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Evaluation of the '*New Challenges,
New Chances*' Further Education and
Skills reform plan

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RESEARCH

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Executive summary

Introduction

This report presents the findings from an assessment of the early impact of key aspects of the *New Challenges, New Chances Further Education and Skills System Reform Plan: Building a World Class System*¹, which was published in December 2011. The aspects of the reform programme in scope of the evaluation were:

- **The freedom and flexibilities** provided to colleges and private providers, removing top down central controls to enable the sector to be more responsive to learners, employers and communities;
- **Funding policy changes**, including the introduction of the simplified funding rates, the simplified funding matrix and minimum contract levels;
- **Outward accountability**, including the expectation that employers and learners contribute to the co-design of providers' skills offer, and receive clear information from providers that are accountable to their community;
- **The simplification of administration and reduction in burden** that have arisen from the actions of the single Cross-Government FE and Skills Simplification Plan;
- **Competition in Further Education (FE)**, with the aim of examining the extent and nature of competition within the FE sector, as well as the impact of competition;
- **Teaching and Learning**, including actions to raise standards and the change in the role of Governors in monitoring teaching and teaching;
- **Community learning**, specifically the recommendations in the reform plan to increase the income generated from those that can afford to pay and the targeting of public funding on those that need it most; and
- **Creating a diverse and responsive sector**, through giving providers greater opportunity to develop new delivery models and supporting the sector to take advantage of opportunities in the global market.

The evaluation assessed the extent to which the reform programme influenced the behaviour of providers and changed the way that they work with Government and its agencies. In addition, the evaluation examined the impact of the reforms on increasing employer and learner investment in skills, and creating a responsive and high-quality FE sector.

¹Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32313/11-1380-further-education-skills-system-reform-plan.pdf

A reference document on competition issues (Competition issues in the Further Education sector) for providers has also been produced as part of this project.

Approach and method

The evaluation drew on qualitative and quantitative research with FE providers² including:

- Qualitative telephone interviews with a sample of 72 FE providers;
- A quantitative telephone survey of 481 FE providers (51% of the total number of eligible FE providers);
- Five 'competition' case studies, where face-to-face and telephone interviews were conducted with a range of local providers and stakeholders in a selection of geographical areas; and
- Six 'simplification and reducing burden' case studies, where face-to-face and telephone interviews were conducted with senior and operational staff responsible for information management in a range of providers and geographical areas.

Findings from the research

Freedom and flexibilities

There was strong support in the sector for the overall aims and objectives of the reforms. As one large FE college stated, the *"mixture of autonomy and simplification of the FE system can make it easier to respond to local communities"*. This view was fairly consistent across all types of FE providers. Support has increased in the last year, driven by providers noting the reforms' influence on reporting requirements and how performance is monitored by public agencies.

There were, however, a small proportion of FE providers that were not yet convinced that the reforms will have a sustained impact on the sector. These providers were concerned that the underlying principles of the reforms (providing greater freedom and flexibility and reducing bureaucracy) were not always being adhered to by other sector stakeholders such as Ofsted and EFA. Some also noted that the funding policy restricted the extent to which providers could offer more flexible provision to employers (for example, by offering Qualifications and Credit Framework units) which they believed went against the aims of the reforms.

² FE providers include General Further Education Colleges (GFES), Tertiary Colleges, Specialist colleges, Sixth Form Colleges, private providers, local authorities and third sector providers that receive funding from BIS

There is evidence of the **reforms gaining significant traction in the sector**. More than four out of five FE providers (83%) felt that the reform programme had affected their organisation's business strategy and planning to some extent. This demonstrates a major shift from the position in 2011 when the majority of providers were "*waiting to see*" how the reforms were implemented before developing a strategic response.

The most widespread impact of the reforms has been on how providers identify new business opportunities and plan provision (73% of all surveyed organisations cited this). Providers reported increasing flexibility in approaches to planning and delivering provision during the academic year. This was driven by the scope available to adapt the plan of activity agreed with the Skills Funding Agency at the start of the year.

The reforms were also found to have a significant effect on the way that providers deliver training. **Many providers had implemented, or were planning to implement, new delivery models as a result of the reforms**. Nearly two-thirds (65%) of providers had reviewed their business structures and 61% reported that they had made, or planned to make, changes as a result. There were a few examples of providers setting up new enterprises and consortia to develop their commercial offer and take on high-risk ventures. For example, some providers have taken over small, specialist private providers.

Funding policy changes

There was generally support for the funding policy changes and particularly the introduction of the single Adult Skills Budget (ASB). Seven out of ten providers felt the ASB enabled their organisation to be '*a lot*' (35%) or '*a little*' (35%) more flexible. For some providers **the new funding system, and the opportunity to move funding more easily between the funding pots, was the most significant early benefit of the reforms**. Many senior managers believed that this flexibility meant that they were now able to respond more quickly to demand. Several gave examples of employers or partners requesting training which they then set up much more quickly than in the past.

The change to entitlements and greater freedom in the use of funding has also enabled providers to develop a more flexible employability offer. The demand for employability provision was felt to fluctuate during the year and needed to be tailored to the requirements of particular learners. The introduction of ASB means that providers can more easily expand their offer if demand increases, and the change in entitlements has enabled providers to offer shorter, more tailored courses.

Around one half of providers (47%) only believed that simplified funding rates would benefit their organisation, although smaller providers were more positive in this regard. The main anticipated benefits were reduced internal bureaucracy and greater clarity in the funding process.

The introduction of minimum contract levels had also led to an increase in sub-contracting in the sector, with around one half (47%) of providers reporting new sub-contracting relationships. In many instances, this was because sub-contracting was seen as providing an opportunity for providers to expand their offer by utilising the expertise, efficiency and reputation of existing providers. However, sub-contracting did bring risks particularly in maintaining high-quality standards across a range of delivery partners. This led to initial

difficulties for some providers but most developed more effective systems for quality assurance in sub-contracting over time.

Outward accountability

There is a cognisance among nearly all providers of the need to support their local communities and that this is the central part of their mission. In particular, most providers believed that they had a responsibility to support the local skills priorities of Local Enterprise Partnerships (LEPs) and local authorities. It is notable that in many areas LEPs have played a key role in developing an infrastructure which allows providers to meet regularly with other providers and local stakeholders. This creates a forum where local partners can plan local activity and providers can share information enabling partners to scrutinise and challenge college plans.

However, there is a sense that **the reform programme has led to a change in the relationship between providers and local partners.** The new flexibilities have enabled providers to respond more quickly to community needs and it is clear that this is leading to a more responsive relationship with other partners, as well as greater complementarity of services. This is, in part, due to the reduced public subsidy for certain courses. This leads providers to try to identify new income sources by working with other organisations that can refer or commission services. Providers are also looking to draw income from courses that can be fully-funded by the state, which is why many providers are developing strong relationships with Jobcentre Plus.

The reforms have not yet led to a significant change in the information provided to learners and employers. This perhaps reflects the lack of clarity among providers on what is expected in terms of outward accountability. The reforms state an expectation that providers are accountable to employers and learners; most colleges argue that this is best done through working with intermediary organisations and their Governors who are better able to articulate the skills needs of the local community. Many providers also believed that they have always been accountable to learners and employers; they understand that they need good learner feedback and success rates in order to attract new learners. As a result, many providers see no need to change their approach.

Simplification and reduced burden

In terms of simplification, a few notable changes have taken place as a result of the reforms but not all of these have led to actual reductions in provider administrative costs. Senior managers have not reported a reduction in the administrative burden on providers. Over half of the senior managers who responded to the survey felt that the administrative burden was no different in 2012/12 than in 2011/12.

Staff working at an operational level were more likely to notice changes that brought savings in administrative time. The most significant savings came from the introduction of new Apprenticeship Declaration and Authorisation Form and the improved ULN matching of learners after enrolment. The new Apprenticeship Declaration and Authorisation form would bring an annual saving of around £850,000 (if scaled up to 250,000 learners a year), and the improved Unique Learner Number (ULN) matching of learners could lead to a saving of £1.8 million.

Providers were cautious about making changes to administration, particularly where they felt decisions might be reversed in the future. There were also concerns around the removal of certain information requests where these may still be required by other Government agencies. Furthermore, some administrative processes have been retained because they are perceived to provide a business benefit. For example, all of the case study providers submitted data returns at more frequent intervals than the minimum requirements set out by the Skills Funding Agency and Education Funding Agency (EFA). Most submit monthly or fortnightly returns as it enables funding to be drawn down quickly and makes it easier to monitor performance.

It is anticipated that savings will grow and become more significant as the Simplification Plan is fully implemented in 2015. Reductions in internal and external audit/compliance checks will arrive in 2013/14 (local direction of internal audit and funding rule changes feeding through to audit requirements) and the common use of the ULN across all educational settings will come in 2013/14 and 2014/15.

Teaching and learning

All the providers that participated in the qualitative interviews stated that teaching and learning was a central part of their future strategies and plans. Most reported undertaking activity to improve the quality of teaching and learning in their institution. In the survey **nearly all providers (90%) had made changes in the last year to improve their teaching and learning.**

The most common driver for these changes was to respond to an internally-identified need for improvement (stated by 62% of providers). This highlights a fairly widespread and systematic approach to internal quality improvement. This is in line with what might be expected from a set of reforms that increase provider autonomy and create expectations (for example, through the role of governors) for strengthened strategic planning.

The FE reform plan was not generally reported by providers as having a direct influence on their approach to improving teaching and learning. Providers in the main associate the reforms with moves to increase freedom and flexibility and to simplify the FE system rather than with the quality improvement agenda. However, there was evidence that the reforms have, or are, creating conditions that encourage providers to address their own teaching and learning priorities. In particular, the introduction of 24+ Advanced Learning Loans and the increase in sub-contracting has influenced providers to improve quality and learning to help them compete with other providers.

Community learning

Nearly all community learning providers supported the overall objectives of the reforms and had plans to increase the income they receive from learner fees. For many, the reform programme did not signify a change in approach but rather a continuation of plans that had been in place for over four years, driven by Skills Funding Agency/LSC funding statements. As a result, many providers had relatively mature strategies in place.

Most providers sought to increase fees by introducing incremental increases in the cost of classes. A few providers were innovative and introduced new subject lines and new partner provision to expand their offer. Most did this by accessing new funding streams, such as European Social Fund (ESF). Many of these providers were participating in the

community learning trust pilots, potentially giving an important signal of the future benefits from this delivery model. In particular, it appears to be changing the way in which stakeholders are engaged in planning – leading to more 'active' relationships.

Competition

Providers believed that the reforms had a considerable effect on competition in the sector. Nearly two-thirds (63%) of providers indicated that they felt the reforms had increased competition in the sector and around a quarter (22%) believed it had increased competition to a large extent. The perceived impact of the reforms on competition was greater among providers that had a significant number of competitors.

The expectation that providers should, in future, receive a greater cost contribution from learners and employers was also widely acknowledged as requiring providers to be more 'commercially minded'. For some providers this will be a significant shift in approach - they see themselves as public service providers rather than operating in an open market. It will therefore take time for some providers to take advantage of new market opportunities.

From the case studies, there is a clear sense that providers understand their 'unique selling points' and have a clear strategy for marketing themselves to employers and learners. Some do this through promoting quality standards, such as success rates or Ofsted inspection results. Others promote the facilities and resources that they provide to learners or the sector expertise of their staff. The cost of training was also seen as an important factor that influenced learner choice, particularly for co-financed provision, and many providers monitored the fees charged by their competitors.

There are examples of competition keeping the cost of co-financed training low. There was evidence in the case studies and qualitative interviews of providers stating that they received less in fees from employers than they were expected to charge. This provides benefits to employers but in the long-term there is a need for employers to actively contribute – and the continued assumption that training should be free is a barrier to that.

Most providers, and particularly colleges, work closely together to develop a complementary local offer. The level of collaboration that takes place in the sector provides benefits in ensuring that there is a joined-up local offer which enables providers to deliver training that meets the needs of their local community. However, **there was a lack of clarity among providers on what could be considered a reasonable level of collaboration**. Some believe that competition prevents collaboration and others are not clear about where collaboration may not be appropriate, for example when discussing pricing strategies. There is a risk that this may lead some providers to overstep the mark when collaborating, particularly as they look to expand or maintain their market share at a time of tightening FE budgets.

The impact on provision

The reform programme has had a significant impact on the type of provision offered by providers. Over three-quarters of providers (76%) reported that the reforms had had some effect on the type of provision which they offered. In around half of providers the reforms have also led to an increase in flexible provision. The amount of part-time learning had increased in 53% of providers, and in 52% the amount of short courses that providers deliver has also increased. Almost half (49%) had increased the amount of courses they deliver with flexible start dates.

The most significant change has been that providers have increased the provision that they offer to meet the economic³ needs of their locality (stated by 66% of providers whose provision had been influenced by the reforms). Around half of the providers that changed their offer as a result of the reforms have increased the amount of flexible provision that they offer.

The impact of the reforms on provision should be viewed in the context of the provider funding base. This base remains highly dependent on public funding and has had to manage substantial reductions in this funding during the implementation of these reforms. To some extent, the flexibilities contained in the reform plan have enabled providers to better manage this process. Where possible, providers have attempted to generate efficiency savings that do not impact on the breadth and quality of the provision they offer. It was only when they were not able to make the necessary savings through this approach that they then considered making reductions to teaching staff and their curriculum offer.

There has been little change in the income generated from employers and learners. Just over half (53%) of providers stated that the income they received from employers has remained the same this academic year. Many providers noted that the recession was having a negative impact on employer contributions. This not only meant that fewer employers were undertaking training but also that employers were generally felt to be more likely to negotiate lower prices. This picture is largely the same with learners, with just over half (52%) of the survey respondents reporting no changes in the level of income from learner fees in the last year.

Few providers had developed clear plans to increase employer and learner investment in training. Many providers stated that this was due to uncertainty in the FE landscape and, particularly, the lack of clarity in how the 24+ Advanced Learning Loans will affect demand. A widely-voiced uncertainty was that *“we don't yet know what courses people are willing to take a loan out for”*. Once this becomes clear most providers believe they will be better able to identify fee income areas of potential growth and develop a clear growth strategy.

Conclusions and recommendations

In conclusion, there is strong sector support for the ambitions of the reforms and providers have increasingly mobilised to engage with, and respond to, the reforms. The programme is also beginning to have an impact on the sector. It is enabling providers to develop a more flexible local offer and encouraging providers to develop a more responsive relationship with local partners.

However, providers are still at a relatively early stage in responding to the reforms and therefore there has not yet been a significant shift in the share of fees generated from employers and learners. There also remain some pockets of scepticism about whether the Government will follow through on the ambitions of the reforms and a lack of clarity on Government expectations in some areas.

³ Economic needs refers to work related training that helps individual enter employment or supports local employers to overcome skills gaps and shortages

The recommendations identified from the study are:

1. There is a need for more joint working between Government agencies to develop policies that are in line with the objectives of the FE reform programme. This will ensure continuity and consistency of message. Specifically, all Government agencies should ensure that:

- Appropriate freedom is given on how funding is used;
- Funding rates and entitlements are consistent for both pre and post 19 provision;
- Evidence requirements for providers to access flexible funding (through initiatives such as the Innovation Code) are streamlined;
- Similar audit systems are employed for young people and adult funding streams;
- The information and reporting requirements applied by all agencies are not burdensome and do not undermine the benefits of simplification.

2. Provide greater clarity to providers and local stakeholders about the expectations for local accountability. In particular, the role that providers should be playing to communicate effectively with local stakeholders and for local stakeholders to be aware of the expectations on them to support local provider planning.

3. Strengthen the roles of LEPs and other local groups to ensure diversity of provision. LEPs can play an integral role in ensuring that Government investment in skills meets the priorities of the local economy and enables the community to take advantage of growth and job opportunities. There is an increasingly important role for LEPs in clearly articulating priorities and in working closely with colleges and private providers to agree a response.

4. The sector should use existing examples of joint working to develop and promote good practice in partnership working, sub-contracting and collaborative working models. There are numerous examples of good practice approaches employed by providers to sub-contract in an open and transparent way, and work collaboratively with other local providers. The sector should ensure that this good practice is shared in order to promote effective collaboration and to ensure that high-quality partnership working between providers is the norm.

5. Undertake further communication with providers about the requirements that have been removed in relation to reporting, monitoring and audit. Many providers continue to collect information on the understanding that it is required by Government agencies. At this stage in the implementation of the Simplification Plan, providers would benefit from greater clarity on the information that is and is not required.

6. BIS to monitor the impact of cross-subsidisation in the co-funded market on longer-term employer engagement and skills investment. It is clear that many providers have the opportunity to subsidise co-financed provision so that they can offer training at a low cost to employers. This provides benefits to employers, but, in the long

term, there is a need for employers to actively contribute – and the continued assumption that training should be free is a barrier to that.

1. Background and introduction

Introduction

- 1.1 The report assesses the early impact of key aspects of the '*New Challenges, New Chances Further Education and Skills System Reform Plan: Building a World Class System*'⁴ which was published on the 1 December 2011⁵. The evaluation was conducted by ICF GHK and TNS BMRB. It draws on quantitative and qualitative fieldwork with FE providers and stakeholders from November 2012 to May 2013.

The FE reform programme

- 1.2 The Skills Strategy: Skills for Sustainable Growth (BIS, 2010)⁶ aimed to change the balance between state and private sector investment in skills. Employers and learners that directly benefit from skills investment are expected to make a greater contribution to the cost of the training, with public investment focused on supporting those that face disadvantage in the labour market entering and remaining in employment.
- 1.3 In order to support this culture shift, the government published its reform strategy for the FE and skills system ('New Challenges, New Chances') to help the sector respond to employer and learner demand. It removes various restrictions and controls, setting out a new relationship between government and FE. The aim of the reforms is to develop a more responsive skills system underpinned by sufficient freedoms and flexibilities to enable providers to meet the needs of customers. The key principles of the reform programme are described below:

Key elements of the reform programme for the FE system⁷

- **Students at the heart of the FE and skills system:** we will empower learners from basic skills through to higher level skills to shape the system using information to inform their choices; government funding focused on supporting students where it can have most impact, including the introduction of FE loans.
- **First-class advice delivered by the National Careers Service:** to be launched in April 2012, this will provide information, advice and guidance both to inform and to stimulate demand for further education, work-based training and higher education. Lifelong Learning Accounts will provide learners with the information they need to make

⁴ Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32313/11-1380-further-education-skills-system-reform-plan.pdf

⁵ Note that the Wolf Reforms on funding for 16-19 year olds and the curriculum offer were out of scope for this evaluation.

⁶ Skills for Sustainable Growth, BIS, 2010. Available at: <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/s/10-1274-skills-for-sustainable-growth-strategy.pdf>

⁷ New Challenges New Chances Further Education and Skills Reform Plan: Building a World Class System, p3

Key elements of the reform programme for the FE system⁷

the most of their learning opportunities.

- **A ladder of opportunity of comprehensive Vocational Education and Training programmes:** from community learning and basic skills through to high-quality Apprenticeships to clear and flexible progression routes to Higher Vocational Education. The system will fuel individual achievement, power the common good and drive upward economic performance.
- **Excellence in Teaching and Learning:** we will take a number of actions to develop and promote excellent teaching, including establishing an independent commission on adult education and vocational pedagogy to develop a sector owned strategy and delivery programme. We will also facilitate an independent review of professionalism in the FE and skills workforce.
- **Relevant and focused learning programmes and qualifications:** we are taking action to ensure that qualifications are high quality and easy to understand, by improving awareness of the Qualifications and Credit Framework, consulting employers on their engagement in qualification development and consulting on the role of National Occupational Standards.
- **Strategic Governance for a dynamic FE sector:** our removal of restrictions and controls on college corporations paves the way for new roles for governors working closely with other educational providers in post-14 learning, and local stakeholders such as Local Authorities and Local Enterprise Partnerships (LEPs) to take the lead in developing delivery models to meet the needs of their communities.
- **Freedoms and Flexibilities:** we are continuing our programme to free the FE system from central control building upon the successes already achieved, including further work by the Skills Funding Agency to remove bureaucratic burdens.
- **Funding priorities through a simplified funding system:** to create a simple transparent funding system that is both robust in ensuring funding goes only to high quality provision that delivers good value for money, while being innovative to respond to local circumstances.
- **Empowered students making informed choices:** in the place of Government-based quality assurance systems we will empower students by providing better access to quality information. At the same time, we will take swift action in relation to failing provision, providing intensive support and, if necessary, intervening to ensure that alternative and innovative delivery approaches are secured for the future.
- **Global FE:** building on the growing international demand for technician and higher level vocational skills, and the legacy of our achievement at World Skills 2011, we will continue to support the sector to take advantage of opportunities in the global market.

- 1.4 The reforms build on earlier and parallel sector developments. For example, the ability to offer relevant and focused learning programmes is supported by the development of the Qualifications and Curriculum Framework (QCF), which enables qualifications to be delivered more flexibly. Empowering learners through improved information includes the provision of common, consistent performance information about courses and providers via the FE Choices website. Technology-led developments such as the introduction of the Unique Learner Number (ULN) further support the ability of individuals to plan learning and streamline the funding and administration of learning provision. The wider localism agenda, including the introduction of Local Enterprise Partnerships (LEPs - responsible for local economic development) provides a new paradigm for providers to engage with stakeholders and align delivery with strategic local priorities. The recent Rigour and Responsiveness in Skills⁸ policy statement also makes a commitment to strengthen the role of employers in setting apprenticeship standards, creating a new entry route to employment (traineeships) and raising the quality of training provision and responsiveness of skills providers.
- 1.5 There is further activity in the context of the skills strategy that directly impact on the market for FE provision in England. For example, the Employer Ownership of Skills pilot launched in 2011 provides direct investment to employers to develop and deliver provision. In this case, many more employers are working closely with providers and, as such, it provides a test of providers' ability to respond to tangible employer demand and an opportunity for providers to leverage additional resource via employers.
- 1.6 There are also developments in related policy areas that impact on the FE market for provision:
- Welfare reform, including the introduction of the Work Programme and its notion of skills conditionality provides new opportunities for providers to support employment outcomes.
 - There has been a long-term trend of increasing Higher Education (HE) provision in FE settings. Changes to the HE market through, for example, the introduction of tuition fees therefore impact on aspects of the potential provider offer (especially in the context of an FE system reform programme intended to provide much greater freedom to providers with regard to their operational and delivery models). However, BIS has commissioned research in partnership with the Association of Colleges (AoC) to develop an improved understanding of college-based HE to:
 - Tease out the policy implications of the decline in part time recruitment to HE in FE courses;
 - Identify factors that could help colleges to achieve both their own ambitions and to fulfil the BIS objective of raising the profile of HE; and

⁸Rigour and Responsiveness in Skills, BIS, April 2013. It is available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/186830/13-960-rigour-and-responsiveness-in-skills-amended.pdf

- Specify what more BIS - and colleges themselves - could be doing to achieve this and help fulfil Government's ambitions to open up the HE market to alternative providers.

1.7 In many cases providers deliver a range of these programmes and therefore have to respond to a different policy drivers.

Aims and objectives of the survey

1.8 The aim of the study was to assess the impact of key aspects of the FE reform programme, in order to identify:

- The extent to which providers perceive that the reforms have led to a change in the way they work with Government, government agencies and local stakeholders;
- The influence of the reform programme on creating a behaviour change in the way in which providers: conduct local leadership, increase enterprise and responsiveness, provide outward accountability to communities, and capitalise on new freedom and flexibilities; and
- The impact of the reform programme on meeting the overall objectives to increase employer and learner investment in skills and create a more responsive and high quality FE sector.

1.9 This evaluation covers the following aspects of the FE reform programme:

- **The freedom and flexibilities** provided to colleges and private providers, removing top down central controls to enable the sector to be more responsive to learners, employers and communities;
- **Funding policy changes**, including the introduction of the simplified funding rates, the simplified funding matrix and the introduction of minimum contract levels;
- **Outward accountability**, including the expectation that employers and learners contribute to the co-design of providers' skills offer, and providers give clear information and are accountable to their community;
- **The simplification of administration and reduction in burden** that have arisen from the actions of the single Cross-Government FE and Skills Simplification Plan (hereafter the Simplification Plan)⁹. The study also examines effective ways in which these savings can be measures in the future;

⁹The Public Accounts Committee (PAC) looked at the work being done to remove bureaucracy in the FE sector. A single Further Education and Skills Simplification Plan has been created in response to PAC's recommendation which called on BIS to bring together the drive to reduce bureaucracy across the whole FE sector. The Simplification plan is available at: <http://www.bis.gov.uk/assets/BISCore/further-education-skills/docs/F/further-education-and-skills-simplification-plan.pdf>

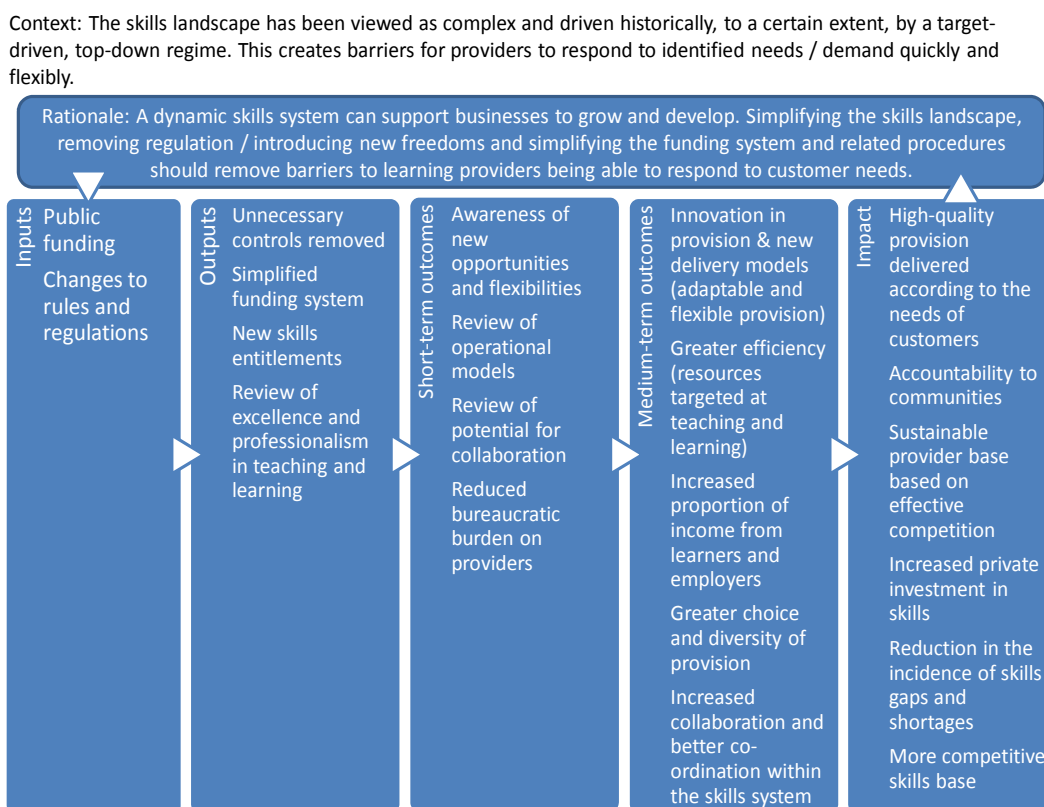
- **Competition in FE**, with the aim of supporting FE corporations by producing a more detailed analysis of the issues they need to consider in relation to competition. This element is also designed to provide an increased understanding of the *extent and nature* of competition within the FE sector and how this varies geographically. It also examines the impact of competition, including whether the theoretical benefits are already being realised and how such benefits could be enhanced;
- **Teaching and Learning**, including the change in the role of Governors in monitoring teaching and teaching; and
- **Community learning**, specifically the recommendations in the reform plan to increase the income generated from those that can afford to pay and the targeting of public funding to those that need it most.

1.10 The introduction of 24+ Advanced Learning Loans and the National Careers Service were not in scope for this evaluation, as these aspects of the reforms are being reviewed separately.

Programme logic model

1.11 Figure 1 below sets out the theory of change underpinning the FE reform programme and the range of outcomes and impacts that might be anticipated. The analytical framework is included in Annex 1.

Figure 1: Evaluation logic model



Methodology

1.12 The evaluation drew on qualitative and quantitative research with FE providers¹⁰, including:

- Qualitative telephone interviews with a sample of 72 FE providers;
- A quantitative telephone survey of 481 FE providers (51% of the total number of eligible FE providers);
- Five competition case studies, where face-to-face and telephone interviews were conducted with a range of local providers and stakeholders in a selection of geographical areas; and
- Six simplification and reducing burden case studies, where face-to-face and telephone interviews were conducted with senior and operational staff responsible for information management in a particular provider.

1.13 Further information on these research tasks are included below.

Qualitative interviews

1.14 Semi-structured telephone interviews were conducted with a selection of FE providers. The interviews were largely undertaken between November 2012 and January 2013. The purpose of the qualitative interviews was to explore FE provider responses to the reforms, their perceptions of the impact so far, and how the reforms had influenced their business planning and training offer. The findings from the qualitative interviews also informed the design of the questionnaire for the quantitative survey. The interviews were conducted with key decision makers in the provider, most commonly the Principal or Chief Executive.

1.15 The 72 providers that participated in the qualitative interviews included:

- 42 FE colleges;
- 20 private training providers;
- 2 employers that primarily deliver public funded training to their own staff; and
- 8 local authorities.

1.16 In total, 31 of the 72 providers interviewed delivered community learning.

¹⁰ FE providers include General Further Education Colleges (GFEs), Tertiary Colleges, Specialist colleges, Sixth Form Colleges, private providers, local authorities and third sector providers that receive funding from the Skills Funding Agency.

Quantitative surveys

- 1.17 The survey represented an attempted census of all FE providers within the scope of this study. Telephone interviews were conducted with 481 FE providers. The interviews were carried out by TNS BMRB between January and March 2013 (a total of eight weeks). Interviews lasted an average of 24 minutes and were carried out with a senior manager who had overall responsibility for 19+ training provision within the organisation. In FE colleges this was typically the Principal.
- 1.18 The survey was initially piloted with a 15 providers before it was fully launched. The questionnaire consisted mainly of closed questions where respondents were asked to select a response from a list of pre-coded responses. A smaller number of open-ended questions were included, allowing respondents to provide verbatim responses.
- 1.19 A full breakdown of the interviewed sample as well as the population it represents is provided in Table 1 below.

Table 1: Profile of final interviewed sample

Organisation type (detailed)	In scope population (961)		Interviewed sample (481)	
	n	%	n	%
All colleges and HE				
General FE College including Tertiary College	216	22.5	125	25.8
Sixth Form College	59	6.1	20	4.2
Special College	9	0.9	4	0.8
Special College - Agriculture and horticulture	14	1.5	9	1.9
Special College - Art, design and performing arts	3	0.3	1	0.2
Specialist Designated College	10	1.0	5	1.0
Higher Education Organisation	12	1.2	7	1.2
Other private providers				
Private Limited Company ¹¹	450	46.8	217	45.5
Public Limited Company	25	2.6	6	0.0
Sole Trader	6	0.6	2	0.4
Limited Liability Partnership	2	0.2	0	0.0
Company Incorporated by Royal Charter (England/Wales)	1	0.1	1	0.2
Private Unlimited Company	1	0.1	0	1.2
Public Corporations and Trading Funds	1	0.1	0	0.0
All other				
Local Authority	132	13.6	76	16.0
Other Local Authority	2	0.2	1	0.4
Charitable	6	0.6	1	0.2
Community Interest Company	2	0.2	0	0.0
NHS-English Non Foundation Trust	5	0.5	1	0.2
Industrial/Provident (England/Wales)	3	0.3	3	0.4

¹¹This includes: 148 Private Limited Companies; 69 companies limited by guarantee.

Organisation type (detailed)	In scope population (961)		Interviewed sample (481)	
	n	%	n	%
Central Government Department	1	0.1	0	0.0
Other Public Organisation	1	0.1	1	0.2
<i>Total</i>	<i>961</i>	<i>100.0</i>	<i>481</i>	<i>100.0</i>

1.20 Due to the relatively small number of providers within each of these categories, the survey analysis in this report focuses on differences in response between three broad types of organisation:

- All colleges (GFEs, tertiary colleges and specialist colleges);
- All other private providers (private and public limited companies that offer public funded 19+ provision); and
- Specialist community learning providers, such as local authorities and charitable / third sector organisations.

1.21 The survey responses enabled the findings to be analysed by type and size of provider. For the purpose of this research, large providers were categorised as having over 5,000 enrolments, medium-sized providers were classified as having between 500 and 5,000 enrolments and small providers were defined as having had less than 500 enrolments.

Competition case studies

1.22 There are certain assumptions underpinning the FE reform programme about the nature of competition between FE providers. There is little existing literature on how competition operates in FE which could be used to inform an understanding on how the greater autonomy provided to the sector might translate into business decisions, the 'offer' to customers in a given location and on provision as a whole. The purpose of the case studies was to explore how competition was influencing provider behaviour and to identify any potential competition issues relating to the sector – and how these are changing or might change in future in the context of the FE reform agenda.

1.23 Interviews were conducted with FE providers and local stakeholders in five case study areas to explore:

- The level of competition in the sector and providers' key competitors;
- The extent to which competition influenced providers business planning and informed decisions on price, delivery and maintaining quality; and
- The potential impact of the reforms of competition.

1.24 Case studies were selected to reflect the range of geographical areas in which FE providers operate. They included:

- A sub-city area (East London);

- A city area (Nottingham);
- A sub-regional urban area with a number of population hubs (South Hampshire);
- A sub-regional rural area with a central population hub (Carlisle); and
- A sub-regional rural area with a number of population hubs (Somerset).

1.25 In each case study, face-to-face and telephone interviews were conducted with 5-6 FE providers (including GFE colleges and private training providers) and 1-3 local stakeholders (LEPs, local authorities and employer groups such as local Chambers of Commerce). For each provider Individualised Learner Record (ILR) data was analysed to show the recruitment patterns for particular institutions.

1.26 Across the five case studies interviews were conducted with 15 GFE colleges, 7 private providers, 4 third sector organisations, 5 local authorities, 4 LEPs and 3 employer groups. The findings from the case studies were peer-reviewed by an expert in competition law from Cleary, Gottlieb Steen & Hamilton LLP.

1.27 Existing literature on competition in FE was also reviewed and the findings are included in Annex 4.

Simplification and reducing burden case studies

1.28 This element of the study was to:

- Define the administrative costs which may be changed during the programme as part of the Simplification Plan led by the Department for Business, Innovation and Skills (BIS);
- Identify a practical way to measure these (baseline and changes) and trial this in six case study providers;
- Indicate how reductions in administrative costs affected by the Simplification Plan can be monitored to identify the cost benefits achieved (so far and in the future), including through the proposed survey; and
- Draw out the extent to which the Simplification Plan is making progress towards its aims to reduce administration costs for FE providers.

