgrounds**; and
e) **avoid financially destabilising good quality provision**.

Overall, respondents agreed with the overarching principles for simplification proposed in the consultation document, and provided comments on the details of implementation of the proposals. They did, however, express concerns about the impact the changes may have on institutions that could lose funding as a result. Further detail on responses to the consultation can be found in the consultation report, which has been published on the consultation pages of the Department's website at http://www.education.gov.uk/consultations/index.cfm.

Proposals

Following the consultation we propose going ahead with significant changes to simplify the funding system and make it more transparent These will improve incentives for institutions to offer programmes that stretch young people and provide a solid basis for progression to work or higher education.

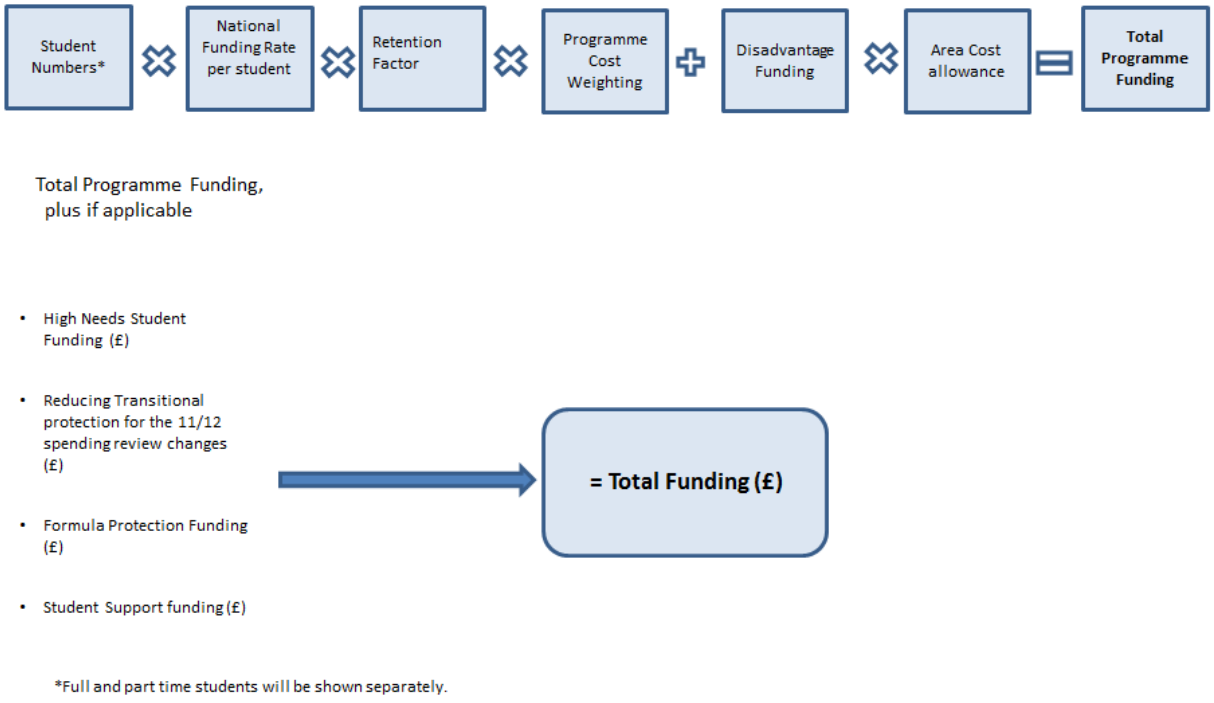
From 2013/14, we will replace the current formula with funding per student to take account of real variations in costs. We will apply a weighting for retention of students, another for the higher costs of some subject areas, plus a single allocation for each provider for disadvantaged students. We will also uplift the whole allocation by an area costs adjustment where applicable. To the total programme funding for each provider we will then add funding for those individual students with learning difficulties or disabilities with the highest needs, funding for bursaries and other financial support for students, plus any transitional protection on a per student basis from the earlier funding changes that were introduced from 2011/12.

To enable funding per student we will integrate the extra £100m of Additional Learning Support (ALS) funding we paid out over the last two years into programme funding. We would expect many students in need of additional learning support to benefit from the new funding arrangements, which encourage schools and colleges to offer more comprehensive and tailored learning programmes, and that this would reduce the need for additional ALS funding.

We recognise it is important students who have not achieved an A*-C GCSE in maths and/or English by the age of 16 continue to study these subjects. We therefore intend to introduce this as a condition of funding in the near future.

In response to the concerns expressed about impact on institutions, we will protect institutions against losses in funding per student as a result of these changes for at least three years from 2013/14, through new Formula Protection Funding.

The simplified formula will therefore be:



How will the new system be simpler?

