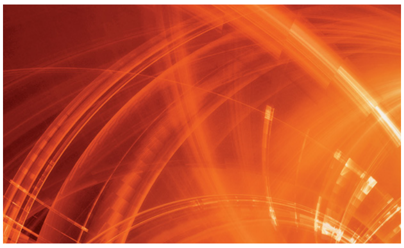
Executive Leadership and Development Programme

Self study unit: Funding



Contents

The Executive Leadership Development Programme was commissioned by the Department of Business Innovation and Skills (BIS) and developed by the Learning and Skills Improvement Service (LSIS). This self study unit is one of a series produced for the flexible Executive Leadership Development Programme. It is designed to support first and second tier managers and leaders in leading their institutions in a time of rapid and complex change for the sector and to strengthen the leadership capacity of the Further Education sector.

The qualifying programme has been developed using the LLUK benchmark role specifications for managers and leaders at these tiers. It will recognise formally the specific expertise required in FE leadership

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Introduction

This unit is concerned with how your institution gets the money it needs to run its programmes.

The main funding bodies for most colleges and other FE providers are the Skills Funding Agency and the Young People's Learning Agency (YPLA) so most of this unit relates to their funding approaches. Other sources of public funding include the Higher Education Funding Council for England (HEFCE) and local authorities and the essential details of these income streams are set out in a separate section. In addition, a proportion of your income may be generated wholly from fees and charges – so-called full-cost courses and other trading activities – and the final section unit touches briefly on the key issues arising in this very complex territory.

This unit outlines how colleges and other providers earn their funding – and the strings attached. Where specific rules apply to some types of provider these are noted. It is not a detailed manual on how to claim funding but aims to highlight the strategic issues raised by the funding process that any strategic manager needs to keep in view. Some sources of further information are listed at the end of the unit.

There are three sections in this unit. Each section contains at least one task; these are intended to help you reflect on your institution's funding arrangements. Feedback on each task is provided in a separate section at the end of the unit.

Overview

Why you need to know about funding

This is a simple question to answer – because, without income, no business can exist. A more difficult question to answer is 'how much do you need to know about funding?'. Funding is an area in which it can be hard to distinguish the strategic from the detailed.

The complexity and volatility of FE funding gives plenty of scope for creativity and there is a long history of cat and mouse games between institutions and funding councils. The key point to bear in mind is that, an accounting officer, in colleges the Principal, is personally accountable to the funding bodies, and ultimately to parliament, for an institution's use of public monies.

Funding arrangements are rarely static and strategic leaders have to manage with one eye on the present and one eye on the future. Radical changes to introduce what was called a 'demand led' funding system were only introduced from 2008/9, yet the Skills Funding Agency is already (in autumn 2010) consulting about further and far reaching changes. This unit seeks to put some of those changes into context and enable you to consider how you might need to react.

The key challenges in funding are:

- developing a sound grasp of the basics of FE funding – those things that every strategic leader needs to know about the main funding streams for the sector (Section 1)
- keeping up with funding issues specific to your particular institution – for example, 14–19 reforms – and likely future changes (Section 2)
- being aware of funding sources other than the Skills Funding Agency and YPLA (Section 3).

Whatever the nature of your institution, you should check that you are familiar with the contents of Section 1 and that your arrangements reflect its messages. You can quickly scan the contents of Sections 2 and 3 and pick out the bits that are most relevant to your context. Remember that even if you do not access a particular source of funding at present, you may want to do so in the future and Section 3 will show you where you might start.

Key documents

You will need to read the following documents or their successors; most of them are updated annually.

- The annual grant letters from the Secretaries of State for the Department for Education (DfE) and Business Innovation and Skills (BIS) which set out funding levels for the sector and government priorities. These normally appear in November each year.
- The responses from the two key agencies – the Skills Funding Agency and the Young People's Learning Agency (YPLA). They set out in a bit more detail how the agencies will deliver government ambitions and normally appear about a month later.

These documents are explained in Section 1. There are also some key reference documents for funding that you may need to dip into. You should ensure that someone in the institution is fully conversant with the details of these documents and you need to have an overview of their contents. It is important to check carefully for changes from one year to the next.

These documents will normally be called something like 'Funding requirements for apprenticeships/adult learning etc' though the precise names may well change from year to year. The YPLA conveniently lists all the funding publications relevant for 2010/11 at:

http://www.ypla.gov.uk/aboutus/ourwork/funding/dlf .

The Skills Funding Agency web site is a little more difficult to navigate but a good starting point is:

http://readingroom.lsc.gov.uk/SFA/ALR_Funding_Requirements_2010_11.pdf

Understanding key funding terms

Funding in the FE sector has developed a vocabulary of its own. Ordinary words like reconciliation and eligibility have quite distinct meanings in this context and you need to remember that they are often being used in a technical, not an everyday sense. The key terms are printed in bold and explained in the text when they are first used. They are also listed in the glossary at the end of the unit.

There are a few key terms that you need to be absolutely clear about:

- people often talk rather grandly about the funding methodology when what they really mean are the processes that underpin the calculation of rates. Funding methodology (or method) is about more than just rates; it involves determining how much to fund as well as at what price;
- eligibility refers to the fact that not everything that you might want to do and not everyone you might want to teach can be funded and the rules on who or what is eligible for funding can change. Remember that if something is eligible it could be funded – but, if money is short, it might not be;
- reconciliation is the process whereby funding bodies check that your delivery has matched your plans, ie that they are getting what they have paid for. Sometimes funding bodies have sought to claim funds back in year if a provider (and particularly a private provider) misses a target; sometimes for schools and colleges they have made the adjustment in the following year and
- for most purposes FE provision is measured in guided learning hours or GLH. The definition covers not just teaching time but also time when a learner is getting specific instruction or support relevant to their course – as opposed to more general support they might also receive, for example when they use the library. With the introduction of the Qualifications and Credit Framework (QCF) learners achievements are increasingly expressed in terms of credit which is based on notional (ie assumed) learning time. The funding consultation issued by BIS in summer 2010 suggests that credit might be used in the future as the basis for funding some provision.

Which sections do you need?

Use the questions below to assess your current understanding of funding. If you need help in answering the question, then you need to look at the relevant section.

1. What factors do the Skills Funding Agency and YPLA take into account when determining how much money to allocate to an institution? (Section 1)

2. What can you do to help prepare for anticipated changes to your funding allocation? (Section 1)

3. What are the big funding issues currently on the agenda for the FE sector? (Section 2)

4. How might the proposed move to a simplified funding system for adult provision affect your institution? (Sections 1 and 2)

5. Which are the main sources of funding for the FE sector other than the Skills Funding Agency and YPLA and how are they different? (Section 3)

Section 1: The basics of FE funding

Introduction

Funding Agency and YPLA (referred to below as 'the Agencies') to determine how much funding they will provide to each institution. At the moment the basic processes operated by the two agencies are similar though there are differences in the detail. In future, if they survive as separate agencies, it is probable that their approaches will diverge more fundamentally.

A number of key terms which have a specific meaning in the context of FE funding are explained, and key source documents identified. Remember, for a definitive guide to claiming funds from either agency you will always need to refer to the most recent version of their funding guidance.

The section will help you to:

- understand the general principles that inform the Agencies' approach to funding FE;
- consider the implications of changes in the level and pattern of provision for institutional funding and
- reflect on some of the information and systems needed to help ensure that you remain viable as a business.

An overview of FE funding

The arrangements for funding FE colleges, sometimes loosely referred to as 'the funding methodology' can be divided into six components.

1. There are rules for **eligibility** which determine both the type of provision and the sorts of people that the Agencies can fund. You should note that provision which is eligible to be funded for young people may not be eligible for adults and vice versa.

2. Provision is more likely to be funded if it falls into one of the Agencies' **priority** categories, though from 2010/11 there has been less focus than formerly on the need to meet detailed targets. Priorities will vary between young people and adults and also in respect of specific groups (eg offenders).

3. An institution's **allocation** of funds reflects other factors, including the total resources available to the Skills Funding Agency and YPLA; you cannot assume that all eligible provision that meets their priorities will be funded.

4. Different types of provision are funded at different **rates**. (Often people talk of the funding methodology when what they really mean are the calculations that underpin rates.) These have up to now broadly reflected differences in the relative costs of delivery but could also be used to provide incentives to providers.

5. **The profiling** of payments to a provider is separate from decisions about how much funding it is to receive. In broad terms payments to colleges are profiled against their plans while for private providers they are profiled against delivery.