1.29 The bureaucracy study has examined accepted methods of how administrative costs and burdens can be assessed and how they can measure the administrative effects of the Simplification Plan. It has drawn on the separate measurement exercises that have taken place by the National Audit Office (NAO)¹² and the Skills Funding Agency and other

¹²Reducing Bureaucracy in Further Education in England, National Audit Office, 2008. The report is available at: <http://www.nao.org.uk/report/reducing-bureaucracy-in-further-education-in-england/>

information about the Whole Provider View (WPV)¹³ provided by the Agency and discussions with the Information Authority¹⁴. From this, the study developed a method to measure the impacts on providers of some of the elements in the Simplification Plan¹⁵. These elements were characterised as actions that should have an early and significant impact on providers (items 4, 5, 7, 8, 10 and 14 in the Simplification Plan)¹⁶. This is set out in detail in Annex 2.

1.30 Case studies were conducted with six FE providers. The case study selection reflected the range of sizes and type of organisations that deliver FE provision. They included:

- Two large FE providers (with income over £25m);
- One small/medium sized FE provider (with income below £25m);
- One large private provider (with over 5,000 enrolments);
- One small/medium private provider (with fewer than 5,000 enrolments); and
- One local authority.

1.31 The findings from the case studies on the impact of the simplification plan on simplification and reducing burden is discussed in Chapter 5, and the review of a method for assessing changes in administration costs is included in Annex 3.

Report structure

1.32 This report is structured around the different themes of the reform programme:

- **Chapter 2** presents the changes that have taken place in providers as a result of **new freedom and flexibilities**;
- **Chapter 3** describes provider responses to the **funding policy changes** rolled out in the sector;
- **Chapter 4** presents the impact of the reform programme on increasing **outward accountability**, and also describes the current partnerships that exist in the sector and how providers were working with other stakeholders;

¹³The Whole Provider View programme has sought to explore and determine bureaucratic burdens on providers. In the first phase the programme has focussed on four colleges: Barking and Dagenham College, Easton College, Dudley College and Trafford College

¹⁴ Reducing the provider data burden, the information authority, 2008. The report is available at:

<http://www.theia.org.uk/reducingdataburden/>

¹⁵ The Department for Education, Education Funding Agency, Skills Funding Agency, National Apprenticeship Service and Information Authority are jointly responsible for some of the actions listed in the Simplification Plan.

¹⁶ A list of the aspects of the Simplification Plan that were in scope for the study is included in Annex 2.

- **Chapter 5** presents the impact of reforms, and specifically the **FE simplification plan, on simplification and reducing burden** in providers;
- **Chapter 6** describes the recent changes that have taken place to **teaching and learning** in providers, and the extent to which the reform programme is increasing provider focus on the quality of teaching and learning;
- **Chapter 7** presents the fee income strategies and key target groups for **community learning** providers;
- **Chapter 8** describes how **competition** operates in the FE sector and the potential impact of the reform programme on competition;
- **Chapter 9** describes how the **FE reform programme has impacted on FE provision**; and
- **Chapter 10** presents the **conclusions and recommendations** from the study.

2. Freedom and flexibilities

2.1 One of the key objectives of the 'New Challenges, New Chances' reform plan is to 'free the FE system from central control'¹⁷. Providers were to be given greater freedom and flexibility to plan and deliver provision that meets the needs of their local communities. The FE reform programme introduced the following changes to the sector:

- The removal of a range of controls and restrictions on college corporations through the Education Act 2011. Corporations are no longer required to seek permission to change their articles of association and legislative requirements are now reduced to a minimum. This means that college Governors can now play a greater role in steering the future direction of the college and also have the power to dissolve the institution if they wish.
- The removal of central targets set by Government departments and funding agencies (such as targets on full level 2 and full level 3 enrolments) and other administrative changes such as the reduction in the number of data and information requests, the reduction in the number of data collection points and the streamlining of regulation and auditing.
- A streamlining of the education landscape by reducing the number of Government agencies operating in the sector. Since 2010, the Qualification and Curriculum Development Agency (QCDA), the British Educational Communications and Technology Agency (BECTA), and the nine Regional Development Agencies in England have been abolished and other organisations have been merged, scaled back or become sector-led.

2.2 This section sets out how providers have perceived the policy objectives of the reforms and their response to the changes that have taken place including how it has, or may in future, effect business planning and governance.

FE sector support for increased freedom and flexibility

2.3 The reforms intend to provide much greater opportunity for providers to take control over their own businesses. One factor influencing whether providers take advantage of new freedoms and flexibilities is the level of support for what the reforms are intending to achieve and the credibility of the reform programme in the eyes of providers.

2.4 **The study identified strong support in the sector for the overall aims and objectives of the reforms.** As one large FE college stated, the "*mixture of autonomy and simplification of the FE system can make it easier to respond to local communities*". This view was fairly consistent across all types of FE providers. The increased freedom and

¹⁷ New Challenges, New Chances, BIS, 2011

flexibilities were believed to be primarily due to the reduction of central controls and greater flexibility in the way that funding can be used.

- 2.5 There was also significant support for the push to increase employer and learner investment in the cost of training. As one large FE college stated *“we have a world class education system in the UK, and it is right that there is greater investment from individuals and employers, as there is in other countries”*.
- 2.6 Some providers did however believe that there was a tension between increasing employer investment and also maintaining demand for national transferable qualifications, such as apprenticeships. As one medium-sized private provider stated *“if employers are to pay, then they will want more bespoke qualifications, and fewer will want to take national qualifications”*. This was seen as a future challenge for the sector as it tries to increase the take up of provision such as apprenticeships. Some of these barriers may however be resolved as the as the Government implements reforms to encourage greater innovation and tailoring of apprenticeships to employer needs, following the recommendations set out in the Richard Review of Apprenticeships (2012)¹⁸.
- 2.7 **Around half of providers that took part in the qualitative interviews also stated that their support for the reforms has increased in the last year.** This was largely a consequence of beginning to see the reforms influence their reporting requirements and the way their performance was monitored by public agencies. For some, there was greater confidence that the proposals would translate into tangible changes. As one large FE college provider noted *“we now know they [the reforms] signify more than just good intentions”*.
- 2.8 There were however, a small proportion of providers that were not yet convinced the reforms will have a sustained impact on the sector. These providers were concerned that the underlying principles of the reforms (providing greater freedom and flexibilities and reducing bureaucracy) were not always being adhered to by other sector stakeholders such as Ofsted and EFA. Providers reported that some organisations still require activities that were no longer requested by BIS. Some also noted that funding policy placed restrictions on the extent to which providers can offer more flexible provision to employers by offering QCF units which they believe went against the aims of the reforms.
- 2.9 Many providers were able to identify individual examples of perceived inconsistency between the intent of the reforms and the practices of public authorities and agencies. What varied was the extent to which these were seen as being an inevitable part of the transition to a new working arrangement with government. Most providers were quite sanguine about this, accepted that the implementation of the reforms was on-going and did not see specific examples of inflexibility as undermining the credibility of the reforms overall. Further, it was expected that many of these concerns are likely to be alleviated as the reform programme becomes more established in the sector.

¹⁸ Richard Review of Apprenticeships, Richard, 2012. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34708/richard-review-full.pdf. The Government response for consultation is available at: <https://www.gov.uk/government/consultations/future-of-apprenticeships-in-england-richard-review-next-steps>

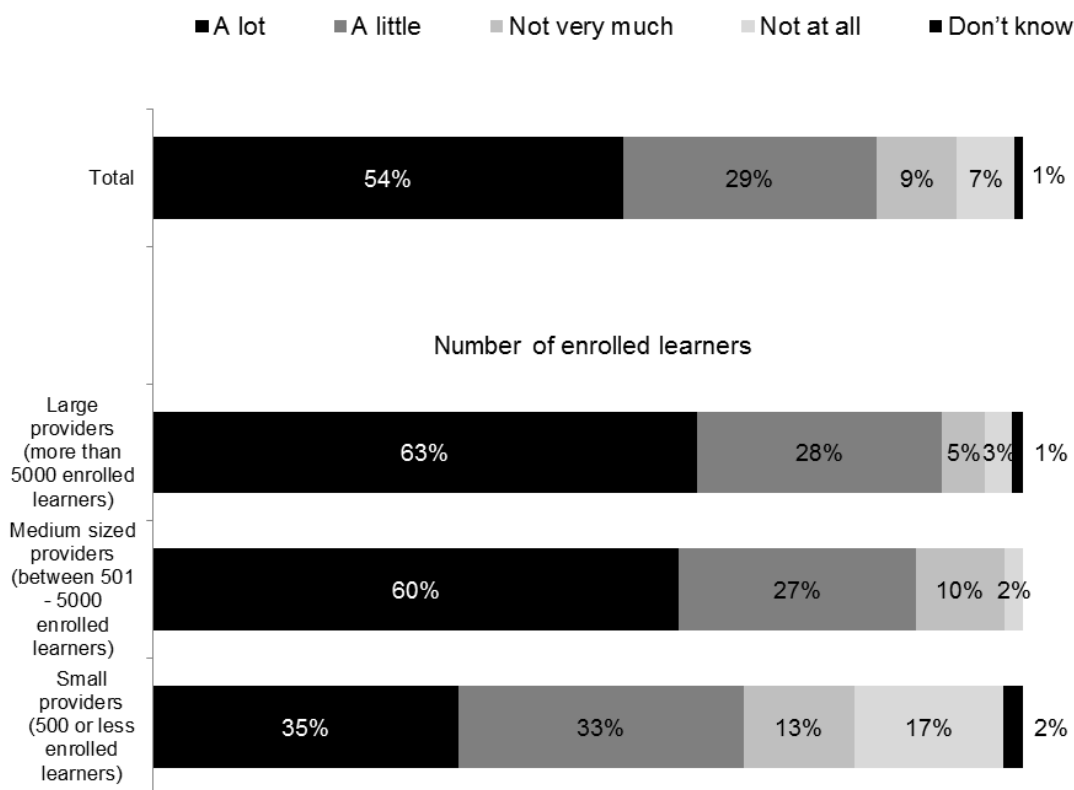
The impact of the reforms on FE business strategy and planning

Level of impact to date on provider business strategies and planning

- 2.10 **The reforms are beginning to influence business plans and strategy for a wide range of providers.** Figure 2 shows that more than four out of five providers (83%) felt that the reform programme had affected their organisation's business strategy and planning to some extent. The effect had been felt in all types of provider but was more common among larger providers (91% of large providers reported an influence compared to 68% of small providers).
- 2.11 This response reflects that providers now have a clearer understanding of the potential impact of the reforms on the sector and greater belief that the reforms signify a significant shift in policy. As a result, most providers recognised the need to position themselves to take advantage of the reforms, so that they could grow their service offer. This demonstrates a major shift from the position in 2011 when the assessment of sector preparedness for the FE reforms¹⁹ found that the majority of providers were "waiting to see" how the reforms were implemented before developing a strategic response.
- 2.12 A few providers believed the reforms had reinforced their plans rather than leading to a significant change in approach. These organisations already considered themselves to be 'commercially-minded' and had plans in place to increase income generation activities. As one medium-sized college stated, recent policy led to "*a continuation of a journey that began before reforms*". For other providers, the changes have been more profound, leading providers to explore new opportunities to work with new types of learners (such as young people studying at Key Stage 4), develop new delivery models and consider new methods for working with partners.

¹⁹ BIS Briefing Paper 60: Research to assess preparation for and changes arising from the new FE reforms and skills policies, CFE, 2011. A summary report is available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32357/11-1420-research-new-fe-reforms-and-skills-policies-summary.pdf

Figure 2: Impact of reforms on business strategy and planning



Base: All surveyed organisations (481, 134, 187, 160)

Nature of impact on provider business plans and strategies

2.13 The most widespread impact of the reforms has been on how providers identify new business opportunities and plan provision (73% of all surveyed organisations cited this). Many of the providers participating in the qualitative interviews also stated that a reduction in top down controls meant they had more flexibility in how they plan and deliver their provision during the academic year. Specifically, providers believed that they had greater opportunity to deviate from the plan of activity that they had agreed with the Skills Funding Agency at the start of the year. This meant that their plans have become more dynamic and changed regularly during the year. For some providers this constitutes a major shift. One large FE college stated: “we can now go to employers and say, ‘tell us what you want,’ and we can provide it”.

2.14 The reform programme has also had a significant influence on providers’ strategic approach to delivering core services. As shown in Table 2, nearly two-thirds of providers (64%) stated they had undertaken new approaches to partnership working, 62% reported that they had developed new strategies for teaching and learning and just over half (56%) had also changed their business models. Against a backdrop of reduced FE funding rates and greater purchasing power for students (such as the 24+ Advanced Learning Loans and FE Choices) there appears to be a growing realisation among providers that they

need to identify new methods for recruiting learners, and partnerships and new delivery models were seen as an effective way of doing this.

Table 2: Impact from reforms on business strategy and planning

	Percentage of all surveyed organisations
Changes in your organisation's approach to planning provision	73
New approaches to partnership working	64
New strategies in place for teaching and learning	62
Changes to your organisation structure and/or business model	56
New sub-contracting arrangements	47
Greater accountability to the local community	42
Changes to governing and management structures	38
Use of shared services	30
Changes to the overall mission of your organisation	24
<i>Some other way</i>	5
<i>Don't know</i>	1
<i>Base: All respondents²⁰</i>	<i>481</i>

2.15 In some aspects of strategy and planning, large and medium providers were more likely than smaller providers to report that the reforms had led to a change in approach. The most significant differences (as shown in Table 3) were in:

- Approaches to partnership working;
- New sub-contracting arrangements;
- The use of shared services;
- Greater accountability to the local community; and
- Changes their organisation structure and/or business model.

2.16 This may be because large and medium providers often offer a wider range of courses and therefore have greater opportunities to expand their offer and generate efficiencies. Many of the large and medium providers that participated in the qualitative interviews stated that they planned to expand their offer in some sectors by increasing sub-contracting and partnership working and adapting their business model. By contrast, the smaller providers that were interviewed were less likely to state that they had plans to deliver training in new areas as they were not able to make an upfront investment to purchase new equipment and take on new staff. Large and medium providers were also more likely to report that they could make efficiency savings through shared services.

²⁰ This question was only asked of respondents who said that the reforms had affected their business strategy and planning 'a lot' or 'a little'.

Table 3: Impact from reforms on business strategy and planning by provider size

	Number of enrolled learners		
	Small providers	Medium-sized providers	Large providers
Changes in your organisation's approach to planning provision	86%	88%	88%
New approaches to partnership working	66%	76%	84%
New strategies in place for teaching and learning	77%	74%	73%
Changes to your organisation structure and/or business model	59%	64%	75%
New sub-contracting arrangements	42%	54%	68%
Greater accountability to the local community, for example through collaborative or partnership strategies	33%	46%	66%
Changes to governing and management structures	37%	44%	52%
Use of shared services	24%	36%	42%
Changes to the overall mission of your organisation	32%	26%	30%
Some other way (please specify)	13%	17%	18%
<i>Base: Those who said that the reforms had affected their business strategy and planning 'a lot' or 'a little'</i>	91	164	145

The impact of the reform programme on organisational structures

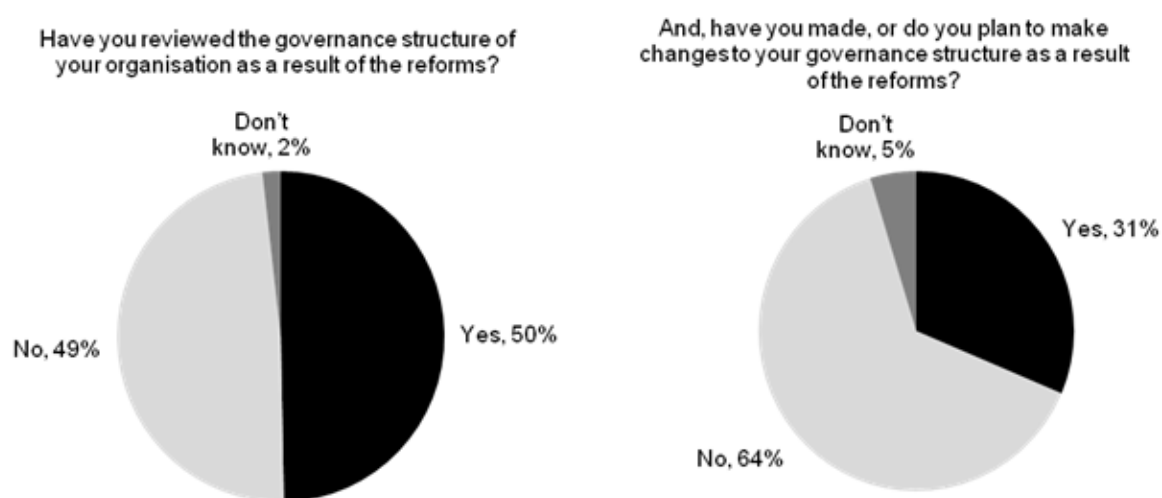
Changing governance structures (in colleges)

- 2.17 The reforms have started to impact on college governance structures. Half of colleges had reviewed their governance structure as a consequence of the reforms, and around a third (31%) stated that they had made or planned to make changes (as shown in Figure 3). These changes were primarily a consequence of the reform programme, although a small number of colleges indicated that they had made changes as part of their on-going work to improve management and governance.
- 2.18 A few of the providers that participated in the qualitative interviews reported making or planning to make changes to their governance structure. The most common changes were streamlining membership to ensure more active governor involvement. A few providers had also changed the composition of the group to include an increased number of local employers.
- 2.19 There was evidence that many providers were still coming to terms with the implications of the reform programme on the role of Governors. Most providers also think that their current governance structures were largely effective and therefore did not see an immediate need for change. The qualitative interviews highlighted that governance arrangements are an on-going consideration for colleges and perhaps more so than in the

past. Even where colleges have reviewed existing governance arrangements and have confidence in those arrangements, there is an acknowledgement that FE organisations are evolving and that there was a need to regularly review fitness for purpose.

2.20 There is also a sense that the reforms had increased awareness of the need to maintain high standards in governance. A few of the colleges that participated in the qualitative survey stated that they had adopted the Foundation Code for College Governance²¹, and a few also stated that they had utilised other tools, such as the Policy Governance Model developed by John Carver²². This supports the sense that governance is an increasingly central consideration for colleges.

Figure 3: Changes to college governance structures as a result of the reforms



Base: All colleges (169)

New delivery models

2.21 The flexibilities introduced in 'New Challenges, New Chances' gave providers greater opportunity to set up new business and delivery models. Some examples of the business and organisational models that providers were expected to consider include:

- The setting up of new companies or trusts, such as Group Training Associations or Apprenticeship Training Associations;
- Working with employers to set up University Technical Colleges sponsored by the Department for Education;
- Sponsoring or working with academies and free schools; and

²¹ The Foundation code of Governors was developed by the Association of Colleges (AoC) to share effective practice for good governance. The Foundation code is available at:

http://www.aoc.co.uk/en/college_governors/english-college-code-of-governance/

²² Further information available at: <http://www.carvergovernance.com/model.htm>

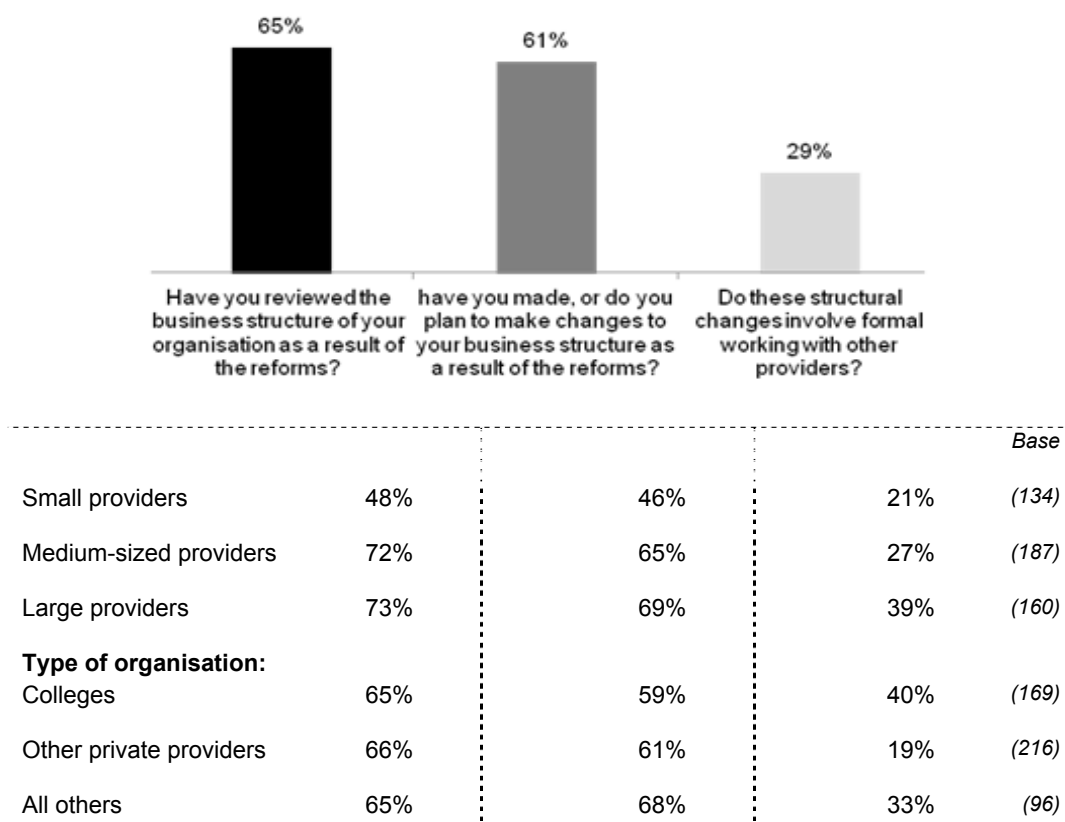
- Developing mutualisation models where employees take over the services they provide.

2.22 The research found that **many providers were planning to implement new delivery models as a result of the reforms**. Nearly two-thirds (65%) of providers stated that they had reviewed their business structures and 61% reported that they had made or planned to make changes as a result.

2.23 The reforms appear to be having a similar level of impact on business structures for all types of provider. Around two thirds of respondents in colleges (65%), private providers (66%) and 'other' providers (65%) alike indicated that they had reviewed their business structure as a result of the reforms. Structural changes involving formal working with other providers were more common among colleges than among private providers.

2.24 Impacts on business structure were strongest for larger training providers. Around three quarters of medium and large providers said they had reviewed their business structure as a result of the reforms; with around two thirds indicating that they had actually made or were planning to make changes as a result. This compared with around half (48%) of small providers that had reviewed their business structure and 46% that had made or planned to make changes.

Figure 4: Perceived impact of reforms on business structures



Base: All respondents (481)

2.25 Around half (47%) of the providers that had made, or planned to make, changes to their business structure stated that they were developing more formal working with other

providers. In the qualitative interviews there were examples of providers planning to sponsor academies or University Technical Colleges (UTCs).

- 2.26 In the qualitative interviews there were a few examples of **providers setting up new enterprises and consortia to develop their commercial offer and take on high-risk ventures**. For example, some providers have taken over small private providers that specialise in a particular sector area. These providers felt that small private providers are perceived by employers to be more specialist and flexible than a college.
- 2.27 For ambitious providers, the ability to acquire other providers or set up new companies was one of the most important practical advances of the reforms. Providers believed that the reforms enabled these changes to be made more swiftly as they no longer had to gain agreement from the Skills Funding Agency. The changes had further empowered Governors, which supports the reform objective of facilitating more effective governance. This response was not yet widespread across the sector but it may be that the providers that have already made changes were 'early adopters' and could therefore provide an important signal for the future developments that are likely to take place in the sector.
- 2.28 There was arguably less of a focus on mergers than was evident in the 2011 research on preparedness for the FE reforms. Most providers did not have immediate plans for mergers, mostly because they had been unable to identify a suitable partner organisation.
- 2.29 There is early evidence that the reforms are creating a noticeable simplification of the process for completing a merger, should they be needed. As a medium-sized FE college that had recently merged stated, the reforms had *"reduced the amount of red-tape, which was nice"*. Many perceived this to have a business benefit on their organisation, because the administrative requirements for conducting a merger were previously felt to take staff time away from business planning and rolling out new learning programmes.
- 2.30 Few colleges have conducted a college structure and prospects appraisal to consider other changes to their constitution, such as mutualisation models. This was because providers were initially exploring the more practicable changes that needed to be made to improve quality and expand the training offer. These wider options may be considered in more depth in the next few years.

Use of shared services

- 2.31 The reforms give providers greater freedom to work with other providers to develop shared services in areas such as HR, finance and facilities management. There is also an expectation that shared services would be used to enable providers to share equipment and teaching staff so that they could deliver training in new sector areas. The use of shared services can generate efficiency savings which can be directed into areas such as teaching and learning.
- 2.32 According to the survey, three out of ten providers (30%) were using shared services as a result of the reforms. In the qualitative interviews most providers believed that shared services could reduce staffing costs and therefore bring considerable savings in the long-term. There was little evidence from those that have embraced the shared services model of savings to date, partly as a consequence of the high upfront cost of making redundancy payments.

2.33 There were also a series of reported barriers which suggest that the use of shared services may not become significantly more widespread in the short to medium-term. The most common barrier reported by providers was a perception that shared services took away provider control of their core functions, which created new business risks. There are also practical challenges reported by providers that have explored shared service models. For example, some providers experienced difficulties in agreeing with partners how the shared services would be implemented (who would be responsible for which service) and had failed to gain agreement.

The growth of sub-contracting

2.34 The reform programme had led to an increase in sub-contracting in the sector, with around a half (47%) of providers reporting new sub-contracting relationships in the last two years. This was higher among larger providers, with 67% of large providers reporting they had entered into new sub-contracting arrangements.

2.35 The increase in sub-contracting can be seen as being primarily due to the introduction of minimum contract levels in 2012/13. Minimum contract level policy meant that the Skills Funding Agency would not directly manage contracts with a value of less than £500,000²³. Providers that had previously held contracts less than this value were expected to instead sub-contract their provision from other providers. It was an arrangement brought in to generate efficiency in contracting, but in practice was a spur for providers to develop new delivery arrangements.

2.36 In the qualitative interviews many colleges and large private providers stated that they had taken on new sub-contracts. A few reported a significant increase, in some instances taking on 8-10 new sub-contracts and doubling their amount of franchised work.

2.37 Many colleges saw sub-contracting as an opportunity to expand their offer. Colleges felt that smaller providers often had lower overhead costs and therefore could deliver some employer provision at a lower cost than a college. In addition, some smaller providers already had staff in place with sector knowledge and had a good reputation with local employers. Sub-contracting was therefore generally considered an efficient way to deliver new provision. However, there remained a few colleges that were more circumspect in entering into new sub-contracts, stating that they believed it may compromise quality in the organisation which may affect their Ofsted grades.

2.38 The increase in the number of sub-contracts managed by large providers has created risks and new challenges in maintaining quality in new partners. Some providers found that new sub-contractors were not always able to meet their reporting requirements or faced difficulties in collecting the appropriate level of information. It appears that most providers have learnt from these experiences and there is now greater scrutiny of quality standards and reporting requirements before they enter into new relationships. The increased use of sub-contracts had also arguably put effective partnership working higher up the agenda of

²³ Later in its implementation exceptions were introduced. GFE colleges, specialist colleges, large employers contracted through the National Employer Service, HEIs, Sixth Form Colleges and Schools were exempt from minimum contract levels. For apprenticeship providers, an exception to Minimum contract levels would be given if removing the direct contract would lead to a loss of apprenticeship places.

many large providers. It was in the interests of contract holders to support some capacity building with their existing and potential partners. Crucially, there is a shift in responsibility within this from the Skills Funding Agency to the sector itself.

- 2.39 In the qualitative interviews, relatively few smaller providers entered into a consortium with other providers. Some providers reported that this was due to difficulties in setting up a new company, and in particular deciding on how the financial risks would be managed and who would take responsibility for managing the core contract. Developing a consortium was also seen as very time consuming as a provider needed to identify suitable partners and to then agree quality assurance standards and how quality assurance would be monitored. As a result, most providers entered into a sub-contracting relationship with a large provider. This was primarily because a direct sub-contract relationship was easier to manage. As one small private provider stated *"we are used to having targets set and having to meet them, so things have not really changed"*.
- 2.40 A few of the smaller providers that worked with larger providers did express concerns that their new working relationship had limited the extent to which they could grow their organisation. A few stated that their sub-contracts did not enable them to offer training in sectors that the prime contractor saw as one of their main markets. As a result they did not believe they had the opportunity to expand into new areas.

3. Funding policy changes

- 3.1 'New Challenges, New Chances' aimed to simplify the funding landscape and ensure public funding is targeted at those that need it most. Previously, providers had to map provision against a range of adult funding streams, each of which had different funding rules, as well as negotiating a complex set of funding rates to calculate the income that they would generate. In order to address these issues and ensure providers could spend more time on strategic planning and delivery the following funding policy changes were introduced:
- The introduction of a single funding system in 2013/14 for the Adult Skills Budget (ASB), to replace the Employer Responsive (ER) and Adult Responsive (AR) funding streams. The full roll-out of funding simplification is taking place in 2013/14. In 2012/13, the ASB incorporated the ER and AR funding streams to allow providers to plan for the changes.
 - The introduction of a simplified rates matrix of 30 rates to replace the over 6,000 rates that were previously available. In 2012/13 the simplified rates matrix was run alongside the old rate system. The simplified rates matrix will be fully rolled-out in 2013/14.
 - Changes to funding entitlements include the introduction of fee remission for individuals on Job Seekers Allowance or Employment Support Allowance wishing to do stand-alone units, the removal of entitlements, the introduction of 24+ Advanced Learning Loans and co-funding for some learners aged 24 and over. Most of the changes to entitlements were made in 2011/12 and 2012/13. 24+ Advanced Learning Loans are due to be introduced in 2013/14.
 - The introduction of an Innovation Code, which enabled providers to draw down funding for programmes that meet a particular employer skills need while they are simultaneously developed for the QCF.
- 3.2 This section reports on provider perceptions of the funding policy changes and the impact these changes have had on FE organisations.

The simplified funding system

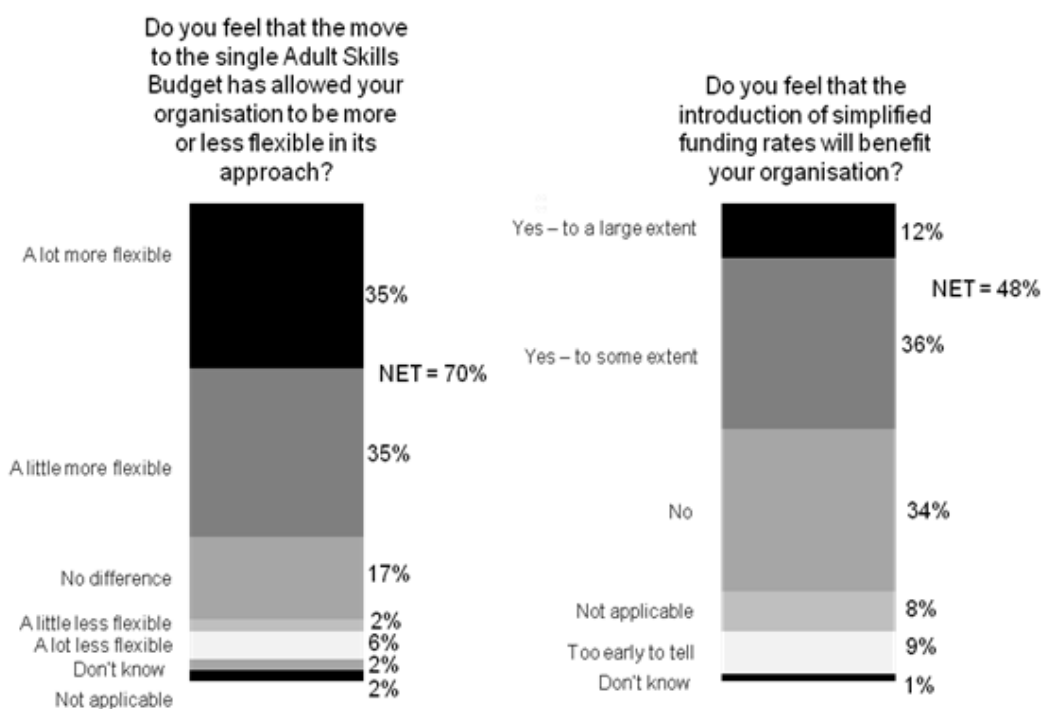
The Adult Skills Budget

- 3.3 As shown in Figure 5 below, there was fairly strong support for the introduction of the single Adult Skills Budget (ASB). Seven out of ten providers felt that the introduction of ASB enables their organisation to be 'a lot' (35%) or 'a little' (35%) more flexible.
- 3.4 For some providers, **the new funding system and opportunity to move funding more easily between the funding pots had perhaps been the most significant early benefit of the reforms.** In the qualitative interviews many senior managers believed that this flexibility had meant that they were now able to respond more quickly to the demand from employers and learners. As one medium-sized FE college reported "*it means we can be*

more fleet of foot and responsive". Many providers gave examples where an employer or partner had requested training and they could quickly set up the training without having to seek approval from funding agencies.

3.5 One of the main areas where the new funding system was beginning to provide benefits was by enabling providers to develop a more flexible employability offer. The demand for employability provision was thought to fluctuate during the year and also needed to be tailored to the need of particular learners. As a result it was difficult to predict demand and budget for employability provision at the start of the year. The introduction of ASB meant that providers could more easily expand their offer if demand increases. Large and medium providers were more likely to report that ASB allowed them to be more flexible in their approach which most likely is because these organisations deliver a broader range of programmes through adult and employer responsive provision.

Figure 5: Support for the simplified funding system and matrix



	More flexible (a lot or a little more)	Yes (to a large or to some extent)	Base
Small providers	50%	44%	(134)
Medium-sized providers	75%	53%	(187)
Large providers	81%	43%	(160)
Type of organisation:			
Colleges)	78%	43%	(169)
Other private providers	68%	54%	(216)
All others	61%	42%	(96)

Simplified funding rates

- 3.6 There were mixed views from providers responding to the survey about whether the simplified funding rates would benefit their organisation. Around half of providers (47%) believed it would provide a benefit, although smaller providers were more positive in this regard. The main anticipated benefits were reduced internal bureaucracy and greater clarity in the process. As some providers stated:

“... it will cut down on bureaucracy and we can put the resources [in]to teaching and learning and the students” [large FE college]

“It makes it easier for us to monitor [our performance] and simplifies the workload” [small private provider]

“There is a lot more clarity about the funding in terms of fully funded or co-funded provision, which will make it easier for providers and learners to understand what they can or can't access funding for.” [medium-sized FE college]

- 3.7 A few providers also believed that the simplification of the funding rates aided transparency between teachers and senior managers because all were able to understand the funding methodology. This helped heads of departments to manage their budgets more effectively.
- 3.8 In the qualitative interviews some providers stated the changes would not have a benefit to their organisation because their IT systems could automatically generate cost information. One large FE college stated that: *“the calculations were hidden anyway, so it will not change much”*. This view was more common among large and medium providers, which may be because in the qualitative interviews these providers were more likely to report that they had tailored or bespoke IT systems.