We will move to fund on a per student basis and no longer fund each learning aim within a student's programme separately. We will also remove complexity through a number of other measures:

a) **Programme Size** - we will fund all full time programmes at a single funding rate and remove the necessity for converting guided learning hours into a Standard Learner Number (SLN);
b) **Provider Factor** - we will make the calculation of the allocation easier to understand by removing the provider factor, which was made up of a number of different elements, and will show each of the elements separately;
c) **Additional Learning Support (ALS)** - we will remove the two part calculation for ALS, where we use both prior attainment and historical spend for some institutions to arrive at a single allocation for low level ALS, and we will base the calculation across the whole sector on a flat rate rather than a sliding scale;
d) **Funding for general and economic disadvantage** - because there is significant overlap between the existing specific categories of students eligible for disadvantage funding and those that qualify by virtue of their postcode, we will remove the existing specific categories of students, with the exception of care leavers. This will reduce the data burden on institutions, who have found it difficult to collect the additional personal data from students;

e) **Programme Cost Weightings** - we intend to reduce the number of programme cost weightings;
f) **Success Factor** - we will remove the achievement element of the success factor. Institutions regard this calculation as difficult to understand due to the difference between the success rate and the success factor, and hard to analyse from their own data due to the weighting of short qualifications;
g) **Short Course Modifier** - the number of enrolments on courses of short duration will decline as we move to full implementation of Raising the Participation Age. We will remove the short course modifier, which was originally introduced to recognise that there are fixed costs associated with courses of very short duration; and
h) **Residential Care Standards** - these apply to a small minority of institutions that need to meet the requirements for care for young people, such as some land based colleges. We will remove the calculation from the formula and will allocate a cash amount to be shown separately in the allocation, which will make it totally transparent. In line with the reforms for funding for high needs students, we are exploring whether this fund would be available to learning difficulties and disabilities (LDD) specialist institutions.

Next Steps

Over the coming months we will continue to work with institutions' representatives to refine how the changes will be implemented. It remains the intention to provide each institution with a calculation this autumn showing how their 2012/13 allocation (which will be unaffected) would have been different under the new approach (a "shadow allocation"). At the same time we will issue further details and hold a series of institution briefings. We anticipate that funding rates and uplifts will be published in the Education Funding Agency's (EFA) 16-19 Funding Statement with those for 2013/14 published by the end of 2012..

We welcome comments and questions on the funding formula review. These can be sent to:

fundingformulareview.efa@education.gsi.gov.uk

Funding full participation and study programmes for young people

1. Introduction and background

1. The scope of this document is for all EFA-funded provision for 16-19 year olds and students up to age 24 who have a Learning Disability Assessment or education, health and care plan. It does not cover Apprenticeships.[3]
2. Our ambition is for a simple, transparent and fair funding system for all 16 to 19 year olds and those up to age 24 if they have a Learning Difficulty Assessment[4], to support full participation. In October 2011 the DfE and YPLA[5] launched a consultation[6] on reform of the funding formula. This document announces the changes we now plan to implement from September 2012 for the 2013/14 academic year.
3. There are three key drivers for our reforms of the 16-19 funding formula:
   - ensuring there are no perverse incentives for institutions to pile up small qualifications and to put young people on courses that may be too easy for them, and that don't help them progress into employment or higher education;
   - providing fair funding to support full participation and the introduction of the requirements for a study programme for all institutions; and
   - providing a simple, efficient and transparent funding system.
4. We do not want good quality provision to be adversely affected by these changes. However, in order to deliver the changes needed to support full participation and the introduction of study programmes, there will need to be some movement of resources.
5. We therefore propose to make sufficient funding available to ensure that no provider loses any funding per student for at least three academic years (until and including 2015/16) due to the funding formula changes we are now going to make. This approach will:
   - allow us to implement the full package of reforms as planned from 2013/14;
   - support institutions to deliver innovative provision, including work experience to attract those students not currently participating, thereby supporting full participation of 16 and 17 year olds;
   - encourage institutions to start changing their offer by developing new and coherent programmes of study (including English and maths where appropriate) without fear of sudden and adverse financial consequences;

[3] The application of disadvantage funding and how this applies to 16-18 year old Apprentices is under review
[4] Or an education, health and care plan
[5] Young People's Learning Agency – which was succeeded by the Education Funding Agency on 1st April 2012
[6] 16-19 Funding Formula review consultation http://www.education.gov.uk/consultations/index.cfm?menu=3&title=Archive%20and%20results

- introduce simplicity for all institutions immediately rather than having a complex series of changes over a number of years; and
- facilitate data simplification on the same timescale as the review of the Individualised Learner Record (ILR).

6. These improvements in the funding system form part of the wider simplification and deregulation we are driving forward to enable institutions to respond to the needs of young people more effectively. The Education Act 2011 increases the freedoms and powers of colleges. We are reducing audit burdens on sixth form colleges and we have removed the detailed information requirements for lower cost additional learning support. With the Skills Funding Agency, we are simplifying the funding agreements and Joint Audit Code of Practice for colleges, and undertaking a fundamental review of the ILR with the Information Authority. We will continue to work with the sector and other partners to minimise administrative burdens and improve the consistency of information requirements across all institution types.

