

LSC funding and specialist colleges

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research report

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Executive Summary

1. At present 29 colleges in England receive a 10% uplift in the funding they get from the Learning and Skills Council (LSC) because they are defined as being 'specialist'. Other types of provider are not eligible. This paper reviews the evidence and arguments about the uplift to help judge whether it should continue.
2. The uplift was introduced in 1999 to ameliorate a specific anomaly in the way that the Further Education Funding Council (FEFC) funding model worked. That anomaly has been rectified, but further arguments for the uplift are now being put forward.
3. There are several studies that are relevant to this discussion, though no single one is decisive. Some were commissioned specifically to aid a review of the uplift. Others shed a more general light.
4. The LSC set up a review group, largely composed of representatives of specialist colleges, to help review arrangements. The review group has put forward many arguments for retention of the uplift, but few are supported by the evidence and many are logically flawed.
5. Of the factors put forward in support of retaining the uplift, hardly any apply:
 - only to colleges that get the uplift
 - equally to all colleges that get the uplift
 - only to colleges.
6. On the other hand, there are certain costs that LSC ought to consider that do not appear to be reflected in the current funding arrangements, namely:
 - the costs of maintaining residential accommodation
 - the costs of farm-scale facilities to support land-based studies
 - some costs associated with excellent or 'flagship' provision
 - maintaining uneconomic minority provision that meets a national need.
7. The term 'specialist' is used in different ways and is unhelpful. It sometimes refers to colleges with a narrow range of provision, and sometimes to provision that is excellent. While some specialist colleges are excellent, not all are – and there is much excellent provision in other colleges as well.
8. The LSC is recommended to remove the specialist colleges uplift and to put in place arrangements for recognising the additional categories of costs identified across all providers.

1. Background and Context

1. In 1999 the FEFC agreed a 'specialist colleges uplift factor', which was introduced into the funding of the further education (FE) sector from 2000/01. A limited number of colleges, mainly freestanding colleges of art or agriculture, were given an additional 10% of funding annually, on top of the standard payment for their programmes. This uplift has continued to be paid and currently applies to 29 colleges.
2. The reason for the introduction of the uplift by FEFC was the discovery in 1999 of an anomaly in the way in which the FE funding model had been implemented.¹ The anomaly had resulted in under-funding of those institutions with a particular concentration of high cost work; and the uplift was created as an immediate remedy. The need for swift action was underlined at the time by concern about the relatively poor financial health of many in the specialist college category.
3. The introduction of the LSC in 2001 was accompanied by a revised funding approach. The Department for Education and Skills (DfES) envisaged that this model would eventually apply across the whole of the new sector. Since the new model did not contain the anomaly that had precipitated its introduction, the DfES explicitly excluded a specialist colleges uplift. It was also thought inappropriate, in the context of a wider sector, to have an element of funding that only related to one type of institution.
4. In implementing the new arrangements, the LSC delayed the removal of the specialist colleges uplift pending enquiries into the possible consequences for institutional stability. A review group was set up by the National Rates Advisory Group (NRAG) in 2003 to consider whether there were still reasons for retaining this element of funding, or whether some similar arrangement might still be needed.
5. This report seeks to summarise the evidence relevant to the case for or against the current specialist colleges uplift. It draws primarily on research carried out for the review group by the Learning and Skills Development Agency (LSDA), but also considers work carried out by others. It considers the several arguments put forward by members of the review group, and papers forwarded by them.

¹ The order of calculation in the funding model meant that the programme weightings that reflect the extra costs of delivering certain subjects were not applied to assumed fee income, or to the FE funding provided in lieu of remitted fees.