Table 4: Perceived benefits of introduction of simplified funding rates

	% organisations that believed it would have a benefit	% all respondents
Less bureaucracy	43%	20%
More clarity in the funding processes	31%	15%
Planning made easier	15%	7%
Less time spent on administration	4%	2%
[makes it] Easier to manage finances	3%	1%
Responsiveness / allowed to be more responsive to demand	3%	1%
Creates a more 'level playing field' / fairness in market	2%	1%
Increase in income to providers	2%	1%
Increase in participation / greater numbers of learners	1%	1%
More flexibility in curriculum design / more variation in courses	1%	*
Partnership working / make partnership working easier	1%	*
<i>Something else</i>	10%	5%
<i>Don't know</i>	4%	2%
<i>Base: All who felt there had been benefits</i>	228	481

The use of the Innovation Code for funding new training programmes

- 3.9 The purpose of the Innovation Code is to give providers more flexibility on the courses that can be subsidised through state funding. The Innovation Code enables providers to draw down funding to deliver qualifications that have not yet been developed. In order to use the Innovation Code providers need to obtain evidence of employer interest in the qualification and also demonstrate that an Awarding Organisation (AO) is willing to develop the qualification.
- 3.10 Most providers believed that the Innovation Code could help them to deliver tailored courses that reflected the specific responsibilities of individuals in the workforce. Some gave examples of employees that may have management responsibility as well as undertaking front-line service duties. These individuals could be supported through a new qualification or units.
- 3.11 However, very few used the Innovation Code. This was because many providers had experienced difficulties in meeting all the eligibility requirements. Providers believed the most challenging criterion was gaining support from an AO to develop the QCF qualification. Many providers stated that there is a lack of incentive for AOs to support the development of new units because in most instances they will attract few learners. This was unlikely for qualifications that were tailored for a small group of learners. As a result, the income the AO would generate from the qualification was likely to be less than the development costs. In addition, if providers are unable to gain support from the AOs that they were already working with, they would need to register with the new AO and gain approved provider status which often takes many months and would delay the speed with which they could respond to demand.

Changes to funding entitlements

- 3.12 There has been a shift in funding entitlements to reflect the wider Government objective of targeting the limited public funding at those who need it most. In the last two years, this has seen:
- The introduction of full funding for stand-alone units, alongside funding for full qualifications, to individuals on Jobseekers Allowance and other benefits;
 - The introduction of co-funding (replacing full funding) for learners over 25 years without a full level 2 qualification;
 - The removal of funding for learners studying level 3 and 4 work-based learning programmes
 - The removal of full funding for ESOL courses and reduction in the funding rate uplift for Skills for Life from 40% to 20%; and
 - Increasing investment for apprenticeships, particularly adult apprenticeships and higher level apprenticeships.
- 3.13 Perhaps the most significant impact of the changes to funding entitlements has been an increase in the training offered by providers to the unemployed and those on benefits.

Many providers stated that this was an area where they had expanded their offer and which they see as a priority area in the future.

- 3.14 Otherwise the change in funding entitlements has not led to a major change or rationalisation of providers' training offer. Most have maintained their offer for level 3 and 4 courses, even though some believed that demand from adults had been affected by the removal of full-funding. This was because most providers still had considerable demand from young people for level 3 and 4 training, and so they could deliver courses with large class sizes, even if there was lower demand from adults. The income these courses generated from funding for young people enabled the courses to be offered at a low cost to adults.
- 3.15 There has also been a slight decrease in Skills for Life and particularly ESOL provision. Providers were charging for ESOL provision and therefore demand had decreased. Moreover, the reduction in subsidy for Skills for Life provision meant that some providers had withdrawn from offering more costly provision such as courses delivered in community settings. However, most providers continued to offer these courses, although many were now run less frequently and with larger class sizes to make them viable.

4. Outward accountability

- 4.1 The Baroness Sharp review of the role of FE colleges outlines an expectation for colleges to be a 'dynamic nucleus' at the heart of their communities²⁴. 'New Challenges, New Chances' aims to support this vision by:
- Encouraging local decision-making by giving greater autonomy to FE colleges;
 - Simplifying the funding system for adult skills to prevent colleges from retreating to the low risk areas of 16-19 and apprenticeships;
 - Promoting the value of partnership working as effective partnerships can support the development of new innovative ideas, identify new complementary services and reduce risk; and
 - Encouraging providers to treat employers and learners as co-designers of their skills offer by leveraging greater learner and employer buy-in and ownership into the running of the college.
- 4.2 This chapter explores the extent to which the FE reform programme has led to greater involvement of learners, employers and partners in provider planning.

The role of employers, learners and local partners in college decision making

Market intelligence used to inform provider plans

- 4.3 **There is a cognisance among nearly all providers of the need to support their local communities and that this is the central part of their mission.** This was widely reported in the qualitative and case study elements of the evaluation by FE colleges and was seen as something of a defining characteristic for the sector. Most providers believed that this was the most important factor influencing their decisions to prioritise provision and the groups of learners they seek to target.
- 4.4 Most providers have systematic methods for gathering market intelligence on employer and learner needs. The most common method was consultation with other local partners that represent the interests of local learners and employers. Most providers stated that they had strong working relationships with local authorities, Jobcentre Plus and LEPs, and through communication with these partners they identified the areas where they should expand their offer. A few providers had formal systems in place for gathering this consultation, such as local planning groups. However, much of the communication was relatively informal, drawing on bilateral communication and feedback.

²⁴ A dynamic nucleus: Colleges at the heart of local communities, Baroness Sharp of Guildford, 2011. http://shop.niace.org.uk/media/catalog/product/d/y/dynamic_nucleus_-_full_-final.pdf

- 4.5 Many providers also drew on LMI data, and some used labour market analysis tools such as Analyst and EMSI. These products analyse publically available data to produce reports on sector priorities in providers' local areas. Some providers analysed research conducted by other stakeholders, such as local authorities, LEPs, Sector Skills Councils and previously by Regional Development Agencies, and many also drew on partners' strategic priorities to identify areas where they should grow their provision in the future.
- 4.6 In a few cases, employers and learners were asked by providers to give feedback directly on the types of services that they require. This intelligence is typically gathered by conducting surveys with current or prospective learners. There were also many examples of providers having representation of local employers and learners on their board of Governors. However, most providers noted that it was costly to gather regular intelligence from prospective users, and therefore the intelligence provided by local partners was most important. Jobcentre Plus, for example, works with job-seekers to develop action plans to get them into employment. This information could be used to inform training needs.
- 4.7 Some providers also work directly with large employers in the sector and use these networks to understand their needs and also '*what they are willing to pay for*'. The extent to which this takes place varies by provider. Some have well established relationships in place with local employers and are actively developing new relationships. These are generally providers that already consider themselves 'commercially minded'. For some other providers there is evidence that the reforms are beginning to influence approaches to engaging and collaborating with local employers but there is less tangible evidence that this has led yet to new relationships.

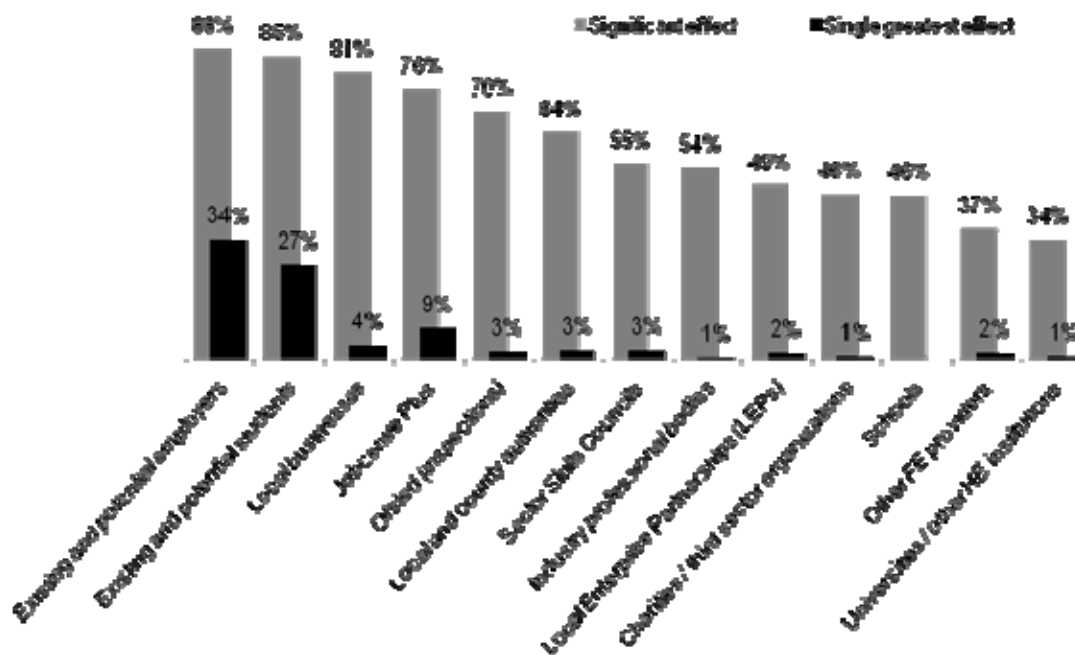
The role stakeholders play in influencing planning decisions

- 4.8 Employers and learners are the most significant stakeholders that affect provider decisions, as shown in
- 4.9
- 4.10 Table 5. Private providers were generally more likely to consider employers to have the greatest influence on their provision (reported by 50% of private providers), and colleges were more likely to consider students to have the greatest influence on their provision. This reflects a different focus of the two types of FE providers, with private companies more likely to undertake work-based learning and recruit employers, whereas FE colleges are more likely to recruit learners to classroom-based learning.
- 4.11 However, providers are also influenced by a wide range of different stakeholders. As well as learners and employers, the majority of providers' plans were also informed by local business groups, Jobcentre Plus, Ofsted (whose decisions on quality appear to influence the areas where providers choose to expand their offer) and local authorities (as shown in Figure 6). This demonstrates the complexity of decision making in the sector, as providers balance the needs of a range of stakeholders.

Table 5: Stakeholders who have the most significant effect on provision

	Total	Colleges	Other private providers	All others
Existing and potential employers	34%	30%	50%	9%
Existing and potential students	27%	38%	12%	39%
Jobcentre Plus	9%	6%	8%	14%
Local businesses	4%	7%	4%	1%
Sector Skills Councils	3%	2%	6%	0%
Local and county authorities	3%	2%	2%	6%
Ofsted (inspections)	3%	2%	3%	5%
Other FE providers	2%	2%	2%	1%
Local Enterprise Partnerships (LEPs)	2%	4%	2%	1%
Charities / third sector organisations	2%	1%	1%	5%
Industry professional bodies	1%	0%	2%	0%
Other	5%	3%	5%	9%
Don't Know	3%	3%	1%	6%
<i>Base: All respondents except private companies who mainly provide internal training</i>	458	169	192	95

Figure 6: Influence of stakeholders on provision offered by organisations



Base: All organisations except private companies who mainly do internal training (458).

The influence of the reforms on changing the way that providers develop their plans

4.12 The reforms have not yet led to a significant change in the way that providers gather information on demand. In the qualitative interviews very few providers stated that they

had made significant changes to the way in which they consult with employers and learners. Most providers would argue that they currently have effective systems in place for gathering market intelligence and therefore do not need to make significant changes.

- 4.13 There is a sense that **the reform programme has led to a change in the relationship between providers and local partners**. The new flexibilities have enabled providers to respond more quickly to community needs, and it is clear that this is leading to a more responsive relationship with other partners, and greater complementarity of services. This in part is due to reductions in public subsidy for certain courses which is leading providers to try to identify new income sources by working with other organisations that can refer or commission services. Providers are also looking to draw income from courses that can be fully-funded by the state which is why many providers are developing strong relationships with Jobcentre Plus.

Impact on the reforms on the way providers communicate with employers, learners and local partners

Information provided to learners and employers

- 4.14 Most providers communicate information to learners through their website, prospectuses and informally during careers events and open days. Providers typically communicate information on success rates, inspection rating and employer feedback.
- 4.15 Provider communications to employers and learners are primarily for marketing purposes, rather than to enable them to hold scrutinise performance and hold the provider to account. As a result they are sometimes selective in what they choose to emphasise. This highlights the importance of having validated, transparent provider performance information that employers and learners can draw on from independent sources, should they so wish (such as the FE Choices model). It also supports the need for improving access to data collected by Government to inform decisions on funding²⁵.
- 4.16 There is a sense that the need to market and promote provision to 'customers' means that providers are geared towards being learner-centred. All providers believed that positive employer and learner feedback and success rates helped them to attract new learners, and in order to maintain high standards, providers recognised that they had to provide a high-quality learning experience.
- 4.17 Few providers had processes in place to systematically report to employers and learners on the performance of the college. Where providers reported to learners or employers, it was primarily through local student councils or through their board of Governors which many felt represented the need of their local community.
- 4.18 The **reforms have not yet led to a significant change in the information provided to learners and employers**. This perhaps reflects that there is a lack of clarity among providers on what is expected in terms of outward accountability. The reforms state an expectation that providers are accountable to employers and learners and most colleges

²⁵ The Cabinet Office published an Open Data Charter on 18 June 2013 (available at: <https://www.gov.uk/government/publications/open-data-charter/g8-open-data-charter-and-technical-annex>)

would argue that this is done through working with intermediary organisations and their Governors who are better able to articulate the skills needs of the local community. There is also a strong sense that providers believe that they are accountable to learners and employers as they need to achieve good learner feedback and success rates to attract new learners. As a result many providers see no need to change their approach.

Information provided to local partners

- 4.19 Most providers believed that they had a responsibility to support the local skills priorities of LEPs and local authorities, and before then local Government offices and Regional Development Agencies. Providers are often asked to provide information to partners on the progress they have made to support local priorities, with more rigorous assessment of performance conducted by their board of Governors. In most providers the reforms have not influenced this approach.
- 4.20 It is notable that in many areas the LEPs have played a key role in developing an infrastructure where providers meet regularly with other providers and other local stakeholders. This creates a forum where local partners can plan local activity and providers can share information and enables partners to scrutinise and challenge college plans.
- 4.21 Many providers believed that they already worked closely with third sector organisations, particularly when planning and marketing community learning provision. It was widely acknowledged by providers that third sector organisations provide a valuable insight into the specific needs of local communities which helped them to plan their offer. As a result there is some communication between providers and third sector organisations.
- 4.22 It was identified from the competition case studies that many local stakeholders do not consider it their role to scrutinise provider plans. Many local stakeholders saw their role as influencing the provider offer rather than holding providers to account. Community Learning Trust pilots were an exception because there was evidence of more joint planning of provision and local partners (including third sector organisations) having the opportunity to challenge plans.
- 4.23 For the reforms to lead to a significant shift in approach across providers' skills offer, further clarification on partners' role needs to be communicated to all stakeholders. Some areas would benefit from a forum for decisions to be discussed, and it may be that LEPs could potentially provide this role. The research suggests that where there is a natural stakeholder forum for colleges to connect with, they are actively doing so. There are two clear levers that encourage this active engagement:
- First, as a route to accessing local training funding; and
 - Second, as a forum for dialogue between providers (especially between colleges and local authority providers, where these exist) to co-ordinate provision that has a strong societal focus (i.e. that is a function of the FE mission rather than being more commercially-gear provision).

4.24 It is also worth noting that these discussions are much more focused on FE colleges specifically. This suggests that FE colleges have a clear view of their responsibilities in terms of local accountability.

4.25 Private providers were found to be less likely to engage with local forums, although many private providers were found to be working with local stakeholders. This in part is because many of these formal forums have developed organically, and as a result do not always reflect the diversity of providers that operate in a local area.

The impact of the reforms on partnership working

4.26 There has been a general increase in providers' engagement with local stakeholders. Over half (60%) of all providers felt that partnership working had increased in the current academic year, with a quarter (24%) indicating that it had increased 'a lot' (as shown in

4.27

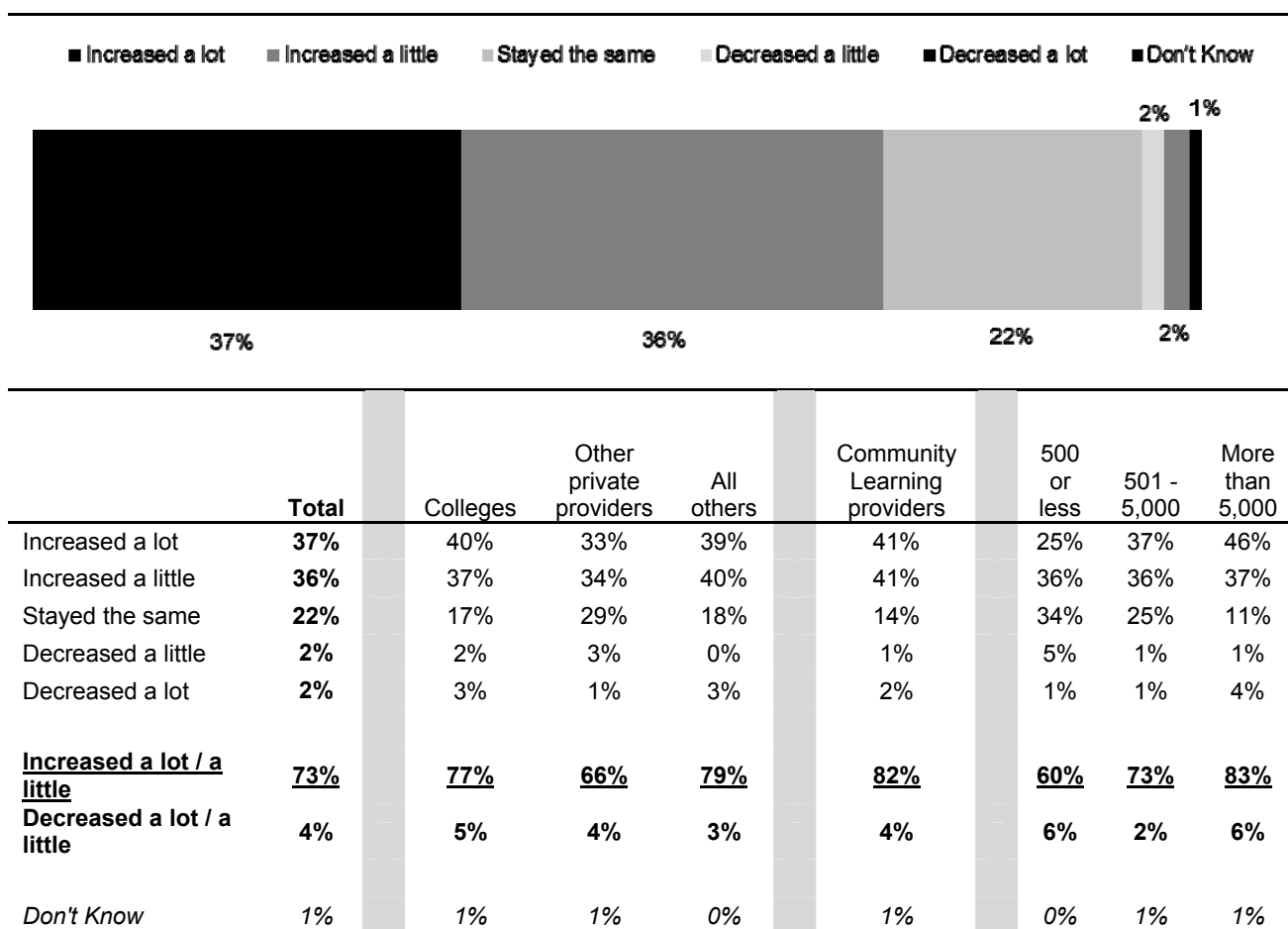
4.28

4.29 Figure 7). Eight out of ten (80%) providers believed that this changes was due to the reforms, of which a third (37%) indicated that the reforms had contributed 'a lot' to the increase.

4.30 In the qualitative interviews it was evident that the introduction of minimum contract levels had led many providers to work with new organisations. In many instances this was felt to increase coordination. As one large FE college stated, "*there are now fewer organisations to work with, so we can bring everyone around the table and decide what we each need to offer*". This supports the objective of the reforms for greater complementarity of local services but in some instances the reduction in providers may reduce choice in the sector.

4.31 Many providers also stated that the new freedom and flexibilities has led them to work with new local businesses to expand their offer. In this instance partnership working is a by-product of providers looking to identify new business opportunities. It is likely that this will increase in future as providers look to deliver provision in new sectors to leverage greater employer investment.

Figure 7: Changes in levels of engagement with local stakeholders



<i>Base: All respondents except private companies who mainly provide internal training</i>	458	169	193	96	169	121	177	160
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- 4.32 Providers worked in partnership with a range of organisations. As shown in Table 6, there are 11 different 'types' of stakeholder that around half or more (as least 47%) of providers report working in partnership with. On average each provider had active partnerships with seven different types of organisation. Large organisations generally had partnerships with a higher number of organisations, reflecting that they typically have a more diverse learning offer.
- 4.33 Jobcentre Plus was most commonly regarded by providers as a key local partner. Many providers believed that their joint working with Jobcentre Plus has increased in the last two years as a result of the change to funding entitlements and also in response to recent labour market conditions. There is a strong sense of joint working with other providers as 72% of providers stated that they worked with other FE providers. Many providers stated that they worked with 3-4 local providers.
- 4.34 There is particularly strong partnership working in community learning, with a higher proportion of community learning providers stating that they had active partnerships with local authorities, third sector organisations, Jobcentre Plus and other FE providers.

Table 6: Active partnerships with external organisations and stakeholders

	Total	Colleges	Other private providers	All others	Community Learning providers	500 or less	501 - 5,000	More than 5,000
Jobcentre Plus	79%	86%	69%	92%	94%	50%	84%	98%
Local businesses	76%	88%	69%	69%	81%	60%	78%	86%
Local and county authorities	74%	86%	57%	91%	91%	54%	72%	92%
Other FE providers	72%	73%	68%	80%	78%	63%	74%	78%
Charities / third sector organisations	65%	65%	53%	90%	85%	47%	62%	83%
Associations/federations of providers	62%	54%	68%	61%	64%	56%	65%	63%
Schools	61%	63%	50%	80%	73%	49%	60%	71%
Industry professional bodies	57%	68%	60%	31%	50%	55%	55%	60%
Sector Skills Councils	56%	60%	66%	28%	47%	52%	60%	55%
Universities / other HE institutions	47%	85%	23%	34%	59%	35%	41%	64%
Local Enterprise Partnerships (LEPs)	47%	56%	37%	54%	63%	26%	45%	66%
Other	6%	6%	6%	7%	7%	3%	7%	9%
Don't Know	0%	0%	0%	1%	0%	1%	0%	0%
None of these	2%	2%	3%	0%	1%	5%	1%	1%
<i>Base: All surveyed organisations</i>	481	169	216	96	169	134	187	160

- 4.35 Looking forward, there is a degree of ambivalence among providers regarding the impact the reforms will have on their level of partnership working in future. Almost half of all providers (47%) believe that the reforms will make no difference to the level of partnership working they will undertake. There are similar proportions of those who think the reforms will make partnership working easier in future (21%) and those who think the reforms will make partnership working more difficult (25%). There were no significant differences among types or size of providers.
- 4.36 This ambivalent outlook could be due to uncertainty among providers regarding the long term impacts of the reforms, especially given that half of all providers have seen partnership working increase in this academic year as a result of the reforms. Therefore the majority believing that the reforms will make no difference to the level of partnership working in future could be split between those who have already seen an increase and do not believe that there will be future increases, and those who are uncertain about the long term impacts of the reforms.

5. Simplification and reduced burden

- 5.1 This chapter examines the administrative costs which have or will be changed during the FE Reform programme (including as part of the Simplification Plan) and assesses the extent to which progress is being made towards the Plan's aims to reduce the administrative burden on FE providers. The FE Reform and Performance Board have endorsed the Simplification Plan and indicated that delivery of all of the actions in the Plan will have a significant and positive impact on the FE sector.
- 5.2 An important aspect of the study was also to test a method for collecting information on changes to administrative costs and burdens. A review of the approach employed in this study and lessons learnt is presented in Annex 3.
- 5.3 This study builds on the Skills Funding Agency's work on the Whole Provider View (WPV) to establish the scale and nature of burdens and priorities for action in reducing bureaucracy.

Perceptions of the effects of the Simplification Plan on bureaucracy

- 5.4 This section draws principally on the provider survey and provider interviews which sought views on how the changes in the Simplification Plan have or will affect what is broadly described as 'bureaucracy'.

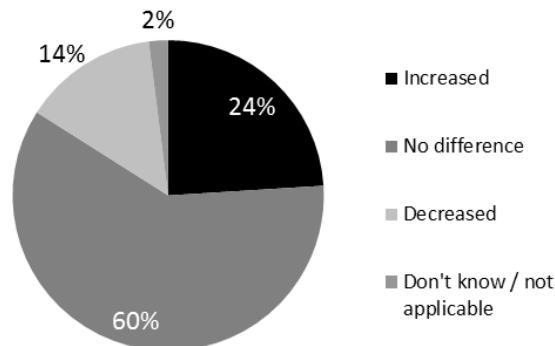
The effect of changes so far

- 5.5 In the survey, respondents were asked to think specifically about the impact of the following elements of the reform programme on their administrative costs:
- removal of central targets;
 - simplification of the adult funding system with the single Adult Skills Budget (ASB);
 - minimisation of the number of data and information requests for providers with the introduction of a single data return;
 - reduction in the number of rates;
 - streamlining regulation and auditing; and
 - reduction in the number of data collection points.
- 5.6 The provider survey (Figure 8) showed that:
- more than half (60%) of providers felt that the burden was no different in 2012/13 compared with a year before (2011/12);

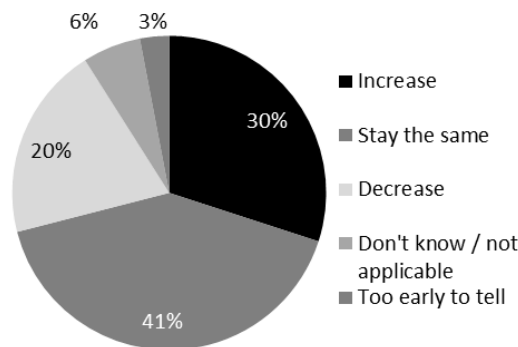
- more of the remainder felt that burdens had increased rather than reduced (24% compared to 14%); and
 - colleges were more likely to state that burdens have changed than other providers, but more colleges perceived an increase rather than a decrease (22% compared to 18%).
- 5.7 These were senior manager perceptions of administrative costs. It is important to note that in the case studies there was no evidence that the actions in the Simplification Plan had increased administrative costs. However, providers did note some short-term impact of new approaches/rules, such as the transfer of Formal First Steps learners to the ASB which may have increased administrative costs in some community learning providers. In addition, the case studies did identify that senior managers had a less detailed understanding of the changes in administrative requirements than those that worked in administration and data on a day-to-day basis.
- 5.8 In addition it is important to note that providers have reported that elements of the reform programme have reduced bureaucracy. Specifically:
- Providers noted that the administrative requirements for completing mergers had been reduced; and
 - Nearly half (43%) of survey respondents believed that the simplified funding rates had reduced bureaucracy.
- 5.9 The case studies found that the limited impact of the reforms so far is mainly because many providers were wary of stopping processes as the information they generate may be required by other organisations (such as Ofsted, the Education Funding Agency (EFA) and the Higher Education Funding Council for England (HEFCE)). Many also believed that changes increased some costs, such as adjustments to MI and paper systems, and their overall view may be coloured by other changes which are increasing the volume of some work, such as sub-contracting administration.

Figure 8: Perceptions of bureaucracy – current and anticipated future burden of information requests

Would you say the burden on your organisation has increased or decreased this year?



In the future, do you expect the burden from these requests to increase or decrease?



Base: All respondents (481)

Future changes and impacts

5.10 In the qualitative interviews, senior managers were asked about their perceptions and understanding of the impact of the reforms on administrative costs. While few providers have perceived a reduced administrative burden to date, **some providers have noted fewer information requests and many expect the reforms to have an effect on bureaucracy over a longer period.**

5.11 The survey responses showed that in the future more senior managers believed administrative costs would decrease (20%) but this is offset by 30% believing it would increase. Fewer than half believed that administrative costs would stay the same (41%); this compared to 60% that believed that their administrative costs had not changed in the last year.

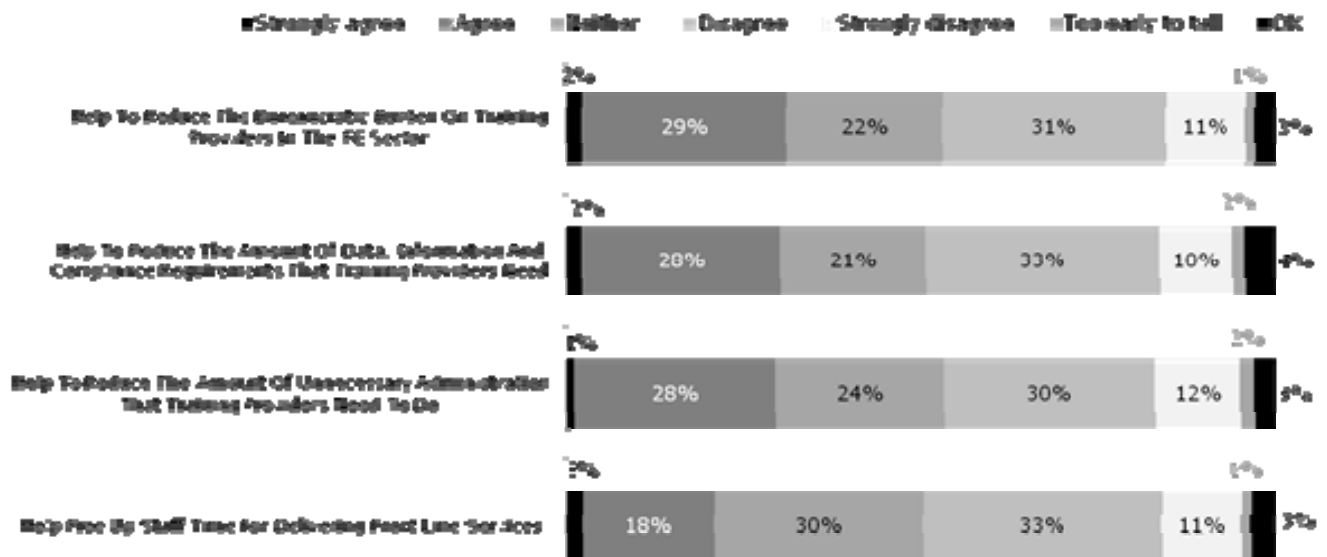
5.12 Providers were also more positive about the reforms streamlining their administrative processes. In the survey (shown in Figure 9):

- around three in ten providers felt that the reforms would reduce bureaucratic burdens on the sector, reduce the amount of data compliance needed, and reduce the amount of unnecessary administration required (compared to over four in ten who did not);
- around two in ten providers felt that the reforms would free up staff time for delivering front line services (compared to over four in ten who did not); and
- around a third felt that there would be no effect or did not know which suggests a large degree of uncertainty at this stage.

5.13 There does however appear to be scepticism of the impact the simplification will have on simplifying administrative processes and reducing administration costs. This can perhaps be attributed to a natural time lag for reduced burdens to filter through to internal systems, audit arrangements, and the requirements imposed by other agencies. In addition the impact of the Simplification Plan is felt by providers to pale into insignificance alongside other efficiencies that are being pursued, such as contracting out back-office services, sharing services, rationalising administrative arrangements with mergers and site closures, and introducing new more flexible working methods.

5.14 In the survey, private providers were much more positive than colleges about the impact of the reforms on their administration. Roughly similar proportions of private providers agreed and disagreed with the statements that the reforms would reduce bureaucratic burdens on the sector, reduce the amount of data compliance needed, and reduce the amount of unnecessary administration required. With colleges, roughly two colleges disagreed to everyone who agreed with these statements.

Figure 9: Perceptions of bureaucracy – attitudes towards the impact of the reforms



Base: All respondents (481)

- 5.15 Notwithstanding these perceptions about the effects on bureaucracy, providers generally had more positive views about the (wider) benefits of changes such as the introduction of simplified funding rates and the Single Adults Skills Budget (ASB)²⁶.

Measurement and assessment of changes of reduced burdens

- 5.16 This section draws on the six case studies that tested the method of measuring changes in bureaucracy as a result of the Simplification Plan, to identify actual changes and expected changes on the ground.

Changes made so far

- 5.17 The case studies show that providers are beginning to draw a few benefits in reduced bureaucracy and that more can be anticipated in the next few years as the Simplification Plan is implemented.

Adult funding systems

- 5.18 In the case study providers, the funding system changes had not yet brought about any noticeable reductions in costs. Changes to the programme funding streams and funding rates, for example, have not yet had any effect beyond making it easier to interpret guidance.
- 5.19 Providers generally recognise that the Funding Rules are simpler to follow *'but it needed a guide to changes to reduce the need for checking what has changed from current practice'*.
- 5.20 Providers with sub-contractors have noticed an increase in work with their registration. In part this is because of volume (the lower threshold value introduced and having more sub-contractors). This is also because they have, in one case, introduced additional checks themselves and applied the same requirements on all sub-contractors as *'part of their policy of improving quality'*.
- 5.21 For the community learning provider transferring Formal First Steps learning to the Adult Skills Budget (ASB) will increase enrolment administration because the data to be collected on enrolment will be greater than they have previously been collecting.

Regulation and audit

- 5.22 Some of the providers have made small reductions in administrative costs because of the removal of the annual Financial Management Controls Evaluation (FMCE). The value of this is estimated at £3,000-£6,500 in the WPV programme and at £1,500 in one of the case study providers in this project where it has stopped.
- 5.23 As far as the new guidance on evidence requirements for audit is concerned, most of the providers find this 'helpful', yet none can point to savings in recording and record keeping as a result of these so far. Several are concerned that 'at the discretion of the provider' is

²⁶ The Skills Funding Agency's annual provider survey in 2012 also found that 70% agreed that the new funding rules will help to remove bureaucracy.

not clear when auditors have different interpretations.²⁷ As a result, most of the case study providers had not yet made significant changes to the way they collect information for audit. This may be preventing some of the benefits of the changes from being realised, although it is likely that many of these issues will be overcome once providers become more familiar with the new requirements.