7. At Annex A we provide a summary of the current funding formula.

2. Principles for funding from 2013/14

8. From the academic year 2013/14, funding for young people aged 16-19 and up to 24 for students with a Learning Difficulty Assessment will be calculated based on the following principles:

   - All full time students will be funded at the same **basic funding rate per student, per year** regardless of which type of institution and what they study. This will fund a programme of study for all students;[7]
   - We expect the pattern of part time learning to change in line with the requirements for full participation. We will keep this area under review; initially part time students will be funded based on four bands depending on the number of teaching hours for which they enrol;
   - Success rates will no longer be used in the calculation of funding and will be monitored through the wider accountability system. A **retention factor** will reduce funding if the student is not retained until the end of the programme of study for the academic year;
   - This basic funding rate will be enhanced by a **programme cost weighting** to reflect the necessary additional costs of delivery for those courses that are proven to be more expensive to deliver, because of, for example, staffing and equipment needs;
   - **A single disadvantage and learning difficulty and/or disabilities allocation** will be calculated using two criteria:
     - the additional costs of engaging, recruiting and retaining ***economically disadvantaged young people*** will continue to be recognised on a sliding scale based on the Index of Multiple Deprivation (IMD);
     - the costs of ***additional learning support*** (ALS) including for young people with low level needs related to learning difficulty or disability will be allocated based on the number of students who have not yet achieved a GCSE grade C in maths and/or English;[8]
   - An **area cost allowance** will be funded for those areas where it is proven that the costs of delivery are higher than other areas on the same basis as it is now. For simplicity the uplift will apply to all the elements of the formula, including for the first time ALS;
   - The **current transitional protection** against the reduction in entitlement funding and achievement of fair funding will continue as previously published until and including 2014/15; and
   - In addition **Formula Protection Funding** will be paid for three academic years until and including 2015/16, where the move to a basic funding rate per student would otherwise result in a reduction in funding per student.

[7] This excludes Apprenticeships, but applies to all other EFA provision for students who are 16-19 years old and up to 24 years old for learners with learning difficulties and/or disabilities.
[8] The additional £100 million ALS funding currently paid outside the formula will be integrated into programme funding.

- A phased implementation of **conditions of funding** will begin to allow institutions time to change their provision to deliver English and maths to all students who have not gained a GCSE Grade C in these subjects.

9. Based upon these principles it is our intention to protect good quality provision.

3. The funding system in detail

A simple funding formula

10. In this section we describe how each of the elements of the new formula will be calculated and how the system will operate.

Programme funding

Student numbers

11. We will continue to calculate the number of students we fund through the lagged number approach. This approach is based on the number of students participating in the previous year, uprated to represent a full 12 months delivery where necessary.

12. Student numbers are based on data for:

    - school and academy sixth forms, taken directly from the autumn school census;
    - further education colleges and some other FE institutions, taken from the autumn ILR return and then uprated, where appropriate, to a full year figure by taking into account later starts from the previous year;
    - independent private institutions, taken from the February ILR return and calculated to include all students that have been in learning over the previous 12 months (1 February to 31 January); and
    - some other small FE institutions, where neither of the above approaches is appropriate, taken from the total number of students in learning for the previous full academic year.

13. Exceptions to the lagged approach will be rare but include, for example: infrastructure changes (new institutions/mergers/closures), where insufficient improvement is in hand and redistribution of provision, in the best interest of students, agreed by all parties in consultation with local authorities.[9]

14. We will apply the same eligibility criteria for students that we apply currently. Full details for student eligibility are included in the EFA funding guidance.[10]

15. Raising of the Participation Age (RPA) will mean that the majority of students aged 16 and 17 will be full time, with a reducing number of part time students.

Full time students

16. All full time students[11] will need to attend for a qualifying period to be eligible for funding each year. This will remain unchanged at six weeks attendance.[12]A student

[9] As set out in Statutory Guidance at www.ypla.gov.uk/LSCGOVUK/Templates/Standard.aspx?NRMODE=Published&NRNODEGUID=%7B8159DF26-E4B7-4F55-8F82-5EE7D687E352%7D&NRORIGINALURL=%2Fschools-and-local-authorities%2F16-19-statutory-guidance%2F&NRCACHEHINT=Guest

[10] www.education.gov.uk/childrenandyoungpeople/youngpeople/studentsupport/funding/b00203354/efa-funding

[11] Full time as set out in RPA guidance.

[12] EFA funding guidance. http://www.education.gov.uk/childrenandyoungpeople/youngpeople/studentsupport/funding/a00209794/fundingguidance2012to13

will qualify for only one full time programme per year with any one provider. Students who move between institutions during the year will be treated appropriately according to the amount of time spent in each one.

Part time students

17. As we progress towards full implementation of RPA, we expect the number of part time students to reduce. In order to simplify the funding for part time students we will no longer fund programmes below two weeks. As now, the qualifying period will be set at six weeks for programmes of more than 24 weeks and two weeks for all part time students whose programme is due to take less than 24 weeks.

18. Any student whose programme does not meet the full time criteria within the academic year will be treated as part time within that year. This includes students whose programme crosses two academic years but is not full time within either year.

Basic funding rate per student

19. We are introducing a single basic funding rate per full time student per year regardless of where and what they study. This will fund a programme of study for around 600 guided learning hours for all students as described in *Study programmes for 16-19 year olds: Government response to consultation*. Institutions will have the flexibility to offer non-qualifications based activity as part of their programmes, including work experience. The basic funding rate per student will be expressed in cash terms.