6. The initial decisions about allocations are subject to **reconciliation**; ie they can be adjusted in the light of evidence on the number of learners actually recruited and the nature of their learning programmes. For private providers adjustments can be made in the year whereas for colleges performance is reflected in the following year.

Funding agencies can use each of these components of the funding system, along with other levers, to help steer provision in the FE sector in the way they want.

At different times greater or lesser weight has been attached to each component. In very broad terms the former Further Education Funding Council (FEFC) and the Training and Enterprise Councils (TECs) in the 1990s used rates as the predominant means of creating incentives for desired behaviour. The TECs simply increased the rates they paid for programmes they wanted to encourage while the FEFC provided general financial incentives for growth. The LSC by contrast used the apparatus of planning – changing college allocations to reflect its priorities – rather than signalling priorities through rates. The Leitch review of skills and the subsequent funding consultation (DfES, 2007) proposed a further change with restrictions on eligibility as the key control mechanism. According to these documents, the Sector Skills Councils (SSCs) would propose which programmes should be eligible for public funding but the level of provision would be 'demand-led'. From 2011 onwards the arrangements for young people and adults are likely to diverge as BIS has proposed moving towards a price based system to signal priorities, but only for adult learners.

Eligibility

Eligibility rules apply to both learners and courses. Learners under 16 are generally ineligible for LSC funding, though there are exceptions, particularly in relation to provision for 14–16 year olds. Adult learners must normally be resident in England. If you are near the border and recruit the occasional Scottish or Welsh student there is no problem but it would be a mistake to set out to recruit significant numbers of such students without clearance from the relevant funding body. The full details of learner eligibility are set out in the Learner eligibility guidance published on the Agencies' web sites.

The eligibility of courses for funding is just as complex. There are some programmes that the funding bodies are not allowed to fund and others that they have decided not to fund. In practice, the distinction between the two is not important, although it is important to remember that agencies can (and do) change their mind about eligibility. For example, in 2005 the LSC decided that it would no longer fund short programmes such as Health & Safety courses.

As a general rule, programmes that are funded by another body (eg HEFCE) are not eligible for funding by the Skills Funding Agency or YPLA; programmes that are fully funded by one part of an Agency cannot be funded simultaneously via another route (eg if an apprentice goes to college for part of their programme, funding is claimed from the apprenticeship provider, not Skills Funding Agency). Some types of learning programmes (eg driving instruction) are ruled out altogether. The rules on programme eligibility are also set out in the funding guidance published by the Agencies each year.

It is intended by government that the SSCs will increasingly determine whether a programme is eligible for funding by establishing which ones best meet employers' needs. The implementation of the QCF has been an opportunity to withdraw eligibility for funding from programmes that do not have the support of SSCs or do not conform to the QCF framework. So providers need to keep a close eye on where eligibility for funding is being withdrawn.

Priorities

The LSC was deliberately set up as a planning and funding body. This meant that its decisions on funding were linked to an explicit set of priorities and targets. The discussions that local LSC partnership teams had with institutions about their development plans and budgets reflected both these priorities and national and regional assessments of need.

The Leitch review asserted that planning had failed and that the LSC's apparatus of national, local and regional planning should be replaced by a new 'demand-led' approach. Although this view was endorsed by government a planning dialogue with providers persists because resources are finite and the government still has targets. Large parts of the target regime were swept away by the incoming coalition government in 2010 with the intention of freeing up providers to determine the pattern of provision that best meets local needs. The government still has priorities however signalled both in its grant letter and through fee remission policies. The Skills Funding Agency describes the balance of responsibility as at 2010 as follows:

Working in line with the annual budget, targets and priorities set by the Department for Business, Innovation and Skills through the Skills Investment Strategy, we allocate funding to colleges and providers, who have discretion over expenditure to meet the needs of local businesses and communities.

The ultimate sources of the Agencies priorities are the annual grant letters from the Secretary of State which set out the funds that they are to receive in the following year and what they are expected to achieve with them. The grant letters are usually received in mid-November. The Agencies usually respond in early December setting out how they will implement the priorities and indicating key decisions on funding rates. These are normally in a document with a title like 'Our annual statement of priorities' available on their respective web sites.

Allocations

The amount of money allocated to any provider is determined by the YPLA and Skills Funding Agency in dialogue with the institution. It will depend on a range of factors, including the total resources available to the area, demographic changes and the extent to which the provider's development plans mesh with the government's high level priorities. It will also be influenced by the perceived quality of provision; provision that does not achieve minimum standards as measured by success rates, or is assessed as poor in inspection, will not be funded.

For young people local authorities will play a role in commissioning provision that will be funded by the YPLA. Under the Labour government a detailed commissioning framework was developed that prescribed how local authorities were meant to balance local and sectoral employment needs, the aspirations of young people and their parents, demographic change in an area, institutional changes (such as the introduction of a new Academy 6th form) and government targets (eg to increase apprenticeship places). The framework was withdrawn by the new coalition government but someone, probably local authorities, will still be required to reconcile these competing tensions.

In the same way it is not clear who will have the decisive influence on financial allocations from the Skills Funding Agency. The Skills Funding Agency itself will not have the infrastructure to engage in planning in the way that LSC was able to do and Regional Development Agencies (RDAs) have been abolished (except in London where the Mayor still has oversight of adult skills funding). Local Employment Partnerships, led by employers and local authorities, seem the most likely candidates to seek to influence allocations for adult provision but their remit has not yet been determined.

Colleges and other public providers are supported through grant in aid rather than funded by contract. This means that colleges are not simply delivery agents. Colleges need to make their own assessments of the needs of their local communities, and determine what to offer, although they will be expected to justify their decisions if they continue with a high level of provision that is not a government priority. The subtlety of the distinction between contract funding and grant in aid may not always be fully appreciated by front line agency staff.

Where the YPLA identifies a gap in provision, or existing provision is deemed unsatisfactory, competitions will be announced to determine which new provider(s) will deliver a programme. It is open to existing providers, whether alone or in partnership, to bid to offer such new provision.

Negotiations about allocations can be difficult. You will need to strike the right balance between asserting the autonomy of the institution and its judgements and recognising the priorities that the Agencies are required by government to deliver. If you can back your assertions with evidence of success in the past (ie not just a promise of success in the future) and solid market intelligence, these discussions are more likely to be fruitful.

Rates

The overall principle applied by the LSC, and before that the FEFC, was that the rates for different courses should reflect the relative costs of delivering good quality provision. The costs were those that a provider needed to incur, not what they happened to or chose to incur, and were normally based on an average of sector practice. In broad terms the YPLA is continuing to base funding rates on this principle whereas the Skills Funding Agency shows signs of moving away from it.

The detailed description of the rates is set out in over 100 pages of funding guidance updated each year so this headline description of the system is a considerable oversimplification. In general, rates of funding reflect the following features:

- the size of a programme as measured by **guided learning hours (GLH)**. For most programmes, the Agencies currently use a set GLH value based on average practice (a **listed** rate) For programmes where there is significant divergence between providers, their actual hours are used (known as **load banded** rates);
- the resource intensity of a programme, for example the need to learn in small groups or heavy use of materials and

technicians is covered by a **programme weighting factor (PWF)** which is based on research and consultation with provider representatives;

- the extra needs of some learners; mainly those from deprived areas, identified by their postcodes, attract a funding uplift – the **disadvantage factor;**
- the higher costs of operating in some areas, especially London, is recognised in the **area cost factor;**
- the **success rates** of learners influences funding; a proportion is only paid if learners succeed in their programme aims and
- the need for **additional learning support** (ALS) for learners who have a learning difficulty or disability is reflected in an ALS allocation.

With the introduction of 'demand-led funding' all these elements, with the exception of ALS, were combined into a provider factor (actually different provider factors for young people and adults). The purpose was described as simplification though it can be argued that it hid rather than removed complexity and made the system less transparent.

The volume of activity is currently measured by the YPLA and Skills Funding Agency in terms of **standard learner numbers (SLNs)** – what used to be called full-time equivalent students (FTEs). The SLNs are calculated by dividing total GLH by 450 with no learner able to count as more than 1.75. The LSC and YPLA have sought to drive down the SLN/Learner ratio (ie the cost of individual learner programmes) and strategic managers need to keep an eye on how well the ratio applied to their institutions reflects the nature of provision that their clients require.

There is also a standard unit of resource – the **national funding rate (NFR),** fixed each year. In practice, in 2010/11 there are three rates, the highest being for young people in school 6th forms followed by young people in colleges or on apprenticeships with adult funding being the lowest of the three.