5.24 Providers have indicated other changes and differences between agencies which have had mixed effects. With the universal Apprenticeship Declaration and Authorisation Form, one provider estimates that the new form requires a third of the administrative staff time for each form than was previously spent on individual awarding organisations' declaration forms which generally required more information and were more varied.

5.25 Two case study providers have reported recording requirements to meet their understanding of Ofsted's needs which are in a different form to those needed for internal management or audit. Attendance monitoring is seen to be burdensome in the community learning provider because it has paper records from a large number of sites which have to be collected and input (occupying 3.5 FTE)²⁸. The other is a college providing destination data for a monthly B106 return to Ofsted, which differs from the destination data required for ESF learners and apprentices. This is costing the provider an additional £3,000 a year.²⁹

Data and reference systems

5.26 All the providers welcomed the single return for adult learners. But none of the providers produce data returns in line with the minimum requirements set out by the Skills Funding Agency and EFA which are monthly for 16-18 apprentices and quarterly for other learners aged 16-18 and adult learners. In most cases they do all returns monthly, in one case fortnightly, because:

- it is convenient to have regular returns on all learners whatever the programme so that staff get into a routine;
- it enables them to draw down funding; and
- the data is used for monthly monitoring of enrolments and income earned by senior managers so that they can *'manage with the greater flexibilities they now have'*.

5.27 As a consequence, most of them do more returns than they did previously but the programme of reporting is standardised. They do not believe this adds to their costs.

²⁷ The example given by one provider about ESF learner eligibility has led to a considerable loss of funding over its interpretation of the area of eligibility from the guidance.

²⁸ While Ofsted expect providers to be monitoring attendance data, they do not specify how this management information has to be provided at inspection.

²⁹ While Ofsted require this information at the point of notification of inspection, this is not needed monthly and the information can be provided in other formats (See <http://www.ofsted.gov.uk/resources/what-provider-needs-prepare-advance-for-short-notice-inspection> and paragraphs 69-77 of the inspection handbook <http://www.ofsted.gov.uk/resources/handbook-for-inspection-of-further-education-and-skills-september-2012>. The destination data should be of a higher quality than that required for the ILR which would be out of date and only covers level 3. However Ofsted has not made this mandatory.

- 5.28 Several noted that they collect less information on other learners (community learning, bespoke training) but one provider collects additional information at enrolment (mode of travel). All recognise that much of the data is needed for public accountability, evaluation and their own management.
- 5.29 The single data return is helpful although several providers indicated that there is a minor difference with the EFA returns. The EFA no longer requires a mid-year forecast estimate of outturn but they now have to collect information on the employment of part time 16-18 learners as they do for adults. The HEFCE return, which several of them do *'is more complicated'*.
- 5.30 Ad hoc requests from different agencies still occur but most of the providers believe these have reduced from the Skills Funding Agency because it provides 'less direction' and has fewer local staff. These requests can be irksome but they are not a considerable burden. They generally take less than an hour of time to complete. Providers would like to see progress in reducing the number of ad hoc requests maintained.
- 5.31 Improvements to the matching of the Unique Learner Number (ULN) to other records have been noted by several but not all of the providers. This was perceived to have been due to the improved matching software being used, rather than better recording in the learner records database. In one case study provider, it has fallen from around 30% who are not matched to 5% not matched³⁰. This has a significant effect, estimated at 10 minutes time to check on top of 30-35 minutes to enrol and check. This would therefore be a cost of approximately 5 hours' additional work per 100 learners for failed matches falling to approximately 50 minutes per 100 learners. One case study provider is collecting more information on previous addresses to improve matches which has a net saving on time spent.

Changes expected

Adult funding systems

- 5.32 The providers did not anticipate that the simplified funding rates will affect their administrative costs because forecasts of income are generated automatically; two of the college case study providers do not yet believe that the revised claim arrangements for Additional Learner Support will make a difference.

Regulation and audit³¹

- 5.33 None of the college case study providers anticipate that the shorter horizon on the financial forecast return (from three to two years) will make a noticeable difference to the time required on this. It may make a small saving in time because they would only do a shorter one-two year forecast for their own needs.³²

- 5.34 Providers did, however, expect that:

³⁰ In the WPV programme several of the colleges have also indicated additional costs for matching.

³¹ Focusing the Skills Funding Agency's audits on providers that are a higher risk will not provide any overall saving since the sample of providers is to remain unaltered.

³² Several of the colleges taking part in the WPV programme also indicated that they would continue.

- They may reduce internal audit costs with less prescription. However, maintaining compliance checks in one provider is '*a high priority to meet a wide range of needs ranging from inspectors to awarding organisations*' as well as their own quality assurance standards;
- Without the need to record data on the ILR such as guided learning hours (GLH), there could be a small reduction in audit time (internal and external) required to check eligibility for payment by the Skills Funding Agency. This may reduce sample sizes required or the time taken to check sample records; and
- They may expect auditors' interpretations of evidence requirements to take time to be reflected in practice.

5.35 Several providers have had changes to their costs of audit because the flexibility has increased volumes of adult learners undertaking shorter courses (typically unemployed learners). This will also apply to data systems and admission checks. The time taken to prepare for external audits is not likely to alter greatly, in all the providers it takes a few days' work to prepare for each one.

Data and reference systems

5.36 The providers were not clear whether an overall reduction in data fields will have a significant impact on administrative costs. This is because many fields are generated automatically from other fields, computations are automated, and some of the fields require little time to collect and verify information at enrolment.

5.37 They will incur set-up costs if data fields are changed, although in most cases these will not be additional costs. This is because they pay for updating systems with either internal staff or contracted software suppliers. Changes also slow down administration because, at the start, staff have to re-learn a process so the productivity of administrative staff and tutors is lower.

5.38 As stated previously, most providers recognised that data is required for accountability and management purposes, therefore to have most impact any changes to data fields would need to:

- reduce the amount of information collected and verified at enrolment;
- be fields which took up administrative staff time to enter, compute, check or audit; and
- not be required by another agency.

5.39 The providers believe that there would be a significant impact on administrative costs if the ULN were more widely used by the Skills Funding Agency, schools and awarding organisations for³³.

- matching the learner to pupil records to access prior attainment;
- preparing and checking examination entry and results data; and
- checking prior attainment/achievement from awarding organisation data in the Personal Learning Record.

5.40 As a consequence some anticipate administrative savings in future years. Providers also indicate that meeting the many differences in awarding organisation requirements adds to complexity and cost in examination administration.

Implications

Reductions (realised and anticipated)

5.41 The case studies provide evidence that the Simplification Plan is bringing and will bring some reductions in costs. These relate to removed administrative requirements, requirements that are easier to comply with, and new systems that replace existing systems and reduce the cost of compliance. But it is clear that this will vary between providers because of differences in volumes of learners, the current systems used, and what they perceive to be burdens.

5.42 They show that so far the changes have not had a significant effect for individual providers but there are several improvements which have brought savings in administrative time. First are the time savings from using the new Apprenticeship Declaration and Authorisation Form which, if scaled up to over 250,000 achievements a year (2011/12) would be considerable. If this were the case in all providers, this would be a 'saving' of around £850,000³⁴. Second is the improved ULN matching of learners after enrolment which, if scaled up to all new annual enrolments, would also be considerable. If this were replicated in all providers, it would be lead to a saving of £1.8million.³⁵

5.43 It is anticipated that savings will grow and be more significant as the Simplification Plan is implemented. This should come with reductions in internal and external audit/compliance checks in 2013/14 (local direction of internal audit and funding rule changes feeding through to audit requirements) and the common use of the ULN from 2013/14. Data field reductions on the ILR will only have more than a marginal effect if they affect data that is

³³ It is a goal that the ULN will be included in school data collections from January 2014

³⁴ This is based on assuming from the time taken that 24 a day can be processed by an administrator costing £20,000 a year. As a consequence, the unit cost of £5 would be reduced to £1.74. With an estimated 255,000 apprenticeship completions a year (2011/12 data), the saving is worth about £850,000.

³⁵ This is based on a time saving of 4 hours 10 minutes per 100 learners as indicated in the case study. With an estimate of 2.1 million enrolments (4.2 million learners in 2011/12 assuming half enrol each year) this would save 87,360 hours of work. Assuming an administrator costing £25,000 a year with 1,200 productive hours, the saving would be equivalent to 72.8 staff at a cost of about £1.8 million.

not needed by any agency as well as the provider and currently require administrative time to collect, verify and audit in 2013/14.

5.44 It is clear that the magnitude of cost reductions has been affected by the following:

- Some providers are continuing (or expect to continue) to collect information for their internal management purposes, such as GLH, and to have higher standards for collecting data than those set by the Skills Funding Agency, such as setting lower values for sub-contractors' registration;
- Providers find it more convenient to their needs to submit returns monthly to the Skills Funding Agency and EFA because senior managers need regular information for monitoring performance and spend;
- Automation has streamlined many procedures so changes, such as to data fields, can have a nil effect on a provider's administrative costs; and
- Perceptions of other agencies' requirements exceeding (or conflicting with) those of other agencies, such as for learner destinations and attendance recording (Ofsted), which are not in fact specified by them.

5.45 Compliance with ad hoc requests for information and seeking clarification of compliance requirements cannot be consistently measured although they appear to have a very limited effect on costs. Providers are likely to only notice the difference where they can save on unit costs for high-volume activities, such as enrolments and apprenticeship declaration forms.

5.46 As a consequence to optimise the benefits of the Simplification Plan on administrative costs, it will be important for the department and the agencies to:

- ensure that internal and external auditors reflect the evidence requirements specified by agencies in practice so that this is not left to various interpretations which increase administrative costs in some providers;
- ensure that auditing reflects changes in data requirements with the simplified funding rules and rates e.g. GLH;
- prioritise actions which will affect high volume administrative activities where time is expended in collecting, verifying and auditing so the baseline cost is high. This appears to be the case with examples drawn out from the case studies; and
- continue to work together to standardise their requirements.

Impacts

5.47 The current and anticipated reductions in administrative costs will largely have an effect on efficiency and effectiveness in administrative functions. They are likely to be too small in many individual providers to bring economies in staffing or payments to contractors. Although, as has been described above, saving time on a high volume activity may provide economies which can allow providers to switch staff costs to the front-line.

5.48 In general, the positive benefits to providers will be that they enable staff to be available to take on other work or additional work which would increase their efficiency and effectiveness. Some of the further changes expected to be implemented in 2013/14 and 2014/15 should increase the level and extent of impacts.

5.49 It is clear from the case study providers that these impacts (and the scale of administrative reductions) will vary between providers because of other factors:

- The type of provider: for example community learning providers will not benefit from ULN improvements as much as colleges because they have more recently started using ULNs and it is more time consuming than previous enrolment requirements;
- The volume and scale of learners: for example, some colleges may have few apprentices and a lot of learners on short courses, while a private provider may largely have apprentices. Economies will only be achieved in providers with large volumes of learners;
- The management information needed within the provider (known as 'gold plating'): for example collecting additional information than that needed by an agency; and
- The extent of automation: for example, it appears that there are differences in the extent of computerised/paperless systems in providers (e.g. collected/recorded on paper from enrolment; scanned signature accepted instead of inked or a recorded oral acceptance; information shared with inspectors and auditors through sharepoint systems).

5.50 For some of the providers, the savings brought about by the Simplification Plan have been offset by other changes made during the last two years which have increased administrative costs. These include:

- in some colleges the administration of 16-18 bursaries, which require assessment and payment by the college, requires a considerable amount of staff time. Colleges did not carry out this work when administering education maintenance allowances (EMAs);
- the lower threshold for sub-contractor registration;
- increasing requirements for colleges to share data between schools, local authorities and other providers to promote outward accountability;
- the transfer of Formal First Steps learners to the ASB; and
- the new rules on apprenticeship framework completions for those aged 16-18 which require a minimum of one year's learning.

5.51 As a consequence providers may always find it difficult to separate the effects of the Simplification Plan on their administrative costs from changes, such as those described above which they believe affect their administrative costs.

Reducing bureaucracy in the context of the reforms

- 5.52 Although the survey indicates that most providers are not yet positive about the effect of the reform programme on their bureaucracy; more are positive about the potential future impact than the impact to date. This might be expected since few of the changes in the Simplification Plan have been fully implemented and more will happen in 2013/14.
- 5.53 The case studies show that providers are beginning to draw a few benefits in reduced bureaucracy and that more can be anticipated in the next few years as the Simplification Plan is implemented:
- for individual providers, several improvements have brought savings in administrative time which if scaled up across the sector would be considerable savings;
 - savings should grow with more significant reductions in internal and external audit checks in 2013/14, the use of the ULN by awarding organisations from 2013/14, and myth busting about requirements, such as destination data for Ofsted and the weekly collation of attendance data largely for the benefit of inspectors which are not mandatory requirements; and
 - other savings can be achieved in individual providers by checking that their administrative activities, such as on community learners' attendance recording and learner destination data, are required by external agencies if they are not meeting internal needs.
- 5.54 It will be important that there is effective implementation of the remainder of the Simplification Plan and that the agencies focus on high volume administrative activities which require time for collection, data entry, checking and audit as well as improving communications to correct perceptions of requirements.
- 5.55 The magnitude of these savings will also depend on the size of the provider, its own consideration of 'burden' (i.e. will it stop carrying out something which it is no longer required to do by an agency?) and 'gold plating' (i.e. will it stop adding requirements to meet internal compliance needs?), its automation, and its systems in place to use savings to improve efficiency and effectiveness. In some cases the scale of savings are also reliant on providers developing IT systems that take advantage of new opportunities to collect and submit electronic evidence.

6. Teaching and learning

- 6.1 'New Challenges, New Chances' outlines a commitment to ensure all learners have access to high-quality teaching and learning. In his recent report on Professionalism in Further Education (October 2012) Lord Lingfield criticised the bureaucracy involved in teacher training and continuing professional development. Successive Annual Reports of Her Majesty's Chief Inspector of Education, Children's Services and Skills have found that there is too little outstanding teaching and learning and a third of provision is satisfactory or inadequate. In order to tackle this issue, Ofsted proposed to shift its focus on the quality of teaching, learning and assessment in inspections, paying particular attention to how well teaching develops English and maths skills. The reform programme also outlined a range of activities to support providers to increase the quality of teaching and learning, including encouraging Governors to play a more active role in monitoring teaching and learning. An independent Commission on Adult Vocational Teaching and Learning was established to identify what providers need to do to deliver high-quality learning opportunities for adults and apprentices³⁶. The commission published its report '*It's about work...Excellent adult vocational teaching and learning*'³⁷ on the 25th of March 2013. The newly formed Education and Training Foundation has been tasked with taking forward the recommendations of the Commission, and address the shortcomings identified by Lord Lingfield, as part of its role as a sector led body responsible for improving professionalism and the standards of leadership and teaching in FE.
- 6.2 This chapter sets out the emerging picture of how the reforms are impacting on teaching and learning. It also provides a baseline position of current practice within the sector regarding quality in teaching and learning.

Increasing the focus on teaching and learning

The level and drivers for quality improvement in providers

- 6.3 All the providers that participated in the qualitative interviews stated that teaching and learning was a central part of their future strategies and plans. Most stated that they were undertaking activity to improve the quality of teaching and learning in their institution. In the survey **nearly all providers (90%) had made changes in the last year to improve their teaching and learning** (see **Figure 10**). Providers with a lower inspection rating (satisfactory or good) were more likely to have made changes to improve their teaching and learning.
- 6.4 The factors driving improvements in the quality of teaching and learning varied significantly. The most common driver was as a response to a need for improvement that was identified internally (stated by 62% of providers).

³⁶ Reforms to FE workforce regulations due in September 2013 will mean that employers have responsibility for deciding the quality of teaching staff they recruit, further strengthening local flexibility (Teaching and Training Qualifications for the further education and skills sector in England, LSIS 2013).

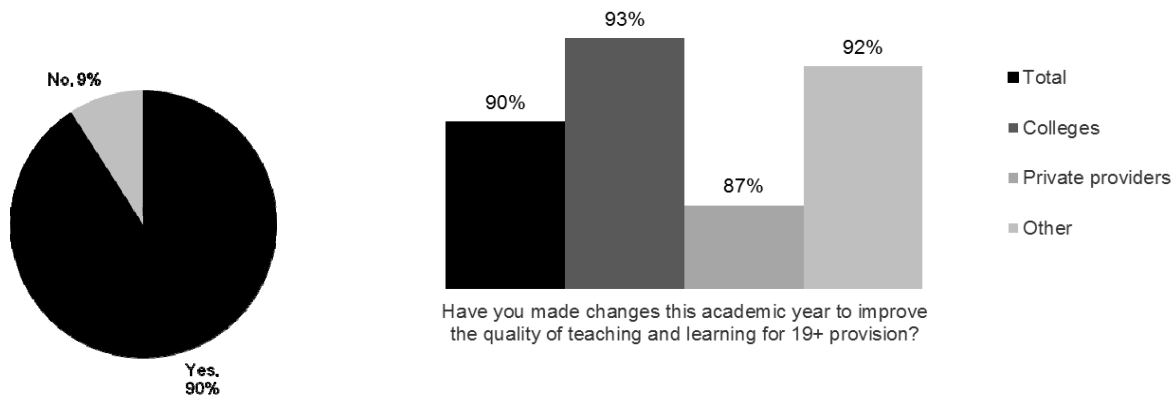
³⁷ It's about work...Excellent adult vocational teaching and learning, Commission on Adult Vocational Teaching and Learning, 25 March 2013. Available at: <http://www.excellencegateway.org.uk/cavtl>

6.5 A significant reported influence on providers was also the revised inspection standards, introduced by Ofsted in 2012 which stated:

- 'Good' is the minimum standard expected from schools and colleges; and
- To be judged 'outstanding', a provider must have outstanding teaching.

6.6 In the survey, 22% of providers stated that this was the main driver for changes to improve quality in teaching and learning. This also explains why providers with a lower inspection rating were more likely to have made recent improvements.

Figure 10: Whether providers made any changes to improve teaching and learning



Base: All respondents (481), Colleges (169), Private providers (216), Other (96)

6.7 The FE reform plan was not generally reported by providers as having a direct influence on their approach to improving teaching and learning. Providers perceived the reforms to be focused on increasing freedom and flexibility and simplifying the FE system, rather than addressing the quality improvement agenda. As a result only 1% of survey respondents and a few of the providers that participated in the qualitative interviews saw the reform programme as the main driver for improving teaching and learning quality.

6.8 However, in the qualitative interviews and case studies there was evidence that the reforms are a stimulus that encourage and/or enable providers to address their own teaching and learning priorities. In particular:

- A few providers reported that they had begun to review teaching and learning in order to prepare for the introduction of the 24+ Advanced Learning Loans. These providers saw quality as an important way in which they market themselves. The loans were expected to put greater purchasing power in the hands of learners and therefore they felt it was necessary to improve inspection grades and the learner experience to distinguish themselves from other local competitors.
- For some smaller providers, the need to expand their offer and win new contracts had also led them to make improvements to teaching and learning. These providers were

primarily apprenticeship providers which planned to expand their offer into new sectors. They aimed to improve the quality of teaching and learning in their organisation as quality assurance and inspection grades were considered to be an important criteria that influenced the commissioning decisions made by funding agencies and colleges.

- 6.9 There are other areas where elements of the reform programme are likely to increase providers focus on teaching and learning in future. For example, an increased focus on outward accountability may potentially have the most profound effect as it will facilitate greater scrutiny of a provider's inspection grades and quality standards.
- 6.10 The fact that the majority of improvements in the last year have been driven by needs identified by providers themselves highlights a fairly widespread, systematic approach to internal quality improvement. This is in line with what might be expected from a set of reforms that increase provider autonomy and create expectations (for example, through the role of governors) for strengthened strategic planning.
- 6.11 It is difficult to assess the scale of change here given that all providers emphasise the importance of teaching and learning quality and few would typically describe this as being a new or increased priority (providers reported that it is central to everything they perceive themselves to be doing and always has been). This also explains the perception among providers that the reforms are not a direct influence on teaching and learning quality, even though the indirect impact appears to be significant. If the reforms are having a positive influence in this area, it might be expected that, in future, the proportion of changes that take place as a result of internally-identified need would increase.

The role of Governors in monitoring the quality of teaching and learning

- 6.12 In the qualitative interviews only a few colleges reported that the role of Governors had changed as a result of recommendations in the reform programme. This was primarily because most colleges believed that their Governors already played an active role in providing guidance during the inspection periods and in scrutinising the results of satisfaction surveys and therefore they did not need to change their approach.
- 6.13 Some colleges did however believe that the reforms had led to an increased focus on teaching and learning issues in Governor meetings. One large FE college, for example, reported that *"it has recently been pushed up the agenda"* and that its Governors were far more interested in understanding the strategy and approach that the provider was undertaking to improve quality and learning.

General approaches to improving teaching and learning quality

- 6.14 The survey provided an overview of current practices across the sector in maintaining and improving teaching and learning quality. Maintaining high quality teaching and learning is obviously a general priority for all providers. For many, the driver is to achieve a high Ofsted rating which is often used as an important tool by providers to promote their services to learners and employers. Many private providers in particular also believed that quality is an important way to achieve credibility with employers. As one small private provider stated *"it shows we are not just some fly-by-night outfit"*. Improving quality also had a positive impact on retention and success rates which ensures a higher proportion of learners have a good learning experience and also helps the provider to generate income.

6.15 Providers use a range of methods to monitor teaching and learning in their organisation. This includes:

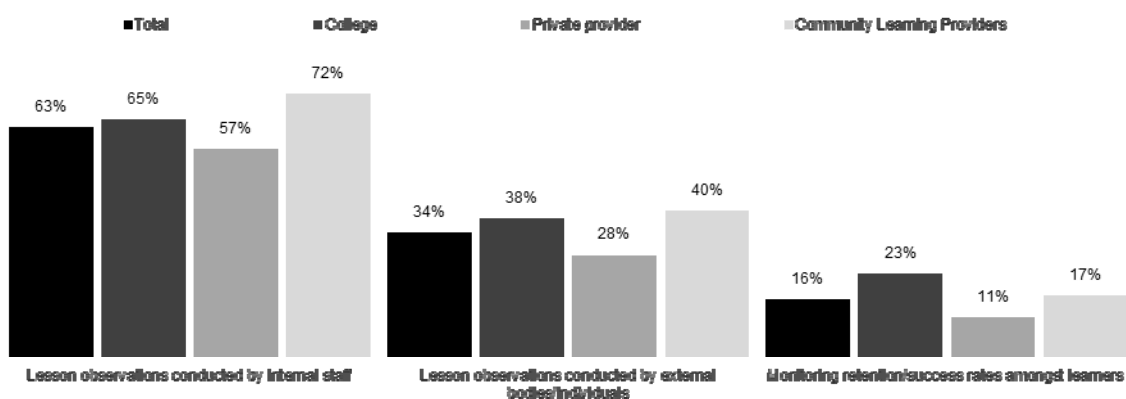
- Lesson observations conducted by internal staff;
- Training on pedagogical methods and the use of new technology;
- Development of industry skills through sector training and placements in industry;
- Staff from other providers conducting lesson observations; and
- Teacher mentoring schemes.

Providers regarded lesson observations as the most important tool for monitoring and improving quality (mentioned by 63% of providers, as shown in Figure 11). This was consistent across all types of providers, but slightly higher for colleges and community learning providers.

6.16 It was evident from the qualitative interviews that external lesson observations had also become an increasingly important method for providers to monitor quality. Many providers stated that they had introduced new systems to increase the level of external lesson observations. Some worked in partnership with other local colleges to share expertise or brought in external experts. Having an 'outside view' was felt to be important as it enabled providers to gain a better understanding on how their approach differed from other institutions, and was considered to be more subjective than internal assessments. As one medium-sized FE college stated *"it brings a fresh perspective, and we find they often identify things that we miss"*.

6.17 Continuous Professional Development (CPD) and staff personal development plans were regarded as less important ways of monitoring and improving teaching quality. Less than 5% of providers reported that this was the most important way in which they monitor and improve teaching and learning.

Figure 11: Main methods of monitoring and improving teaching and learning



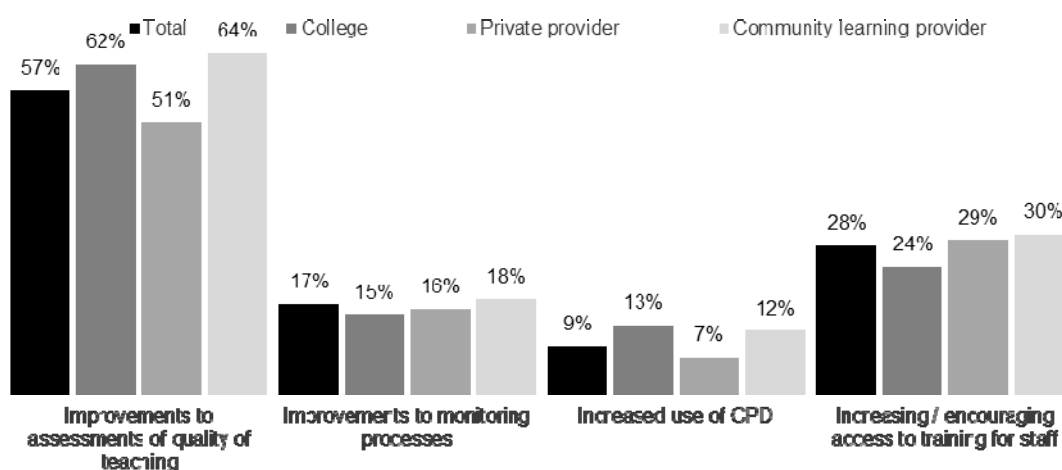
Base: All respondents (481), Colleges (169), Private providers (216), Community Learning Providers (169)

Changes made by providers to improve teaching and learning

Changes made to processes for monitoring and improving quality

6.18 The most common changes that were made to processes for monitoring and improving quality were to the assessment of teaching and learning (cited by 57% of providers). Providers adopted a range of approaches in this regard. For example, one Principal asked all senior managers to undertake periodic inspections of classes. They found that this provided teachers with different feedback, as senior managers could offer a different point of view to their usual inspectors (who were typically other teachers in the same department). It also gave senior managers a better understanding of the quality of teaching and learning in the organisation.

Figure 12: Changes that were made to improve teaching and learning



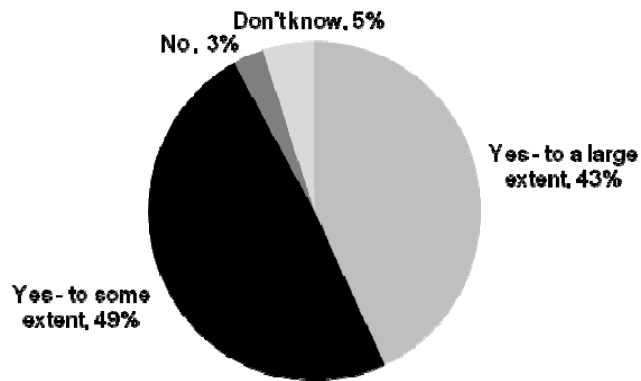
Base: All respondents who said they had made changes to improve the quality of teaching and learning (434)

6.19 **There were also examples of providers developing more structured processes for identifying learning needs and prioritising lesson observations.** For example, some providers reported that they had changed their approach to conducting lesson observations and targeted their observations on those that were new in post or where there were significant improvement points identified in previous inspections.

6.20 Overall one third (36%) had also made improvements to training processes. In total, 9% of providers had increased their use of CPD and 28% had increased the access to training for staff which chimes with the goal of developing the subject-specific knowledge and skills of staff among providers. As

Figure 13 shows, the changes made are felt by providers to be having an impact on improving teaching and learning. In just under half of providers (43%), the changes were perceived to be having a significant impact.

Figure 13: Whether the changes had a positive impact on teaching and learning



Base: All respondents who said they had made changes to improve the quality of teaching and learning (434)

7. Community learning

- 7.1 The FE reform plan stated that while community learning should continue to be universal and offer a wide range of learning opportunities to all adults in England, the public subsidy given to providers for community learning should focus on supporting access and progression for those who are disadvantaged and furthest away from the labour market. It reaffirmed the principle of the Skills for Sustainable Growth Strategy that *“those who can pay, should pay”* and public funding should be *“refocused on those who need it most”*.
- 7.2 The reform programme also stated that community learning should strengthen community cohesion and be accountable to local communities. In particular, it was expected to:
- Bring together individuals from different backgrounds, including those that can and those that cannot pay for their course;
 - Use effective local partnerships to bring together local stakeholders and providers, and devolve planning and accountability to local community level, with local people; and
 - Use public funding to support disadvantaged people to learn and progress.
- 7.3 The Government also commissioned 15 community learning trust pilots across England to trial new approaches to working with community partners and to explore new delivery models. The pilots began delivery in the 2012/13 academic year. From August 2013 all directly funded providers of community learning will be required to work in this way.
- 7.4 As well as planning and delivering a more locally responsive learning offer, community learning providers will be required to maximise value for money by using the public funding they receive to:
- Focus public funding as a lever for additional funding, e.g. through fee income, sponsorship, grants, funding from other government departments and/or commercial sales;
 - Secure savings, e.g. from contributions in kind, using volunteers, sharing services and/or pooling resources; and
 - Re-invest in additional classes for the most disadvantaged groups in their communities.
- 7.5 This section explores the extent to which community learning providers are responding to the priorities stated in the reforms.

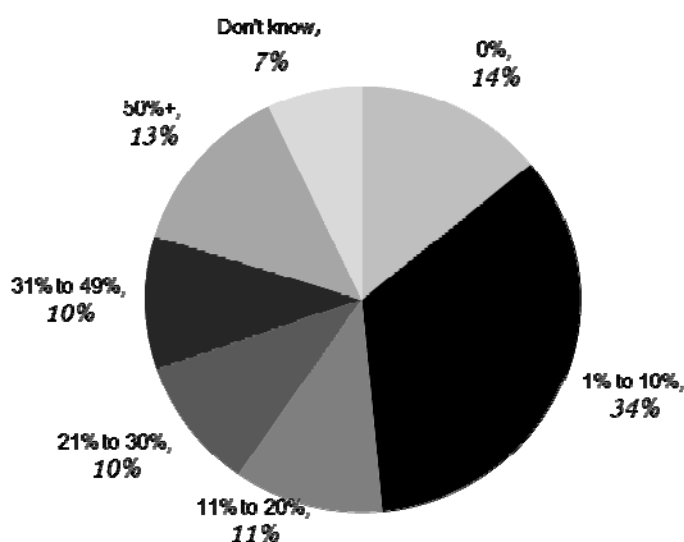
Fee income in community learning providers

- 7.6 Nearly all the community learning providers supported the overall objectives of the reforms and had plans to increase the income they receive from learner fees. For many, the reform programme did not signify a change in approach but rather a continuation of plans that had

been in place for over four years, driven by Skills Funding Agency/Learning and Skills Council funding statements. As a result, many providers had relatively mature strategies in place.

- 7.7 As shown in Figure 14, the level of income that community learning providers receive from learner fees varies considerably. In a minority of providers (13%), learner fees account for over 50% of total budgets. However, for most providers it accounts for less than 30% of the total budget and for half (49%), it accounts for 10% or less. This partly reflects the diversity of community learning strategies. Some, for example, will focus a greater proportion of their provision on working with disadvantaged groups and therefore do not expect to achieve high learner contributions. In addition, the fee remission offered to disadvantaged learners varies and this also influences the level of learner income that providers generate.

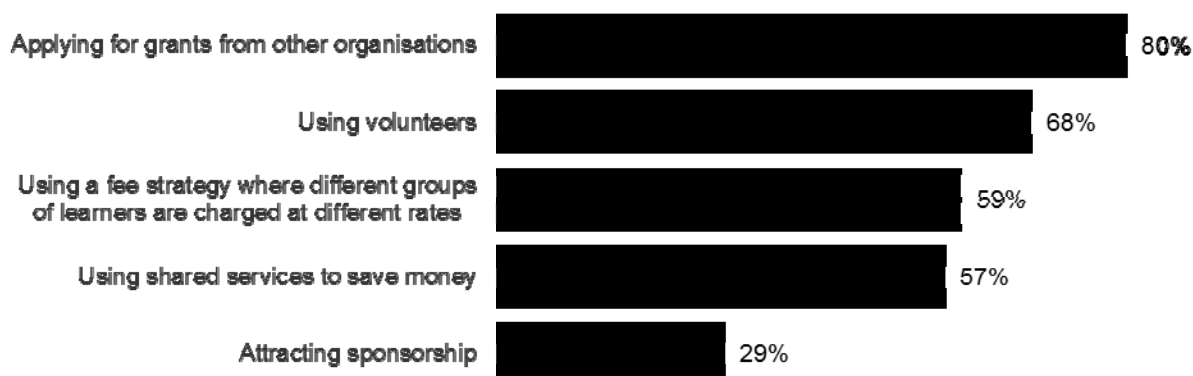
Figure 14: Proportion of Community Learning income which comes from learner fees



Base: All community learning providers (169)

- 7.8 Many providers aimed to increase fees by introducing incremental increases in the cost of the classes. Significantly, a few providers sought to be innovative and introduced new subject lines and new partner provision to expand their offer. Many did this by drawing funding from new funding streams, such as ESF (reported by 80% of respondents, as shown in Figure 15). Most of the providers who reported drawing funding from new funding streams were also participating in the community learning trust pilots and this potentially gives an important signal of the future benefits from this delivery model.
- 7.9 Some providers also sought to generate efficiencies through using volunteers (cited by 68% of providers) and over half (57%) used shared services which is a much higher proportion than for the FE sector as a whole.

Figure 15: How Community Learning providers are attract savings or additional funding



Base: All community learning providers (169)

7.10 Additional funding or savings outlined above were typically being re-invested, to some extent, in community learning by providers. Indeed, two-fifths (43%) said that they were putting all of the additional income or savings into community learning. The proportion re-investing the full amount was lower in colleges (25%) than in non-colleges (61%). This suggests that community learning is, in some colleges, seen as part of a learning portfolio, with any savings or extra revenue generated being sucked back into the college's wider running costs.

Key priority groups for community learning providers

7.11 Most community learning providers have clear plans in place for targeting disadvantaged groups. This varies by local area but in the current economic climate nearly all (97%) see low-waged, low-skilled and unemployed people as key priority groups. Over three quarters of providers (79%) were working with people who are socially or geographically isolated, while almost nine out of ten community learning providers (86%) were focusing on people with learning difficulties and/or disabilities. Four out of five (80%) providers were trying to work with people experiencing mental or physical health issues.

7.12 Providers were also focusing on specific target groups. Three quarters (76%) were attempting to focus on disadvantaged people from black or minority ethnic groups, with the same proportion (76%) targeting lone parents. Young people were also in scope, with over two thirds (69%) providers aiming at working with residential care leavers and other disadvantaged 19-25 year olds. A similar proportion (67%) were working with disadvantaged older people. As such, it seems that providers are supporting a broad customer base which supports the objectives of 'New Challenges, New Chances'.

