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Learning and Skills – the *agenda for change*

Funding Reform – Technical Proposals

August 2005

This document is of interest to everyone in the learning and skills sector

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Learning and Skills – the *agenda for change* Funding Reform – Technical Proposals

Section One – Introduction and Overview of the Proposals

Introduction

1 The *agenda for change* Prospectus set out proposals for a programme of radical change following discussions with principals and other leaders of the further education (FE) sector in response to the challenge of developing an effective, efficient and dynamic sector. The Government has welcomed the initiative from the Learning and Skills Council (LSC) and the FE sector in developing these proposals and has made it clear that it wishes to see them developed to provide more detailed advice which, together with the reviews by Sir Andrew Foster on Further Education Colleges and Lord Sandy Leitch on skills, will enable the Government to develop and deliver the transformation of the sector that we need for a successful future underpinned by economic progress and social mobility.

2 The funding theme of the *agenda for change* programme proposes a fundamental overhaul of the complex funding systems of the LSC and describes the need for a new, strategic relationship to be established between the LSC and the post-16 sector. We are proposing a funding system which supports effectively the LSC's objectives, through simple, equitable funding arrangements. The proposals will enable a more effective response to employers' needs. The new system will be called Priority-led Funding.

3 This document provides more detail on Priority-led Funding as it relates to the FE sector, to flesh out the broad description in the Prospectus. We give more detailed consideration to the proposed new funding formula and the allocations and review process, and seek views on specific aspects of these.

4 As indicated in the *agenda for change* Prospectus, we are proposing to radically simplify our funding methodology and allocation process, making it more transparent, more demand-led, and more responsive to changing needs. The proposals have been largely developed working with the FE sector, but we are clear they have potential advantages for application in other parts of the post-16 sector, to create a common funding approach. We will explore this with partners before making recommendations for decision to the Department for Education and Skills (DfES) in the autumn.

5 For the National Employer Training Programme (NETP) and safeguarded adult learning, there are existing commitments to introduce new funding arrangements from 2006/07. The NETP will provide a powerful demand-led mechanism for changing the way in which training for adults is delivered. The NETP budget will be identified annually, and over time, as set out in the March 2005 White Paper, allocations of funding will operate on a principle of contestability based on the success of colleges and other providers in meeting employers' needs. We will need to assess with the DfES, and sector representatives how far and how fast this principle can apply in the initial implementation phase. Plans for 2006-07 and 2007-08 in particular will depend on decisions by ministers in the autumn on the speed of build up of NETP. We do not, therefore, provide details in this document of how the arrangements for NETP and safeguarded adult learning will work.

6   With specific regard to school sixth forms, we are currently working with schools, local authorities and the DfES on implementing the 14-19 agenda and the *New Relationship with Schools*. We are analysing the implications for school sixth forms of the Secretary of State's plans for the funding of schools from 2006/07, announced at the end of July. We will work over the coming months with the DfES, schools and local authorities to explore how Priority-led Funding might support these wider developments over the longer term.

7   Priority-led Funding requires a more sophisticated and robust planning system, in which we identify each provider's contribution to meeting needs and priorities and subsequently allocate resources to support delivery. In parallel with the development of the proposals in this document, we will need to improve the development planning framework. This will provide the necessary basis for a more informed planning dialogue that takes account of the individual strengths within the provider network, and has a sharper focus on quality improvement and the promotion of equality. We propose to introduce some of these changes for the 2006/07 planning round that begins in autumn 2005.

Key Features of the Proposals

8   The key features of Priority-led Funding are outlined in the Prospectus; the funding chapter from the Prospectus is replicated in **Annex A in this document** for ease of reference. In summary the key features are:

   •   funding that 'follows the plan' – the role of funding should be to underpin colleges' agreed plans to meet employers' and individuals' needs to improve quality and promote equality, while giving colleges and other providers sufficient certainty to use their resources to develop and maintain the required capacity to deliver

   •   a common funding method – which provides a basis for the LSC to allocate funds to whichever provider is best suited to deliver the priorities. It will present the opportunity to progress towards comparable funding for comparable provision, irrespective of the provider

   •   a simple funding formula – introducing the concept of 'standard learner numbers' as a common measure of the volume of activity planned to be delivered by each provider, which takes account of the size of learners' programmes, but does not require each element of the programme to be funded separately. A 'provider factor' will be calculated for each provider which takes account of: costs associated with its mix of programme types, disadvantage, the need for additional learning support/special educational needs, area costs and, it is proposed, learners' success rates

   •   'core' and 'commissioned' elements of funding allocations – a system which guarantees providers a substantial 'core' of funding of between say 90 per cent and 95 per cent based on their previous year's allocations, for an equivalent volume of activity

   •   year-end reconciliation of the plan, not the funding – the process of agreeing providers' allocations will focus on discussions about learner volumes delivered against the plan, removing the need to monitor funding 'earned' for providers receiving funds through grant-in-aid or grant.