Most additional support costs are allocated through a formula based on learners' prior attainment. In schools 100 per cent of ALS funding is based on the formula whereas in colleges 50 per cent of the sum has been subject to negotiation.

The calculation of funding then is simply:

funding allocation = SLNs x PF x NFR + ALS

The BIS funding consultation (2010) proposes moving away from using GLH as the basis for calculating programme size for Skills Funding Agency provision and instead using credit (see Section 2: Credit Based Funding). It also suggests that prices should not be a neutral reflection of cost but should instead reflect policy steers (as in the days of the TECs). A small move in this direction has already taken place as illustrated by a reduction in funding for most Skills for Life programmes in 2010 – the rate fell not because costs had changed but because government targets had by then been hit.

Profiling

It is important to remember that decisions about the flow of funding from Skills Funding Agency and YPLA to an institution are logically separate from the decision on how much funding the institution will generate from an agreed programme. In theory the payment of an agreed amount could be made up front, after the year end or in any pattern of instalments. Until now payments have been made against an agreed profile of activity levels with the aim of aligning the pattern of income to expenditure.

The 2008 consultation on demand-led funding proposed a significant change in respect of adult learning. Rather than make payments against an agreed profile the LSC proposed to fund in arrears so the institution would only receive funding once a learner had been recruited. This would have facilitated the transfer of planned expenditure away from institutions that appeared to be underperforming and towards those that were exceeding their targets – and increased competition.

The major implication of such a change for providers is the impact on cash flow. There is a cost in terms of financing activity before payment is received and a risk to be managed, introducing uncertainty into institutional planning. For these reasons the new coalition government decided in 2010 not to proceed with the arrangements for those providers (schools and colleges) supported by grant in aid as opposed to contracts.

Reconciliation

Each year the funding agencies enter into a **funding agreement** with each college which sets out the funding it has agreed to provide and a broad description of the provision that the college has agreed to deliver. As colleges are public bodies receiving **grant in aid** this is expressed through a **financial memorandum** rather than a contract. The Agencies attach a series of **conditions of funding** to the agreement, some of which are required by the Secretary of State (such as no fees for under 19s) and others which they determine themselves. This makes the arrangements very similar, though not identical to the contract regime applied to private bodies.

Since funding is based on agreed levels of provision, the Agencies have the right to check the existence and eligibility of students and how the numbers and types of student recruited relate to the details in the agreement. In the event of error (or, more rarely, fraud) they can reclaim funding. The key decisions, which vary from year to year and therefore need to be carefully monitored, are how much **tolerance** there is in the agreement; and whether claw-back is in-year or in future years.

Funding and the curriculum mix

Funding has obvious implications for the curriculum mix offered by institutions. Here are some of the questions that you and other strategic leaders must be able to answer.

- To what extent should the funding of courses, programmes and departments be kept within the funding generated by them?
- Do we have a clear rationale supported by evidence for those aspects of provision that do not lead directly towards government targets?
- Do we have a full understanding of the funding implications of planned and unplanned changes in the curriculum mix?
- Are we striking the right balance between securing all the funding that we can generate and distorting the curriculum just to maximise income?

If you are unable to answer any of these questions, then you may not be making the most of the funding opportunities available to you and you may need to work with finance and curriculum managers to ensure optimum fit between funding and curriculum offer.

Task 1

1 A Head of Department brings forward proposals for a new course. You will want to know many things, including whether there is a demand for the course, but what questions do you need to ask from a funding perspective?

2 The programmes in the Business Studies faculty at your college bring in 20per cent of total college funding. Does this mean that you have to allocate them 20per cent of the total college budget?

Feedback

For feedback see end of unit.

Key points - Summary

- Strategic leaders must ensure that senior colleagues are aware of and respond to all the conditions attached to their funding agreement or contract. It is important to review the annual grant letters at a strategic level to identify policy shifts and check how well your development plans align with the targets and priorities set out by funding agencies. You might need to consider a migration strategy from provision that is felt to be low priority towards that which accords better with local and national priorities.

- Institutions should check that any proposed new provision is eligible for funding and is likely to remain so. This means having a system in place to monitor and anticipate changes in the eligibility rules. It is also important to develop a source of expertise in learner eligibility, especially if you have many learners born overseas.

- You should be alert to potential changes in the way in which payments are made and plan how to meet the consequences. In particular, you will need to review how best to respond to the increased risk that may be associated with further moves to demand-led funding,

- Senior management should ensure that there is the best possible fit between funding and the curriculum offer. For example, you may need to consider whether you are distorting your curriculum mix in the pursuit of maximum funding and need to take a more curriculum-led approach to funding, or vice versa.

Now that you have examined the basics of FE funding, the next section will take you through some of the funding issues specific to different providers.

Section 2: FE Funding from the Skills Funding Agency and YPLA – matching funding to the learner

Introduction

This section highlights some key issues in FE funding that affect particular institutions so not all the topics covered within it will be relevant to your context. If, for example, you only serve 16–19 year olds you may see little point in becoming expert on fees. If your main market is adult students, however, you cannot afford to ignore fee policy. This section gives you an overview of some particular funding issues and directs you to where you can find more information should you need to do so.

This section will help you to:

- understand the key funding issues relevant to adult learners – policies on fees and fee remission, Credit Based Funding and Adult Learner Accounts;
- explain how institutions with learners in the 16–18 age group need to accommodate the entitlement curriculum for full-time 16–19 learners and the government's 14–19 phase reforms and
- describe the current provisions for Additional Learning Support, learner support funding and apprenticeships.

Skills Funding Agency and YPLA funding – the big issues

There are three big issues on the current agenda that affect institutions with adult learners. Sixth form colleges and apprenticeship providers may choose to ignore them but they pose fundamental questions for general FE and specialist colleges. They concern:

- policy on **fees** and **fee remission;**
- possible moves towards **credit based funding** and
- **Learner Accounts** for individually-focused adult provision.

For those with learners in the 16–18 age group, there are two substantial issues that are less relevant to institutions with mainly adult learners. They are:

- the **entitlement** curriculum for full-time 16–19 learners the 14-19 **reform** agenda and
- and the **commissioning** role of local authorities.

Other issues which may be of particular concern to some institutions include:

- **apprenticeship funding** which is managed by a specialist unit within Skills Funding Agency – the National Apprenticeship Service (NAS);
- **additional Learning Support** for learners with learning difficulties and/or disabilities and
- **learner support funding** – financial support for individual learners.

We'll look at these diverse issues in turn.

Fees and fee remission

Under their conditions of funding, colleges are not allowed to charge tuition fees to learners aged 16–19 or to certain groups of adults – mainly those on means tested benefits (or their dependants) and those on certain lower level courses such as basic skills. For other adults it is expected that they will charge a fee. The college can legally decide what fees to charge for its courses or whether to charge a fee at all.

The Skills Funding Agency reimburses the college for approved fee remission, ie the fee income it is required to forgo. It does not reimburse fees that the college chooses not to collect and has increasingly pressed colleges to collect all fee income due, for example by setting fee income targets. Some colleges have had a general policy of not charging any fees and some have seemed unaware of the cost of their remission policy, often because decisions are delegated to section leaders.

Under its Skills Strategy, the government is seeking to increase the proportion of the costs of learning contributed by those required to pay fees. It has moved from a **fee assumption** (remember the Skills Funding Agency can't set fees) of 25per cent of basic costs in 2004/05 to 50per cent in 2010. For individuals the proportion relates to unweighted costs so that, for example, a student would pay the same for a 50 hour engineering course as for a poetry course of the same length, even though the former is more expensive to deliver and attracts more public funding. For employer based provision the proportion reflects the weighted cost.

Moving the fee contribution from 25 per cent to 5 per cent changes the financial incentives faced by institutions. At 25 per cent it may make sense to remit fees to be sure of getting the 75per cent guaranteed by government; at 50per cent this makes much less sense.

A review of FE fee collection in 2010, led by Skills Funding Agency chair Chris Banks recommended that public funding should be linked to the collection of fees due. If a provider collects the 50per cent fee contribution they should get a matching 50per cent; if they collect more they should still receive 50per cent but if they collect less then public funding should fall by the same amount – a fee of 10per cent would be matched by 10per cent from government leaving an 80per cent shortfall. As of October 2010 it was not clear whether this would be accepted.

The Banks Review also recommended that contributions from employers should be collected in cash, irrespective of whether the employer also supported the programme with contributions in kind. This will be a particular issue for those offering adult apprenticeships where employers are expected to pay 50per cent of costs but very rarely do so.