How Community Learning providers assess supply and demand

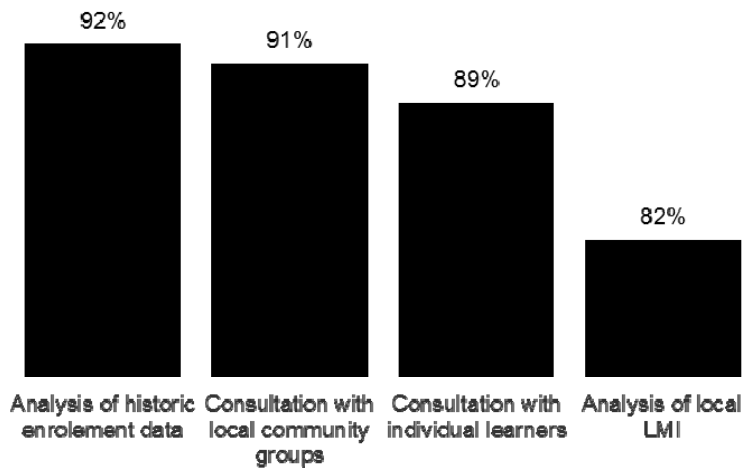
Current systems for assessing supply and demand

7.13 In the qualitative interviews it was found that providers had well-established systems for identifying needs which drew on market intelligence gathered from local public bodies and third sector organisations. Few providers saw a need to change their processes for

identifying need as they were already believed to be in line with the expectations of the reform programme. This is reflected in the survey responses, where over half (58%) of providers reported no change to their approach for assessing supply and demand.

7.14 The survey also found that there were a range of approaches employed by community learning providers to assess supply and demand. The most common sources of intelligence include analysis of previous enrolment data (cited in 92% of providers), consultation with local community groups (91%) and learners (89%).

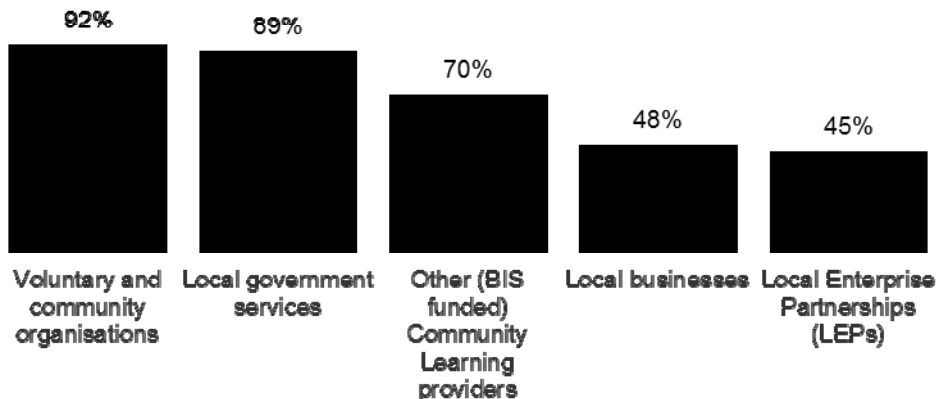
Figure 16: Methods used to assess supply and demand



Base: All community learning providers (169)

7.15 Among those who consulted with local groups or individual learners to assess demand, nine out of ten (92%) consulted voluntary and community organisations and 89% consulted with local government services (such as local authorities and local health services). This is shown in Figure 17.

Figure 17: Groups consulted by community learning providers to assess demand

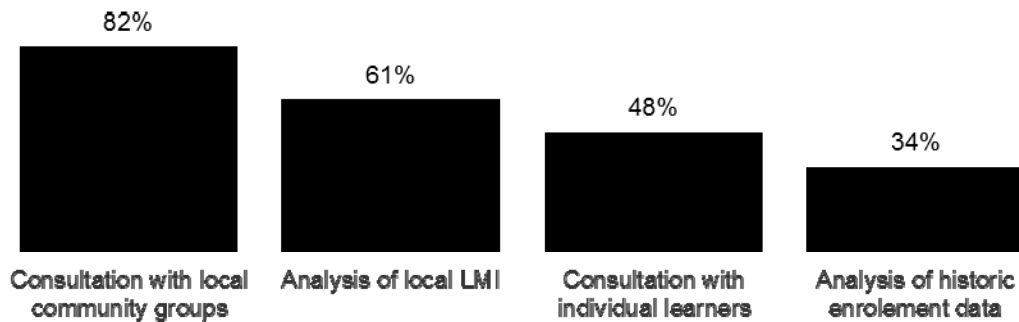


Base: Community learning providers who consulted with local community groups and individual learners ('consultation with local community groups' or 'consultation with individual learners') (162)

7.16 Most of the providers that had changed the way they assess supply and demand in the last year were adapting their approach to consulting with local community groups (82%). This is in line with the overall objectives of the reform programme. There were no significant variations among different types of provider and size of provider, though base sizes for these sub-groups are small.

7.17 There were examples in the qualitative interviews of the community learning trust model changing the way in which stakeholders are engaged in planning. Many reported that it led to more 'active' relationships. For example, some learning providers developed new steering groups and partnerships to identify priorities for community learning. In these examples it was felt that the trust model was felt to have led to a significant change in approach.

Figure 18: Areas in which assessing supply and demand have changed



Base: Community learning providers who said they had changed the way in which they assess supply and demand this academic year (67)

8. Competition

- 8.1 Effective competition in the FE sector drives up quality, customer focus and responsiveness, which provides benefits to employers and learners. A competitive market can be characterised as a market in which employers and learners have sufficient information to make informed decisions on their learning options, where in each locality there are a range of providers and new providers can enter the market, and where there is healthy competition on price and quality.
- 8.2 '*New Challenges, New Chances*' sets out proposals that support competition by:
- Creating a dynamic and deregulated sector that will give providers more flexibility in how they respond to market demand;
 - Put greater purchasing power in the hands of learners (through the introduction of 24+ Advanced Learning Loans) and employers (through the Employer Ownership Pilots and the proposed funding reform for Apprenticeships in England³⁸); and
 - Creating the National Careers Service to increase the information available to learners on careers and skills so that they can make more informed decisions on training.
- 8.3 This chapter sets out how competition works in the sector and the potential impact of the reforms in terms of competition in FE. In particular it explores:
- The way in which the market operates, and the effect of different factors influencing competition in the sector. Specifically, the study examines:
 - How geographic distance influences the extent to which providers can compete with one another (geographical constraints);
 - The characteristics of the 'product' (training) that is being traded by providers and how this supports or restricts competition (product constraints); and
 - The characteristics of providers and the effect this has on the extent to which competition can take place (provider constraints).
 - How competition influences provider business plans in terms of the curriculum offer, pricing, delivery and the number of places offered;
 - Whether there are sufficient signals from the market (demand for learning and skills from employers and learners) to influence the provider response; and

³⁸ A consultation on funding reform for apprenticeships in England, DFE and BIS, July 2013

- How the market has or could in future change as a consequence of the reforms and other proposed policy changes.

8.4 The chapter draws on information from the competition case studies, analysis of the learner enrolment data and college accounts data from 2011-12, and information gathered from the qualitative interviews and quantitative survey.

8.5 A reference document on competition issues (Competition issues in the Further Education sector) for providers has also been produced as part of this project.

Characteristics of the FE market

8.6 For the purpose of this study, the FE market is defined as the training delivered by providers, which is predominantly post-16 academic and vocational training. The analysis of competition includes all the types of services delivered by providers, including provision for young people (such as A-levels and apprenticeships) and higher education training which is at level 4 or above.

8.7 In order to analyse provider approaches to competition, it was necessary to consider the FE market as a set of distinct market segments which have different characteristics. These are:

- A young people sector for learners aged under 24 that are eligible for fully-funded training, including 16-19 apprenticeships;
- An adult co-financed sector for vocational training and adult apprenticeships;
- An adult full cost sector for vocational training;
- A higher education sector for adults; and
- A sector for employability, first steps and basic skills training.

8.8 The level of competition varies between these market segments, as do provider responses to competition. The sectors are to some extent interrelated. For example, many providers offer training that is open to adults and young people and the demand from both of these groups of learners determines the viability of the course. However, the way in which providers market the training to different groups and the decisions they make on pricing and delivery were felt to vary by these market segments.

Size of the market

8.9 The size of the FE market is estimated to be £23-24bn per year. This includes over £10bn of public funding³⁹, of which:

- £3.1bn of funding is from BIS⁴⁰ for adult skills and apprenticeships;

³⁹ Information from the college accounts data 2011-12, Skills Funding Agency, 2013.

- £6.3bn is from the Education Funding Agency for 14-19 provision;
- £621m is from HEFCE for higher education;
- £266m is from other funding bodies and agencies: and,

A further £13-14bn is from private investment in training, which includes:

- £11.6bn⁴¹ in employer investment for training that is 'externally tradable'⁴²; and
- Nearly £2bn of household spend on training⁴³.

8.10 FE providers derive the majority of their income from public funding. The college accounts for 2011-12 show that, on average, around 85% of FE college income is received directly from public grants. Most colleges gain around 5-10% of their income from employer and learner contributions, with the median amount around 6%. Private providers interviewed as part of the evaluation also stated that they gain the majority of their income from Government bodies and agencies. As a result, most providers are likely to see the state as their main customer.

8.11 The majority of private investment in training is made to smaller training providers that do not receive FE funding. These include consultancy companies, product manufacturers and niche training providers. For many of these organisations, training is only one of a number of products and services they provide⁴⁴.

The size of each segment of the FE market

8.12 The **young people market** is the largest sub-market for FE providers, with income for young people learning generally estimated to make up 60-80% of provider income. This is relatively consistent across all colleges and most private providers.

8.13 As a result, the young people market is often the most important influence on providers' future plans, particularly when considering new expansion projects. Often, the viability of new buildings and introduction of new delivery vehicles, such as an online learning platform, depend on being able to attract a sufficient volume of young people. In many instances if services were targeted specifically at adults they would be unlikely to attract sufficient volumes of learners to be sustainable.

8.14 Most providers have a relatively large **co-financed market** which encompasses full-time career entry courses as well as shorter, industry-specific training (such as accountancy

⁴⁰ This is an estimate based on the amount of public funding provided to FE colleges. It includes the £2.8bn that was allocated to the Adult Skills Budget and £211m that was allocated for community learning (BIS Skills Investment Statement).

⁴¹ Employer skills survey, UKCES (2012)

⁴² Externally tradable is used to define training that is purchased from other organisations. It makes up 28% of the £42bn that employers were reported to invest in training

⁴³ Living Cost and Food Survey, Office of National Statistics (2011)

⁴⁴ The private training market in the UK, IFLL (2009)

courses), and leadership and management courses. In the co-financed market, many providers have specialised in particular types of training, where they have a broad sector offer. This enables providers to build expertise in the subject and also recruit sufficient volumes of learners to generate economies of scale. It is important to note that there is significant variation in the fees that providers charge to employers. Many providers charge employers considerably less than the 50% contribution they are expected to make to the cost of training.

- 8.15 The **full-cost market** for providers was generally felt to be quite small. It includes and is heavily dependent on courses that are a legislative requirement for employers, such as first aid and food safety, or nationally recognised courses such as PRINCE2. Many providers believed it was difficult to grow the full-cost offer, because:
- Demand from employers is primarily for short, bespoke courses and these courses can often be expensive for providers to develop. This means that the prices providers charge are relatively high. Providers often need to develop new course materials and send staff for training. As a result, many employers choose to access training delivered by small consultancy companies or product suppliers who already have the subject expertise and are therefore able to offer the training at lower cost.
 - Many employers also want to access low-cost training and therefore choose to access co-funded training that can be offered at a lower cost, or in some cases free of charge, even if the training is less tailored to their needs. As one medium-sized FE college stated, *“employers that come to us generally expect some free training”*. As a result, the propensity of subsidised training actually reduces demand for full-cost training.
- 8.16 The **employability, first steps and basic skills market** is relatively small, but for colleges it is a major part of their mission statement and therefore is considered an important part of their offer. For some more commercially-minded providers, it is also seen as a key recruitment tool. Many learners can progress onto longer courses and apprenticeships, which justifies expanding their offer in the area, even if the margins for delivering the training are low.
- 8.17 **Higher education** is a small part of a providers' overall offer. Public funding to deliver HE provision (either directly through HEFCE or sub-contracted from a university) makes up around 5% of colleges' total income. However it was widely considered to be an area with potential for growth and a particular avenue for providers to increase learner income.

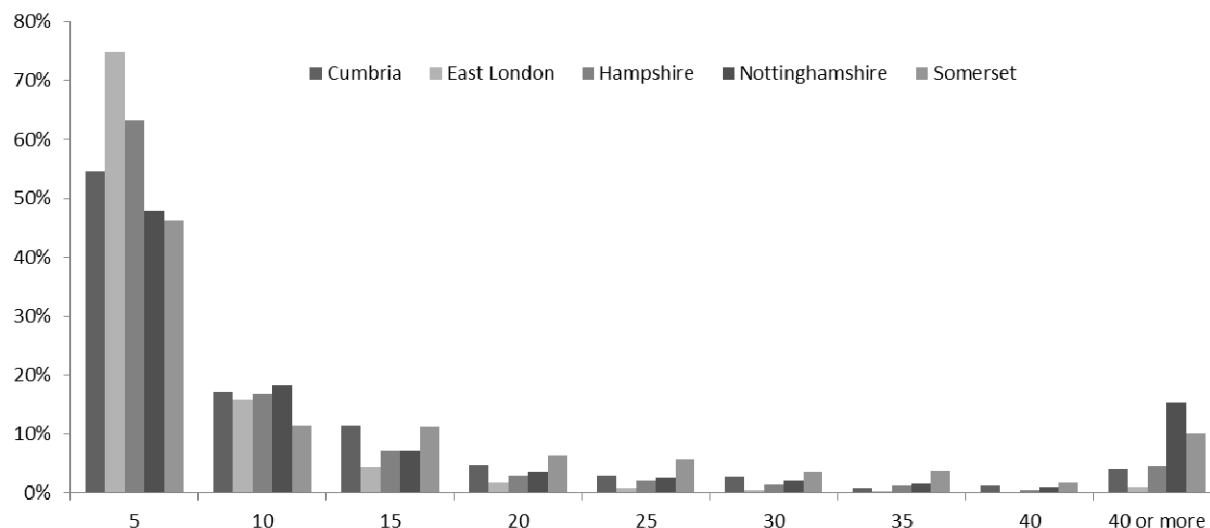
The geographical markets in which FE providers operate

- 8.18 The FE market can be considered as primarily a series of local markets that are broadly defined by travel to learn patterns. Learners primarily limit their choices to providers that they can reasonably commute to on a regular basis. As a result, geographical markets are often based on transport links and are largely centred on urban hubs.
- 8.19 Most providers are strongly reliant on a geographically small core market. In the case studies, around half of learners are recruited from within a five mile radius of the provider. This reflects that location and convenience is an important consideration for learner choice. However, most providers also recruit a reasonable proportion of learners from

outside what could be defined as a local city or town area. In the case studies, around 20% of learners are recruited from further than 15 miles away and around 9% are from over 40 miles away.

- 8.20 The size of this core market varies by market segment. In the young people and HE market segments, learners are primarily recruited from a small geographical area, generally around a city or town area, or from a collection of local villages. In addition, learners accessing employability and first steps provision are also recruited from a smaller geographical area. For these groups of learners, location is an important factor influencing learning choices.
- 8.21 Employers that undertook full cost or co-financed provision were generally recruited from a larger geographical area. In many instances, providers stated that they aimed to recruit employers across a sub-regional or regional level. This was because employers were perceived to be willing to travel further to access good quality training.
- 8.22 It was apparent that most providers do not compete in another providers' 'core' area. In these areas, it was often considered difficult to compete with well-established existing providers. Providers would generally not move into a new area unless there was a strong 'need to action', which would generally be if the local college was failing or if there was a need for particular specialist training. In general, providers competed in areas where there was no dominant incumbent – essentially, in the geographic areas between providers.
- 8.23 In these areas, provider market shares can vary. Some providers in the qualitative interviews reported that they recruited a high proportion of their learners from outside their local area. In many instances this was because the reputation of the college and its perceived sector expertise encouraged learners to travel from further afield.
- 8.24 It is notable that this distribution was largely consistent across different types of urban and rural areas. However, there are slight variations. In East London, a relatively high proportion (75%) of learning were from within five miles of the provider, but this is primarily due to the high population density in London and also competition from a range of providers that are based slightly further away. In more rural areas (such as Cumbria and Somerset), it is unsurprising that a slightly lower proportion of learners came from within five miles of their institution.

Figure 19: Distance travelled by learners to undertake training in the five case studies



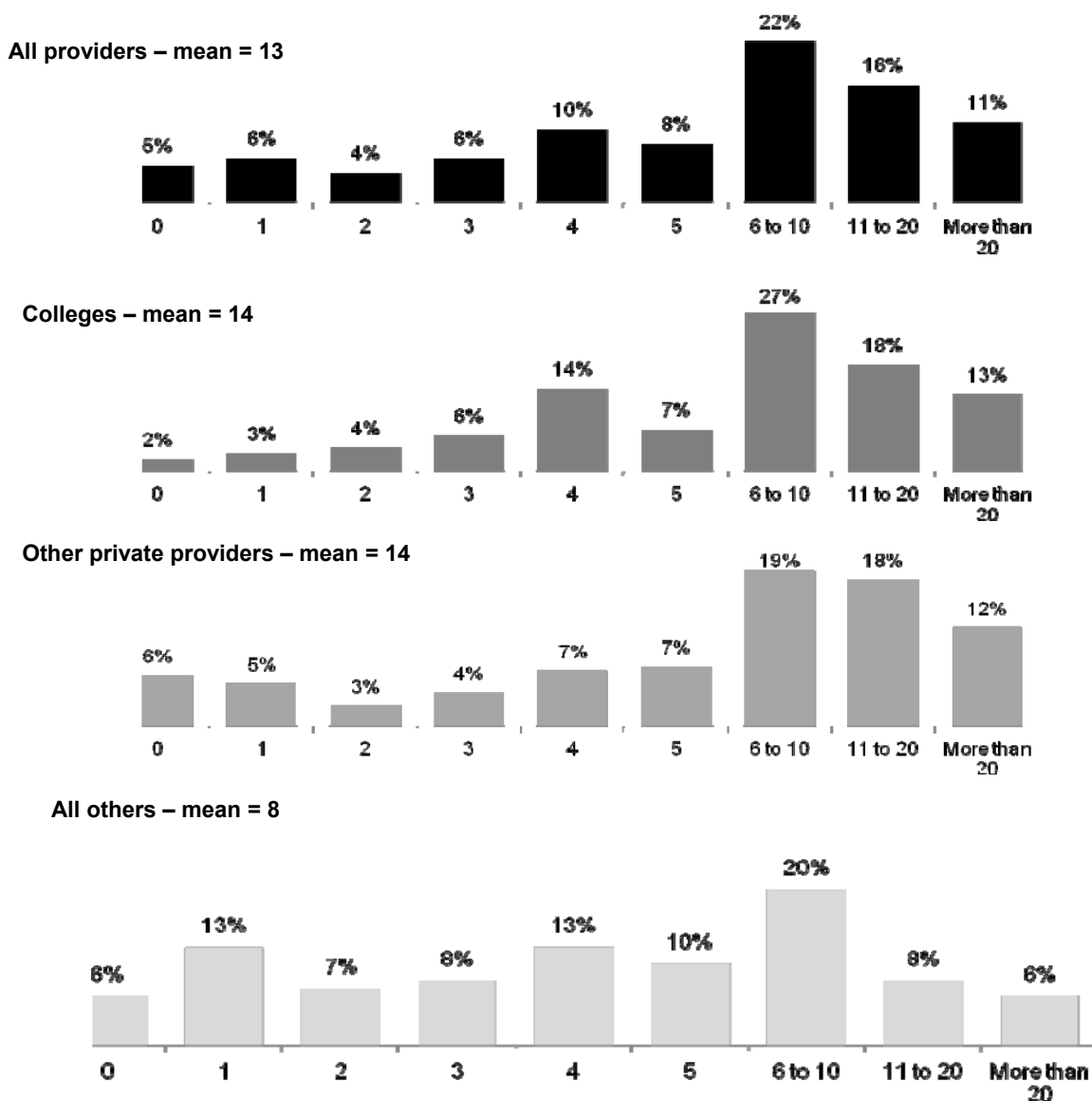
Source: Individualised Learner Record data, 2011/12

The number of competitors in a local area

- 8.25 In general, there are a multitude of providers operating in each geographical area. Providers reported an average of 13 *significant* competitors, with nearly a quarter (22%) indicating that they had between six and ten in the local area and more than a quarter (27%) indicated that they had over ten competitors.
- 8.26 Competition was found to vary by subject lines. In the case studies, colleges stated that they had on average 3-4 key competitors for each training programme. However, there was more competition between providers offering popular vocational subjects such as hospitality, construction and hair and beauty. In some other sectors, such as financial services, fewer providers offered training as there was lower employer and learner demand.
- 8.27 In the young people market segment, competition was mainly between colleges and schools. In the case studies, urban city areas generally had a higher number of competitors in this market. Although there were fewer competitors in rural areas, the case studies did identify interesting examples of providers acknowledging that there were business opportunities to operate in other geographical areas and therefore established satellite learning centres. This represents evidence of providers 'correcting' a lack of supply in certain localities.
- 8.28 There are notable areas where providers do not believe that they have a high number of competitors. Around 15% of providers believed that they had fewer than two competitors and 40% stated that they had less than 2 FE colleges as significant competitors. These providers are based in a range of urban and rural areas. In these areas it may be that there may be too few providers to influence competition.

8.29 In some areas, there were examples of mergers that had led to a reduction in the number of providers operating in an area. In more rural areas, a lack of competitors was primarily because the volume of learners in a given locality was too small for it to be cost-effective for new providers to deliver in that area.

Figure 20: Number of significant competitors (by provider type) for 19+ learners



Market barriers

Barriers to market entry

8.30 In the full cost market segment, it is relatively straightforward for a provider to enter the market and begin delivering training. There is a high substitutability of FE qualifications, which are accredited by independent awarding organisations. A potential provider simply has to register with the awarding organisation and meet quality assurance obligations to deliver accredited training. There are start-up costs associated with purchasing equipment and employing suitably skilled staff but for most subject lines, these costs are not significant.

8.31 There are also opportunities for providers to access public funding. There are open tendering competitions for certain types of provision, such as ESF provision. In addition, providers also have the opportunity to sub-contract with larger providers to provide a wide range of training programmes.

Barriers to expanding market share

8.32 Organisations that receive public funds can increase their funding allocation. Allocations are based on prior year activities with in-year adjustment and bidding. Therefore providers that have high quality standards and are successful in recruiting learners can expand their offer and deliver training in new subject areas.

8.33 It is relatively straightforward to expand provision in most sectors. However, in some subject areas, and particularly Science, Technology, Engineering and Maths (STEM) subjects, there are high set-up costs due to the need for expensive specialist equipment and niche skills to deliver the training. There is generally lower demand for these courses and therefore the low return on investment prevents some providers from delivering these courses. However, as these markets are small this does not have a significant impact on competition in the sector.

Provider behaviour

Pricing decisions

8.34 Price was generally considered to be the major factor that influenced employer choice in training. Most case study providers believed that employers were willing to speak to a range of providers in order to find the lowest price for training. As a result, price was seen as an important way in which providers attracted new employers.

8.35 Competition was found to have a strong influence on provider decisions on pricing. Three-fifths (61%) of providers and 76% of colleges believed that their decisions on pricing were influenced by competition. In the case study interviews it was clear that this was most apparent among co-financed provision, where it was felt that state subsidy enabled providers to offer training at a cost that was in line with employer expectations (generally around £700-£900 for the cost of tuition). This also provided an important marketing tool (the offer of subsidised training) that enabled providers to promote their services to employers.

8.36 Most providers stated that they actively checked the prices charged by their competitors. In particular, many colleges reviewed the prices charged by other colleges in order to charge prices that were around the same level of other organisations.

8.37 Providers are generally able to exhibit considerable flexibility in the fees they charge employers and learners. The unit cost of a training place depends on the staffing, facilities and equipment cost for delivering the training. Providers that deliver a wider range of provision can benefit from efficiencies because staffing, equipment and facility costs can be partly or mostly supported by other funding streams. As publicly funded provision is offered at a flat rate, i.e. a large provider that receives over £50 million in public funding is paid the same cost for a course as a smaller provider, there is the opportunity for some providers to offer training at a substantially lower cost than others.

8.38 In addition, there were some institutional factors that providers believed enabled some providers to keep the prices for training low:

- Private providers believed that colleges had the opportunity to offer lower prices as they could subsidise their employer offer from the income they receive from young people.
- In contrast, colleges believed that private providers benefit from lower overhead costs (due to smaller estates, lower costs for HR and finance functions) and also lower staff costs which meant that they could offer training at a lower price.

8.39 There is a sense that this flexibility has enabled providers to keep the costs of co-financed provision low. There was evidence in all the case studies and many of the qualitative interviews of providers stating that they received less in fees from employers than they were expected to receive. A recent study by BIS⁴⁵ on apprenticeships found that only 11% of employers paid some level of fees to providers and the amount they paid ranged from 21% for engineering to 6% for retail and commercial frameworks.

8.40 This competition in price provides a benefit to consumers as it keeps the cost of training low. However, it does indicate that public funding is often used to subsidise training which is expected to be at least part-funded by employers.

8.41 There is little evidence of aggressive pricing among providers in order to reduce the market share of their competitors and make them withdraw from the sector. None of the providers that participated in the case study said they thought in these terms, primarily because most providers are focused on meeting the needs of their community rather than aggressively growing their market share.

The impact of competition on quality

8.42 The extent to which quality influences provider behaviour varies by different types of learners and employers:

- In the young people sector quality is an important consideration for learner choice, particularly for attracting learners that live further away from a provider. Learners are likely to draw on information on inspection results and success rates that are published on providers' websites but perhaps more importantly, to draw on learner testimonies, the views of their parents, and the historic reputation of the college.
- Employers were felt to be influenced by quality, but were less likely to rely on formal measures of quality such as inspection grades and instead be more influenced by the sector expertise of the institution. This would be through the reputation of the provider and also from the expertise of their staff.

⁴⁵ Evaluation of apprenticeships: Employers, BIS research paper 77, May 2012. The report is available at: <https://www.gov.uk/government/publications/evaluation-of-apprenticeships-employers>

8.43 For some providers, quality is seen as their “unique selling point” and hence they maintain a strong focus on maintaining a high quality rating in order to attract learners. All providers also maintain some focus on quality in order to help them promote their organisation to learners.

Wider approaches employed by provider to recruit employers and learners

8.44 There was considerable diversity in the way the providers market themselves to employers and learners. For example:

- Some providers, and particular colleges, see their facilities, such as an IT suite and library, to be key selling points. It was felt to be a particularly effective way to promote their organisation and drove providers to invest in their building and resources.
- Some providers also believed that a strong online offer was important for attracting new customers, particularly employers, where the flexibility reduced the amount of time that staff were away from work. This view was more common among private providers. This has led some providers to utilise new technologies. For example, in some providers, apprentices can send videos to assessors and use this to record competence in their learning portfolio.

8.45 There is a sense that all providers have a clear understanding of their ‘unique selling points’. These are used to influence the areas that they look to grow and how they choose to ‘sell themselves’ to local businesses.

Collaboration

8.46 Most providers, and particularly colleges, work closely together to develop a complementary local offer. There is evidence of providers working together to:

- Coordinate their training offer for certain vocational subjects. This was most commonly done where there was a local need for training in a niche subject that could only attract a small pool of learners. In these instances, the training would only be viable if it was delivered by one provider in the region. As a result, providers would agree not to compete in these subject areas.
- Coordinate area-based delivery for employability and first steps learning. For these groups of learners, it was considered necessary to have a local offer. As a result, providers worked together to ensure that there was good local coverage of disadvantaged areas.

8.47 The level of collaboration that takes place in the sector provides benefits in ensuring there is a joined-up local offer which enabled providers to deliver training that meets the needs of their local community. However, there was a lack of clarity among providers on what could be considered a reasonable level of collaboration. Some believe that competition prevents collaboration, and others are not clear about where collaboration may not be appropriate, for example when discussing pricing strategies. There is a risk that this may lead some providers to overstep the mark when collaborating, particularly as they look to expand or maintain their market share at a time of tightening FE budgets.

8.48 There is a clear sense that providers do not have a full understanding of their responsibilities in terms of adhering with competition law. For example, some providers were unaware of the competition and issues associated with jointly setting prices. In addition most providers were also unaware of the organisations that are regulating the sector. This presents a risk that some providers may believe that public agencies such as Ofsted or the Skills Funding Agency are monitoring competition in the sector, and therefore they do not need to monitor competition issues themselves.

The impact of the FE reforms of competition in the sector

How the reforms are changing competition

8.49 Providers believed that the reforms had a considerable effect on competition in the sector. Nearly two-thirds (63%) of providers indicated that they felt the reforms had increased competition in the sector and around a quarter (22%) believed it had increased competition to a large extent.

8.50 The perceived impact of the reforms on competition was greater among providers that had a significant number of competitors. Around three-quarters (73%) of providers with more than 10 significant competitors believed the reforms had increased competition, and nearly a third (31%) believed it had increased competition to a large extent.

8.51 The freedom and flexibilities that have enabled providers to develop new delivery vehicles and a more flexible offer were seen to assist greater competition in the sector. There was also a sense that the recent reduction in funding rates led providers to recruit larger volumes of learners to make certain courses more viable which has further increased competition. Many providers also believed that the introduction of 24+ Advanced Learning Loans would reduce demand for certain courses. Learners would have to pay for training which was expected to influence take-up and also make learners more conscious of the cost of training. This means that providers will be competing for a smaller pool of learners and therefore need to demonstrate value for money.

8.52 The expectation that providers should in future receive a greater contribution to the cost of training from learners and employers was also widely acknowledged as requiring providers to be more 'commercially minded'. For some providers this will be a significant shift in approach - most see themselves as public service providers rather than operating in an open market. It will therefore take time for providers to change their approach and take advantage of market opportunities.

8.53 Some providers did, however, note risks to competition in the context of the reforms:

- The introduction of minimum contract levels may reduce the number of competitors in certain areas. A few providers stated that by contracting with colleges there were new limitations on the sector areas or geographical areas in which they can operate. These were generally specified within the contract to prevent the sub-contractor from competing with the prime contract holder. Fewer competitors in an area will mean that providers have greater freedom on pricing decisions.
- The introduction of minimum contract levels also means that larger providers will play an increasingly important role in allowing new providers to enter the sector.

Most new providers are unlikely to hold contracts over £500,000 and therefore will be reliant on sub-contracting with larger providers to deliver publicly funded training. There is a risk that if large providers do not operate transparent tendering processes or hold long-term contracts with their existing sub-contractors it will be more difficult for new providers to enter the market.

Table 7: Effect of reforms in the sector on competition

	Total	Colleges	Other private providers	All others	Community Learning providers	500 or less	501 - 5,000	More than 5,000
Are reforms in the FE sector helping to increase competition?								
Yes - to a large extent	22%	23%	24%	18%	21%	21%	25%	21%
Yes - to some extent	40%	44%	36%	41%	46%	36%	35%	49%
Yes - to any extent (net)	63%	67%	61%	58%	66%	57%	60%	69%
No	32%	29%	35%	33%	28%	36%	34%	28%
Don't know	5%	4%	4%	7%	5%	6%	6%	3%
Not applicable	0%	0%	0%	1%	0%	1%	0%	0%
<i>Base: All exc. private providers who only provide internal training</i>	456	169	192	95	168	121	177	160

Priorities for ensuring future competition in the context of the reforms

8.54 The research has identified some potential competition issues that may need to be addressed in the future:

- There is a need for providers to expand their commercial offer to attract greater employer and learner investment. However, in some providers there is a difficulty in balancing the need to be more commercially-minded with managing their community focus. It would be unrealistic to expect this change to happen quickly, as it will require a transition period for Governors, Principals, senior managers and curriculum leads to all have a clear understanding of expectations and develop plans. Government expectations of the timescales for these changes to take place therefore need to be realistic.
- Colleges have clear structural advantages, due to their size and their capacity. At present this is not an issue, as colleges are not exploiting their market position. In addition, there is the potential for new providers to enter the market and for existing providers to grow their provision. It may be that in the future, online learning can provide further competition to colleges in areas where there are few competitors and increase competitive constraints.

- Providers need greater guidance on what is expected in terms of collaboration. It is understandable that providers should seek to collaborate in order to specialise in certain areas that may otherwise be unviable. However, providers need to distinguish between collaboration that is necessary to support learners and employers, and discussions that could be considered to unnecessarily restrict competition.
- There is a lack of clarity on the role of regulators. As a result some providers may expect that Ofsted or the Skills Funding Agency are responsible for regulating the sector and expect these organisations to provide guidance on issues that may affect competition. The appointment of the Secretary of State as the Principal Regulator for Further Education colleges in September 2013 should provide an opportunity to clarify roles and responsibilities.
- Colleges and larger providers need to develop sub-contracts that run for an appropriate length of time (less than 5 years). This will ensure they regularly review their sub-contracting arrangements and provide opportunities for new entrants to the sector.

9. The impact on provision

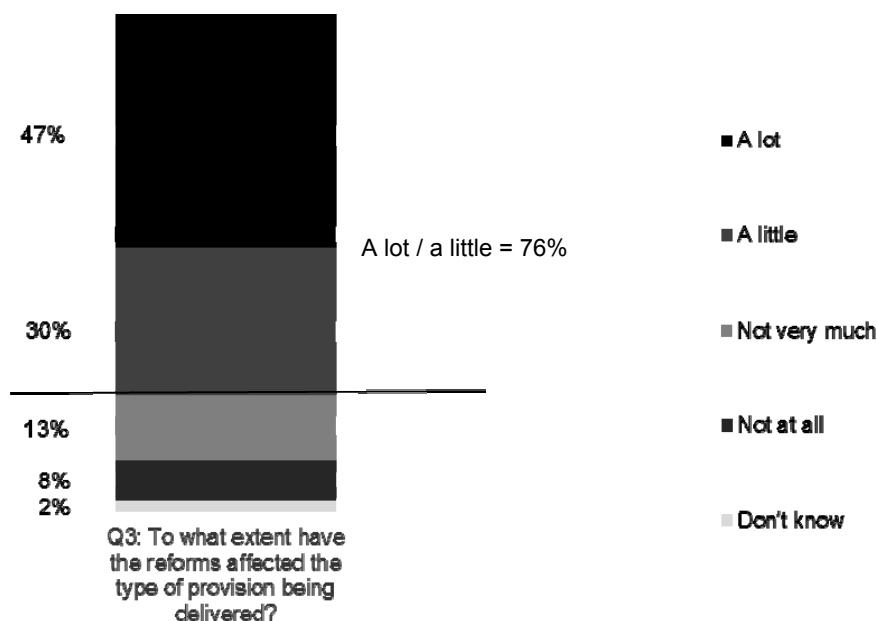
- 9.1 A key objective of 'New Challenges, New Chances' is to help providers develop a more responsive offer to effectively meet the needs of employers and their local communities. This chapter describes the impact of the reforms on provider's training offers and the income they generate from employers and learners.