9   In developing our proposals for a common funding method, we have endeavoured to strike a reasonable balance between simplicity and precision. The more sensitive the funding method is to the wide range of provision delivered in the sector, the more precision is built in and, as a consequence, the greater the complexity. Our proposals are designed to offer a simple method which also recognises the very diverse range of provision delivered by the post-16 sector.

10   We believe that Priority-led Funding offers significant benefits to learners, employers and the post-16 sector. If it was applied across the post-16 sector, Priority-led Funding would enable the LSC and providers to:

   •   support effectively the Government's skills, 14-19 and quality improvement strategies

   •   support new delivery requirements

   •   simplify and reduce bureaucracy for providers

   •   ensure the equitable distribution of funds

   •   enable a balance to be struck between reasonable stability for providers and flexibility for the LSC

   •   support collaboration and employer choice.

The Proposals in Detail

11   The remainder of this document is structured as follows:

Section Two – A Common Measure of Volume and the Funding Formula

Introduction

1   This section describes our proposals for a common measure of learner volume and the funding formula.

The Funding Formula

2   The proposed formula is based on measuring the planned volume of learning activity in order to create an overall envelope of funding for which a provider can deliver their agreed plan. The detail of mix of programmes and the balance of provision to be offered by a provider will be part of the planning discussions with the LSC and, thus, will be decoupled from funding discussions. The measure will be a way of expressing the overall volume of the provider's planned provision, on a common basis, to enable funds to be distributed equitably.

3   At the heart of the formula is the notion of **standard learner numbers** (SLNs). Funding will be determined by assigning standard rates of funding to reflect broadly the size of learners' programmes. One SLN will be defined as someone who is learning full-time, taking account of the size of the programme the learner is following. This could be measured in terms of qualifications, guided learning hours, elements of apprenticeship frameworks, etc. Part-time learners and those on substantial full-time programmes will then be assigned as a factor of an SLN.

4   A funding rate for an SLN will then be applied. The rate per SLN will be differentiated according to whether the provision is fully-funded or co-funded provision. Fully-funded provision will include 16-19s, Skills for Life, first full Level 2 and those categories of learners eligible for fee remission (such as those receiving means-tested benefits), and will provide the LSC with the flexibility in the future to set new priorities and fund them at the fully-funded rate. Co-funded provision carries an assumption that the employer or individual will be making a fee contribution. The level of fee contribution may be differentiated according to the type of provision.

5   A **provider factor** will then be applied to the total SLN (reflecting differential costs associated with programme type, disadvantage, additional learning support, area costs and learners' success rates) to produce a provider's total funding allocation.

6   Funding will, therefore, be calculated at provider level, using the following formula:

Provider funding = core element + commissioned element

where:

Core element is between 90 per cent and 95 per cent of the previous year's allocation for an equivalent volume of activity (that is, between 90 per cent and 95 per cent of the previous year's planned SLNs)

and;

Commissioned funding = SLNs x rate per SLN x provider factor

where:

- the SLNs are the total commissioned SLN for the provider, differentiated by fully-funded and co-funded

- the rate per SLN is the appropriate funding rate or rates (for fully-funded or co-funded)

- the provider factor is a value for each provider to reflect broadly its mix of provision and the context within which it works (relative disadvantage, additional learning support needs, area costs and success rates). Benchmark data will help to set the factor on an efficient basis.

7   It is important to note that as we propose that providers will be guaranteed a substantial core amount of funding based on the previous year's allocations, changes in funding flowing from the application of the new formula will be moderated.

8   Each element of the formula is described in more detail below.

Standard Learner Numbers

9   The concept of the SLN will, in effect, be a new common volume measure that could be applied across all post-16 provision, regardless of age or mode of study.