20. We presented a number of options for the size of full time programmes within the consultation document, including uplift for both academic and vocational large programmes, where these are necessary to meet the aspirations and needs of some young people. We need to review this in light of the reform of A levels[13] and to consider the labour market value of large vocational qualifications. We will continue to work on the option of a higher level of funding for large programmes from 2015/16. We will convene a group to include institutions that have an interest in this to help us take forward these reforms.

21. We intend to fund all part time students based on four bands, calculated from the planned guided learning hours for the year. We plan to link these bands to the requirements for full participation and to work with the sector to define these bands and agree the working arrangements. Full time students will not be eligible for part time funding at a different institution.

22. It is our intention that funding rates will be set annually and announced in the EFA's 16-19 Funding Statement each year.

Programme cost weightings

23. One of the principles recommended in the Wolf review is that funding should be related to content[14]. As an example of the variation needed by subject area, the review gives the example of engineering being paid at a higher rate than business administration.

24. The application of programme cost weightings in the current funding formula has general support from the sector but it has become overly complicated. The main

[13] www.ofqual.gov.uk/news-and-announcements/83/889
[14] Review of Vocational Education, op. cit., p.14.

causes of complexity are that weightings are set at qualification level, and that there are too many different weightings in use.

25. To reinforce simplification, without losing the principle that funding should reflect the cost of programmes that are more expensive to provide, we will apply weightings at programme rather than at qualification level and reduce the number of weightings to no more than five**.**

26. The programme cost weighting will be determined by the sector subject area classification of the biggest element of the student's programme[15].

27. We will continue to work with the sector throughout the summer to define and refine the rates for each of the programme weightings.

The retention factor

28. The current use of qualification success rates as an integral part of the funding formula may act as a perverse incentive. It can encourage institutions to place young people on programmes that are too easy in order to protect their success rates and thereby avoiding a reduction in funding in a subsequent year. The new arrangements from 2013/14 will provide funding on a per student basis and study programmes will often include non-qualification bearing and work experience elements. Applying success rates at student and at programme level would be complex and burdensome to institutions. We will therefore remove the achievement element, and keep a retention element, which will be applied at student level and not at qualification level. Each student that remains in learning to the planned end of their programme and is recorded as completed will attract full funding.

29. We know that typically students that leave before the end of their programme without achieving leave around the mid-point of their programme. Therefore those students that leave before the planned end date of their programme and are not recorded as having achieved will attract half the funding. If a student leaves early but has achieved, or is recorded as completing all learning, they will be treated as retained and will attract full funding.

Funding disadvantaged students and those with learning difficulties and disabilities (LDD)

30. We consulted on a number of proposals for introducing simpler and more transparent funds for disadvantage. We will introduce a completely new approach to disadvantage funding. We are introducing a single disadvantage element calculated on two blocks, detailed below. This element of the funding will include the provision of support for students with low level LDD. In addition we will include the first £6,000 of additional funding for high needs students as a separate block[16].

[15]We may introduce another factor to differentiate cost weighting on the basis of high cost specialist provision in some sector subject areas.

[16]http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/a00205567/school-funding-reform-and-arrangements-for-2013-14. An explanation of the high needs reforms and the way that they will be introduced for post-16 providers can be found in chapter 3 of *Next steps towards a fairer system*. Further detailed information can be found in Annex 5A (see in particular pp.62-64), with illustrative examples from the perspective of young people and providers in Annexes 5B and 5C respectively.

The single disadvantage fund

Block one - Economic deprivation funding

31. This was previously known as disadvantage uplift and paid through the provider factor. It will now be shown separately in the formula and provide additional funds to recognise the additional costs associated with engaging, recruiting and retaining young people from disadvantaged backgrounds. It will continue to be paid on a sliding scale depending on the extent or degree of deprivation, which will be based on the student's home postcode as it is now. Annex A has further information on deprivation funding. It will be calculated using the Index of Multiple Deprivation (IMD). We have considered moving to the alternative Income Deprivation Affecting Children Index (IDACI) but have decided against this on the basis that it would lead to unwelcome additional volatility between geographical areas and institutions.

32. We will allocate additional funding for only one specific group of young people, care leavers, thereby reducing the data collection burden on institutions.

Block two – Prior Attainment in English and maths

33. From 2013/14, we will be allocating funding for additional learner support (ALS) as a flat rate based on prior attainment in GCSE English and maths. There is a strong inverse correlation between attainment in maths and English at 16 and the support needed to achieve and progress post-16. A student with a GCSE grade C in only one of English or maths will attract a set allocation. Someone without both will attract double the amount, directly contributing to the additional support they need to reach their full potential. This amount will replace all previous forms of ALS, including the amount of ALS that has been paid to FE based on historical spend. This will significantly simplify the system and improve targeting of the funds. We had considered creating a separate funding block for ALS for students with low level needs arising from self-declaration of their LDD. We have decided against this on the basis that it would have complicated the system and required a separate basis for allocation that could have encouraged additional "labelling" of such students.

34. We will apply a minimum amount, which will be a flat rate per institution, for those institutions that would not be in receipt of either disadvantage or ALS funding, but who may have students with LDD with lower level additional needs.