Some colleges have set higher fees in line with government policy but then met the cost for many students from their learner support funds (LSF) – a policy that concerned the LSC and which it sought to block. Others have been successful in raising fees or in transferring courses from public funding to full cost provision (see Section 3). It is vital to test assumptions rather than just assuming that 'people round here won't pay' and to be fully aware of the costs of any concessions.

A final point: discussing your institutions' fees with a neighbouring provider might sound sensible but it can be seen as price fixing – which is illegal.

Task 2

What information do you need to carry out a thorough review of your policies on fees and fee remission?

Feedback

For feedback see end of unit.

Credit based funding

For most of the past 20 years FE funding rates have sought to reflect the average cost of provision. Big programmes are agreed to be more expensive than small ones and size has been measured in guided learning hours (GLH) – in broad terms the amount of teaching needed. The funding consultation issued by BIS in summer 2010 however proposed that this should change for most adult learners and where possible the size of programmes should be measured by credit.

Under the credit and qualifications framework (QCF) the scale of learners' achievements is measured in credits. Credit values are based on notional (ie assumed) learning time. Supporters of the change argue that to use credit as the basis for funding would align funding and the curriculum making the system simpler. It would also link funding to outputs rather than inputs, making the funding a provider received depend on what they delivered rather than how they chose to deliver it.

It is not clear at the time of writing (October 2010) whether or when this change might come about. The proposal was made in relation to the Skills Funding Agency so if accepted would only apply to adult learning; and since some courses (eg A levels or Access programmes) do not have credit, values could not easily apply to all adult learning. Since costs do not systematically vary with credit – for example, programmes where a lot of self study is practicable would have a lower cost per credit – its introduction might have perverse incentives or introduce 'moral hazard'.

Learner Accounts

Learner Accounts, sometimes called Learning Accounts or Skills Accounts represent an idea that has been around for at least a decade. The basic idea is that if an individual is aware of the public support that they have received or that is available for their learning, they will be 'empowered' or better motivated. The Leitch Review of Skills even proposed that by 2010 all funding for adult learners might be routed through a system of individual accounts, thereby putting funding into learners' hands.

A number of versions of Learner Account schemes have been piloted. The Individual Learning Account (ILA) scheme offered what was in effect a voucher, cashable in exchange for learning programmes. The scheme failed because (unlike in Wales or Scotland) there was no regulation of the providers where vouchers could be cashed resulting in widespread fraud. Some proponents argue that to be effective accounts should enable individuals to save and borrow for learning as well as give access to public funds: but the retail banks have shown little interest in operating such a scheme. The most recent proposals (2010) are for an account that functions simply as a record of learning, advice and entitlements, though with the proposals in the Banks Review to make loans much more widely available in FE that might change.

The Learner Account idea looks like one that will not go away, though strategic managers need to be clear that the implications for institutions vary greatly depending on which model is chosen. Key variables to look out for are whether the accounts are universal or targeted; whether they help lever in private funding or just seek to distribute government cash, and whether the accounts give real control of spending to individuals, or reinforce the power of those who allocate the accounts.

The entitlement curriculum

Entitlement funding, provided only for full-time learners aged 16–19, is intended to pay for tutorial support and what are known as enrichment activities – sport, music and all those optional things that tend to happen on a Wednesday afternoon. There is no need to claim for all the elements separately – funding simply follows from a learner being of the right age and on a full-time programme in a school or college. When it was originally introduced the payment also covered provision for key skills but that is now funded separately.

Some schools and colleges have tried to maximise their funding by claiming separately for qualifications undertaken as part of enrichment activities – sports leadership or language qualifications, for example, and the YPLA is alert to the possibility of double funding. The funding guidance is very detailed on the limited circumstances in which activities offered to some students under enrichment may form part of the main programme of others. The 14–19 diplomas (see below) complicate things because they include work experience, which could form part of enrichment. It is not clear how it will be worked through but institutions shouldn't rely on these things being funded twice.

It is not necessary for a strategic leader to know all the details of entitlement funding but worth satisfying yourself that staff are acting in the spirit of the guidance. It is also worth checking how much enrichment activity is taking place because many programmes are optional. If providers are using this funding to cover a shortfall in other areas they could be in trouble if, as is possible in a time of crisis, the allocation for this purpose from YPLA is cut.

The 14–19 agenda

The last Labour government set in train proposals for radical reforms to the 14–19 phase of education. They legislated for an increase in the education leaving age to 18 by 2015. They envisaged greatly increased collaboration between schools and colleges, initially to deliver the new range of Diplomas but increasingly over the whole 14-19 offer; and they also envisaged the replacement of all existing vocational programmes – BTECs, OCR Nationals, etc – by the Diplomas when they were fully rolled out in 2013. The coalition government is much less committed to this reform agenda but it is by no means clear (as at October 2010) which aspects of the programme might be dropped and which retained. Many decisions seem likely to be delayed until after the report of the Wolf Review into vocational education which is due to report in early 2011.

The most likely scenario is that providers will not continue to receive the generous levels of support initially available to support collaborative working in a local area. You will need to consider, therefore, whether continued investment in this activity is worthwhile. Strategic leaders may feel under less pressure to convert their existing provision to Diplomas, but would be well advised to ensure that the institution keeps a close eye on eligibility rules – the regulatory bodies such as JACQUA (Joint Advisory Committee on Qualifications Approval) have not been disbanded.

Most colleges and some WBL providers have worked with schools for many years to deliver vocational programmes for 14–16 year olds. The programmes are generally well thought of but are often heavily subsidised by FE and the financial support through the Increased Flexibility Programme which initially helped meet some of the costs was transferred to the schools budget from 2007/08. Strategic leaders need to be clear about the extent of any such subsidy and whether it can continue to be justified in the new economic climate.

The growth of academies and free schools will make it more difficult for any one body to co-ordinate the provision of education and training in an area and strategic leaders need to be aware of the possibility of new competition in core areas – if, for example, an academy school opens a new 6th form, or a University Technical College opens on your patch. The power of local authorities to plan provision seems likely to be much reduced (the detailed National Commissioning Framework which set out how local authorities were to go about determining allocations was quickly withdrawn by the new government) but someone will still have the task of reconciling individual institutional allocations with the overall budget for an area. Strategic leaders will need to focus on wherever these decisions are taken and on what basis; and note that it might be a shifting target.

Task 3

What considerations will you need to take into account when considering whether and how to engage in local partnership activity?

Feedback

For feedback see end of unit.

Additional learning support (ALS)

Funding ALS is an issue that affects all providers to some extent but has huge implications for some. The average sixth form college gets 3per cent of its YPLA funding from ALS and many get less, whereas a general FE college

with a mission to widen participation may get 10per cent or even, in a few cases, 20per cent of all their Skills Funding Agency/YPLA funding from this source. Work based learning providers vary even more greatly depending on their focus.

In broad terms ALS covers:

- extra support for individual learners on mainstream programmes (eg a signer for a student with hearing problems on a BTEC course)
- the whole cost of programmes designed specially for learners with learning difficulties – so called discrete provision.

ALS was originally intended to fund extra support for learners with learning difficulties and/or disabilities (LLDD) in colleges as well as helping some learners with basic skills. Colleges were funded on the basis of individual claims, originally from an uncapped budget. Expenditure grew rapidly, partly because the arrangement stimulated legitimate demand, partly because some colleges sought to stretch the definition to cover help for any student who seemed to be struggling, and partly because some found it an easy way to generate funds. In attempting to control the growth of expenditure by setting ever more detailed guidance, LSC generated an audit industry.

In order to reduce bureaucracy changes were introduced so that most ALS for individual learners on mainstream programmes is now funded on a formula basis; the formula reflects prior attainment, with the least qualified attracting most funding. Critically, these funds are not ring-fenced; that is, the auditors are no longer required to check that they are only spent on LLDD and basic skills and they are not tied to individual students. In the 5per cent of cases where a learner needs support costed at over £5,500 per year the individual claim system still applies.

These changes are much misunderstood by front line staff who may still see all this funding allocated against individual students; and the impression that little has changed has been compounded by a continued requirement for detailed reporting of expenditure. Some 50per cent of formula funding is not allocated automatically but is subject to negotiation to take account of historic differences in the level of provision. Although Skills Funding Agency funds provision for adults, provision for individuals with disabilities is the responsibility of the YPLA until the age of 25.

Strategic managers need to assess whether the ALS income stream is, or could be, a major source of revenue for the institution. If so it will be necessary to prepare for negotiations with YPLA to secure the funding and to review how it is deployed internally to ensure that it provides most value for learners.