2. Sources of Evidence

6. The LSDA was asked to assist the review group by carrying out research into the costs and the practice of specialist colleges. Three pieces of work were commissioned:
 - an examination of data from the Learner Satisfaction Survey – to assess whether there were significant differences between students at specialist colleges and those carrying out similar work at general colleges
 - an exploration of the costs of residential colleges – to help assess whether the costs attributed by some to specialist status might be explained in whole or in part by their also being institutions with resident students
 - a study of ‘matched pairs’ of colleges undertaking similar work, where one college in each pair received the uplift and another did not – to better understand how practice varies.
7. Other research work by LSDA, though not commissioned as part of this study, is relevant to the question:
 - a review of the residential bursary scheme (Barker and Fletcher 2003)²
 - a study of the impact of the new care regulations (Fletcher and Kirk 2002)³
 - a study of student transport in the FE sector (Fletcher and Kirk 2000).⁴
8. In addition to the LSDA work, the review group commissioned Ben Johnson-Hill Associates to carry out two linked pieces of work:
 - an analysis of the cost of specialist art and design provision relative to general further education (GFE)
 - an analysis of the cost of land-based provision relative to general further education (GFE).
9. Prior to the current review, the NRAG had commissioned Price-Waterhouse Coopers (PWC) to carry out a review of programme weights across the sector. As part of that work, PWC had specifically considered the case for a specialist colleges uplift and their report is also considered here.
10. The deliberations of the review group are treated as a piece of evidence in their own right. In the course of the several meetings of the group a series of arguments were put forward – mainly, but not exclusively, in justification of the current arrangements. These arguments are summarised and assessed.

² Barker P, Fletcher M (2003). *The financial impact of the national minimum standards for accommodation of students under 18 by further education colleges* (RR 575). London: Learning and Skills Development Agency.

³ Fletcher M, Kirk G (2002). *Residential bursaries in further education* (RPM 466). London: Learning and Skills Development Agency.

⁴ Fletcher M, Kirk G (2000). *Student transport – unfair or just unequal?* (RPM 287). London: Learning and Skills Development Agency.

3. LSDA Research: Methods and Findings

11. This section reviews in turn each of the principal sources of evidence:

- the Learner Satisfaction Survey
- residential college costs
- the matched pairs study.

It describes in outline the methods adopted by the researchers, and offers an assessment of their robustness. It then sets out the major findings; conclusions that might be drawn from the data are reserved for the subsequent section. Copies of the LSDA reports will be available on the LSDA website (www.llda.org.uk).

3.1 The Learner Satisfaction Survey

12. The aim of this project was to use data from the Individualised Learner Record (ILR) and the Learner Satisfaction Survey (LSS) to compare the responses of groups of learners following similar programmes in specialist and non-specialist colleges. It was carried out by Andrew Button of MAP analysis, who is familiar with the LSC sector and its colleges.
13. The study used data from the second LSS carried out by National Opinion Polls (NOP) and published in June 2004. Although it is the largest ever survey of the views of learners in England, it only includes 405 learners at specialist colleges. Furthermore, the category of specialist college includes 'designated' colleges – adult education institutions that are outside the scope of the uplift and this study. The results therefore need to be treated with great caution.
14. The small size of the sample, and difficulties in matching data from the sample with data from the ILR, means that – in general – results are only available at the level of the whole institution, rather than for specific programmes.
15. Overall, nine out of 10 learners were satisfied with their learning experience and there was no difference between college types. Specialist colleges were a little more likely to have 'extremely satisfied' or 'very satisfied' learners but the difference was such that it might have been caused by chance.
16. Although many of the observed differences in the data could not be said to be significant, the researcher identifies a few pieces of evidence that are relevant to the issue. The study found that:
- learners at specialist colleges were more likely to be 'extremely satisfied' with the quality of teaching and learning than at non-specialist colleges (29% as compared with 25%)
 - male learners aged 16–18 years were more satisfied with the quality of teaching at specialist colleges than at non-specialist colleges, though those aged 19–24 were less satisfied
 - learners studying agriculture and horticulture at specialist colleges were more likely to feel that some of their lesson time was wasted compared to those studying at general further education (GFE) colleges
 - the courses offered by specialist colleges, and the reputation of the specialist colleges were more likely to be rated as reasons for learners attending specialist college than those attending non-specialist colleges
 - learners at specialist colleges studying agriculture and horticulture were more likely

to give higher ratings to library, information technology (IT) facilities and learning support services than similar learners at GFE colleges

- learners at specialist colleges were more likely to rate travel and equipment costs as additional costs of learning than learners in GFE colleges.