35. The two blocks will be shown on the allocation statement individually but will be paid to the institution as a single budget on profile. Institutions will be expected to use the disadvantage funding to meet the additional costs of attracting and supporting economically disadvantaged students, including care leavers. They will also be expected to provide additional learning support to students, including those with lower level needs related to a learning difficulty or disability, to achieve their main learning goals.

36. The funds will not be ring fenced, so institutions will be free to determine how best to target and deploy disadvantage funding to support participation and achievement.

High needs students (those that have support needs in excess of £6,000)

37. From 2013/14, there will be new arrangements to fund education provision for students who have high needs. These arrangements will apply to high needs students in FE colleges, independent specialist providers (ISPs), or school sixth

forms, and will be broadly equivalent to pre-16 high needs funding arrangements. Our aim is to create funding arrangements that support the single approach to assessment and provision from birth to 25 set out in the Green Paper on Special Educational Needs and disability. These new arrangements were announced in March in *School funding reform: Next steps towards a fairer system*.[17]

38. Under these new high needs funding arrangements, students who require more than £6,000 of additional education support will be treated as high needs students. By 'additional education support', we mean the education provision that a student needs in order to access their course of study, over and above the core programme costs of their course. Our principle is that, where students have health and social care needs, the appropriate support should be provided by the appropriate agencies. Funding for high needs students will be treated in three parts:

- **Core education funding** – funding calculated in the line with the national post-16 funding formula described in section 2 and paid by the EFA;

- **Additional education support funding** – an allocation of £6,000 per high needs student, based on the number of high needs students in the last full academic year. This allocation will be treated separately from an institution's allocation for disadvantage and paid by the EFA; and

- **Top-up funding** – funding above the first two elements will be provided on a per-student basis by the local authority that has responsibility for the student. This will be based on the student's assessed needs, agreed between the commissioner and provider, and paid in or close to the real-time movement of the student.

39. As at present, there will be an opportunity for specialist institutions to request that their allocations are reviewed if their current number of students is significantly greater than their lagged numbers.

40. These arrangements will replace the current funding system, including the high-level ALS and Learners with LDD placement budgets. There will be a transfer of funds from EFA to local authorities in respect of the top-up funding. Under these new arrangements, providers will deal directly with commissioning local authorities when discussing provision, expected outcomes and funding for young people who require additional education support costing more than £6,000. Each local authority needs to plan how it will deliver this role effectively. Institutions that provide for high needs students need to prepare for this change in the funding system.

Area cost allowance

41. We will continue to provide an additional uplift to institutions in those areas in London and the South East where it is proven that the costs of delivery are higher than other areas, on the same basis as it is now. Details for the current methodology can be found in the EFA funding guidance[18]. For simplification from 2013/14, the area cost allowance will apply to all aspects of the participation formula, including ALS, but excluding additional education support funding for high needs students.

[17] http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/a00205567/school-funding-reform-and-arrangements-for-2013-14.
[18] www.education.gov.uk/childrenandyoungpeople/youngpeople/studentsupport/funding/b00203354/efa-funding

Protecting funding changes

Transitional protection for changes made in 2011/12

42. The current transitional protection (TP) for the reduction in entitlement funding and achievement of fair funding will continue to be reduced by 3% of funding per student per year or in 4 equal instalments, whichever is the greater until 2014/15. For clarity, this protection ceases in 2014/15 and none will be paid in 2015/16.

Protecting the change to funding per student

43. In the 16-19 Funding Formula Review Consultation we stated that transitional protection could be used to moderate the impact of the funding formula changes in order for institutions to manage and plan for the change to study programmes.

44. We consulted on different options and have determined that any losses in funding per student as a result of these funding formula changes will be protected for at least three years (2013/14, 2014/15, and 2015/16 academic years).

45. Protection will be calculated by comparing funding per student allocated for 2012/13 (including low level ALS and minus transitional protection from changes introduced in 2011/12) with funding per student calculated on the methods described in this document, including disadvantage funding, for 2013/14. Formula Protection Funding will be allocated for those institutions where this would result in a reduction in funding per student. Depending on affordability, we may also cap increases**.**

46. It should be noted that the Formula Protection Funding will protect against losses in funding per student caused by the changes set out in this document but it will not protect changes caused by other factors e.g. declines in retention rates, shifts in the mix and balance of provision away from programmes attracting a high programme weight and reductions in the numbers of students attracting ALS.

Phased implementation of Funding Conditions

47. We will introduce a condition of funding to ensure institutions act quickly to deliver English and maths to all students who have not gained a GCSE Grade C in these subjects. This means that where this condition is not met students will not be counted in funding calculations for the following year and in the case of private providers the student would not be funded in the current year. Implementation of this condition will be phased to give institutions time to upskill their workforce to deliver the requirement.

48. It is our intention to use 2012/13 data to provide the baseline year, and by 2016, subject to a successful application for a new ILR/Census field to collect prior attainment, we would remove any student where the conditions of funding are not met from allocations data for 2016/17.

4. Data

49. The Information Authority (IA) is carrying out a significant revision of the ILR for 2013/14. We are working with the IA to ensure that the new formula and overall system require the minimum number of data fields to operate. We will also try to ensure that any changes to the school census do not result in an increase in data burden for schools and academies with sixth forms. Details regarding proposed changes to the ILR can be found on the IA's website.