Changing practice in ALS is a particularly tricky issue for strategic leaders, not least because staff in this area care passionately about their students and can also point to strong legislation that protects people with a disability. (For more on anti-discrimination legislation, see the ‘Equality and diversity’ self study unit). However, there are valid reasons to consider whether fundamental change is needed.

In respect of individual ALS, it is important to apply a value for money test to activity that previously had no opportunity cost. ALS now has to justify itself against alternative uses for the funds. At the same time, however, it is important to ensure that individual learners with high cost needs do not lose out.

In respect of discrete provision, there is a need to ensure that programmes can be justified in terms of learning and progression and are not simply used as a substitute for day care that should be funded by social services.

Learner support funds (LSF)

Each school and college receives an allocation of funds from the YPLA from which it can provide financial support for individual learners. (The learner support unit within YPLA makes arrangements for both young people and adult learners.) They used to be referred to as Access Funds (and still are in some places) and cover childcare support for adults, transport and general hardship. A few residential colleges also have access to residential bursary funds though this is planned to be replaced by a nationally administered scheme.

The Labour government progressively introduced more national arrangements for financial support:

- all full time 16–19 year olds became eligible to apply for Education Maintenance Allowances (EMAs)
- Adult Learner Grants (ALGs) were rolled out nationally from September 2007
- Care to Learn provided childcare support for learners aged 16–19.

The Leitch review proposed going further and handing all remaining college based-funds to careers advisers to use along with Learner Accounts. However, the coalition government seems likely to draw back from national arrangements (in October 2010 it announced that EMAs were to be scrapped) leaving once again a potentially large role for institutionally based LSF.

The relatively small sums covered by locally-managed LSF – around £200 million for the sector as a whole – are currently accompanied by detailed guidance and regulation. They are ring-fenced, so they can only be used for financial support; within the allocations; the sum for childcare can only be spent on childcare (though colleges are free to spend more from their own resources) and funds identified for young people cannot be spent on adults and vice versa.They are also generally insufficient to meet needs so the management of such funds is a complex subset of college administration.

In some colleges, the arrangements for fee remission and for learner support are not well integrated even though both serve the same overall

purpose. In others, the LSF seems to be used inappropriately to pay fees that were previously remitted. In higher education the introduction of higher fees was accompanied by a requirement to use some of the extra money to fund bursaries and there is no reason why a college could not consider doing something similar itself.

A potential new ingredient in Learner Support is the proposal to introduce loans for FE students. First suggested by the Banks Review (2010) which called for a substantial expansion of Professional and Career Development Loans (PCDL) the proposal announced in the Spending Review was for Income Contingent Loans (ICLs) which are only paid back as and when income reaches a certain level. Although anyone undertaking vocational learning has been eligible to apply for PCDLs (apart from those eligible for HE student loans and NHS bursaries) there has been little take up to date. Things might change however as the level of fees charged to individuals is required to be increased and the more generous ICLs become available.

The big issue for strategic managers is to ensure that the local management of funds serves some strategic purpose. If local staff simply see themselves as handing out money to disadvantaged people on behalf of the YPLA it might be better done at a regional or national level. If, on the other hand, the use of LSF is part of an institutional strategy to, say, reduce the number of workless adults in the area by helping them get qualified, there is justification for keeping it local.

Apprenticeship provision.
A commitment to radically increase the number of apprenticeships and to see them become the dominant work based training route represents a significant area of continuity in FE policy. Although the strong cross party support has to be seen against a background of continuing decline in the numbers of young people participating in work based learning and particularly low numbers in apprenticeships at level 3. Policy emphasises the need for apprentices to be employed in order to retain the status of the brand and get the maximum benefit for learners. In a recession, however, it is possible that numbers can only be maintained through programme led approaches where a training provider supplies off-the-job training and seeks to place trainees with employers for work experience.

There are two ways in which a provider might get involved with apprenticeships. It may be a prime contractor offering programmes alone or in association with other providers and with employers who provide work experience. Alternatively, it may just deliver certain elements of a programme such as key skills or a technical certificate (the knowledge base for apprenticeships), acting as a subcontractor to another provider.

A key point for strategic leaders is that where a provider is sub-contracted to provide part of an apprenticeship programme it should claim funding from the main contractor, not the Skills Funding Agency. The apprenticeship contract provides funding for all elements of a programme. Providers also need to avoid double funding where a young person has achieved part of a programme before they start.

Those providing apprenticeships as main contractors will need to have an expertise in the funding guidance for apprenticeships which parallels the funding guidance for FE. Although the principles are the same, their translation into the WBL context is sometimes tricky – for example guided learning hours are not the best measure of size. The key document is Apprenticeship Funding Requirements for 2010/11, available on the Skills Funding Agency website, which should be consulted alongside the Learning Aims Database.

The building blocks of WBL funding are broadly comparable with those for FE so there are restrictions on eligibility. Apprentices can only be recruited to an apprenticeship framework agreed by the relevant sector body. The delivery of a framework includes the provision of induction, functional skills and, normally, a technical certificate, as well as opportunities to practise and be assessed on the job.

The National Apprenticeship Service (NAS) will negotiate a funding agreement with each provider which sets out an agreed maximum contract value; an annex will set out an indicative mix of provision by age and sector. The maximum contract value cannot be exceeded except by written agreement.

The rates for different frameworks are set out annually and providers need to be aware that they can be adjusted downwards as well as upwards.

They are, like FE, based on the average cost of good quality delivery, but in WBL there are particular concerns about double funding. You need to ensure that if a young person has achieved part of an apprenticeship framework before they start (perhaps by taking a technical certificate at college) this is reported on the individual learner record (ILR) and not funded again.

As in FE, there is a fee assumption that reduces the rates paid for older apprentices, though you should note that the higher 16–18 rates are paid over the full programme for any learner who starts a programme before their 19th birthday. Employers are expected to contribute 50per cent of the cost of training apprentices over the age of 19 and the expectation (which may prove impracticable) is that this should be collected in cash.

The reconciliation arrangements for WBL are stricter than for FE. Information on the number of starters and completers is returned monthly and checked against the agreed monthly profile of payments, with adjustments being made for any variation.

Key points - Summary

- Leaders of institutions with adult learners will need to ensure that they are aware of the full costs of local policies on fee remission and any shortfall in fee collection. They must review how a possible change to funding based on credit might affect their programmes and carefully consider how the development of Learner Accounts might provide opportunities and threats for their institution.

- Those with learners in the 16–18 age group must satisfy themselves that they are acting within the spirit of the entitlement funding arrangements and work to negotiate a secure financial basis for any involvement in 14–19 partnerships.

- Schools and colleges will need to consider how best use might be made of ALS funding – both for individual and discrete provision – in the absence of ring-fencing whilst maintaining a clear focus on equality and diversity policy. They will also need to develop a strategic approach to the use of learner support funding and seek to align expenditure with overall objectives.

- An increased focus on apprenticeship programmes means that strategic leaders need a clear understanding of the funding arrangements for WBL, whether they are a primary contractor providing a whole programme, alone or in partnership with other providers and/or employers, or a sub-contractor providing part of a programme for another organisation.

Now that you have looked at aspects of LSC funding relevant to your learner profile, we shall turn to some other possible sources of funding for FE.

Section 3: Funding from other sources

Introduction

Some providers receive all their funding from the Skills Funding Agency and YPLA; most colleges and some other providers receive some funding from other sources and for a few these other sources are substantial. This section outlines the major funding streams outside these Agencies and where you can find out more.

Some colleges have adopted a deliberate policy of reducing their dependence on Skills Funding Agency/YPLA funding by actively seeking alternative sources of income. This is not as easy as it sounds, so think about it carefully. Would reducing such funding from 90per cent to 70per cent of your income really make you much more independent? And would the effort involved in generating 20per cent from new sources detract from the attention paid to your most important customer? By all means diversify, but first weigh the costs and benefits carefully.

It is also important to remember that to generate funding from any source a provider usually needs to incur a similar level of costs. New sources of funding, therefore, are not a way of avoiding difficult decisions when income and expenditure on main programmes are out of balance.

There are many sources of income that providers can attract, but a few stand out as potentially significant. You need to review whether your institution is involved with any of them and whether it makes sense to seek to develop work in that area. You may decide on the basis of this introduction that alternative sources of funding are not for you and read no further.