Changes made to the provision offered by providers

The extent to which the reform programme had led to changes in provision

- 9.2 **The reform programme has had a significant impact on the type of provision offered by providers.** As shown in Figure 21, over three-quarters of providers (76%) reported that the reforms had affected the type of provision which they offered. Indeed, almost half (47%) indicated that the reforms had affected the type of provision 'a lot'. There was relatively little variation among different types of provider, again underlining the fact that the impact of the reforms had been felt widely across the sector.
- 9.3 In the qualitative interviews providers believed that the most substantial changes had been as a result of the new flexibilities that were available through the introduction of the ASB and the changes to funding entitlements.

Figure 21: Whether the reforms have affected the provision delivered by providers



Base: All respondents (481)

Changes to providers' offer

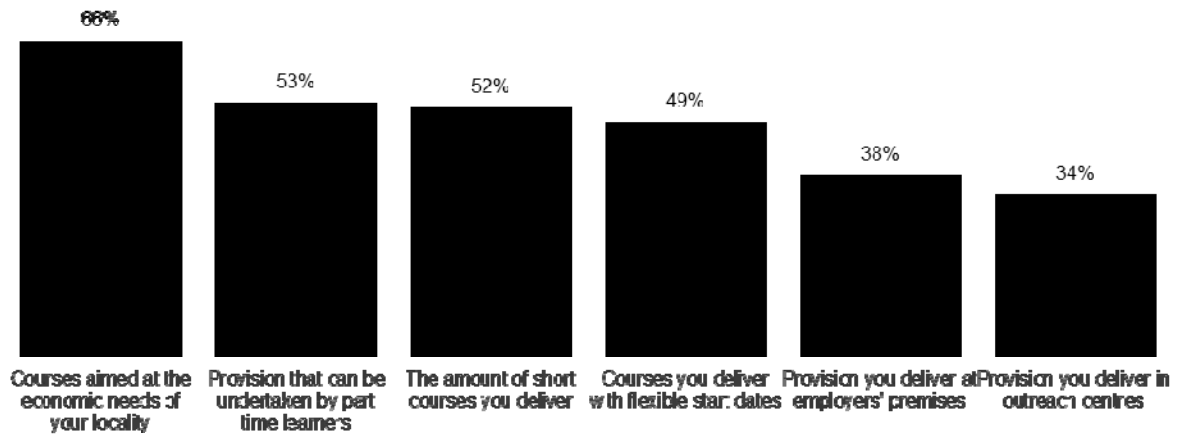
- 9.4 The most significant change has been that providers have increased the provision that they offer to meet the economic⁴⁶ needs of their locality (stated by 66% of providers whose provision had been influenced by the reforms). In the qualitative interviews, providers reported that this was primarily due to the removal of high-level targets for full level 2 and level 3 learning. This enabled providers to deliver a more tailored programme and also offer shorter, utilised provision to local employers and learners.
- 9.5 In around half of providers, the reforms have also led to an increase in the flexible provision they offer. The amount of part-time learning had increased, as had the amount of short courses delivered (reported by 52% and 53% of providers respectively). Almost half (49%) had increased the amount of courses they deliver with flexible start dates. This again was partly due to the removal of funding targets for full qualifications, and partly due to the increased flexibility given to providers to move funding between the adult and employer funding streams.
- 9.6 The location of where the provision was offered had also become more flexible. In total, 38% had increased the amount of provision that was delivered at employers' premises. Around one third (34%) of providers, and particularly community learning providers (43%), had increased the provision offered in outreach centres.

The use of e-learning

- 9.7 One of the changes to funding policy was that course funding was no longer dependent on the number of guided learning hours that were provided to learners. This gave providers greater opportunity to deliver training through distance learning and e-learning. Most providers supported this change. As one large private provider stated *"[funding for] online provision has always had a problem. This is a massive improvement for us. At the moment doing GLH and evidencing that is hard. So it allows us to make the best of what e-learning can do – allow students to work at their own pace."*
- 9.8 However, only a few providers (15%) had changed their provision offer to reflect the change in funding approach, and many of those considered themselves to already have a good online or work-based offer. Some providers reported that learner demand for a reasonable amount of contact time was a strong enough reason not to significantly change their offer. There also appears to be a lack of certainty about how it will be audited by external bodies and blended in a programme of study. However, perhaps more pertinently, it is clear that for some providers the increasing use of e-learning and distance learning signifies a major shift in approach which will require a significant upfront investment. The present uncertainty in the sector as the reforms are implemented has meant that few providers were willing to invest in these capacity building activities at this present time.

⁴⁶ Economic needs refers to work related training that helps individual enter employment or supports local employers to overcome skills gaps and shortages

Figure 22: How the reforms have affected the type of provision being delivered

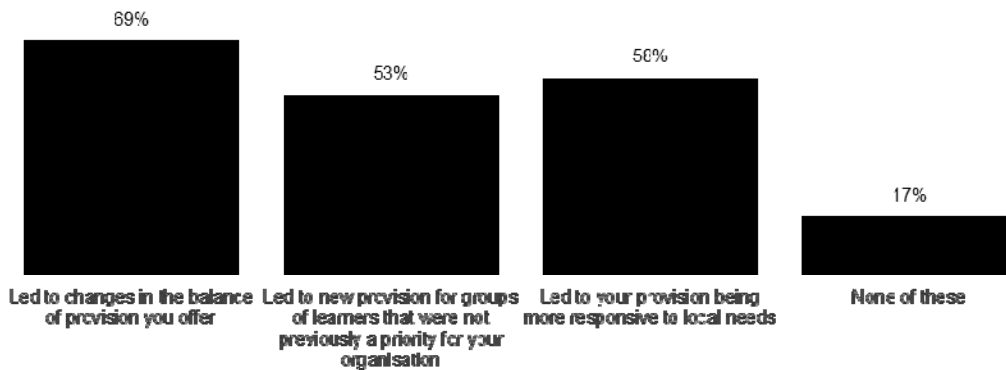


Base: All respondents who said the reforms had affected the type of provision they deliver 'a lot' or 'a little' at Q3 (367)

The impact of changes to provision

9.9 More than two-thirds (69%) said that the reforms had led to changes in the balance of their provision and 58% believed the reforms had enabled them to be more responsive to the needs of their local communities. For many providers, the most tangible change has been an increase in employability provision. In this area the type of training required by learners varies significantly by group, with some needing general job-preparation skills (CV writing, interview skills) and others requiring technical or functional skills. In the qualitative interviews, providers generally stated that this was due to the change in funding entitlements that enabled shorter courses to be funded for job-seekers, and also as a result of greater opportunity to adjust plans and move funding between funding streams. Previously, providers found it difficult to respond to learner needs as they had fixed targets that they had to achieve to secure funding. However, providers believed they could now offer more flexible provision, which has led to an increase in their employability offer.

Figure 23: Perceived impacts of the reforms on provision



Base: All respondents (481)

- 9.10 Among community learning providers, a slightly higher proportion of providers (76%) had changed their balance of provision. Many of the provider staff that participated in the qualitative interviews reported that they had expanded their offer in order to increase fee income or in other instances, expanded into working with new providers.
- 9.11 The reform programme had also led to an expansion of the employer offer in some cases. This has primarily been to increase providers' work in their core sectors or for their core group of employers, rather than to enter new sectors. Providers have in the first instance generally sought to build on their strengths and take advantage of the new flexibilities to include new courses. These providers already had a broad employer offer and were quick to take advantage of the freedom and flexibilities provided in the reform programme. This has resulted in providers working with new groups of learners.
- 9.12 The impact of the FE reforms on provision also has to be judged in the context of an FE provider base which remains highly dependent on public funding having to manage substantial reductions in public funding over the period as the reforms have been implemented. To some extent, the flexibilities contained in the reform plan have enabled providers to better manage this process. Where possible, providers interviewed as part of the evaluation had attempted to generate efficiency savings which did not impact on the breadth and quality of the provision they offer. It was only when they were not able to make the necessary savings through this approach that they then considered making reductions to teaching staff and their curriculum offer.
- 9.13 Only a small proportion of providers had reduced expenditure on teaching staff. Those that did were primarily smaller colleges that had difficulties generating sufficient savings from other methods. Of these:
- Most made savings by making small reductions in the number of staff and compensating by increasing the teaching time specified in teachers' contracts;
 - Some had made significant reductions to the number of teacher support staff that they employ; and
 - A few had offered voluntary redundancy packages and replaced experienced staff with lower paid staff or more part-time or hourly staff.
- 9.14 Providers that had made these changes had processes in place to monitor the impact these changes had on the quality of provision. However, most believed they could manage these changes without influencing the learner experience.
- 9.15 Some providers readily acknowledged that, as a result of the funding rate reduction, they have introduced tighter measures to monitor expenditure (more regular reviews); because of this they have become more conscious of income thresholds.
- 9.16 Private providers generally made efficiency savings by reducing expenditure on teaching staff. Private providers were less likely than colleges to be able to identify significant savings from reducing overhead costs and expenditure on non-teaching staff. Most had far lower overheads as they typically employed fewer staff and delivered a high proportion of their training in employers' premises. As a result they made the following changes:

- A few providers stated that they had reduced the number of assessors and increased the caseload of existing staff. Assessors were expected to spend less time with each student and therefore needed to ensure that contact time was used efficiently; and
- A small minority of providers also made changes to the pay and conditions of staff. One private provider stated that it rigorously re-assessed all their staff against the requirements of their two staff categorisations (teachers, who are on a higher pay rate, and instructors). This led to more staff being classified as instructors. Another provider had changed the terms and conditions of staff employment so that instructors' pay now depended on the outcomes achieved by their students. Both changes had reduced staffing costs in their respective organisations.

9.17 Most providers did not believe that these changes had led to a significant reduction in staff numbers. As stated earlier, some had experienced growth in other areas (particularly apprenticeships which was an area in which many private providers specialised in delivering), and had therefore been able to move staff into different subject areas. Others had only needed to make slight reductions in the hours of sessional staff and therefore reduced costs without reducing the number of staff.

9.18 Most providers stated that the reduced availability of public funding had not had a significant impact on the range of courses that they offered. There were however a few providers that had reduced the number of ESOL and Skills for Life courses that they deliver. This was because these courses were considered to be unsustainable after the recent cuts in the funding uplift. Only a minority of providers had made changes to the way in which they deliver provision:

- **Class sizes:** Some providers (particularly colleges) had increased class sizes for certain provision, particularly Skills for Life and ESOL courses. Many providers believed that this provision generally has a higher unit cost to deliver as more of the provision is based in community venues (which means that the provider needs to cover transport and venue costs). It also requires more recruitment activity to be undertaken as the learners that would benefit from the training are often hardest to reach. Providers felt it necessary to continue the recruitment activity and delivery in local venues in order to maintain learner numbers, and therefore chose to increase classroom sizes to make the courses more efficient. Where providers had increased class sizes for other courses, these were primarily classroom-based courses where it is possible to accommodate more learners, such as academic courses or those with a large theoretical component. Providers found it difficult to reduce contact time for courses that had a large practical component (such as engineering and construction). Many of these courses require one-to-one tuition, and providers believed it was not possible to increase class sizes without damaging the learner experience.
- **Course delivery:** A significant number of private providers and a few FE colleges stated that they were able to make efficiency savings by increasing the amount of training that they deliver online. Some had chosen to deliver some modules of a qualification online and to offer more blended learning opportunities. These providers did not consider this to be a major step-change in approach, but rather an

acceleration of changes that have already been taking place over the last few years. Some providers have reduced training activity that is not part of the core teaching offer (such as tutorials and demonstrations) or had these activities delivered by ancillary staff (such as instructors or support staff) which reduced the burden on teachers. Overall, the changes were not considered to be significant enough to impact noticeably on the quality of the learner experience. This is in part because most providers had defined clear parameters within which they are making reductions to learner-staff contact time – for example one provider stated that they are committed to ensuring a minimum of 85% of learning hours are undertaken face-to-face with teachers. In addition most providers planned to monitor the impact of these changes on quality through reviewing any alterations to success rates and learner feedback.

Fee income generated by providers

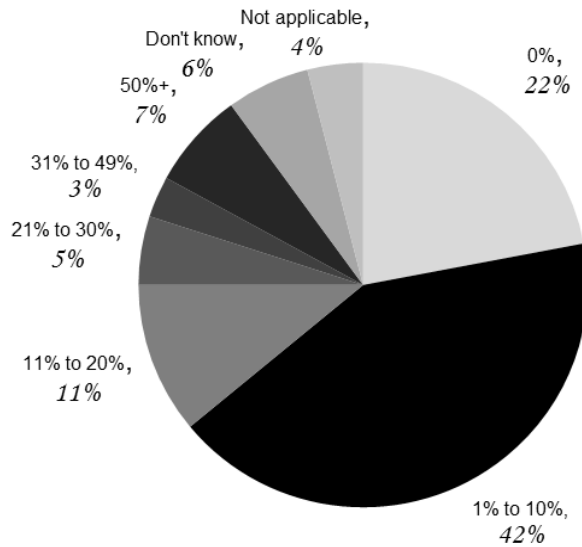
- 9.19 Most providers still received a relatively small proportion of their funding from employers and learners. The survey found that just under two-thirds of providers (64%) received less than 10% of their total income from employer fees, and 65% received less than 10% of their total income from learners. College accounts⁴⁷ also show that on average 8% of college income is generated from tuition fees, and nearly all college tuition fee income ranges from 5%-15%.

Income from employers

- 9.20 On average, the income providers received from employers accounted for 13% of total income for adult skills training. This proportion was broadly similar in both private providers (a mean of 17%) and in colleges (12%). There were no significant variations according to the size of providers. Co-funding levels were relatively consistent for all types of provider and it was not typically a main source of income for providers, with only 7% saying that it accounted for half (or more) of their total income.

⁴⁷ College Accounts 2011-12, Skills Funding Agency, May 2013

Figure 24: Proportion of income from co-funding with employers

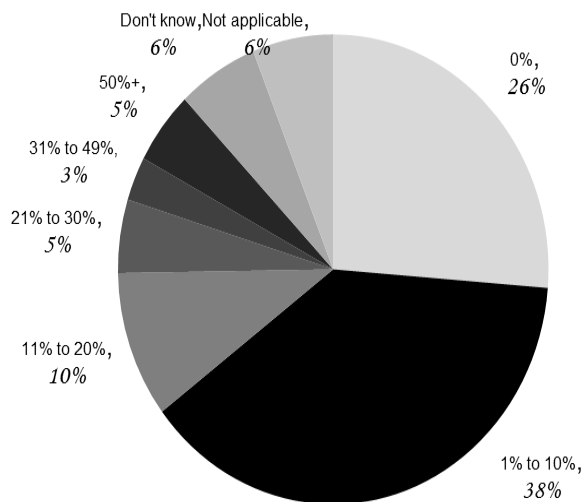


Base: All respondents excluding private companies who mainly do internal training (458)

Income from learner fees

- 9.21 Overall, the level of income providers received from learners' fees was similar to the level of fees received from employers. On average, income from learner fees accounted for 12% of total income for 19+ skills provision. A quarter of providers (27%) received no income from learner fees.
- 9.22 Private providers received a smaller proportion of their income from learner fees, with a mean of 7% (compared to 18% for colleges). This most likely reflects the nature of the provision that they offer, with most private providers offering apprenticeships and training for employers. Colleges generally have a broader offer.

Figure 25: Proportion of income from learner fees



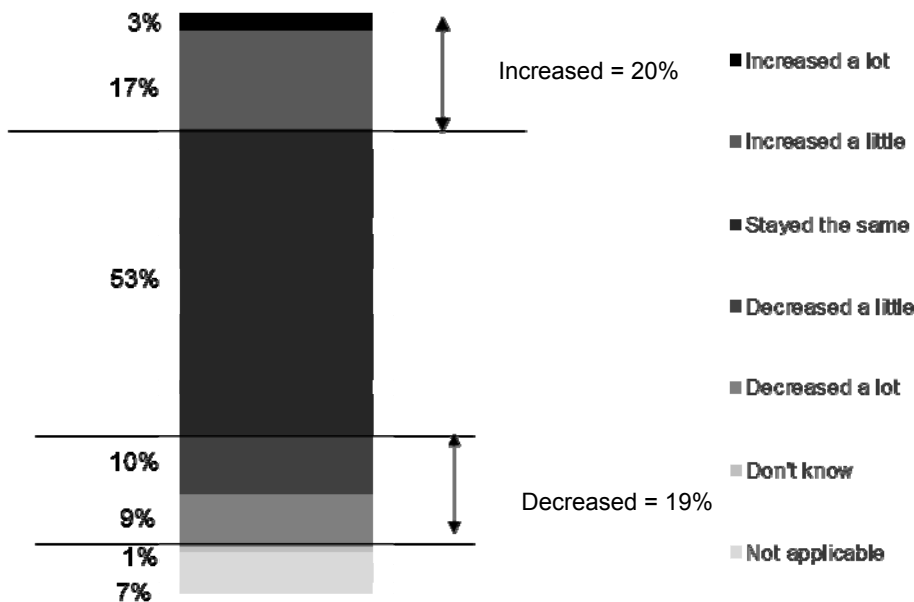
Base: All respondents excluding private companies who mainly do internal training (458)

Changes in the income generated by employers and learners

Changes that have taken place so far

- 9.23 **There has been little change in the income generated from employers.** Just over half (53%) of providers stated that the income they received from employers have remained the same this academic year and the proportion of providers who had seen an increase in funding from employers (20%) was balanced by the proportion seeing a decrease (19%). Around a quarter of colleges (24%) had seen a decrease in their level of co-funding with employers (compared to 17% of private providers). This is shown in Figure 26.
- 9.24 Many providers noted that the recession was having a negative impact on employer contributions. This not only meant that fewer employers were undertaking training, but also that employers were generally felt to be more likely to negotiate lower prices. As one medium-sized FE college stated: *“Employers are now far more money conscious now. Many are shopping around to get the best deals. We can negotiate to some extent, but have to draw the line somewhere”.*
- 9.25 It is significant that the funding entitlements have generally enabled providers to retain or increase their level of employer contributions. Most providers (73%) had managed to maintain or increase their adult offer and the move to co-financing for students over 24 years of age had meant that these providers were leveraging greater income from the learners that enrol on their courses. Less than one fifth of providers (19%) found that the change in funding entitlement had reduced demand for certain courses due to a reduction in employer contributions.

Figure 26: Changes to the level of income from co-funding with employers over the past year

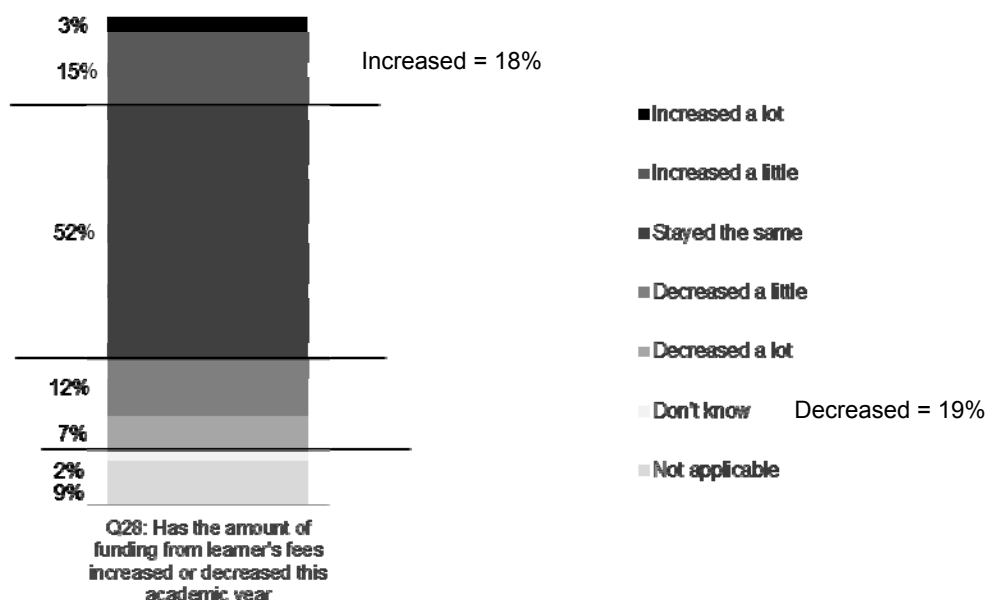


Base: Q24: All respondents excluding private companies who mainly do internal training (458)

9.26 A similar pattern is apparent with regard to learner fees. Half (52%) of the survey respondents reported no changes in the level of income from learner fees in the last year. The most common reason reported for a change (either an increase or decrease) in income from learner fees was the wider financial climate (reported by 49% of respondents) which had reduced demand for training.

9.27 In the qualitative interviews, some providers reported that the income they generated from learners had increased because they had grown their HE provision which is part-funded by learners. However, given that HE only makes up a small part of college's income, these changes would only have a small increase on their overall income. A few providers also stated that learner income had increased as the economic downturn had led some learners to pay for training so that they could change career.

Figure 27: Changes to the level of income from learner fees this academic year



Base: Q28: All respondents excluding private companies who mainly do internal training (458)

Changes that are expected in the future

9.28 **Few providers had clear plans in place to increase employer and learner investment in training.** Many providers stated that this was due to uncertainty in the FE landscape, and particularly the lack of clarity in how the 24+ Advanced Learning Loans will affect demand. A widely voiced uncertainty was that "we don't yet know what courses people are willing to take a loan out for". Once this becomes clear, most providers believe they will be better able to identify fee income areas of potential growth and develop a clear growth strategy.

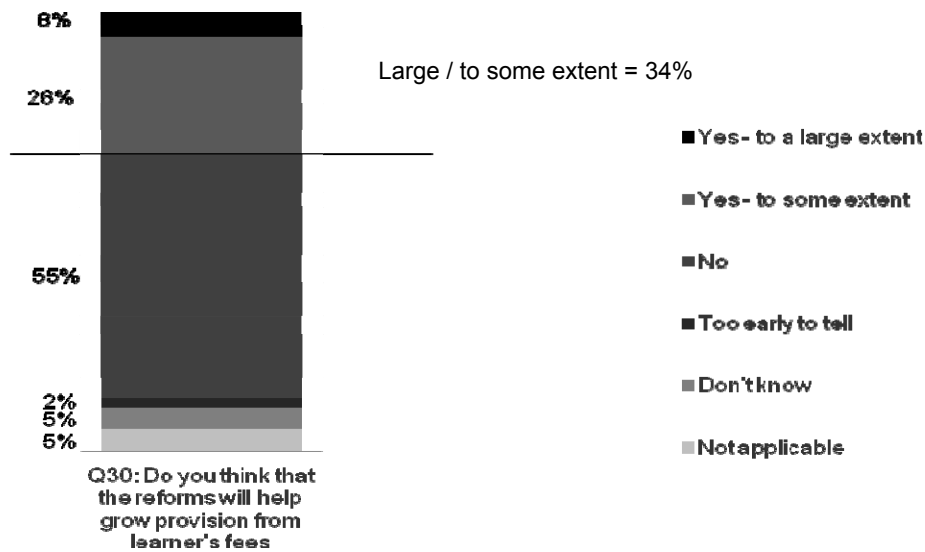
9.29 However, some providers had identified broad areas where they believed income could increase in future, and had begun to position themselves to grow provision in this areas. This included:

- **Apprenticeship provision.** The policy driver to increase apprenticeships is seen as an area where funding is more secure, and therefore many providers have already focused on expanding their apprenticeship offer. Some providers are planning to develop this area by working with a wider range of sector specialist partners through sub-contracting, or by taking over existing providers.
- **HE provision.** This was primarily because providers believed the recent increase in the fees charged by universities may stimulate demand for HE courses in colleges where the fees are generally lower. In addition, many young people who cannot find employment during the economic recession may choose to improve their opportunities by undertaking further learning. This is despite most providers experiencing a fairly slow growth in HE numbers over the past decade. Providers had varying views on the extent to which they could grow HE provision. Generally, the organisations that received funding directly from HEFCE believed that they have greater security in learner numbers and were more confident that they could significantly grow their learner volumes. Organisations that delivered franchised provision from universities assumed that this growth would be slower, but believed that they could increase the provision they offer at full cost. These courses would still cost less than the fees charged by universities which one large FE college stated: *“is a very good selling point”*.

9.30 A third of providers (34%) also had plans to expand their offer of short or unitised courses. There is significant demand from employers for short courses and some providers acknowledged that this was the direction they needed to travel to in order to increase employer contributions. However, most were at an early stage of planning for this change.

9.31 A third of providers believed the reform programme will help them to grow the income they generate from learner fees but slightly more than half (55%) believed that it will not have an impact (Figure 28). This seems to reflect that there is a group of more commercially-minded providers that believe that the reforms can help them to tap into new income streams, while others are still developing firm strategies and plans and remain reliant on public funding and the ability to offer 'free training' to engage employers. In these instances, leveraging greater employer and learner contributions requires a significant shift in approach and this will take time.

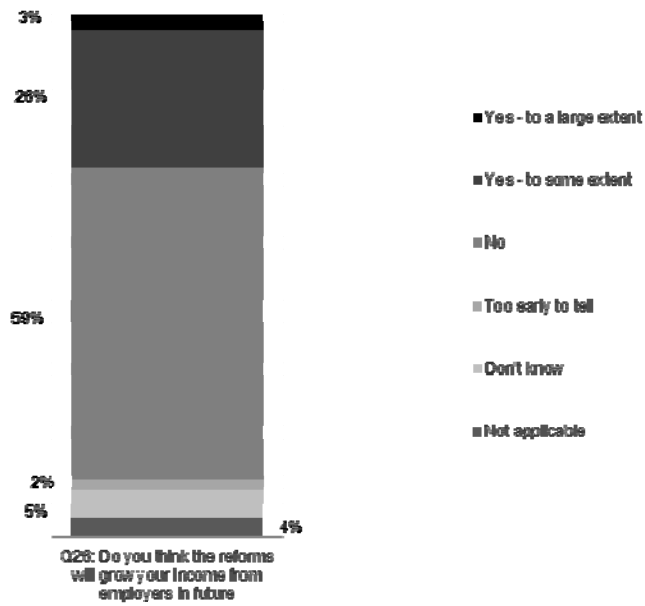
Figure 28: Whether the reforms will help to grow provision from learner fees



Base: All respondents excluding private companies who mainly do internal training (458)

- 9.32 Providers were also asked whether they thought that the reforms would help them to grow their income from employers in the future. As shown in Figure 29, around three in five (59%) thought that the reforms would not help them to grow income from employers, while a quarter (26%) believed that the reforms would help to grow employer income to some extent. Very few believed that the proportion of funding from employers would grow to a large extent as a result of the reforms (3%).
- 9.33 At present, there is a widespread sense that the reforms will not impact on co-funding in the future. Of those who said that they received nothing (or a minimal income) from co-funding from employers, almost three quarters (72%) said that they did not expect the reforms to have any impact on this level of income. Among those who did currently receive income from co-funding with employers, around half said that they did not expect the reforms to change the level they receive. As such, there is generally a fairly widespread sense that the reforms will not impact on co-funding from employers. There were no significant differences between types of provider or by size of provider.

Figure 29: Whether providers expect the level of co-funding from employers to increase



Base: All respondents excluding private companies who mainly do internal training (458)

10. Conclusions and recommendations

Conclusions

Increasing engagement with the reforms, maintained support from the sector

- 10.1 The FE reform programme has gained significant traction across the sector. Support for the ambitions of the reforms remains strong, but providers have increasingly mobilised to engage with and respond to the reforms. There is a clear shift here in the period since preparedness for the reforms was assessed in 2011⁴⁸.
- 10.2 There is inevitably still uncertainty among some providers about the future direction of travel, and some pockets of scepticism remain about whether the Government will follow through on the ambitions of the reforms. With the exception of some mixed messages in terms of whether the implementation of new policy by agencies is always aligned with the intent of having a simplified system, the over-arching reform programme has followed a consistent direction of travel and this has been important in building on initial provider support. It is likely that as long as this consistency is retained, providers will continue to actively engage with the reforms and that the remaining scepticism will dissipate over time.
- 10.3 It is also important to note that there is a fairly sophisticated understanding across the provider base of the rationale for elements of the reforms that provide immediate challenges to the sector – the reduction in overall public funding for FE and the wider economic backdrop that has required a focus on targeting the public funding that is available where it will make the greatest difference. While key elements, such as simplified funding rates are due to be rolled out in 2013/14 and have not yet substantially impacted on the sector, the flexibilities associated with the new Adult Skills Budget are benefitting providers in terms of being better able to respond to emerging demand. This helps to cement the credibility of the reforms in the eyes of providers and gives many providers a clear sense of how they can practically take control of their own futures, even at a time of great uncertainty.

The beginnings of a step change in provider planning and strategy

- 10.4 Significantly, the clearest area in which the provider response is apparent is at the level of strategy and business planning. This may not have led (yet) to significant re-structuring of provider delivery models or governance arrangements, but there is clear evidence that the majority of providers have started a process of thinking about the most appropriate business models in the context of the changing FE landscape. This is not solely a

⁴⁸ Research to assess preparation for and changes arising from the new FE reforms and skills policies, CFE, 2011

consequence of the reforms. It is partly driven by the more constrained public funding environment.

- 10.5 What the reforms provide are a set of tools and freedoms for providers to adapt to new expectations about who finances and who controls FE provision. Irrespective of whether the actual strategic response from a given provider is 'wait and see' or more proactive in nature – the important point to note is that the diverse provider base largely understands the changes that are in train and there has been something of a sector-wide debate at leadership and management level about organisational purpose, provision, approaches to delivery and markets. This might be regarded as something of a step change for the sector as whole even though the internal dialogue is 'work in progress' in many cases.
- 10.6 There are a number of parallel strands to the sector response to the reforms – an immediate operational response to changing funding arrangements and new funding opportunities, and a reflection among senior managers about longer-term strategy and organisational structures. Whether or not strategy has changed at the provider level, there are a new set of considerations underpinning future strategy and new terms of debate among senior leaders and their stakeholders. This has been able to happen in part because the reforms did not appear 'out of thin air' – they continued and stepped up a process of increasing provider focus on customers, quality and responsiveness that had led to a degree of re-positioning in the sector, even before '*New Challenges, New Chances*' was published. These changes are likely to continue as providers respond to the priorities and actions in the '*Rigour and Responsiveness in Skills*' policy paper.

Opportunities for ambitious providers to be entrepreneurial, while others consolidate

- 10.7 Unsurprisingly, the high-level picture of sector engagement with the reforms encompasses an array of local situations, strategic responses and market-specific challenges depending on the type of provider and its leadership approach. One of the clearest messages from the evaluation is the emergence of different strategies deployed by providers. Some are looking to consolidate their position typically by increasingly gearing provision to where the more limited public funding is available. Others may be considered to be in the vanguard of perceiving the reforms as providing an opportunity and have increasingly diversified their strategic options against a background of financial uncertainty.

The scope for providers to become more entrepreneurial:

- Those providers in the vanguard of a more entrepreneurial FE culture are characterised by proactive attempts to ensure a funding mix that cushions them against future public funding changes. These providers have already made significant changes in response to the reforms. The major current uncertainty here, though not in scope of the evaluation, was reported as the introduction of 24+ Advanced Learning Loans.
- These strategies pertain more closely to FE colleges than private training providers, which, with the exception of the small number of private and independent providers with national scope, are more niche in nature. Niche private providers are more typically concentrated in the apprenticeships market (where increased funding overall has provided space to breath in a more competitive commercial

environment) or community learning (where there is a premium on good management and systems – and adaptability to changing market conditions).

- For the most part, the key factor informing the strategic response of FE colleges is the strength and quality of leadership. Colleges are used to the inevitable uncertainty surrounding future funding priorities and entitlements. They focus on the opportunities available, be it HE or international students, or by proactively working with employers to secure apprenticeship funding or to put in bids with partners for investment through programmes such as the Employer Ownership Pilot. The revenues generated from these other streams may in the short- to medium-term be dwarfed by the public grant, but they are seen as strategically important in insulating colleges against future changes, as well as providing the potential for longer-term growth.

The strategy of consolidation:

- For providers looking to consolidate, there are still major changes in train. By harnessing the increased funding flexibility, the evidence suggests an increased focus on employment-related skills funding, closer working with Jobcentre Plus and some quite important changes to the balance and nature of provision. These providers are, in some cases, delivering shorter courses on a responsive basis. They are only able to do this by having operational models in place that support flexibility and responsiveness in a way that aligns to the objectives of the FE reform programme. The reforms are therefore creating the conditions for these providers to meet the needs of a changing customer base, for example, supporting unemployed people into work and raising skills with the aims of increasing employment changes/opportunities.
- Another approach for providers to consolidate is to retreat into the safer, more reliable young peoples' market. In most cases, the majority of providers' income comes from supporting young people. However, very few providers are going down this route, as many continue to see the adult skills market as a core business activity and an area in which they play a vital role in their local community.

Provider revenue remains heavily dependent on public funding

- 10.8 Irrespective of the strategy pursued by individual providers, there has not been a significant shift in the share of fees generated from employers and learners. The reforms have taken place against a difficult economic backdrop and even the most entrepreneurial of providers has been constrained in the extent to which they are able to leverage non-public money. There is therefore a powerful continued reliance on public funding across the sector as whole. There is some evidence that relative revenue from public funding has increased in recent years. Providers are clear that the reforms do not, in themselves, act as a lever to considerably alter the funding mix. Changes will occur as a result of developing clear long-term strategic plans for revising their training offer and as a result of closer working relationships with local partners which providers are beginning to put in place.

- 10.9 Some questions are raised here about the long-term viability of a substantial employer-funded market. Numerous smaller providers, especially private training providers, thought that the ability of larger competitors to cross-subsidise employer provision (because unit costs can vary depending on the contribution of other training programmes to overheads and equipment costs) prevented them from charging employers the full cost of provision. This could also lead to a scenario in which expectations that training should largely be free to employers are not being challenged through the reforms. This has potentially negative consequences for the perceived value of training to employers in this market, as well as the basis for employer engagement (i.e. if employers do not pay, the provision is perceived as having minimal value – even paradoxically where cost is not the driving factor for employers).