3.2 Residential college costs

17. There is a substantial overlap between colleges receiving the specialist colleges uplift and those classed as residential on the basis that they are included in the residential bursary scheme. Of the 29 specialist colleges, 28 are also residential; though around half of the residential colleges are not specialist.
18. In view of the overlap between being residential and being specialist it was felt that an analysis of the costs incurred by residential colleges might help an understanding of the position of specialist institutions. An independent consultant, David Lucas, was therefore contracted to collect, analyse and assess information on the costs necessarily associated with being a residential college.
19. A sample of 10 colleges was chosen to represent the major groups of institutions with residential learners. Six of the colleges were involved with land-based provision and four were not. Within each group, some institutions received the specialist colleges uplift while others did not. Seven colleges owned their own accommodation, while three had students in local rented accommodation.
20. Between February and May 2004, the researcher carried out semi-structured interviews with senior staff from each college in the sample. Colleges were also asked to provide summary cost information which some provided on the day and others forwarded later. The cost information supplied in the main report has been anonymised.
21. A principal finding of the research was that a distinction should be made between those colleges that owned accommodation and those that did not. The researcher identified that colleges owning accommodation were almost always land-based colleges, and based in rural locations. Other colleges with resident students tended to be in urban settings. Discussions with the review group and others confirmed this pattern.
22. This research suggests that there is a range of costs associated with owning and managing residential accommodation outside urban areas. The costs are associated with wardening and security, and with providing constructive occupation for young people outside the traditional teaching day. Respondents also stated that the requirements of the new care standards (GB 2000)⁵ for learners under the age of 18 are likely to increase these costs (Barker and Fletcher 2003).⁶
23. In addition to the costs of wardening and associated duties there is some suggestion that the fees charged to users only cover the revenue costs of operating residential

⁵ Great Britain (2000). Care Standards Act 2000. London: TSO. This act requires schools and colleges to ensure that the welfare of learners under 18 is 'adequately safeguarded and promoted while [they are] accommodated by the school or college'.

⁶ Barker P, Fletcher M (2003). *The financial impact of the national minimum standards for accommodation of students under 18 by further education colleges* (RR 575). London: Learning and Skills Development Agency. The document *Accommodation of students under 18 by further education colleges: national minimum standards, inspection regulations* was published by the Department of Health in March 2002 in response to the Care Standards Act 2000. Adherence to the National Minimum Standards will be the subject of inspection from 2004.

accommodation and do not always take full account of depreciation and capital charges (Fletcher and Kirk 2002).⁷

24. Although providers were able to point to a range of reasons why residential provision was expensive the cost information is variable and less conclusive. Two of the colleges in this study maintained that charges to users covered the full cost of their residential operation. At the other extreme, two colleges maintained that they were losing around £1000 per residential learner.
25. This very variable picture matches the findings from the LSDA study of the impact of the Care Standards Act 2000 (GB 2000) where colleges reported extra revenue costs arising from the new standards varying between £1000 and £115 000 per year (Barker and Fletcher 2003). The authors of that study concluded that there was no way in which the additional costs of the standards could be predicted. They recommended that the extra costs be met by charges to users, offset by additional learner support funds to deal with cases of hardship.
26. On the basis of the sample of colleges visited it would appear that there are costs associated with owning residential accommodation but not with simply having resident students. The best estimate is that the costs not recovered through charges amount to an average of £500 per resident learner per year. The costs are rather more in colleges with predominantly younger students and in smaller establishments, and less in large institutions whose students are mostly over 18 years of age.

3.3 The matched pairs study

27. The overall aim of the matched pairs study was to

Provide background information for the LSC about the nature and costs of provision in specialist colleges in order to inform thinking about the need for a specialist colleges factor in funding.

The study was undertaken by Tony Shirley – a former inspector, with many years' experience in the FE sector.

28. The detailed objectives of the study were to:

- identify four pairs of providers where, in each pair, one is defined as a specialist college and the other is a GFE or tertiary college with a broadly comparable specialist provision
 - identify for discussion within the institutions a range of issues that might highlight significant differences in practices between the two types of provision
 - visit each provision for detailed discussions based on these issues
 - provide a summary of the discussion outcomes in each provision, and an overall summary of significant and necessary differences between the two types of provision
 - identify the implications of the results of the investigation for future funding methodologies.
29. The broad criteria chosen for matching providers were size (indicated from LSC enrolment data) and quality (as indicated by most recent inspection grades). A match was considered appropriate when each indicator was of the same order. More exact

⁷ Fletcher M, Kirk G (2002). *Residential bursaries in further education* (RPM 466). London: Learning and Skills Development Agency.

matching was impossible because of the differing proportions of age and type of student in each institution, the different depth of inspection used for specialist colleges compared to specialist departments, and the change in inspection regimes from FEFC to the Office for Standards in Education (Ofsted)/Adult Learning Inspectorate (ALI).