This section will help you to:

- outline how higher education (HE) funding works and understand the strategic issues arising out of the HE funding stream

- consider the implications for your institution of charging full cost fees or engaging in other commercial trading activities

- explain the advantages and disadvantages of other funding streams outwith the Skills Funding Agency/YPLA, notably overseas students, European funding, personal and community development learning and project work.

The main alternatives to Skills Funding Agency/YPLA funding

The main big alternative sources of funding are:

- **HE funding** through the Higher Education Funding Council for England (HEFCE). A group of colleges – the mixed economy colleges – attract substantial funding from the HEFCE. If you are a strategic leader in a mixed economy college, you will need to know as much about HE funding as Skills Funding Agency/YPLA funding. If, on the other hand, you are not currently funded for HE, you are not likely to develop it in the short term and without substantial effort.
- **full cost** fees from individuals and employers. Most colleges receive a modest amount of full cost income and a few receive very large sums. Some private providers also generate a high volume of full cost business. All providers that work with adults will need to consider whether they can increase full cost work over the next few years as public funding is increasingly directed towards a limited number of priority groups.
- **income from overseas students.** The high fees that can be charged to overseas students make them seem an attractive market, particularly when they can infill onto existing programmes. But colleges that have been successful in this respect have had to make considerable investments to achieve a viable income and it is not without risks. All concerned need to ensure that applicants are genuine students and not using their application simply as a means of entry to the UK.
- **European funding.** Funding from the EU, principally but not exclusively the European Social Fund (ESF), has been accessed by many providers, particularly in areas that the EU categorises as specially deprived (referred to as Objective 1). Applying for EU funding is an industry in its own right and not to be undertaken lightly.
- **safeguarded Adult Learning,** sometimes called Personal and Community Development Learning (PCDL). Although much of this activity is ultimately funded by the Skills Funding Agency, many colleges and almost all adult education providers will access it through local authorities or local partnerships. This funding provides for traditional adult education classes and programmes that do not directly lead to qualifications.
- **project funding and trading activities.** There are various sources of project funding which, although differing in the detail, raise similar strategic issues for colleges and other providers. In general, such activities are only worth pursuing if they enable you to do something you wants to do anyway; they are not a good way of generating income per se. Colleges have become involved in a variety of trading activities over the years, typically spin-offs from a mainstream programme. The issues, benefits and costs are usually the same for colleges as for any private company.

We'll look at these alternative funding streams in turn.

Higher education funding

Most public HE funding in England is provided through the HEFCE, although some higher professional courses can be funded by the Skills Funding Agency. The general principles underlying HE funding will be familiar to anyone who understands the Skills Funding Agency approach to funding FE; the big difference is that the HEFCE method is rather more broad brush. It aims to provide similar funding for similar provision, not the same funding for the same provision.

The full details of the HEFCE method are set out on its website www.hefce.ac.uk and usefully summarised in 'How HEFCE allocates its funds'. Like the YPLA and Skills Funding Agency, its funding for teaching takes into account student numbers, the course mix, types of student and institutional factors. If current funding is within 5per cent of the formula allocation, however, the HEFCE simply rolls forward the current allocation.

Some FE colleges are funded directly by the HEFCE; others receive HE funding indirectly through a franchise arrangement from a higher education institution (HEI). Under a franchise agreement the HEI retains ultimate responsibility for the programme and for academic standards. It takes a proportion of funding (around 25per cent) for these services and if you have a franchise it may be worth reviewing what the college gets for this money. A college with no HE at the present time is unlikely to get into the HE market except through a franchise.

Colleges need to consider what is distinctive about their HE offer. Why should anyone study at an FE college when a similar course is available at a university? Some colleges stress that they are local and reduce the cost of HE participation – students can live at home. Others stress the depth of their links with local employers.

Tuition fees are a very important part of HE funding and a strategic decision for an FE college is the level at which they should be pitched. Most colleges and HEIs have, until 2010, set their fees at the highest permitted level (around £3000 per year) which maximises their income and also allows them to fund bursaries for poorer students. Following the Browne Review and the CSR in October 2010 it seems that most HEFCE funding for teaching will be withdrawn so institutions will need to charge at least £6,000 a year to stand still.

Some Universities will charge much more than £6,000 – up to £12,000 or more unless a cap is set at a lower level. Colleges might choose to set lower fees to emphasise that they are a more cost effective route for non-traditional students; but setting the fee low may also be seen as implying that quality is low and can therefore be a dangerous strategy.

Full cost fees and other trading activities

Colleges are able to set their own fees and can elect to charge the full cost of provision to individuals, employers and other bodies. Private providers are free to run full cost programmes alongside their publicly subsidised offer. Provision that is ineligible for public funding can usually only be offered by charging full cost fees; and the CSR in October 2010 suggested that Level 3 provision for adults might have to be provided on a full cost basis supported by loans. Increasingly full cost provision may be the only way of maintaining involvement with provision that the Skills Funding Agency deems low priority but for which there is clear local demand.

Some colleges talk of cost recovery work rather than full cost. You need to be clear that the work really does cover its full costs rather than just the marginal cost – that is, the extra cost of delivery without a contribution to overheads. To offer provision at marginal cost is acceptable in the short term, and in marginal cases, but is not the basis for a sustainable strategy. Overheads have to be paid for.

Although a provider can determine its own fees it is not permitted to charge full cost fees (or fees approaching the full cost) and also draw down public funding for the same programme. If the fees you charge are greater than 70per cent of the funding agency rate for that course the rule until now (October 2010) has been that it should transfer to the full cost category. Proposals in the Banks Review of Fees, if accepted, would withdraw this requirement.

Some colleges generate over £1 million per annum from full cost work and some private providers are larger still. In general, this is because they have a close and deep relationship with a particular sector, not because they charge full cost for lots of things that others offer at subsidised rates. Although growing full cost income should be on the agenda of all providers with adult students, it should not be seen as a quick fix, or as a source of easy income.

Many colleges derive a small income from trading activities, for instance from their training restaurant or by charging fees for their complementary therapy treatments. Some have grown these ancillary activities into major income streams in their own right. Several land-based colleges have substantial 'agri-business incomes'; other colleges have set up publishing businesses or software development subsidiaries. Most of the issues here are those confronting any business: profit and loss, the trading environment, etc

There are a few bear traps to watch out for which are peculiar to a publicly-funded organisation with a private trading arm:

- a college's liabilities in relation to VAT and tax can get very complicated. Many colleges set up a subsidiary to contain the trading activities so tax can usually be dealt with through covenanting arrangements. The VAT position of education providers is already a minefield and having explicit trading activities is likely to attract the interest of HM Revenue and Customs. You will need specialist advice about your treatment of VAT
- if you are a college with a trading business or a trading operation which also provides education you will need to maintain a careful, strategic overview of the balance between the two and its relationship with your core mission
- most college's trading interests grow organically out of their 'mainstream' activities. Some have found that the trading activities reach a point where a significant investment is required to develop the business to its next stage. This poses the problem of raising the money and the amount of risk to which you should expose the college in doing so. Some colleges – and rather more universities – have concluded that they should not take significant risks with public money, the jobs of the staff or the educational assets of the community. Governors are often even more wary of this. A variety of courses of action are available. Deliberately capping the level of activity is one; another is to find a commercial partner willing to invest the risk capital in return for a significant share of the business. Or if the trading arm is very successful, you could sell it.

Income from overseas students

Students who have not ordinarily been resident in the EU for at least three years are normally not eligible for Skills Funding Agency/YPLA funding. As indicated in Section 1, your institution needs someone who is expert in the complex regulations governing eligibility, particularly in areas with large numbers of recent immigrants, refugees and asylum seekers.

Many colleges recruit overseas students and charge fees that cover the full cost of tuition and examinations. It is wise, and often a condition of entry visas, for such fees to be paid in full in advance of the course.

Recruiting overseas students can be attractive, particularly where they boost the viability of existing programmes and make better use of existing resources. To the extent that overseas students dominate some areas of work, questions need to be asked about the rationale for your involvement.

Although the fees charged may cover the full tuition costs, a successful overseas students' programme involves significant other costs. Recruitment, for example, often involves visits and payment to agents; there is a need for enhanced welfare arrangements and perhaps assistance with finding accommodation. You need to check whether existing arrangements, or any proposals for increasing involvement with overseas students, really are cost effective.

European funding

European funding, largely through the ESF, is planned and managed in seven-year cycles. The current one runs from 2007 to 2013 but effectively started in 2008. ESF funding normally needs to be matched by local sources of funding.