50. The simplification project carried out by the YPLA in 2011 identified that many colleges saw the collection and audit of actual guided learning hours for each individual qualification as a significant administrative burden. By moving to funding study programmes, this requirement will be removed.

51. It will still be necessary for institutions to record the components of programmes, and overall hours will determine the rate for part time programmes only. This will be clarified in funding guidance.

52. Initially, pending changes to data collection systems, the EFA will use existing data fields to derive the definitions it requires for funding.

5. Arrangements for shadow allocations

53. To prepare institutions for the shift to funding per student from 2013/14 we will share the detail of the revised formula in autumn 2012, indicating how formula funding is calculated using 2012/13 allocations data, and how formula protection funding is calculated.

6. Equality analysis

54. We published a baseline equality analysis in the consultation document. Further equality analysis is included at Annex B**.**

7. Next steps

55. The timetable below sets out the next steps and timetable for the proposed changes.

	Date
Publication of the results of the Government Consultation on 16-19 funding and study programmes and future arrangements	July
Ongoing refinement through consultation with institution associations including through the External Advisory Forum	June-September
Shadow allocation issued using indicative rates Shadow allocation user guidance issued	September/October 2012
Institution briefings	September/October 2012
Final funding rates	January 2013
Initial student number statement issued	January 2013
Final 2013/14 allocations issued Draft funding guidance issued	March 2013
Final funding guidance	June 2013
New simplified funding system implemented	August 2013
Raising of the participation age to 17	September 2013
Raising of the participation age to 18	September 2015

56. There are a number of issues that we will continue to explore with the sector:

- Student transfers between institutions;
- How to address recording of care leavers in the census and ILR;
- Distribution of bands for part time students; and
- Programme cost weighting

57. Comments and questions on the funding formula review can be sent to fundingformulareview.efa@education.gsi.gov.uk

Annex A: Current funding formula

The current post-16 funding formula

1. The current post-16 funding formula is as follows:

Funding	=	(SLN	x	National funding rate per SLN	x	Provider factor)	+	Additional learning support (ALS)

- Standard learner number (SLN): the measure of the volume of learning activity delivered. One SLN is equal to 450 guided learning hours, which is the current definition of a full time student.
- The national funding rate per SLN is the amount (in pounds) paid for each SLN.
- Provider factor: a factor that accounts for the relative cost of provision. It is calculated annually for all institutions, and is largely based on recent historical data.

2. The provider factor is calculated from the following elements.

Programme weighting	x	Area cost uplift	x	Success factor	x	Short programme modifier	x	Care standards uplift	x	Disadvantage uplift

- Programme weightings: uplifts that support higher cost provision such as agriculture/horticulture, construction, and engineering.
- Area cost: uplifts that reflect the higher costs of delivering provision in different parts of the country, particularly in London and the southeast.
- Success factor: a factor that represents retention and achievement rates. An average success rate is calculated for each institution, which takes into account the size of programmes that have been studied. The success factor is the mid-point between the success rate and 100 per cent. The calculation recognises that there is a basic cost of providing teaching and support to those students that do not achieve their qualification.
- Short programme modifier: a factor that provides an uplift to address the additional cost of recruiting students onto short programmes.
- Care standards/residential uplift: allows for the extra costs in relation to residential accommodation for 16 and 17 year olds in order to comply with the Care Standards Acts and subsequent legislation and regulation.
- Disadvantage uplift: calculated using the Index of Multiple Deprivation (2007) to allocate funding to institutions for students living in the 27 per cent most deprived lower super output areas (LSOAs) of the country and some other circumstances. Additional funding ranges from 8 to 32 per cent.

Programme weightings

3. Programme weightings recognise that some programmes are more costly to deliver than others. There are seven programme weighting factors in the 16-19 learner responsive model.

Table A1: Programme weighting factors

Weighting code	Weighting factor
A	1
B	1.12
C	1.3
D	1.6
E	1.72
F	1.4
G	1.92

Disadvantage uplift

4. Two elements of the EFA's current demand led funding formula address disadvantage. The first is the disadvantage uplift, which addresses general and economic disadvantage. It is linked to disadvantage based on where a student lives or their individual circumstances. The uplift is calculated on a sliding scale that increases the funding for qualifications by between 8 and 32 per cent, depending on the level of deprivation or the student's circumstances. For example, for a student on a programme of four A levels this would mean an uplift of between £350 and £1,390. In 2011/12, £320m was allocated for disadvantage uplift, and around 25 per cent of students aged 16 to19 received a disadvantage uplift.