30. The specialist areas chosen covered:

- art and design (one pair)
- building/construction (one pair)
- land-based studies (two pairs).

An additional visit was made to a merged college where the land-based provision was the result of a recent merger.

31. The aide-memoire used with each institution was constructed in three sections.

- An initial 'Overview' section asked for participants' views on the relative advantages and disadvantages of being a specialist college or specialist department.
- A second section dealt with details of 'the provision'. It included aspects of performance, entry requirements, student population, and depth and breadth of the curriculum.
- A third section included matters relating to governance, management, staffing, and employer engagement.

32. All institutions initially approached expressed willingness to take part in the exercise. Each principal was sent a copy of the aide-memoire some weeks before the visit and asked to return the college's initial comments. All did so. The material received was very helpful in providing secondary prompts for detailed discussion. On almost all visits, separate discussions were held with the principal, with members of the college senior management team and with managers responsible for delivering the specialist curriculum. On a minority of visits, discussions were held also with a group of students.

33. One finding from the research supports the conclusions of the residential colleges study. The matched pairs work also suggests that there are special costs associated with accommodating students under the age of 18. These costs are identified as deriving from the duty of care and the need to provide enrichment and entertainment activities and support over a seven-day week. It also finds that most land-based providers say they are subsidising their residential provision but that the costs vary significantly between institutions.

34. The investigation found very few unique difficulties facing colleges in receipt of specialist college funding. Generally, the researcher reports, issues discussed either did not apply to all such specialist colleges or were also applicable to some of the similar provision within GFE institutions. The specialist college factor was seen by the researcher as a poorly targeted method of helping certain colleges to meet the additional costs related to these issues. He reported that it was seen as inequitable by those not in receipt of the extra funds it provides.

35. In addition to highlighting the costs of residence the study also examines three areas where there appear to be costs that are not fully recognised. In each case it is suggested that the extra costs are not unique to those institutions in receipt of the uplift, though institutions in the current specialist colleges category will frequently incur them.

36. Some specialist provision has a high proportion of students travelling from outside the immediate geographical area. Student travel costs for such learners are frequently subsidised by the provider. This corroborates a finding of the residential colleges study, and also the report on the residential bursary scheme (Fletcher and Kirk 2002⁸), which found that many colleges in receipt of bursary monies chose to spend as much as they could supporting their travel budget.
37. Specialist provision of recognised excellence often incurs additional costs. College or curriculum managers often have regional or national consultative roles, and staff are often drawn away to disseminate good practice. Current funding support for excellence is either temporary or applied to the whole institution.
38. 'Excellence', however, is not limited to specialist colleges:
- Grade 1s have been awarded to provision in both specialist and GFE colleges (in their most recent Ofsted or FEFC inspections).
 - Comparison of average grades achieved in specialist colleges with the average grade in GFE colleges with specialist provision of a comparable size gives no indication that the provision in specialist colleges is necessarily of better quality. Indeed, in art and design, the average grade for GFE colleges is better than that achieved in the specialist colleges.
 - Industry recognises excellence in specialist colleges and in specialist departments within GFE colleges.
39. Certain sub-specialisms or niche provisions may be non-viable for the individual provider, but may be considered of regional or national importance by the funding body. In these cases, the provision may be seen as worthy of additional funds.
- All types of providers suggested that this was because the governing bodies and senior management teams were themselves drawn from the sector.
 - Specialist colleges visited suggest that maintaining the broadest provision is implicit in their role.
40. The researcher also attempted to assess whether specialist provision in the land-based sector had suffered when it was merged into a general college. Staff responsible for land-based provision visited within merged colleges felt they have generally benefited from the merger, as follows.
- All had financial, leadership and management, and/or inspection outcome problems before merger.
 - Benefits of the merger include greater stability, more rigorous quality assurance, better financial systems and controls, improved management information systems, and access to staff expertise from other disciplines.
 - None of those visited had suffered appreciable cuts in their curriculum.
 - All of those visited had had considerable capital investment, particularly in building stock.