ESF funding is attractive to providers for two reasons:

- it increases the resources available for learning, and
- it enables institutions to offer programmes that are either more expensive than Skills Funding Agency/YPLA funding rates or not closely linked to targets and therefore not attracting an allocation.

Two notes of caution:

- unless you are in a deprived area such as Cornwall or Merseyside the sums involved are not substantial (around £200 million pa nationally)
- if an activity is unlikely to be funded through the normal channels there must be doubts about its long-term sustainability.

Nevertheless, some providers have used ESF funding effectively for programmes that help people towards priority programmes or allow work with smaller groups of learners, for example in isolated rural areas. An overview of the regulations on co-financing is provided in the Funding guidance for further education, but each invitation to tender will also have specific conditions attached.

The government has increasingly adopted the co-financing approach to ESF work. This means that bodies like the Skills Funding Agency and YPLA bid for a block allocation of funds and identify the matching funds from their own resources. Providers are then invited to tender for specific projects in the knowledge that they can be 100per cent funded. Although it is open to colleges and other providers to make direct bids to government offices for ESF monies and find the matching funds themselves, this route is becoming much less important.

It makes sense for providers to bid for co-financed ESF projects where the activity fits in with their plans and supports overall objectives. Unless you have an existing track record of successfully bidding directly for ESF funds it is unlikely that this will be an option.

Safeguarded learning or PCDL

Safeguarded Learning or PCDL is a small part of overall funding for adult learners (around £200 million pa) that supports non-accredited programmes, family learning and some traditional adult education. It is distributed in the main to local authorities, though some colleges still receive funds directly. Local authorities work with partnerships to add local resources to Skills Funding Agency funds and commission provision from a range of providers, including colleges.

Safeguarded adult funding has been frozen in cash terms so has suffered a real terms decline which is not likely to be reversed. The BIS funding consultation (2010) asks whether these funds should be retained as a separate funding stream or merged with the much larger FE participation funds. This would probably suit large providers but be a cause of concern for small specialist establishments.

Project funding

There are many sources of project funding available to providers, including through programmes funded by the Learning and Skills Improvement Service (LSIS) the Skills Funding Agency, YPLA and the two Departments concerned with education, DfES and BIS. The funding for LSIS, though having suffered an overall cut in 2010, is increasingly being focused on sector organisations rather than external consultants. Often the projects are designed to support a developmental activity and involve reporting outcomes in a publication or through good practice networks.

On a pound for pound basis the reporting requirements for such projects are usually more onerous than those for the main Agency grants though they are not often perceived as such. The key issue for strategic leaders is whether the project is well aligned with the strategic objectives of the institution; if not the effort involved in securing the funding and accounting for it may be disproportionate.

Strategic leaders, therefore, need to keep checking the purpose of involvement in such activities. There can be many advantages but involvement needs to offer more than just cash since they are mostly small scale and risk diverting senior staff from their main job. Good reasons for getting involved include:

- helping you to pilot or promote an area of work you wish to develop
- helping you to get early experience of a new initiative or programme
- helping to develop the skills of a member of staff in an area you need to develop
- helping motivate staff through broadening their experience or offering a new challenge
- developing relationships with partners in an important area of activity.

Bad reasons for project involvement would include trying to cover a budget deficit, or providing work for staff who are no longer required.

Task 4

What are the key questions you need to ask about those areas of work that are funded by bodies other than the Skills Funding Agency/YPLA?

Feedback

For feedback see end of unit.

Key points - Summary

- Principals of mixed economy colleges which receive funding from both the LSC and the HEFCE should carefully consider what is distinctive about the college's HE offer and whether this is reflected in fee policy.

- All providers must ensure that income described as 'full cost' really does cover its full costs and that the opportunities for generating further full cost income are realistically explored. In particular, strategic leaders should be wary of just assuming that learners are not prepared to pay full cost for their intended programmes.

- Many colleges have trading interests developing out of their mainstream provision and this can be a useful source of funds. However, strategic leaders must be alert to the tax implications, possible risk to the college and any imbalance between trading activities and the organisation's core mission.

- Strategic leaders must keep under review the costs and benefits of involvement with overseas students, for example by ensuring that overseas recruitment is not simply being used as a means of filling courses that would otherwise be unviable.

- ESF-funded work should always be consistent with a provider's overall development strategy. The co-financing route is becoming the dominant means of attracting European funding.

- Attracting funding through small scale project activity can offer positive benefits but strategic leaders must always question the rationale for involvement and ensure that project funding is not being used to cover a budget deficit or to generate work for superfluous staff.

Sources of more information

Skills Funding Agency/YPLA publications

The following documents are the major sources of information that you need to be aware of. The web links provided are for the current versions of each document and you should be aware that the names may change slightly from year to year.

DfES and BIS annual grant letters.

http://www.bis.gov.uk/assets/biscore/corporate/docs/s/10-1013-sfa-funding-letter-2010-11.pdf

http://readingroom.ypla.gov.uk/ypla/grant_letter-july2010-v2.pdf

Discretionary learner support (for both young people and adults) http://www.ypla.gov.uk/learnersupport/

The DfES website also gives a good summary of LSF from a learner and a provider perspective.

http://www.education.gov.uk/16to19/studentsupport/a0064057/financial-support-for-learning

Funding guidance in relation to young people (apart from apprenticeships) can be found at http://www.ypla.gov.uk/aboutus/ourwork/funding/dlf

Specific guidance about apprenticeship funding (all ages) is at http://readingroom.skillsfundingagency.bis.gov.uk/sfa/Apprenticeship-funding-requirements-2010_11-v1.pdf

Guidance about adult further education funding is at http://readingroom.lsc.gov.uk/SFA/ALR_Funding_Requirements_2010_11.pdf

Other references

HEFCE (2006) How HEFCE allocates its funds.

This paper gives a strategic overview of HE funding.

Available at: http://www.hefce.ac.uk/Pubs/hefce/2006/06_17/

Leitch review (2006) Prosperity for all in the global economy. Available at: http://www.hm-treasury.gov.uk/independent_reviews/leitch_review/review_leitch_index.cfm

LSC and DfES (2007) Delivering world-class skills in a demand-led system. The DfES and LSC jointly published this consultation in January 2007 setting out both a vision for long-term strategic change in response to the Leitch review and detailed changes to the funding system in the short term. http://readingroom.lsc.gov.uk/lsc/National/nat-deliveringworldclassskills-jan07.pdf

BIS Funding consultation (July 2010) http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/f/10-1070-fe-funding-consultation.pdf

Websites

http://www.esf.gov.uk For details about the European Social Fund.

http://www.hefce.ac.uk The HEFCE website contains details of HE funding.

Glossary	
Rating	**Definition**
Access Funds	School or college-administered funds providing financial support for learners, now called learner support funds.
Additional learning support (ALS)	Covers additional support for individual learners with learning difficulties and/or disabilities (LLDD) on mainstream programmes as well as the whole cost of programmes designed specifically for students with LLDD (discrete provision)..
Allocation	The sum of money that the Skills Funding Agency/YPLA agrees to provide to a college in return for an agreed programme of work.
Area cost factor	The part of the funding formula that takes account of higher staff costs in London and the surrounding areas; now embedded within the provider factor
Co-financing	The arrangement whereby a funding agency bids for ESF funding and provides the matching funds itself before inviting providers to bid to deliver aspects of a programme.
Competitions	When the Skills Funding Agency or YPLA determine that there is a significant shortage of a particular type of provision in an area it announces competitions open to all providers to bid to fill the gap.
Conditions of funding Cost recovery	Funding agencies attaches conditions to their grants to colleges, eg requiring them not to charge fees to under 19s. Sometimes used by colleges to refer to full cost provision and sometimes to provision that covers marginal costs.
Demand-led	The DfES description for funding arrangements introduced from 2008/9 that play down the role of planning – see LSC and DfES (2007).
Disadvantage factor	A component of the funding system that reflects the view that learners from disadvantaged backgrounds are more expensive to reach and support. Now embedded within the provider factor
Discrete provision	Provision in colleges specifically designed for learners with learning difficulties and/or disabilities (LLDD).
Enrichment	A range of sporting, cultural and social activities that schools and colleges are expected to provide for full-time learners aged 16–19.
Credit QCF	A measure of the size of a learning programme based on the volume of learner achievement. The Qualifications and Credit Framework is the new framework for creating and accrediting qualifications in England, Wales and Northern Ireland

Glossary	
Rating	**Definition**
Entitlement funding	Funding for a range of enrichment activities, tutorial support and key skills provision for full-time learners aged 16–19.
FE sector	FE colleges, sixth form colleges and specialist colleges.
FE system	Following the Foster review all institutions funded by the LSC are known collectively as the FE system, ie it is more than just the FE sector.
Fee assumption	The level of fees that colleges are assumed to collect from fee paying adults. The Skills Funding Agency uses the fee assumption to work out the balance that it provides.
Fee remission	The decision not to charge fees, either because a student meets Skills Funding Agency criteria for free education or through the exercise of local discretion.
Financial memorandum	Sets out the terms under which the funding agency grant will be paid to a school or college; signed by the Chief Executive as chief accounting officer.
Funding agreement	The set of conditions of funding and a description of planned provision attached to a funding allocation.
Funding methodology	A description of the whole Skills Funding Agency/YPLA funding system as set out in Section 1; sometimes used as a description of the rates calculations.
FTE	Full time equivalent (student).
Full cost	Provision offered at a fee that covers the full average cost of provision.
Grant in aid	The technical term for funding agency's financial support for colleges; it is not as precise in its obligations as a contract.
Guided learning hours (GLH)	The LSC measures the size of courses in terms of GLH – the total number of hours of teaching or teaching equivalent offered.