5. Disadvantage funding is also available for students who fall into one of the following categories.

   - Basic skills students – it is expected that very few 16 to19 year olds will fall into this category, as they will not usually be doing a substantial programme of study based around adult basic skills qualifications. However, in the exceptional circumstances where they are doing so they are eligible for disadvantage uplift under this category:
   - Those living in hostels and residential centres;
   - Those with mental health problems;
   - Travellers;
   - Those whose statutory education has been interrupted;
   - Those in care or who have recently left care;
   - Asylum seekers eligible for EFA funding according to the Funding Regulations guidance;
   - Refugees;
   - Ex-offenders;
   - Offenders serving their sentence in the community;
   - Full time carers;
   - Those recovering from alcohol or drug dependency;
   - Students funded by the Single Regeneration Budget;
   - Students funded under the Offender Learning and Skills Service (OLASS) arrangements;

- People living in supported accommodation provided by a registered social landlord (RSL) or housing association (HA) registered with the Housing Corporation, or provided by another non-profit-making organisation in a building owned by an RSL or HA;
- People living in supported accommodation provided by a registered charity;
- People living in supported accommodation registered with the local authority or National Housing Federation.

6. The second disadvantage element of the current funding formula addresses specific educational disadvantage. ALS funding is allocated based on prior attainment (as measured by GCSE grades in English and maths) and historical spend on additional support. As well as supplementing funding to support achievement for those with poor literacy and/or numeracy, ALS is also used to support those with low level LDD, such as dyslexia, a degree of sensory impairment or moderate disabilities.

7. ALS is also allocated on a sliding scale with all full time students allocated some ALS funding. For example, in 2011/12 students with the lowest GCSE points score will attract £2,689 each, while those with the highest score only attract £38.[19]

8. In 2011/12, £355m was allocated for students who needed less than £5,500 of ALS. There is also ALS funding for those with higher cost LDD needs.[20]

[19] For FE colleges and all institutions other than schools, 40% of ALS is allocated based on historical spend.
[20] *Consultation on school funding reform*, op. cit., pp.30-33.

Annex B

Equality Analysis

Introduction

Following consultation, we propose to go ahead with significant changes to simplify the funding system of post-16 education, make it more transparent, and improve incentives for institutions to offer programmes which stretch young people and provide a solid basis for progression to work or higher education.

Analysis has been conducted as to the potential impact of changes to the funding methodology on students in 2010/11 (academic year) by their characteristics.

The initial stage of modelling for the new funding formula focussed on the macro level and individual institutions[21]. This has allowed the EFA to understand if the changes make sense and could work. At this point it is appropriate to produce an Equality Analysis, modelling the impact of the proposals on a recent cohort of students, with particular focus on key protected groups where possible.

To demonstrate due regard to decision making and our public duty we have included analysis of: gender, ethnicity, and age. Analysis of potential funding for students with learning difficulties and/or disabilities (LDD) is included, meeting The Equality Act 2011 requirement of analysis of disabled students[22]. We have considered the impact of the changes on the other protected characteristics (e.g. maternity, pregnancy and transgender) and consider these to be not applicable in this case.

This analysis reflects the potential effects of the move to a funding per student approach without the addition of the Formula Protection Funding (FPF). The FPF is to be applied at institution level, and it is not appropriate for a statistical analysis such as this to speculate on how this will be applied by institutions[23].

[21] "Institutions" refers to colleges, schools and independent training providers throughout this document, unless stated otherwise.

[22] Please note that data regarding an individuals' religion and sexual orientation are also required by The Equality Act 2011, however these data are not collected as part of the ILR or School Census and are therefore omitted from this analysis.

[23] This report also assumes that all additional disadvantage factors, such as homelessness and ex-offender status are retained, these additional factors have now been removed from the FPL approach to avoid specifying individual characteristics, and move to a disadvantage budget available to all students.

Summary of Equality Analysis

Women are more likely to achieve the qualifications they start than men[24], and the current funding arrangements reward this higher rate of achievement by allocating more money to those who achieve their qualifications. By contrast, Black and Minority Ethnic students, and students with disabilities or learning difficulties, are less likely to achieve their qualifications, and many students in these groups attract less funding than other groups.

Under current funding arrangements, 16 year olds, who make up 44% of the 16-18 cohort, attract 46% of the mainstream 16-18 budget.

If the 2010/11 cohort of 16-19 students were funded based on the funding per student approach instead of the current funding formula, we would see:

- a slight increase overall in funding of male students, better reflecting the balance of male and female students[25];
- an increase in funding of Black and Minority Ethnic students, which, when linked to disadvantage narrows a gap;
- a decrease in funding of White-British students of both genders; and
- a re-balancing of funding between 16 and 17 year old students better reflecting the age distribution of the cohort.

The evidence base & key facts

The source of information used to inform this analysis includes the Individual Learner Record (ILR) and School Census data as well as the Young Peoples' Matched Administrative Dataset and recent allocations data. The current and proposed funding methodologies have been applied to these data to produce the information presented here.

This report analyses the effects of changes to the distribution of a budget close to £5,290m funding the education and training of around 1,273,000 young people.

Gender

In 2010/11, 49% of all students aged 16-19 in scope for government funding were female, the same proportion of funding was generated by female students. Moving to a funding per student approach does not alter this balance significantly[26].

Under the proposed funding methodology funding generated by female students in the same cohort (2010/11 Academic Year) would decrease very slightly.

[24] In 2010/11 82.6% of FE qualifications started by women were achieved, compared to 81.8% for men. For black and ethnic minorities this rate was 80.1%, and for students with disabilities and learning difficulties it's 81.9% (BIS achievements SFR March 2012)
[25] 82.2% of women aged 16-18 participate in education/training, compared to 79.8% of men (source: DfE participation SFR June 2011)
[26] A gap of 6 100ths of one per cent has narrowed to 3 100ths of one per cent.