⁸ Fletcher M, Kirk G (2002). *Residential bursaries in further education* (RPM 466). London: Learning and Skills Development Agency.

4. Other Research: Methods and Findings

41. This section reviews in turn each of the following sources of evidence:

- Research conducted by Ben Johnson-Hill Associates (BJH):
 - analysis of the cost of specialist provision relative to general further education (GFE)
 - analysis of the cost of land-based provision relative to general further education (GFE).
- Research conducted by Price-Waterhouse Coopers (PWC), on behalf of the National Rates Advisory Group (NRAG):
 - review of programme weights.

Copies of these reports may be obtained from the LSC.

Research conducted by Ben Johnson-Hill Associates (BJH)

Analysis of the cost of specialist provision relative to general further education (GFE)

42. In August 2004 the LSC contracted Ben Johnson-Hill Associates (BJH) to use its benchmarking data to give an analysis of how costs in specialist colleges compare with those in GFE. BJH provide a benchmarking analysis to around 400 colleges in the UK, so have a substantial set of data at their disposal.
43. The BJH method provides a consistent approach to the capturing of cost data and increases objectivity by using its own staff to collect data rather than relying on college returns. According to the report, the methodology ensures that there are no exceptional factors affecting an individual college's results – although it does not say how this is achieved. It also states that:

all direct tuition related activity has been accounted for including [but not exclusively] European Social Fund (ESF), Higher Education Funding Council for England (HEFCE), tuition fees, short/full cost courses and Work Based Learning (WBL) income.

44. The study compares costs in a typical art and design college (constructed by merging data from the two such colleges in the BJH sample) with a typical small non-London GFE college (constructed on the same basis). It suggests that there are a number of areas where the unit cost of provision in an art and design college is greater than in GFE. It does not identify whether there are areas where the cost is lower.

45. Areas where unit costs are calculated as higher in art and design colleges include:

- depreciation
- library costs
- student services
- staff recruitment
- postage
- marketing
- premises
- insurance.

The report puts forward reasons why this might be the case but does not offer corroborating evidence. In total the overall excess amounts to around 10–11% of LSC funding.

Analysis of the cost of land-based provision relative to general further education (GFE)

46. The analysis of the land-based colleges similarly compares a construct based on five land-based colleges with a similar construct based on small non-London GFE colleges. It shows that land-based colleges, like art and design colleges, spend more per learner on recruitment, marketing and estates. They also, however, have extra costs associated with refectory operation, travel and the operation of farm units. Surprisingly, they do not appear to identify additional costs that relate to wardening.
47. Overall they assess the cost of a land-based college as being around 13% higher than a GFE college. They do not, however, compare the costs of a specialist land-based college with a land-based department of a GFE college.

Research conducted by Price-Waterhouse Coopers (PWC), on behalf of the National Rates Advisory Group (NRAG)

Review of programme weights

48. In 2001 the LSC contracted with PWC to undertake a Review of Programme Weights to support the work of NRAG. The study was undertaken in two stages:
 - a Delphi survey⁹ that sought to establish a consensus on which programme weights appeared to stakeholders to be out of line with their expectations
 - a subsequent costing exercise that investigated whether there was evidence in support of these perceptions.
49. The overall conclusion of the work was that there were few areas in which the programme weights appeared to be wrong. Some suggestions for areas where weights might be reviewed were made; however, the cost evidence available did not appear to be sufficiently robust to justify any changes.
50. In the course of the work, the PWC team were asked explicitly to comment on the relevance of the specialist colleges uplift and its relationship to programme weights. Their view was that if the programme weights were set at the right level (and other issues such as the area cost and disadvantage uplifts were resolved) there was no logical basis for continuing with a specialist colleges uplift. This is consistent with the fact that the uplift had been introduced in the first place as a direct result of an error in implementing programme weights.

⁹ A Delphi survey operates by asking questions of an informed group of respondents (in this case, senior college staff) and then inviting participants to review their first responses in the light of the responses and arguments put forward by others.