New partnerships and models of delivery to safeguard the future of providers

- 10.10 It is striking in this context that while public funding for FE has significantly reduced, there is a degree of confidence among providers about their own future sustainability. There has been some sector consolidation to date and there is an expectation among smaller providers that this will continue in future. The reforms and funding changes have led all providers to think about how they operate in partnership with others in the same local market.
- 10.11 The rise of sub-contracting and greater joint working has been driven by economic reality – and arguably much more so than as a measure to deliver efficiencies per se (i.e. through shared services). There are examples of healthy partnerships and good working relationships which appear to benefit all concerned, just as there are examples in which sub-contracted suppliers feel squeezed. New opportunities created by the reforms for providers to change their instruments and articles of governance and to grow by purchasing other providers are a necessary precondition for these changes – which in themselves serve to benefit more ambitious and strategically-minded providers.

Steps forward and future challenges in relation to delivering local accountability

- 10.12 The new freedom and flexibilities have led to the development of a more dynamic relationship with stakeholders. Providers are now able to respond quickly to the needs that are articulated by stakeholders, and this is facilitating greater two way communication and accountability to local partners.
- 10.13 The community mission that many providers see as their core function (especially FE colleges) creates a culture in which expanding the offer to deliver similar training to other providers is seen as duplicative and inefficient. The reality, as our assessment of competition in five areas highlights, is that the locality has a significant influence on defining what providers consider to be their 'core' market, and providers see their primary role as serving this community. Providers plan provision to accord with the perceived needs of their community, often working closely in partnership with local stakeholders. Accountability in this context can often be considered as 'one-way' (community stakeholders communicate their needs to providers, but providers do not often report directly to their customers). In some markets, this means that customers cannot always interrogate the decisions made by providers.

Simplification is taking place, but the benefits are not yet being realised

- 10.14 A few notable changes in terms of simplification have taken place as a result of the reforms, but it is clear that not all of these have led to actual reductions in provider administrative costs. Providers are cautious in making changes to administration where decisions can be reversed, and there is also concern about the removal of certain information requests where these may still be required by other Government agencies.
- 10.15 There is a challenge moving forward in simplifying the administrative burden on providers without increasing the administrative costs on funding agencies. An important aspect of the reforms is to generate savings in providers which they can re-invest in supporting learners, but there is also an expectation that Government agencies reduce the costs of administering public funding. In some cases a saving for one may provide additional burdens on the other.

The reforms are re-shaping provision and impacting on teaching and learning

- 10.16 Teaching and learning remains a central priority for the sector and it is clear that providers are responding to the general policy objective of reducing inadequate and satisfactory provision. The reforms may not be considered by providers as the main driver for these changes, but it is clear that the reforms are encouraging greater accountability to customers, improving the visibility of performance indicators and supporting competition which is driving providers to improve quality and the learner experience.

Future prospects for healthy, competitive FE landscape

- 10.17 In most areas, there is good competition between providers and evidence that this is leading to value for learners and employers. Providers have clearly defined plans to expand into new areas and sectors, and competition on price, particularly where training is co-financed, keeps the cost of training low.
- 10.18 The sector benefits from a relatively open market where new organisations can enter and existing providers can expand their offer. Although colleges have significant structural advantages over private providers, this does not distort the market and smaller providers are able to compete with colleges on price, responsiveness and quality. The introduction of 24+ Advanced Learning Loans gives providers further opportunities to expand their offer if they can demonstrate quality and value for money.

Recommendations

1. There is a need for greater joint working between Government agencies to develop policies that are in line with the objectives of the FE reform programme in order to ensure continuity and consistency of message: There was a concern among a few providers that the general ethos of the FE reforms is not always in line with the expectations of other agencies. In the long term, this could influence sector support for the reform programme and limit its impact on the sector. It is therefore important to ensure that all agencies operating in the sector are adhering to the principles of the reforms. There needs to be a consistent approach taken by all Government agencies to ensure that:

- appropriate freedom is given on how funding is used;

- funding rates and entitlements are consistent for both pre and post 19 provision;
- Evidence requirements for providers to access flexible funding (through initiatives such as the Innovation Code) are streamlined;
- similar audit systems are employed for young people and adult funding streams; and
- the information and reporting requirements applied by all agencies are not burdensome and do not undermine the benefits of simplification.

2. Provide greater clarity to providers and local stakeholders on the expectations for local accountability: All providers to some degree are accountable to their customers and stakeholders, but in many instances this communications is 'one-way' (i.e. learners, employers and stakeholders informing colleges of their needs), rather than 'two-way', in which local stakeholders hold providers to account and contribute to the development of providers' skills plans. The research identified a need for providers to have greater clarity on the role that they should be playing to communicate effectively with local stakeholders, and for local stakeholders to be aware of the expectations on them to support local provider planning.

3. Strengthen the roles of LEPs and other local groups to ensure responsiveness of provision to the needs of the local economy: LEPs lead on the development of local skills strategies as part of their wider economic strategy setting role. LEPs can play an integral role in ensuring that Government investment in skills meets the priorities of the local economy and enables the community to take advantage of growth and job opportunities. There is an increasingly important role for LEPs in clearly articulating priorities and in working closely with colleges and private providers to agree a response.

4. The sector to use existing examples of joint working to develop and promote good practice on partnership working, sub-contracting and collaborative working models: The reforms give providers greater responsibility for managing provision in their local area. It is therefore important for all providers to work closely together to plan and coordinate local provision. There are numerous examples of good practice approaches employed by providers to sub-contract in an open and transparent way and work collaboratively with other local providers. The sector should ensure that this good practice is shared in order to promote effective collaboration and to ensure that high-quality partnership working between providers is the norm.

5. Undertake further communication with providers about requirements that have been removed in relation to reporting, monitoring and audit: The research identified that many providers did not have a clear understanding of the level of data and information that is required by public bodies, and the recent changes that have been made to reporting requirements. As a result, many providers continue to collect information on the understanding that it is required by Government agencies. At this stage in the implementation of the Simplification Plan, providers would benefit from greater clarity on the information that is and is not required.

6. Monitor the impact of cross-subsidisation in the co-funded market on longer-term employer engagement and skills investment: It is clear that many providers have the

opportunity to subsidise co-financed provision so that they can offer training at a low cost to employers. This provides benefits to employers, but, in the long term, there is a need for employers to actively contribute – and the continued assumption that training should be free is barrier to that. There are numerous ways to monitor whether the reforms are supporting increased employer investment over time – including through future surveys and evaluation of the reforms as a whole, future research on apprenticeships, as well as drawing on evidence available through sources such as college accounts and research such as the cost of training survey undertaken bi-annually as part of the UK Employer Skills Survey.

ANNEXES

Annex 1: Analytical framework

The table below provides a framework for measuring progress against the logic model by disaggregating key dimensions to each outcome/impact and providing individual measures relating to evaluation tasks (with QI denoting the qualitative interviews and MS denoting the main survey) and other evidence.

Outcome / impact	Measures	Source of evidence
Short-term outcomes		
<i>Freedom and flexibilities</i>		
Awareness of new opportunities and flexibilities	<ul style="list-style-type: none"> - Overall awareness of the reforms - Understanding of new rules for intervention in provider business - Engagement with new flexibilities - Removal of barriers to flexibility 	QI and MS
Review of potential for collaboration	<ul style="list-style-type: none"> - Overall support and confidence in the reforms - Changed drivers for business planning - Strategic objectives to ensure collaboration with local partners - Scoping work being undertaken 	QI and MS
Governors play a more active role in providing strategic leadership and supporting operational management	<ul style="list-style-type: none"> - Change in communication and involvement of Governors in the operation of colleges - Change in the level of accountability to Governors 	QI and MS
Increased autonomy and control	<ul style="list-style-type: none"> - Perceived greater autonomy in relation to planning, provision and operations - Culture shift from 'command and control' to a more flexible and responsive culture - Greater influence on local needs, rather than externally set priorities, on influencing business planning 	QI and MS
<i>Funding policy changes</i>		
Plans in place to take advantage of the flexibility afforded by the new funding system	<ul style="list-style-type: none"> - Confidence in the benefits available through the simplified funding system - Clear understanding of the potential benefits of the simplified funding system - Plans in place to develop new provision that meets the needs of the local community 	QI and MS
<i>Outward accountability</i>		
Review of business and organisational models	<ul style="list-style-type: none"> - Plans in place for ensuring a high level of community consultation to inform planning decisions - Use of local intelligence to inform decision making 	QI and MS

Outcome / impact	Measures	Source of evidence
Development of new partnerships with other local stakeholders and training providers	- Local stakeholders involved in business planning	QI and MS
Review of business offer, in order to respond to market needs	-Plans in place to develop new provision that meets local community needs -Development of new business and delivery plans	QI and MS
<i>Reducing bureaucracy and increasing simplification of systems</i>		
Removal of obligations that are perceived to be a burden	- Efficiency savings from reduction in bureaucratic requirements	QI and MS
Change in some obligations that have become easier to comply with	- Adjustments to existing administrative systems as a result of the reforms	QI and MS
New system requirements are introduced which are less burdensome	- New systems introduced as a result of the reforms which are more effective than previous systems	QI and MS
<i>Teaching and learning</i>		
Increase in CPD provision available to teachers and trainers	- Introduction of new CPD programmes	QI and MS
Stronger systems introduced to monitor the quality of teaching and learning	- New systems introduced as a result of the reforms to monitor and review the quality of teaching and CPD requirements	QI and MS
Governors play a greater role in ensuring the quality of teaching and learning	- Greater accountability to Governors on the quality of teaching and learning.	QI and MS
<i>Community learning</i>		
Fee income strategies in place that target fee remission to disadvantaged groups	- Fee income strategies support those from disadvantaged groups	QI and MS
Plans in place to focus services on those that would benefit most	- Clear plans in place that are developed from community consultation and clear identification of needs - Activity targeted to support disadvantaged groups	QI and MS
New or strengthened partnerships between community learning providers and local stakeholders	- Consultation taking place with local stakeholders	QI and MS
Medium-term outcomes		
<i>Freedom and flexibilities</i>		

Outcome / impact	Measures	Source of evidence
Introduction of new business models	- Use of shared services - Pricing strategy	QI and MS
Increased proportion of income from learners and employers	- Dependence on fully-subsidised learning - Impact of new skills entitlements - Growth of fee-driven services	QI and MS
Greater choice and diversity of provision	- Competition, new contracting arrangement and the diversity of provision	QI and MS
Increased collaboration and better co-ordination within the skills system	- New partnerships - Effective sub-contracting arrangements	QI and MS
<i>Funding policy changes</i>		
More flexible and responsive provision is being offered	- Plans for 2013/14 include new flexible and responsive provision	QI and MS
Greater choice and diversity of provision	- More unitised, shorter, flexibly delivered training provided	QI and MS
<i>Outward accountability</i>		
Clear structures in place to enable local stakeholders to influence the strategic direction of colleges	- New strategies in place - New working groups - New partnerships	QI and MS
Closer working relationship between providers and other relevant stakeholders	- New or strengthened partnerships	QI and MS
<i>Reducing bureaucracy and increasing simplification</i>		
Resource savings reinvested in teaching and learning	- Cost savings reinvested in other activity	QI and MS
Increased competitiveness with the private sector and international providers	- Cost savings influencing pricing decisions, viability of certain courses	QI and MS
<i>Teaching and learning</i>		
Increase in quality and relevance of CPD provision	- Training needs identified through thorough monitoring systems - 'feedback' loop	QI and MS
Improvement in pedagogy	- CPD provision applied in practice	QI and MS
Greater accountability and monitoring of the quality of teaching	- Effective systems in place	QI and MS
<i>Community learning</i>		
Greater range of responsive provision available to local communities	- Change to the breadth and coverage of training provision	QI and MS
Increased proportion of public funding spent on	- Strategies in place to increase fee income from those that can afford to	QI and MS

Outcome / impact	Measures	Source of evidence
those that face disadvantage	pay and use this to subsidise disadvantaged learners	
Increase in participation on learning and skills programmes	- Increase in progression	QI and MS
Impact		
High-quality provision delivered according to the needs of customers	- Impact of funding on quality	QI and MS
Accountability to communities	- Effective governance - Transparency - Stakeholder involvement in planning external accountability	QI and MS
Sustainable provider base based on effective competition	- Impact of the reforms of different types of provider - Sustainable provide base - Level of competition	QI and MS
Increased private investment in skills	<i>Not in scope</i>	<i>Secondary data on investment (UKESS)</i>
Reduction in the incidence of skills gaps and shortages	<i>Not in scope</i>	<i>Secondary data (UKESS)</i>
More competitive skills base	<i>Not in scope</i>	<i>Secondary data (range of measures)</i>

Annex 2: Activities in the Simplification Plan that are in scope for the study

The **table** below presents the activities within the Simplification Plan defined as being in scope and of significance to the three types of net saving we need to identify and measure.

Simplification Plan policy area	Administrative work changes	Changes expected in FE providers	When expected
4 Simplify adult funding systems through: administering fewer programmes; applying a simpler funding method; reducing data burdens; streamlining learner support; and aligning adults provision with 16-19 learning where possible	Fewer programmes with different eligibility requirements	More resource targeted at delivery	2013/14
	Fewer funding rates to apply; no short course modifier; no unlisted rates; transparency in funding levels (stated in £s)	More innovation in delivery; no glh recording	2013/14
	Single earnings methodology (no model split); reduced data required through the ILR	Less recording of success data	2013/14
		Remove Summary Statement of Activity (SSOA)	Already removed
	Single ALS fund and claim model	Reduce ALS evidence; single claim	2013/14
	Fewer learner support funds; no split in RSF	Standardise systems and recording	Continue in 2013/14 with rationalisation started in 2012/13
	Single set of Funding Rules	Less ambiguity; stop some recording or hard copy record keeping; reduce web searches and requests for clarity	2013/14 Funding Rules will build on the redesigned 2012/13 set, and will be published in January 2013, significantly earlier than before.
	Greater amount of sub-contractor recording and monitoring with higher Minimum Contract Level	Subcontractor Declaration Forms became a contractual requirement for providers to complete	2012/13
	All subcontractors with	2013/14	

Simplification Plan policy area	Administrative work changes	Changes expected in FE providers	When expected
		aggregate contract value of £100K required to be on Register	
5 Streamline regulatory and audit regime: audit and evidence requirements for audit	<p>Evidence requirements clearly set out</p> <p>Remove requirement to prepare and submit annual FMCE</p> <p>Shorten financial forecast return horizon</p> <p>Target agency funding audits on colleges based on their risk profile; potentially reducing volume</p> <p>Remove prescription over coverage of internal audit work to be carried out at colleges</p> <p>Remove the need for colleges to obtain agency consent to borrowing and investment decisions</p>	<p>Less ambiguity; stop some recording or hard copy record keeping</p> <p>Cease to produce Agency's FMCE return</p> <p>Reduced work on forecasting to satisfy Agency purposes</p> <p>Fewer providers having to prepare and assist</p> <p>Commissioning of internal audit work to be aligned to risks</p> <p>Cease to provide evidence to obtain consent</p>	<p>May 2012</p> <p>September 2012</p> <p>From next returns due in July 2013</p> <p>12/13 funding audits starting in Sept 2013</p> <p>13/14</p> <p>April 2012</p>
7 Minimise divergence in data requests and number of collections for aged 19 plus learners	<p>Single data return</p> <p>Streamlined timetable; reduction in number of collections required (apprentices)</p> <p>Rationalise data set</p>	<p>No separate collection; easier format</p> <p>Fewer returns; no monthly apprenticeship data</p> <p>Reduced data set (10% reduction)</p>	<p>2011/12</p> <p>2011/12</p> <p>2013/14</p>
8 Unique Learner Number and Personal Learning Record benefits to be achieved through use by schools and Awarding Organisations	<p>More up to date ULN data for matching learners at enrolment</p> <p>More timely, complete achievement data available for verifying prior attainment</p> <p>Reduction in double recording (candidate</p>	<p>Less time on enrolment and checking learner information</p> <p>Less time on verifying / recording prior attainment</p> <p>Less time on</p>	<p>2014/15</p> <p>From 2013/14</p> <p>From 2014/15</p>

Simplification Plan policy area	Administrative work changes	Changes expected in FE providers	When expected
	numbers)	qualification entry / results checking	
10. Single Audit Framework for colleges and Sixth Form Colleges	Single documents produced and reduced in scope	Less information collected for audit. Less time required for audit inspections	From 2012/13
14 Agency communications with sector simplified and reduced (fewer release points and releases)	Rationalise communications to providers	Reduce time spent reading and cross referencing	2012/13

Source: the single Cross-Government FE and Skills Simplification Plan; Skills Funding Agency updates on a new streamlined funding system for adult skills (updates); feedback from the Skills Funding Agency and the information authority.

Annex 3: Review of method to measure administrative costs and burden

An important part of the bureaucracy study was to test an approach for measuring administration costs and burden. This Annex sets out reflections on the method used in this study and also considers the key dimensions of any future activity to measure and monitor the impacts on the sector which would be practical and cost effective.

Developing the method for the case studies

Measuring administrative burdens

The government has developed a standard method for measuring administrative costs and burdens upon organisations (businesses, other agencies, local authorities etc) as part of the process to measure the reduction of its regulatory requirements in the period 2006-8.⁴⁹ This is not greatly different from the method for measuring regulatory impacts used by the European Commission, known as the Standard Cost Model (SCM).⁵⁰

Some key features of the SCM are:

- information obligations (IOs) are the unit of measurement. These can be national record updates, returns, spreadsheets, reports (narratives as well as quantitative), audits, and surveys. These are generally specified in statutory guidance, regulations and instructions to provide accountability to government or its agencies;
- administrative burdens are IOs which an organisation would not carry out for its own purposes (i.e. it would not use the information collected and stored for management and monitoring or collect it for its own auditory requirements, so that the cost is additional);
- the monetisation of IOs is an estimate of time taken (hours or annualised to full time equivalent staff) and the different grades of staff involved (unless it is outsourced when the contracted cost is used). These can be taken as averages for groups of organisations or converted to a unit cost (such as per learner);
- it should draw on a small sample of organisations to arrive at an estimate, using validation techniques, such as expert review, to agree on the estimated cost which could apply to all such organisations (or be scaled to organisational size); and

⁴⁹ Reducing the cost of complying with regulations: the delivery of the administrative burdens reduction programme, NAO (2007); Measuring Administrative Costs: UK Standard Cost Model Manual, Better Regulation Executive (2005).

⁵⁰ See the website of the Standard Cost Model Network, www.administrative-burdens.com and www.ec.europa.eu/dgs/secretariat_general/admin_burden

- the organisations in the sample need to be guided to their estimates in a survey or interview. Organisations generally do not have activity accounting of work so have difficulty providing such estimates, have to be talked through, and the reasoning probed. As a consequence interviews are generally more time effective.

The method developed uses this approach which has been effective in measuring burdens and regulatory impacts in many studies for the government and the European Commission.⁵¹ In this instance the method needed to derive estimates of savings in administrative costs in post-19 providers where:

- an administrative requirement (equivalent to an IO) has been removed and the provider stops the activity because it is not needed within the provider, i.e. it is perceived to be a burden. An example of this could be the removal of the FMCE;
- an administrative requirement has been made easier for the provider to comply. An example of this could be the increased use of unique learner numbers (ULNs);
- a new system requirement has replaced an existing system requirement and it has reduced the cost of compliance in the provider. An example of this could be the changes to the funding system and the individual learner record (ILR).

As a consequence the method used needs to measure:

- administrative activities which will change as a result of actions in the Simplification Plan;
- if the change has already taken place, the cost when it was last carried out and the current cost (providing in addition to a current baseline a previous figure from which reduced burden to date can be estimated);
- the direct costs plus marginal overhead costs for current administrative requirements;
- recurring costs for the requirement (i.e. the reasonable cost of complying each year); and
- costs based on time, salary and salary related costs for the staff and others (contractors, suppliers) in meeting the administrative requirement.

It also needs to establish what the types of benefit the change will bring (i.e. whether it provides efficiency improvements or an opportunity to improve effectiveness in the provider; and whether it reduces an administrative burden or provides an opportunity to improve the effectiveness of the organisation's management and delivery).

⁵¹ The ICF GHK scoping report for BIS Approaches to Measuring Bureaucratic Burden provides more detail about the SCM, its applicability to the study and the value of the NAO and Skills Funding Agency studies to this work.

The approach to measurement

To achieve this, we selected six different FE providers: a large, medium and small general FE college, a large and small private provider, and a community learning provider to test the approach⁵². None of these had been involved in the WPV programme or NAO study. We also established in a little more detail the administrative requirements affected by the Simplification Plan; what the effects might be and when they were expected to be changed. A schedule to guide interviews was drawn up and verified by staff in the Skills Funding Agency and *the information authority*.

We carried out a preliminary discussion with the provider (over the phone or face-to-face) to establish general views on the effects of the reforms in the Plan and who should be interviewed. We then visited the provider and interviewed staff responsible for undertaking the administrative requirements. These were generally staff working in data teams, finance, examinations, admissions and contract management.

At the providers we:

- discussed how changes arising from the Simplification Plan have affected administrative work and for changes anticipated in 2013/14 and 2014/15 how changes could affect administrative work;
- if they have or will have a discernible effect (because the activity has been removed or stopped, easier or less costly compliance) and established if it would result in staff time or other costs saved (or increased);
- estimated the time saved/increased against the baseline cost (time multiplied by staff cost) or identified the payment to a contractor;
- explored whether this has provided an economy or an improvement in efficiency or effectiveness, or any wider benefits to the provider; and
- if a change did not have a discernible effect on administration, we established whether this was due to the requirements placed on the institution by other agencies/auditors, or whether it was because the provider collected the information for their own internal needs.

For the analysis we compared the findings from the providers with the WPV data⁵³.

⁵² The case study providers are: Blackburn College a large general FE college; Bedford College a medium sized general FE college; Dearne Valley College a small general FE college near Rotherham which has a relatively large intake of 16-18 learners and adults on employability programmes; Babcock Training a large national private training provider with a large amount of apprenticeship provision; Acacia Training a regional private training provider which supports apprentices in business, social care, schools and hairdressing; and Surrey County Council adult education a large community learning provider with a small amount of adult skills training (mainly Formal First Steps).

⁵³ At this point it has only drawn on data from phase one of the WPV programme i.e. on four colleges although we aware that some other providers have been visited.

How well did the method tested work?

Application of the Standard Cost Model approach

While we have not tested the SCM on a larger sample of providers to derive estimates which can be used to make reasonable estimates to be applied across the sector, we have found that the approach:

- engages staff in providers to estimate the time and other costs associated with administrative activities which have or will change, and the effect of changes on these costs (fixed and variable);
- produces estimates of total costs or unit costs saved which can be used (with a larger sample of provider data to produce 'averages') for extrapolation to the whole sector or different types of provider;
- provides greater clarity about the changes which are likely to have the greatest impacts;
- identifies the effects of changes on the ground in administrative activities, the staff deployed, and the extent they can adapt to change;
- helps providers to distinguish between the costs of complying with an administrative requirement and the initial costs which may be incurred to enable compliance; and
- enables providers to distinguish between their compliance with an external agency's requirements and their own internal needs for managing resources and activities.

While not all providers are readily able to respond to all questions about their costs of compliance, they can be talked through the elements (baseline staff costs, allocation of staff time to activity to meet administrative requirements, volumes, time or costs saved or increased) provided the language they understand is used.

Lessons learned about the process

From testing the process we have established how best to carry out the interviews to engage staff who undertake the administrative activities in scope and the roles of staff who can best respond to these questions. We remain of the view that it is best to interview most staff face-to-face and use telephone/email for agreed follow-up. While this is more time-consuming (and requires higher level staff) than telephone interviews or surveys, interviews ensure common understanding and allow probing and discussion. This would be supported by the experience of the WPV programme and the NAO study.

There are some lessons from the experience so far set out in the Box below.

Five lessons from the case study pilots

It has proved very difficult to get colleges, in particular, to participate in the study through the senior managers. While such staff can be prevailed upon to participate in short interviews on topics of concern to them they are not so readily prepared to engage in research that requires some organisation to line up other staff. It may have been

useful to seek interest during the qualitative interviews and followed up on this or to have approached finance/data directors directly.

Senior managers have general views and are aware of difficulties with implementing changes. However they are not necessarily so aware of the resource allocated and the recurrent effect of change to administrative requirements on staff and other costs. Staff directly managing the activity have a detailed understanding although they can engage better with changes that have happened and are in train than changes that may happen.

The interviews in total are not long even in large providers because most have centralised systems. It is more effective to undertake these in one visit if interviewees can be prepared. The interview can be focused on data collection, processing and use.

While we had a **guide to the implications of changes in the Simplification Plan (Annex 2), this did not capture all the potential implications or some of the detail about forms/returns which emerged in the interviews.** A more detailed understanding of the changes in the Funding Rules, evidence requirements, ILR data fields of concern to providers and the known myths about administrative requirements would have assisted.

It was **difficult to establish baseline costs** in a few cases for some activities, such as internal/external audit charges/costs, but these could be anticipated in any future study and included in guidance to interviewers.

As a consequence if this were repeated or extended we would use an interview about the reforms on bureaucracy as a warm-up and extend the preparation with the agencies.

Value of the survey and interviews

The survey measures perceptions and can, if repeated, compare these. The case study findings suggest that:

- the perceptions of increased bureaucracy by some providers in the survey are not reflected on the ground. However, a perception of little impact would be supported since the savings so far are probably not significant for individual providers;
- senior managers views can be coloured by the impact of change management processes on bureaucracy (not enough information, clarity, too late information to enable effective implementation, one-off costs to effect change including re-organisations of staff) and one-off requests (which they often receive and pass on); and
- there are changes affecting administrative costs in providers which are not part of the Simplification Plan and many may not distinguish these from the Plan's actions.

As a consequence, the survey can best be used for monitoring perceptions of the direction of administrative burden (perhaps better clarifying that these are requirements of the agencies for public accountability and not their own management requirements) and the

success of improved communications and change management processes in the agencies.

Measuring and monitoring impact in the sector

The requirements

We believe that the measurement required to assess the impact of the Simplification Plan measures is rightly defined in section 5 above.

This still leaves two key questions for BIS. The first is the extent of the Simplification Plan which is in scope. We have focused on the actions which are the responsibilities of the Skills Funding Agency, the NAS, *the information authority*, and Data Service. It is clear that actions by the EFA, HEFCE and Ofsted are also part of the picture and they can reduce the impact of changes made by the FE agencies. The second is the value of measuring simultaneous changes which are not in the Plan but could have an effect on bureaucracy.

The *information authority* has long wished to assess the cost to providers of the ILR particularly the requirements which are seen to be administrative burdens (information required by the agencies and not used by the provider). This method can identify the effect of changes.

Considerations for a larger study to measure impacts

The key considerations are the size and selection of a sample to enable robust extrapolation of estimates of cost reductions using the SCM to the sector as a whole; the use of a longitudinal sample; and the timing of research. The size of sample, method used and frequency of research will have the most significant effect on cost.

Sample: the SCM requires data from around 8-12 cases to arrive at a robust estimate. However this would be where the population of organisations is relatively similar or the activity being measured is not significantly affected by size (economies of scale).⁵⁴ With various types of FE providers, such as general FE colleges, specialist colleges, SFCs, private training providers and community learning providers, and differences in size and activity within them, the challenge is either to reflect the diversity in the sample as a whole or reflect it through a stratification to provide estimates for each sub-sector which are then combined. The former would require a smaller sample size than the latter. We estimate around 20-25 for the former with quotas by type and size to reflect the sector as a whole. The latter could need around 40 but would enable sub-sector estimates to be made.⁵⁵

Longitudinal research: a longitudinal sample has some merits in that the baselines are known as well as the internal administrative arrangements and personnel to contact. There are though always cases where continuing participation is not possible. This should be less of a problem if the study requires only one follow-up. If the intention were to measure and monitor over a longer period, then this might not be so practical.

⁵⁴ The WPV programme indicates that there are differences between FE providers in what is considered to be a burden and the cost of compliance. The NAO study indicates variability in administrative costs between colleges which may also suggest different levels of efficiency.

⁵⁵ For example, a sample of 40 providers might be classified in four groups of 8-12 providers. These could be general FE colleges and SFCs; specialist colleges; private training providers; and community learning providers. Within each group, providers would reflect the range of size and mix of provision. Results would be extrapolated for the group or weighted to extrapolate to the sector.

Timing: given that further implementation of the Plan will be taking place in 2013/14 and that 2011/12 is the baseline, it would be timely for BIS to complete a detailed study in both 2013 with a revisit before the end of the Plan's implementation in 2014/15.

Interviews: in our experience better quality information is provided through face-to-face interviews which can probe responses and seek corroboration and additional information immediately from colleagues. Most of the staff who can provide the information are not involved in teaching and tend to be present at work so most interviews can be carried out on one visit with supplementary follow-up. There are some administrative costs which fall on teaching staff but estimates of these can generally be obtained without interviewing a selection of them. An introductory interview would help in providing an entry to the provider and an opportunity to obtain qualitative views about the elements of the Simplification Plan and particular concerns.

Decisions about the options discussed above will need to reflect on affordability and the wider benefits of a larger sample or more frequent research.

Conclusions

The survey can best be used for monitoring perceptions of the direction of administrative burden (perhaps better clarifying that these are requirements of the agencies for public accountability and not their own management requirements), as well as the success of improved communications and improvements in change management processes in the agencies.

Case studies are needed to measure the impacts of administrative changes as a result of the Simplification Plan and should provide a basis for monitoring progress and demonstrating the impacts on efficiency and effectiveness in the sector.

The method used in this study would be practical and adapted with the lessons learned from the piloting. To arrive at estimates of improvements in efficiency and effectiveness which can be reported for the FE sector, a sample of providers would be needed (we suggest 20-25 as a minimum) with at least two measurement periods, one later this year during the autumn term and another in 2014/15 towards the end of the implementation of the Simplification Plan.

Annex 4: Literature review on competition in FE

Introduction

This paper provides an overview of the relevant market in the further education sector and sets out a methodology to assess the impact of the FE reforms on competition. It provides a starting point in setting out and exploring how competition law impacts on the FE sector, how FE markets operate in practice and how the FE reforms are already impacting (and may impact in future) on competition and markets. This strand of the FE reform evaluation is formative in nature. As such, the paper begins to:

- Set out the key considerations for thinking about competition and markets in the context of FE;
- Present a conceptual underpinning for exploring these issues in more depth through the research (notably, but not exclusively, through the FE competition case studies) and in the analysis; and
- Identify the key areas for exploration through the FE competition case studies.

Competitive markets

A competitive market is characterised by a sufficiently large number of buyers and sellers, such that no single buyer or seller is able to influence the price or control any other aspect of the market. In other words, no seller is large enough to abuse market power to the detriment of consumers (i.e. through charging higher prices, reducing quality, or limiting choice and innovation). Similarly, buyers should be numerous enough and able to act as a constraint on seller's potential price setting (by seeking out and switching to lower cost or better suited providers which meet their needs). Consumers should also be able to signal changing tastes and needs to sellers, who should be responsive to them in this respect.

This assessment of the FE market will consider both the supply and demand-side of the relevant market. A first step, following definition of the relevant market for FE services, will involve a review of the current functioning of the market, before considering if and whether it is likely to change due to the implementation of the FE reforms. Based on these findings, the study will conclude with a series of recommendations on the potential threats to and opportunities from competition in the FE sector.

The purpose of this study

This paper explores the functioning of different aspects of the FE market in order to assess competition in the FE sector. In order to do this it:

- Defines the market, in order to understand the characteristics of the market and the level of substitutability (the extent to which new entrants or expanding incumbents from neighbouring geographical markets or related disciplines can deliver similar services to those already offered in the marketplace)

- Analysis of different aspects of the market in order to identify where market factors support effective competition and highlight issues that may potentially restrict competition. This examines a range of areas, including:

Demand side:

- What constraints exist that prevent consumers (learners and employers) being active in the market (i.e. do constraints exist relation to switching or choice of course);
- Are consumers able to access sufficient knowledge to make informed decisions on learning choices; and
- Do consumers have a sufficient understanding of the courses available to them, their relevant prices and quality to make informed decisions.

Supply side:

- The structure and diversity of the market, in terms of the number, size, location and multi-market aspects of suppliers in the market to assess whether there are any suppliers in the market which are in a position to exert significant market power which could limit choice or sustain higher prices;
- The nature of competition between providers to assess possible impacts on the quality of provision, choice and prices (i.e. whether competition is 'hard' or 'soft' and the strategies adopted by providers in the market);
- The barriers to entry/exit, and whether this makes it difficult for new providers to enter the market or incumbents to expand in to neighbouring markets, and
- The performance of the market, and whether there are indicators that suggest that some providers may be earning returns greater than those expected in a competitive market. Equally this should include indicators of the level of innovation in the market and whether providers are responsive to the needs of learners and employers.

After assessing the market the paper then examines the extent to which the FE Reforms proposed in '*New Challenges New Changes*' could potentially distort or enhance competition in the sector.

Our methodological approach

Market definition

Prior to analysing the intensity of competition with the FE sector, it is necessary to consider the economic market to which any assessment relates. As noted by the OFT,⁵⁶

⁵⁶ OFT 2004, *Market definition – understanding competition law*, available at http://www.offt.gov.uk/shared_offt/business_leaflets/ca98_guidelines/oft403.pdf.

“market definition is not an end in itself but a key step in identifying the competitive constraints acting on a supplier of a given product or service”.

This study's approach to market definition draws on guidance published by the OFT. Specifically, this approach considers two dimensions to the definition of a market:

- product market – the type of products and services that fall within the relevant economic market based on their substitutability, and
- geographic market – the location of products and services that fall within the relevant economic market based on their substitutability.

In both cases, the focus is on substitutability – whether goods or services are economically interchangeable based on their characteristics and/or location. Understanding the product market and the potential substitutability of FE provision is a vital first step in understanding the immediate competitive constraints on the behaviour of FE providers.

A wide range of tools and indicators can be applied to assist in the definition of the relevant market, each of which will be considered in the assessment, following a review of the available data and the scope for primary data collection through fieldwork.

The following methods should be considered:

- **Small but Significant Non-transitory Increase in Price (SSNIP) test** is the standard method of product market definition. The test considers whether a 'SSNIP', defined as a price increment of 5% or 10%, could profitably be introduced by a hypothetical monopolist comprising of all firms supplying the focal products or services in the market. If such an increment could not be profitably enforced, the indication would be that the market were too narrowly defined, as it would likely exclude close substitutes of the product in question (to which consumers could 'switch' following the SSNIP). The definition of the market would therefore need to be expanded to include such substitutes until a SSNIP became profitable for the hypothetical monopolist. As price is not always the only form of competition to consider, the test can be applied to small but significant degradations in regional coverage of FE services or the quality of learning⁵⁷.
- **Critical loss factor analysis** seeks to assess the extent to which the sales of a hypothetical monopolist would have to decline in order to make a given price increase unprofitable. The 'critical loss' represents the proportional level of reduction in sales at which the profits of the hypothetical monopolist are unchanged. If the percentage decline in unit sales were to exceed the critical loss, the posited price increase would reduce profits which would indicate that the market was too narrowly defined in the geographic sense. Applied iteratively in a similar way to

⁵⁷The SSNIP criterion is closely related to the concept of price elasticity of demand. The term 'elasticity' captures the extent to which the demand for a product responds to a fluctuation in one of its determinants (in this context, a change in price). The key advantage of elasticity-based measures is that by measuring change in relative rather than absolute terms (for instance, in terms of percentage shifts), they circumvent the hurdles posed by differences in units of measurement. This renders them ideal for the purpose of comparison of demand impacts across individuals or product groups.