Glossary	
Rating	**Definition**
Indicative allocation	An indication, but not a guarantee, of the level of funding a providercould receive if it recruited successfully.
Learner Accounts	An approach to funding that seeks to put purchasing power in the hands of the learner.
Learner eligibility	Criteria setting out which learners can receive public funding.
Learner support funds	Funds used to provide financial support to individual learners. Some are managed nationally like Educational Maintenance Allowances (EMAs); others are managed by institutions.
Listed programme	A course for which Skills Funding Agency/YPLA has determined the GLH that will be used for funding purposes, normally based on the average practice of the sector.
Load banded programme	A course for which the Skills Funding Agency/YPLA has not set a national rate and therefore funds each provider on the GLH it reports.
National Funding Rate (NFR)	The basic rate per SLN that will inform annual funding calculations.
Other provision	Courses that fall outside the National Qualifications Framework and are therefore regarded as of lower priority.
Personal and community development learning (PCDL)	A small, safeguarded part of the adult LSC budget distributed in the main by local authorities who often add resources. It provides for non- accredited programmes and traditional adult education. It was formerly referred to as Adult and Community Learning (ACL) and now as Safeguarded Learning.
Profiling	The process of matching the flow of payments to a provider to the expected pattern of expenditure in delivering an agreed programme
Programme eligibility	Criteria setting out which programmes can be publicly funded.
Programme weight	Takes into account the fact that some subjects are more expensive to teach than others. Now embedded within the provider factor

Glossary	
Rating	**Definition**
Provider factor	A single factor in the new funding approach that reflects the mix of work at an institution the types of student it teaches, where it is and how successful its students are.
Rates	The prices that the Skills Funding Agency/YPLA attaches to programmes when determining funding. In general, until now rates have reflected costs.
Reconciliation	The process of checking that providers have delivered the pattern of activity on which funding was based.
Ring-fencing	Use of funds restricted to a specific activity or purpose. Normally a provider can spend more than the sum allocated for such an activity but if it spends less it has to hand the balance back.
Standard learner number (SLN)	One of the basic elements of the funding calculation. An SLN is broadly the same as an FTE and calculated as GLH/450 with a cap at 1.75 SLN per learner.
Success rate	The number of students achieving programme aims.
Tariff farming	The practice of organising learning to maximise funding rather than benefit learners. The funding rates used to be referred to as the tariff.
Virement	To vire funding means to spend it on a purpose other than that for which it was allocated. Colleges have considerable powers of virement to allow them to respond to changing priorities but many project funders seek to restrict it through ring-fencing.

Feedback on tasks

Feedback 1

1. The key areas to think about are eligibility, rates and priorities. These will help provide an analysis of income to be set alongside an analysis of expenditure. To keep an institution on track you need to keep a close eye on how the two relate.

It is unlikely that major areas of your current work are ineligible for funding, though it may be worth querying some of the more unusual proposals for new programmes. However, certain programmes may cease to be eligible, for example as a result of the transfer of programmes to the QCF, and you should try to anticipate such changes. Also programmes in areas where employers are required by statute to provide training may be vulnerable; government has already withdrawn support for short Health & Safety courses. Pay close attention to any announcements from SSCs on this question.

You need to be sure that your institution is claiming the funding that it is entitled to for every programme without indulging in tariff farming and then ask whether the costs of provision are broadly aligned with the rates of funding received. Getting the correct rate of funding will depend on having a full and accurate ILR return.

Keeping up with changing priorities poses perhaps the greatest challenge to strategic leaders but changes are generally well signalled. Any college that lost funding because it had high levels of 'other provision' that the LSC no longer wanted to fund had failed to read the signals. You therefore need to consider whether your programmes fit in with the longer term priorities of the Skills Funding Agency and YPLA.

2 Overall the budget needs to balance. It is not necessary to balance the books course by course or even department by department as long as you know what is going on, and particularly if cross-subsidies are temporary or marginal. Bear in mind that the funding supports the whole operation (including central 'overheads' like your salary!) and not just departmental ones. These are likely to be between 25 and 40per cent of total costs. A serious and systematic imbalance between income and expenditure in any one area should ring alarm bells. Why is it that one area seems regularly to operate at a loss and is there potential damage to the 'cash cow' from which underperforming sections are subsidised?

Checking how income relates to expenditure and asking tough questions is important. Some providers choose to replicate the Skills Funding Agency/YPLA funding method internally to save arguments about an alternative basis for distributing funds; it also increases the number of people keeping an eye out for changes in rates and eligibility. But you are not required to do this (indeed HEFCE explicitly warns HEIs against it). After all you have more information than central funding bodies and can use it to decide whether to continue to assist an area of work that you judge is strategically important.

Feedback 2

An important piece of information, often lacking in providers is an assessment of the cost of current policies. Exactly how much income is foregone as a result of decisions to remit fees? And who is empowered to make such decisions? If fees are set below the level of the Skills Funding Agency fee assumption, how much potential income has been lost? Remember as the fee assumption has increased the cost of local remission has also increased.

Often policies are set in global terms – remitting fees for all over-60s, for example, when it is clear that some could pay. Policies are often based on beliefs that are not well supported by the evidence. How do you know that people won't pay? Are there steps that you could take that would make it easier for them to do so; or to demonstrate the good value that your prices represent.

Look at what competitors are charging – but remember that it is illegal to collude with them (ie price fixing). You need to keep an eye on the Skills Funding Agency's fee assumption but you can exceed it in areas where you judge the market will stand it.

You need to review learner support policy; ask whether the LSF is being used with discretion to help deserving individual cases; used to avoid hard decisions on fee collection or used recklessly to frustrate the Skills Funding Agency fee policy. The introduction of loans signals a change from helping people avoid paying for FE to helping them to pay; are your policies moving in line with this change?

Feedback 3

Most colleges have subsidised 14–16 work and you need to know what your institution has been doing, then ask whether this is sustainable in the light of the role you expect to have in the future 14–19 agenda. If you expect to be a major player then you may be relaxed about continuing to subsidise schools; if not, you need to act.

Your negotiating stance will be affected by the competitive environment. If you are the only potential supplier of construction courses you may be in a strong position; but if a local school has specialist status in, say, media studies, you may not be able to insist on a price for that work that covers your costs. You'd have to balance the option of working at below cost, possibly at risk to your reputation, and pulling out to concentrate on areas where you have a comparative advantage.

You need to be aware of how much funding local authorities are receiving to reflect the cost of vocational options and what the current assumptions are about how much schools ought to contribute themselves. In the long run all partners need to develop a model that is self sustaining within static or diminished funding and you need jointly to plan how to move in that direction.

Feedback 4

As with all activities, there needs to be a clear rationale for your involvement linked back to a development plan. Just because funding is available is insufficient reason to pursue something outside your main purpose and the benefits of diversifying income per se can be overstated.

As with Skills Funding Agency/YPLA funding, you need to ask whether income equals or exceeds expenditure and, if it is less, whether there is a serious prospect of it equalising in the future. If not, there needs to be a strong reason to continue to draw resources away from your core business, risking its reputation and, ultimately, the viability of the organisation as a whole.

The Learning and Skills Improvement Service (LSIS) is the sector-owned body supporting the development of excellent and sustainable FE provision across the learning and skills sector. Its aim is to accelerate the drive for excellence and, working in partnership with all parts of the sector, builds on the sector's own capacity to design, commission and deliver improvement and strategic change.

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