5. Conclusions and Implications

51. In this section the conclusions that can be drawn from the evidence and the implications they have for policy are assessed. The analysis starts by considering the proposals put forward by the review group.
52. At meetings of the review group a series of suggestions has been made as to why the specialist colleges uplift remains necessary. This section seeks to summarise the arguments, make a logical assessment of them, and identify whether there is any evidence, other than that summarised above, to support or contradict them.
53. An early theme suggested by the group is that although there is no single factor that justifies the specialist colleges uplift, there is a 'cocktail' of issues that, taken together, constitute a reason for the extra funding. The group has not suggested in detail how this cocktail is constituted, but the series of individual suggestions dealt with later are presumed to be included.
54. There is strong circumstantial evidence to support part of this proposition. Specifically, if it were to be the case that a single factor justified the uplift it is highly likely that the volume of research focused on the topic would have found it. No single cause has been found. The diversity of circumstances exhibited by those colleges in the specialist colleges category suggests that such a single cause is unlikely to be found.
55. On the other hand, the notion that there is a specific 'cocktail' of issues that justify a 10% uplift in institutions as diverse as a rural residential college of agriculture and an urban college of art, and across subjects as diverse as horticulture, construction and music has severe logical problems. To further maintain, as it must, that this combination of circumstances applies uniquely to 29 colleges, and to no other college or type of institution is simply not credible.
56. There is a similar logical problem with almost all the reasons put forward individually or collectively by members of the review group. To justify the continuation of the specialist colleges uplift¹⁰ it is necessary to show that the factor applies:
 - *equally to all* colleges in the category
 - *only* to colleges in the category.
57. Table 1 summarises 15 propositions put forward in justification of the uplift and applies the two tests. In almost all cases it suggests that the argument fails both the tests.

¹⁰ These tests could be relaxed were it to be argued that an uplift is needed but should be applied to a different set of institutions. No such proposition has been made.

Table 1: Arguments advanced for the specialist colleges uplift

| | Does this argument apply: | |
|--|--|---|
| | <i>equally to all current specialist colleges?</i> | <i>only to the current specialist colleges?</i> |
| The cost of maintaining residential provision | NO (but to most) | NO (but mainly) |
| Working in areas with poor public transport | NO | NO |
| Difficulty of recruiting in rural areas | NO | NO |
| The need to provide a transport network | NO | NO |
| Dealing with a high proportion of small- and medium-sized enterprises (SMEs) | NO | NO |
| Having a regional or national recruitment | NO | NO |
| Operating in listed buildings | NO | NO |
| Having a low % of LSC funding | NO | NO |
| Operating/subsidising a commercial unit | NO | NO |
| Poor utilisation of high-cost staff | NO | NO |
| Marketing over a widely dispersed area | NO | NO |
| Low utilisation of high-cost facilities | NO | NO |
| Need to maintain niche provision | NO | NO |
| Need to market over a wide area | NO | NO |
| Inability to cross subsidise from other areas | YES | NO |

56. The arguments resolve into three main areas. There is a set of issues that relate to land-based colleges; though in terms of making a case for the current uplift they are compromised by the existence of many substantial land-based units within GFE colleges to whom the uplift does not apply. Nevertheless there does appear to be a set of issues that relate to the large-scale provision of land-based programmes. They are associated both with the costs of maintaining an estate and the fact that they are often residential.

5.1 Residential provision

57. The evidence available from more than one study suggests that there is a case for recognising the costs of maintaining rural residential provision. A view needs to be taken on the extent to which the costs of residence should be borne by users, but the balance of evidence at the moment suggests that in most cases it is subsidised

out of general college resources. The cost appears to be of the order of £500 per residential place.

58. It is important to note that the evidence suggests that extra costs arise when a college runs its own residential accommodation – not simply when it has some resident students. It is suggested that for this reason the former group of colleges are distinguished as ‘residential’. It may be possible to align the group of residential colleges, so defined, with those eligible for the residential bursary scheme.