SSNIP it can be used to define markets without the need for price data on substitutability.

- **Other metrics of substitutability** can include more qualitative evidence on consumers' switching behaviour following a change in the prices or choices available to them from surveys results or secondary studies. Evidence of price discrimination in a market can also be indicative of the fact that consumers can be segmented into paying different prices, in which case they might be considered as within separate markets.

Given the anticipated paucity of data on the FE sector in the UK and limited scope for primary research, it is proposed that third approach is followed based on documentary evidence collected from the literature, interviews with FE providers, and expert inputs.

Market analysis

The second stage of the competition assessment is to assess the way in which the market operates. Having defined the relevant market, it will be necessary to assess how the market operates, the degree of contestability and the constraints on providers to ensure that the market functions efficiently for the reasons discussed above. For this part of the study, we propose adopting a structure conduct performance (SCP) conceptual framework commonly adopted as a framework for evaluating market power. This draws on evidence from existing data and literature gathered on market structure, provider conduct and profitability.

Structure-Conduct-Performance (SCP) conceptual framework

The SCP is based on the hypothesis that performance (profitability) depends on the conduct of firms (scope of training offered and pricing strategies) which in turn depends on the structure of the market. In assessing the way in which the market operates, it is therefore possible to generate empirical indicators of structure, conduct and performance today which can provide a benchmark for future analysis to determine whether the market has changed and/or whether the competitiveness of the FE market has changed. Individual indicators will be triangulated with other indicators (i.e. in the case of profitability) and more qualitative evidence to reach robust, reliable and well evidenced conclusions. The components of SCP are set out in below:

Figure 30: Structure-conduct-performance (SCP) conceptual framework



Source: ICF GHK

The analysis conducted as part of this study will be peer reviewed by an independent expert. This will provide critical challenge to the assessment methodology and findings proposed in this paper.

Assessment of competition following the reforms

Once the initial assessment of the relevant market is complete, stakeholders and experts will be consulted to anticipate how in the relevant market might be expected to change (i.e. number of providers, consolidation of providers, greater specialism, different pricing structures, targeted consumers, etc.) in light of the reforms. Using the SCP framework it is possible to evaluate what the impacts these reforms and structural changes might have on competition.

Market Definition

This section defines the FE market in England. Specifically it introduces the product and geographical elements of the market.

Product market

Definition of the market

The product market can be defined as a group of products with few outside demand or supply substitutes. In the context of this study, the FE market is defined as the training delivered by FE providers, which is predominantly post-16 academic and vocational training. This includes:

- Vocational classroom based provision
- Workplace based apprenticeships
- Literacy and numeracy provision
- Employability skills training
- Bespoke training
- Higher education foundation courses
- Residential training
- First steps and community learning
- Accredited and non-accredited training

Public investment in the sector

Significant state funding is allocated to providers to offer subsidised training to adults. This currently comes from a range of funding streams, including the Adult Learner Responsive (ALR) budget, the Employer Responsive (ER) budget and a Community learning budget, which are all administered by BIS. Providers can also receive HEFCE funding from Universities to deliver HE provision and can receive funding from the DWP to deliver employability training.

Providers are also allocated state funding to fully or part subsidise training that meets local needs. There are also a specific set of national entitlements that enable some students qualify for full fee remission on their courses. These are:

Full funding

- Adults in receipt of Job Seekers Allowance (JSA)/Employment and Support Allowance (ESA)
- Adults on wider benefits where skills training will help them into work
- Those that require English and Maths basic skills training
- Students 19 to 24 undertaking a first full level 2 qualification
- Students 19 to 25 undertaking a first full level 3 qualification

Co-funding

- Public subsidy students that are not fully funded undertaking level 2 qualifications in the classroom or workplace if their employer is an SME
- Students that are not fully funded undertaking level 3 or higher qualifications in the classroom
- Students undertaking level 2 and level 3 apprenticeships

Public subsidy has a significant influence on the market. Provision that is fully state funded is easier to market to customers, but public funding can, in some instances, limit the range of courses available (as providers can get greater returns on nationally recognised qualifications and full qualifications). Provision with no subsidy can be more challenging to market to providers but providers can employ greater flexibility in the choice of provision they can offer. There is also interplay between subsidised and non-subsidised provision, where customers may choose subsidised training over full cost provision, even if it does not meet their needs as well. As a result the availability of public funding may affect the size of the full cost training market. This is not competition per se, but an important factor which influences the responsiveness of providers.

A central aim of the FE reforms is to shift provider priorities to ensure that they more responsiveness to the needs of learners rather than the needs of the state. Because of this, one would expect to see the markets change significantly in the future, following the reduction of top down controls and more flexible funding. This may lead to a move away from full nationally recognised qualifications to more bespoke provision.

Substitutability of the product

The level of substitutability of products is relatively high. Qualification bearing training is developed and accredited by independent Awarding Organisations, which can then supply them directly to training providers. There are no restrictions placed on this trade and therefore it is relatively straightforward for a new training provider to deliver the same courses that are being delivered by other local providers.

The extent to which services can be delivered by other providers also depends on providers having the necessary equipment and their staff the necessary subject

knowledge. Where there is a training area which provides niche skills or requires expensive equipment it is more difficult for this provision to be delivered by different providers.

In terms of HE provision offered by colleges, similar provision can be offered by other FE colleges that work in partnership with HE or directly by HE providers.

However, the level of fee remission that learners are able to access varies by provider. The majority of ALR and ER funding is routes through colleges and therefore private providers may not be able to provide the same level of fee remission as colleges.

This suggests that an assessment of substitutability in the context of the FE market needs to consider variability by type or area of provision. The key practical constraints are likely to be the number of learners required in order to offer the product, specific equipment costs that will constrain some niche provision (exceptionally), as well as dependencies on awarding and accreditation bodies.

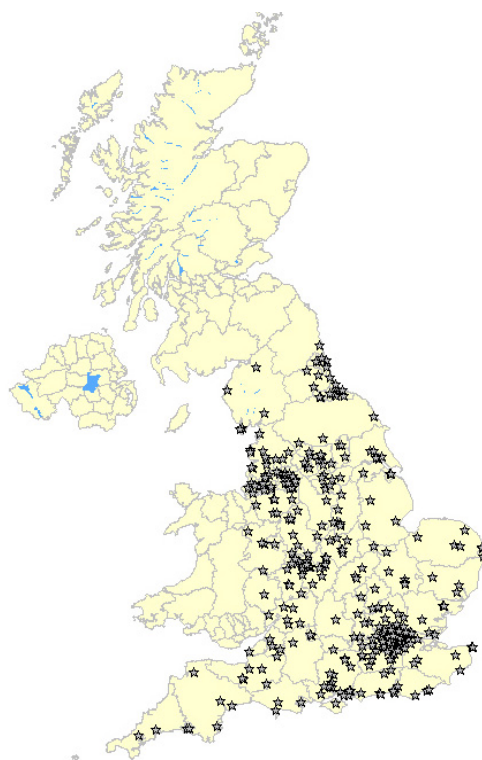
Geographic market

The FE market is primarily a series of local markets. However, within the sector there is a national market which can act as a constraint on local markets, providing learners are willing to consider these as close substitutes for traditional modes of delivering training.

The distribution of colleges is shown in Figure 31. It shows that there are a higher number of colleges in more densely populated areas (such as London, Birmingham, the North West and parts of the North East). There is a good distribution of colleges⁵⁸, but the level of choice varies significantly by geographical area. Ninety per cent of colleges have another college within 30 minutes' drive time away and half have more than four colleges less than 30 minutes away.

There are no restrictions placed on colleges as to the extent that they can operate in different areas. In many instances colleges operate satellite sites where they can deliver provision in different locations. Private providers are also able to expand into new areas because of the high substitutability of FE provision and also due to the opportunities available through technology. However, in reality it is likely that providers are more likely to expand into new geographical areas if there is a sufficient population base from which to recruit learners.

⁵⁸ Choice and competition in public services, Frontier Economics (2010)

Figure 31: All Further Education colleges in England

Source: *Choice and competition in public services*, Frontier Economics (2010)

National market

The national market refers to provision that can be traded nationally. For further education this would include training delivered through e-learning or distance learning, which requires little travel to the providers' premises and specialist provision where learners are willing to travel significant distances to learn.

In terms of national provision, there are a small set of providers that are classified as agricultural and horticultural colleges, art design and performing arts colleges, and special designated colleges. Due to the specialist nature of provision, many of these colleges provide residential provision and compete nationally for learners.

The use of technology in learning can also be used to break down geographical constraints and enable provision to be potentially traded nationally. Research⁵⁹ shows that currently around 80% of colleges and 49% of private providers use technology in the delivery of training. However, it is not clear at present the range of courses that are provided wholly or in the main online, and the size of this market.

The increasing use of technology in society and the new funding system which removes the link between Guided Learning Hours (glh) and funding are likely to lead to an increase in provision that is offered online and through distance learning. This may increase the

⁵⁹ The private training market in the UK, IFLL (2009)

size of the national market and lead to greater competition as providers compete with both local and national providers for learners.

Local markets

The majority of FE provision is delivered in local markets which are defined by travel to learn patterns. Learners primarily limit their choices to providers that they can reasonably commute to on a regular basis. Because of this most providers primarily recruit learners from their local area.

The geographical areas that providers cover vary significantly, which influences the characteristics of the local market. The different types of local markets can be categorised below:

- A clearly defined city area and its surrounding areas. In these areas most customers are recruited from a small geographical area where there is a sufficient volume of local customers to generate a high demand for services. This creates an environment which encourages new competitors to enter the market. Areas that fit this description include the large English cities such as Manchester, Sheffield, Nottingham and Birmingham. Arguably London can be regarded as a special case given that central London boroughs have a very high population density, ranging from 10,000-12,000 people per square km which is 3-4 times higher than a city such as Birmingham. Strong transport links enables high student mobility which can create a dynamic market.
- A sub-regional area that does not have one central hub but rather a few large nearby towns which provide a wide customer base. In these instances distance is a factor that influences supply, but it is not the sole criteria. This creates an environment where providers have opportunity to enter new markets through innovative delivery methods, such as price reductions for those that travel longer distances or the use of temporary or permanent satellite sites. This can open the market to new providers. Examples include areas such as Derbyshire, South Staffordshire and central Surrey.
- A sub-regional area covering a predominantly rural area. In these areas customers are prepared to travel significant distances for learning but a relatively low concentration of customers may discourage new organisations from entering this market. This can create a market dominated by a few large providers.
- A national market, where the specialist nature of provision and high set-up costs discourages new providers from entering the market. This leads to a market which potentially limits competition.

The level of competition will vary by geographical area. Some will operate in environment which encourages competition but in other areas competition is more difficult.

Relevant market

The relevant market for this study can be local market, with national e-learning and distance providers potentially imposing a competitive constraint in some subject areas. Also, for some subject areas (horticulture was mentioned above) there is a national

market, as providers draw students from a wide area. The operation of the market is likely to depend on geographical factors (such as population density, transport links) and is therefore likely to vary significantly across the country.

An interesting aspect to explore in the case studies is the extent to which different sub-markets exist within an overarching 'FE market' and the relationship between them (as well as the interdependencies between the two markets at provider and regional level). One could then estimate where reductions to public funding could then impact on other markets. This can be understood in relation to each of the products set out under the definition of the market above, as well as the over-arching 'offer' of each provider operating in the market. From the demand side, subsidised and non-subsidised training are not substitutes but they may impose supply-side constraints on each other. Some providers may also be able to generate economies of scale.

This analysis must also take account of the dynamic perspective. A key question for the case studies is how the reforms interact with provider engagement in existing markets and how the changing market (especially through changes to funding entitlements and rates) impacts on, firstly, providers and secondly, local markets. This also needs to be understood in relation to provider assumptions about the future market, especially in the context of the historic shifts between central planning and customer choice / responsiveness⁶⁰.

In summary, the market dimensions under consideration are as follows:

- The product;
- The nature of investment (at minimum the two markets defined by public investment and non-public investment);
- The relevant market – largely defined in terms of locality, with some exceptions, but potentially transformed through new delivery models in future; and
- Planning drivers on the part of providers and the dynamic interplay with changing market conditions and, in particular, the FE reforms.

Current Market Analysis

This section assesses demand and supply side of the market for FE services in the relevant market based on the SCP framework.

Demand side

A 'healthy' supply-side and demand-side are required in a market to reinforce one another and contribute to improved outcomes for consumers. The demand-side should be characterised by informed and aware consumers who are able and willing to exercise choice. However, where constraints exist on the demand-side, the choice mechanism is likely to be less effective in driving better outcomes. For example, where consumers are unable to access simple and comparable information on the choices available or face costs in switching provider, this can undermine the effective functioning of the market.

⁶⁰ Choice and Competition in Further Education, Institute for Government (2012)

Product choice

There are currently over 7,000 funded qualifications that are eligible for public funding. Many of these qualifications also contain optional units which can be used to create tailored learning courses. In addition, the introduction of the Qualifications and Credit Framework (QCF) means the individual units in these qualifications can also be delivered as standalone training. This means that there is a significant breadth of learning options that can be offered by providers.

The extent to which product choice is available to customers depends on providers' ability to offer the training. Many providers need to achieve minimum classroom sizes in order to make certain courses viable. This means that provision in niche areas where there is little local demand may not be easily accessible. The development of new or bespoke provision may also require significant upfront costs, and providers may not be willing to invest in this training unless there is clear evidence of sustained demand. There is also a limit on the number of places that a provider can offer on certain courses. Research⁶¹ shows that 76% of providers stated that courses were subject to a maximum capacity limit and 82% were subject to a minimum capacity in 2005/06.

In terms of HE provision the product choice offered by colleges depends on the provision offered by local HE providers. They are required to accredit HE delivered in FE. It is likely that HE providers would also aim to ensure that local FE providers offer provision that complements rather than competes with their provision, and as a result the choice of HE provision that FE providers can offer may be limited.

In order to fully understand the product choice we need to understand the responsiveness of providers to local needs and also the limitations that may influence their ability to respond. It is likely that some of the FE reform proposals may address these limitations, which in turn could increase product choice. For example, the lack of top down controls gives providers greater flexibility to change their offer depending on demand. There is little research available on this subject, but it is an area that can be explored in more detail in the case study interviews.

Transparency and consumer empowerment

Figure 32 represents the broad supply-side and demand-side issues with respect to an effective market for FE services (supply side to be discussed later in the paper).

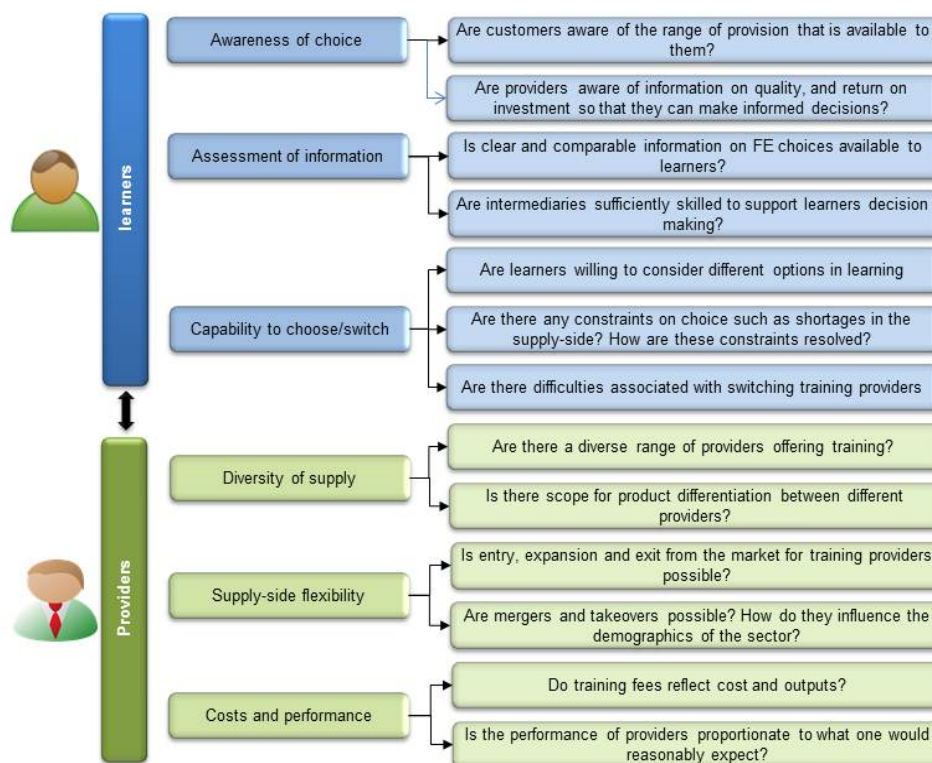
It shows that, among other factors, consumers need to be able to access easily both clear and comparable information on education and training choices available to them and how it is possible to access and fund those choices. The lack of transparent information on fees, the quality of provision, and the return on investment can create consumer detriment in three main ways:

- consumers may pay more than they need to for FE;
- learners and employers may not choose the most appropriate FE product given their needs; and

⁶¹ Estimating the effect of raising private contributions to further education fees on participation and funding, BIS (2009)

- learners and employers may choose a FE product which is not of the relevance/quality they assumed at the time of purchase.

Figure 32: Broad factors determining effectiveness of choice and competition in FE



Source: Office of Fair Trading (2010), *Choice and Competition in Public Services: A guide for policy makers, A report prepared for the OFT by Frontier Economics, March, 2010* [online], available at: http://www.of.gov.uk/shared_of/business_leaflets/general/oft1214.pdf

In the sector, anecdotal evidence suggests:

- Learners may not be aware of the choices available or only have a local knowledge of the FE opportunities available to them
- Choices can be driven by location/personal recommendation/employer, which may mean the product is not best suited

Recent research⁶² stated that learners and employers do not always have clear information on the average returns from training (wage uplift or increase in productivity) in order to make informed choices. Furthermore, the recent White Paper⁶³ published by the UK government identified that adults do not have clear information about where to access information on the quality of providers and the range of training that is available in their

⁶² Choice and competition in public services, Frontier Economics (2010)

⁶³ New challenges, new changes, BIS (2011)

locality. Research conducted in 2008⁶⁴ found that almost one third of the learners did not know about the current skills entitlements for training. Employer data⁶⁵ found that although 80% of employers were fairly or very confident where to access information on learning and skills, nearly 40% couldn't name an organisation that provides this service.

Research on employer choices⁶⁶ states that prior experience of training also informs learner choice. Learners and employers that have a positive experience of learning are more likely to participate in further learning. The satisfaction of training is generally high (94% of employers believed that the training led to an increase in knowledge and understanding,⁶⁷ and 70% of learners were very satisfied with the quality of teaching and learning⁶⁸) which means that it is likely that many that have participated in learning will be motivated to attend further training.

A central tenet of the FE reforms is to empower adults with the knowledge to make informed decisions about learning choices. This could potentially play a significant role in increasing provider knowledge of their local area. This would see a natural migration of learners towards higher quality provision, which could increase dispel provider inertia and increase competition which in turn would drive up standards.

Costs to consumers (as possible barriers)

Price is an important consideration for employers and learners. For learners, research⁶⁹ shows that 56% of respondents said that course cost is a barrier to participation. Research on employer perceptions⁷⁰ found that 80% of employers did not send staff to training because of the cost. The high proportion of consumers that believe cost is a barrier to participation indicates that the price of training is considered to be high.

Price does not necessarily refer to the cost of training. In terms of apprenticeship provision the price may also relate to the cost of mentoring learners to achieve their qualifications. Recent research⁷¹ shows that the staff resource costs and administrative burden of apprenticeships prevented some employers from taking on apprenticeships. Further research⁷² found that 7% of employers cited budget and funding issues as barriers to engagement. This was particularly common among small companies.

The price of HE provision is also an important factor for students. The introduction of higher student fees in universities saw a 10% decrease in enrolments in England. In comparison, enrolment in Scottish universities (which did not see a price increase) decreased by 2.1%.

⁶⁴ Barriers to participation in education and training, DFE (2008)

⁶⁵ Employer skills survey, UKCES (2012)

⁶⁶ Individual Choices: A review of literature and behaviour change approaches, BIS (2011)

⁶⁷ Employer skills survey, UKCES (2012)

⁶⁸ National learner satisfaction survey (2009)

⁶⁹ Removing the barriers to learning: Exploring adult perceptions and attitudes to participation in further education, Deloitte (2012)

⁷⁰ Employer skills survey, UKCES (2012)

⁷¹ Employer investment in apprenticeships and workplace learning: the fifth net benefits of training to employer study, BIS (2012)

⁷² Employer skills survey, UKCES (2012)

Transaction and exit costs

The transaction and exit costs are generally not major barriers that prevent providers from switching courses. For longer courses (which give learners the potential to switch) fees are charged termly and at the end of each term, consumers have an option to switch.

Geographic mobility

The extent to which individuals are willing to relocate, and / or commute to attend a course is very limited. Geographical distance plays a major role in education choices⁷³.

The effect of location on demand varies depending on the travel links and circumstances of a particular learner. For example it can be assumed that a younger learner may be less likely to have access to a car and therefore may be more confined by location. In addition provision based in city centres, which generally have good transport links, may be more accessible than provision delivered in other areas. In this context travel to learn patterns of learners largely reflect typical mobility patterns in wider society which are largely centred on one or a series of 'hub' centres.

Recent evidence shows that employers are less constrained by location than adult learners. Employers are generally more willing to travel further distances in order to attend relevant training when it is clear that the training will lead to a notable increase in the productivity and profitability of their business.

What this suggests is that providers rather than operating in a fixed geographical area may in fact be more nuanced and dependent on the customer group they are targeting. For example, in delivering employability skills a provider may only recruit within a 10 mile radius of their premises, but for employers they may look to recruit from a far larger area. It is possible to explore in the case studies the factors that define local areas, and how this varied by types of learners and employers.

Consumer behaviour

Quality is often cited as being an important consideration for determining learning choices. The specific quality criteria that influence choice are:

- The quality of teaching and learning;
- The accessibility of the training (flexibility in delivery methods, flexibility in enrolment times); and
- The relevance and availability of training.

There is a lack of definitive research on the effect that quality and accessibility of provision has on learner and employer choices. However, a few studies⁷⁴ identify that the flexibility of provision (how it is delivered) and the expertise of the teachers are the primary consideration of training providers.

⁷³ Enrolment decision and university choice of Italian secondary schools graduates, Staffolani & Pignini (2012); To Far to go? does distance determine study choices? Denzler & Wolter (2011).

⁷⁴ Supply and Demand of Low Carbon Skills, ConstructionSkills (2011)

Loyalty to providers

There is a lack of evidence on significant learner loyalty to providers. Learners often progress through different education providers and it is unlikely that provider loyalty will play a significant role influencing choice in adult learning.

Employers may exhibit greater loyalty to providers, particularly if they have a strong relationship with a particular provider and limited knowledge of what other options are available.

Branding

At present one would expect large colleges to be a clear 'brand' in their local area. In the qualitative interviews it was suggested that this can have positive and negative effects. A positive brand, particularly in business sectors, can provide benefits to local colleges. However, there is also a risk that a college brand may be associated more closely with provision for young people which may inhibit the college from engaging with local businesses.

Supply side of the market

This sub-section describes the supply side characteristics of the market and the influence of supplier constraints on influencing provider behaviour.

Structure of the market

There are currently a diverse FE market which includes General FE colleges, private training providers, third sector organisations and local authorities. There are 1205⁷⁵ organisations that receive public funding to deliver training. This is broken down as:

- 237 general, tertiary and specialist colleges;
- 849 private providers;
- 151 public bodies (primarily local authorities).

Although there are a far greater number of private providers than colleges, it is important to note that the majority of public funding is routed to colleges. Colleges are typically funded to deliver learning for young people, adults and employers, and also have the freedom to deliver higher education provision. The income generated by colleges typically range from £8m to £50m.

There is a diverse range of private providers offering training including specialist training providers, large companies that provide nationally accredited training, trade associations and membership organisations. For many of these businesses, training is only one of a range of services that they offer including recruitment and HR activities, consultancy or IT services⁷⁶.

A recent study on the characteristics of the private sector market⁷⁷ shows that these providers are typically small organisations. Of the 17,764 private providers in the UK, over

⁷⁵ ILR 2011/12 Data

⁷⁶ The private training market in the UK, IFLL (2009)

⁷⁷ The private training market in the UK, IFLL (2009)

two thirds (68%) have fewer than five employees and only 5% have more than 50 staff. Only 90 companies have more than 250 staff.

Size of the market

The market size is based on public investment in FE providers plus the amount spent by businesses and individuals on training. In 2011/12 the level of public investment in training is just over £3bn⁷⁸. Household spend data⁷⁹ shows that households in England spend an estimated £1.96m on FE and adult skills (excluding university education) and Employers are estimated to spend £11.6bn⁸⁰ on training that is directly tradable (externally provided).

This gives a total market size of £14bn-£15bn.

Market concentration

An important measure of the competitiveness of a market is the level of market concentration. A market where no organisation holds a significant market share means there is less risk that a single organisation can wield unhealthy market power.

It is not possible to measure the income generated by private providers as many of these provide a range of services and therefore it would not be possible to distinguish what income was drawn from training activities.

However, looking specifically at colleges, at a national level there is low market concentration, with no college having a market share greater than 3.2%, and the four-firm concentration ratios at 8.6%.

However, we understand that FE is primarily delivered in local markets and therefore the local market concentration is more important. Given that the income generated by colleges is significantly higher than private providers, it is likely that in some areas the four-firm concentration will be very high, which may restrict competition. The four-firm market concentration will be calculated for each of the case study areas.

The reforms aim to improve the information available to learners to inform choices. This may lead to a diversification of the sector, with more learners undertaking training delivered by smaller providers. However, it is unlikely that this will have a significant impact on the sector.

Market power

Another measure of concentration is the Herfindahl-Hirschman Index (HHI). The HHI is calculated by summing the squares of the individual market shares of all firms in the market. The squaring of market shares gives greater weight to larger firms so that the measure takes into account the disparity in the size of firms in the market. The HHI ranges from 10,000 for a monopolist to lower values for more competitive markets where there are many firms each with a small market share. The EC Commission's Horizontal Agreements Guidelines identify three bands of market concentration based on HHIs:

- 'unconcentrated' - HHIs below 1000;

⁷⁸ This is an estimate based on the amount of public funding provided to FE colleges. It includes the £2.8bn that was allocated to the Adult Skills Budget and £211m that was allocated for community learning (BIS Skills Investment Statement). HE and other funding stream expenditure in the FE sector for 2011/12 are not available but estimates can be drawn from 2010/11 college accounts which show that (£11.5m was received by colleges to deliver HE provision and £10m was received from other funding sources.

⁷⁹ Living Cost and Food Survey, Office of National Statistics (2011)

⁸⁰ Employer skills survey, UKCES (2012)

- 'moderately concentrated' – HHIs between 1000 and 1800; and
- 'highly concentrated' - HHIs above 1800.

If the market concentration is high (which we would expect in some geographical areas), it is likely that the HHI will also be high suggesting that some providers may have the ability to exert significant market power. The HHI will be calculated for each of the case study areas.

Cooperation

There is little evidence available on the current level of cooperation between different providers. However, there is evidence that providers may work together to develop a complementary service offer that best meets the needs of their local community and work with other providers in the area to sub-contract provision.

It is likely that the FE reforms will further increase cooperation as providers become more outwardly accountable and the minimum contract levels lead to greater sub-contracting between providers.

There is a risk that major cooperation in a local market may restrict competition in a local area as providers coordinate provision rather than compete for learners. The level of cooperation between providers is an area that is being explored in the qualitative interviews and survey.

Innovation

In terms of innovation, there is scope for providers to innovate in order to reduce the fees they charge learners (for example, by offering less expensive alternatives to classroom based provision, such as e-learning and distance learning) or by improving the accessibility of training (such as provision delivered in employer premises or by offering tailored or bespoke training programmes).

Innovation can therefore be easily utilised in the sector and the potential level of innovation is only likely to increase further as providers benefit from increased freedom and flexibilities.

Regulation

There is little regulation in place for providers that do not access public funding. Providers that do access public funding are required to comply with the national Ofsted inspection regime and to have their publicly funded provision audited. This can be an onerous task which acts as a barrier for some providers to enter the market but is being simplified through the BIS Simplification Plan.

College corporations have historically been required to adhere to a range of restrictions and controls from central Government. However, the recent reforms have seen many of these removed and more power given to colleges.

Ultimately removing regulation enables providers to be more innovative and responsive which increases competition in an area. It also reduces administration costs which could lead to cost savings for consumers.

Barriers to entry/exit

In terms of entry into the sector, it is relatively straightforward for a firm to begin to provide training that is funded by employers or learners. However, it is more difficult to access public funding to deliver training. Private training providers have the opportunity to bid to deliver apprenticeship provision or ESF provision through open and competitive tendering, but the majority of public funding is allocated to FE colleges. In order to deliver public funded provision they are required to undertake Ofsted inspections and maintain quality standards which has a resource implication on providers

In the FE market there are very few new colleges established per year. However, recent mergers in the sector have seen the number of colleges decrease over the last few years. There has also been expansion into satellite sites and into new subjects and geographical markets.

A research study⁸¹ found that although there is potential for merger activity which could enable colleges to benefit from economies of scale and could ultimately be beneficial to consumers, there is little evidence that larger providers benefit from economies of scale. There is also a risk that merger activity may increase the market share of providers in some areas which could affect the level of competition.

Conduct of providers**Pricing strategy**

The price charged to learners can vary significantly because of the fee remission offered. BIS research shows that around 70% of learners received fee remission. Where fee remission is provided, in over two-thirds of cases, it covers the entire costs of the training.

There is no national analysis of the prices charged by providers. However, one may expect colleges to have the capacity to offer lower prices than private providers, given that in general they generate more income and therefore could benefit from economies of scale. However, the research that is available suggests that the price charged does not have a significant impact on demand.

Bundling/tying of services

There is little evidence of the tying of bundling of services which makes it economically advantageous for learners to study again at the same institution. This is a characteristic of the market which could potentially restrict competition (as learners would more restricted in their choice of learning provider) but this would more than likely be outweighed by the benefit to learners.

Performance of providers**Sales revenue and profitability**

Colleges receive nearly £6bn of income per year, with most colleges making between £8m to £50m per year⁸². Nearly all of this (around 90%) is through public funds.

Around 95% of colleges make a surplus on operation costs. This generally ranges from £1m to £5m, which is often reinvested by the college for capacity building activities.

⁸¹The evidence base on college size and mergers in the further education sector, BIS (2008)

⁸² 2011/12 college accounts

Research⁸³ suggests that the current private provider is oversupplied, with many operating below the level of margins required for sustainability.

In a market assessment, profitability is often an indicator that may identify areas of weak competitive constraints. If an organisation makes a disproportionate profit they may be benefiting from exerting market power to maximise profits. However, given that most of the income generated by colleges and some private training providers is from public funding, it is unlikely that charging a higher price to learners will have a major impact on their overall profits. It is therefore necessary to consider fully funded provision as a separate market, which will be explored in the case studies.

Table 8: Summary of competition in the FE sector

Characteristic	Indicator	Qualitative assessment	Quantitative evidence	Indicative impact of reforms
Market structure	Market concentration and integration	High concentration of large providers in some specific areas can potentially distort competition. However, this may in part be negated by dynamic private sector and ease of entry into the sector	Majority of public funds invested in FE colleges. Significant difference in size of colleges compared to private providers. Concentration is high in local areas but in some areas there are insufficient colleges for competition	Increasing the availability of high quality IAG for learners could potentially increase diversity in learning choices which could reduce market concentration
	Market power	Potential risk that in some areas the market power of certain providers is too high	High market concentration in some areas means it is likely that the HHI index will be high. This could indicate weak competitive constraints	Potential that demand-led model ensures successful providers get a greater share of public funding which could increase the market power of some providers.

⁸³ The private training market in the UK, IFLL (2009)

Characteristic	Indicator	Qualitative assessment	Quantitative evidence	Indicative impact of reforms
	Level of cooperation	At present the level of cooperation is unclear. Some providers have sub-contracting relationships with other providers and work in partnership through local intermediaries such as LEPs.	Can be drawn from the provider survey	
		Proposed increase in cooperation can potentially limit competition between providers.		
	Multi-market contact	Colleges rarely operate in more than one market. Private providers sometimes operate in more than one market, but there is little evidence of cross-subsidisation	Can be explored in the case studies	
Product choice	Bundling/tying	Little evidence of product ties which could potentially limit the substitutability of provision	Can be explored in the case studies	Less prescriptive funding specifications enable providers to explore more innovative costs models.
Price	Aggressive pricing	Little evidence of aggressive pricing taking	To be explored in the case studies	None

Characteristic	Indicator	Qualitative assessment	Quantitative evidence	Indicative impact of reforms
		place in the sector		
	Price dispersion	Little evidence of price dispersion, with different fees charged for the same product	To be explored in the case studies	New freedoms and flexibilities and change in funding methodology could enable colleges to have greater flexibility in the fees they charge
Barriers to entry/exit	Restricted access to public funds	The high substitutability of provision means it is relatively easy to enter the market	The majority of public funds are provided to colleges	Increased collaboration between local providers may increase private providers access to public funds
	Branding	Little evidence of brand loyalty in the sector	None	Presenting all performance data through the National Careers Service website could potentially increase brand awareness among customers
	Economies of scale	Providers that offer a wide range of provision benefit from economies of scale, particularly providers that have a large 14-19 offer	Research published by BIS	Simplification plan could reduce administrative costs which in turn could create economies of scale

Characteristic	Indicator	Qualitative assessment	Quantitative evidence	Indicative impact of reforms
	Regulation	Significant regulations in place to access public funds	Regulation can deter new entrants to the market	Change in audit requirements and greater autonomy reduces the regulation in the sector
Innovation	Products	Scope for innovation. The level of innovation that takes place is unclear	To be explored in case studies	Innovation code enables providers to respond quickly to new market demand
	Delivery structures	Potential for innovation in delivery through technology and innovative deployment of resources	To be explored in the case studies	Change in funding increases the extent to which providers can innovate in terms of their course delivery
Consumers	Knowledge	Many consumers are often poorly informed or lack full information on the options that are available to them	If consumers are poorly informed, inertia sets in which reduces competition in the sector	National careers service increases the quality and range of information available to adults
	Understanding of benefits	Consumers do not have clear information available on the returns from training to make informed decisions on learning choices	Information on return on investment is not readily available	The national careers service will bring information sources together in one place, which will reduce asymmetric information

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