Overall funding generated by male students, based on the learning undertaken in 2010/11 would be 0.1% higher than under the current system.

If changes to the Programme Weighting Factor were not introduced, funding of male students would be around £10m (0.4%) lower than is anticipated under the proposed reforms. This element of reform has the single largest impact on funding when analysed by gender.

Ethnicity

In 2010/11,975,200 or 77% of students were from the White-British Ethnic Group, 280,100 or 22% of students are of Black and Minority Ethnic heritage (BME)[27].

Currently, White-British students generate 75.4% of funding, under the proposed reforms this will reduce very slightly to 75.0%. Funding for BME students will increase slightly, by 0.3 percentage points to 23.6%. That BME students generate funding in excess of their representation in the cohort is related to the higher levels of disadvantage seen amongst BME students, compared to White-British students.

Students from the White-British ethnic group in 2010/11 would have generated 0.4% or £16m less under the proposed reforms than through the current funding methodology. The single most significant cause of this shift is the proposal to replace the success factor with a retention factor[28].

Conversely students from BME backgrounds in 2010/11 would have generated 1.3% or just below £16m more funding under the proposed reforms. The replacement of the success factor with a retention factor accounts for two thirds of this shift[29].

Further analysis shows that the impact of replacing the success factor with a retention factor applies in a similar way to both males and females within both BME and White-British groups.

Age

There were a total of 1,272,500 students in scope for funding in 2010/11. 44% were aged 16 (558,200), 39% were aged 17 (496,400). Approximately 193,000 were 18 years old (15%), with another 23,800 pre-16 and 1,200 above the age of 19. This context is useful when assessing percentage-based impact on funding for each of these age groups.

The proposed reforms re-balance the funding generated across the different age cohorts and bring it into closer alignment with the age distribution of the students. The change to funding on a per student basis is the most significant driver in achieving this impact. Currently 16 year olds generate a larger proportion of funding than their share of the total cohort, respectively 46% and 44%. The proposed reforms reduce the proportion of funding generated by 16 year olds to 45% which is closer to their representation in the student cohort.

Currently 17 year olds generate 39% of total funding and make up the same proportion of the student cohort. The proposed reforms would increase funding generated slightly to just below 40%.

[27] 1% of students have no information recorded regarding their ethnicity

[28] 'Success' is a measure of how many qualifications that students start which they go on to achieve. 'Retention' simply measures the proportion of learners who do not withdraw from their programme during the year

[29] Please note that changes associated with the Success Factor are modelled at institution level, then applied to individual students, these figures are therefore an estimate

18 year olds, and those aged 19+ would also generate increases in funding, of 1% and 4% respectively.

Disabled Learners and Learners with Learning Difficulties (LDD)

Students with LDD represent 15.7% of the total in-learning cohort, or around 200,000 young people. There is no information about LDD for a further 1.6% of those in learning (25,000 students); the remaining cohort is considered to be students with no LDD.

The changes to funding per learner are expected to increase the funding for LDD learners by around 0.6%. A significant part of this increase is related to the proposed changes to how Additional Learning Support (ALS) is funded, with more funds being allocated to those with lower prior attainment in maths and English at GCSE, which is more concentrated amongst those with learning difficulties and / or disabilities.

Currently, students with LDD receive a similar proportion of funding to their representation in the cohort, this will increase slightly under the new proposals.

Geography

The proposed reforms do not result in any significant shifts in funding between the English regions with the exception of London which sees an increase of 2.2% (£20m). The move to funding on a per student basis is the most significant driver of this shift, accounting for 1.5 percentage points of the overall increase. This increase does not make a significant change to the total proportion of national funding that London receives, rising slightly to 16.4% of the national total (+0.3 percentage points).

The South West and the West Midlands also see a very slight increase in funding between the current approach and proposed reforms with all other regions seeing a very slight reduction.

Engagement and Involvement

To help inform changes to the funding formula, gaining feedback from the sector has been vital. Through a rigorous consultation process, held from October 2011 to January 2012, individual institutions and representative bodies were engaged and their views and comments taken into account. In addition to written feedback, events were held in partnership with member organisations to provide further opportunity to contribute.

Challenges and Opportunities

The new proposals have the opportunity to reduce inequality, through the move to funding on a per learner basis. The changes will also encourage retention and progression amongst those students who have been historically harder to engage and sustain in learning. We anticipate greater levels of participation and achievement for this group.

Equality Analysis

Based on the evidence here, an adverse impact on any particular group of students is unlikely. On the contrary, there is potential to reduce barriers and inequalities that currently exist; in particular around the balance of student funding compared to the make-up of the cohort (eg: by age or gender).

Next steps

A review should be undertaken in two years' time to measure the impact of the funding formula changes. The participation and achievement of learners will be monitored to assess the impact of this policy.

Any enquiries regarding this publication should be sent to us at Department for Education, Castle View House, East Lane, Runcorn, Cheshire, WA7 2GJ.

This document is also available from our website at http://www.education.gov.uk/