5.2 Maintaining niche provision

59. There is a second set of arguments about the need to recruit to and maintain niche provision. In terms of making a case for the current uplift they encounter the difficulty that there is niche provision for *all* sectors, whereas specialist colleges only exist in *some*. The matched pairs study did not find clear evidence of differences between specialist colleges and specialist departments in this respect.
60. Discussions of this topic are often confused by the conflation of two meanings of the word ‘specialist’. In terms of defining eligibility for the current uplift, the term specialist refers to offering a restricted set of programmes, or being a monotechnic. In discussion, the use of the word often shifts towards a second meaning – that of excellence or distinction. It is then argued that there are costs associated with excellence, such as the increased frequency with which senior staff are asked to represent a sector, rather than purely a college interest.
61. Evidence from the matched pairs study shows that while some specialist colleges are excellent, not all are and not all excellent colleges are specialist. There are some costs associated with excellence, and a case for recognising them, but the current uplift is an inappropriate vehicle for doing so. There is a case for discontinuing use of the term ‘specialist’ because of this ambiguity.
62. It is maintained by members of the review group that the extra costs of maintaining niche provision cannot be dealt with through programme weights: it is not programme areas that are under consideration, but small subsets. Within the agriculture programme area, for example, there are specialised aspects of engineering that are of national significance but uneconomic at average rates. Within construction, roofing has been identified as a case in point.
63. The difficulty with this argument is that as the specialism in question reduces as a proportion of the total college provision, so its capacity to justify a 10% uplift on total college expenditure becomes less credible. To give a specific example, agriculture now constitutes around 7% of full-time equivalents (FTEs) enrolled in land-based colleges. A specialism that constituted, say, 10% of the agricultural provision, would be 0.7% of the total. To justify adding 10% to total LSC funding, the costs would need to be spectacularly out of line with average costs across the sector. No evidence of such massive distortions has been found.
64. In any event a general funding formula is not the appropriate vehicle for such fine-tuning of provision. Under the FEFC, funding was perhaps the only lever at hand. Today the LSC has, through its Strategic Area Review (StAR) process, more appropriate and sensitive ways of protecting minority provision.

5.3 The potential for cross subsidy

65. The third argument is about the potential for cross subsidy. There is a view in the review group that general colleges have the potential to cross subsidise under-funded programme areas from those that are more generously funded. There are two versions of the proposition, which have different implications as follows.
- There are some specific programmes that are over-funded in contrast to agriculture, art and design, construction and music (ie the subjects offered by specialist colleges).
 - Simply having a mix of programmes, all of which are funded at roughly the right rate, provides 'swings and roundabouts' over the years, from which general colleges (but not monotronics) can benefit.
66. There is no consensus on which programmes might be over-funded, though the academic studies offered by sixth form colleges are often informally spoken of as being 'lucrative' in comparison with more technical subjects. There is no evidence that the weights attached to any programmes are substantially out of line with cost evidence. The PWC research, which is recent and of a high quality, found no evidence that programmes were over-funded. It found limited evidence that some programmes were under-funded, though the areas were narrowly focused and the level of perceived under-funding not substantial.
67. The alternative proposal amounts to the view that there are inherent efficiencies in running general colleges or inherent inefficiencies in running monotronics. There is no evidence available that bears on this proposition. It does not seem to be the case that sixth form colleges suffer by only having a restricted curriculum offer. More general evidence on the potential returns to scale, or the benefits of merger, tends to suggest that, in practice, economies of scale are difficult to identify (Fletcher 2002).¹¹
68. The specialist colleges uplift currently only applies to colleges. No arguments or evidence have been put forward to suggest why it should not be available on the same terms to some work-based learning providers, or why schools and sixth form colleges should not be considered specialist on the grounds that they offer a restricted set of programmes.
69. Only some of the arguments identified are relevant to other institutions. The costs of maintaining farm-scale enterprises in support of land-based provision is unique to colleges. There is not the pattern of residential provision in work-based learning that there is in colleges, though there is in schools and adult and community learning.
70. On the other hand, arguments about excellence apply with equal force to all providers. Arguments about the inability to cross-subsidise also apply across all sectors.

¹¹ Fletcher M (2002). Mergers, size and specialisation in further education. London: Learning and Skills Development Agency (unpublished).

6. Recommendations

71. It is recommended that the specialist colleges uplift should no longer form part of the LSC approach to funding. A phased withdrawal should take place on a timescale that will not be destabilising.
72. The LSC should identify those colleges that own a significant residential site as 'residential' colleges and determine an approach to sharing costs between public funding and users.
73. The LSC should review arrangements for recognising the costs of maintaining excellent or flagship provision at all colleges.
74. The council should, as part of its StAR process, review arrangements for minority or niche provision that meets identified national or regional needs and secure appropriate funding where necessary outside the general formula.
75. The council should, as part of its StAR process, review the provision of farm-scale resources to support land-based provision and secure appropriate funding, where needed, outside the general formula.