10   As indicated earlier, the SLN will reflect the planned volume of provision delivered by each provider. The SLN will be built up from the planned delivery of programmes to individual learners, closely linked to the aggregate of the learning aims being studied rather than to the learning aims themselves. The process of agreeing planned volumes will involve assessing the impact of changes in the detail of providers' plans in terms of SLNs – so, for example, an agreed reduction in short courses will release a volume of SLNs to be redirected towards other priorities.

11   Conversion of annual guided learning hours (glh) into SLN values may be done using bands or a national divisor. When the proposals for *Framework for Achievement* are fully implemented, it may be appropriate to use credit values for the conversion.

12   **One option** for converting the size of a learner's programme into SLN will be through banded learning hours. The bands will indicate the size of the programme, with an SLN factor for each band. The SLN factor will be increased proportionately for smaller part-time programmes to reflect the proportionately higher costs of entry.

13   The SLN factor for a full-time learner will generally be 1.0 but for a full-time learner on a significantly larger programme the SLN factor will be enhanced. The evidence suggests that there is a significant difference in the resources required for smaller 'full-time' programmes (adults and some young people) and more substantial programmes. As the 450 glh threshold for a full-time learner is well established, we consider it is better to have an 'enhanced' factor for larger full-time courses.

14   An **illustrative example** of the bands and their associated SLN factors is provided below (in table one bands and factors would be subject to further modelling):

Table 1: Example of glh bands and SLN factors

Type of programme	Annual guided learning hour range	SLN factor
Large full-time	600 and over	1.3
Standard full-time	450 – 599	1.0
Part-time	330 – 449	0.8
Part-time	210 – 329	0.6
Part-time	120 – 209	0.4
Part-time	60 – 119	0.2
Part-time	30 – 59	0.1
Short course	9 – 29	0.05
Very short course	3 – 8	0.015

15   The key advantage of the banding approach is that minor changes to the length of learners' programmes should not affect the SLN factor and, therefore, the funding. A potential disadvantage of any 'banding' system is that it may encourage providers to lengthen teaching time unnecessarily to reach the next band, in order to secure a higher volume of provision. This can be discouraged by widening the bands, but has the consequence of weakening the relationship between the funding and the teaching time actually delivered.

16   Irrespective of the number of bands established, however, there are inevitably boundary effects, where a relatively small change to a learner's programme could make a relatively large impact on the aggregated number of SLNs for an institution. This could be overcome partially by increasing the number of bands although this would be at the expense of increased complexity. A balance would clearly need to be struck here.

17   **An alternative method** would be to use a divisor to convert annual glh into SLN values. Under this method, the total number of glh for each learner is divided by a number of glh, we suggest 450 glh (with a cap at 650 glh), to calculate the SLN factor. The calculation could also include an enhancement for smaller programmes to recognise the proportionately higher costs of delivery. An advantage of this option would be increased precision in assigning SLN values to learners' programmes. It would, however, be more complex to calculate planned learner volumes in the allocation process and it would be difficult to calculate SLNs for employer-based activity where glh cannot be readily identified.

Question 1: Do you think SLNs should be calculated using bands or a divisor? Or do you wish to suggest an alternative method of calculation?

Question 2: If calculating using bands, do you think the number of bands suggested in Table 1 is right? If not, how many bands should there be?

Question 3: If using a divisor to calculate SLN values, do you agree with the suggestion that the divisor should be 450 glh, with a cap at 650 glh?

Question 4: Do you agree that there should be an enhanced SLN factor for those learners on significantly larger full-time programmes?

Measurement of Volume

Classroom-based Activity

18   For classroom-based activity, the SLN for each learner will be linked to glh and either placed into banded values or values calculated by a divisor, both options as suggested above. These glh may be found by (in order of preference):

(a)   using Qualifications and Curriculum Authority (QCA) glh values for National Qualifications Framework (NQF) qualifications and eventually using the credit value of units within the *Framework for Achievement;*

(b)   using historic Individualised Student Record (ILR) data for other well-known learning aims (such as in the weighted annual glh data that the LSC already publishes each year);

(c)   otherwise using values agreed with the local LSC, where the provision is part of the agreed delivery plan – possibly by aggregating planned class hours in order to assign an appropriate SLN band.

19   For learning aims that span more than one academic year, annual glh in each year will be used.

20   For large programmes that are normally taught for more than one year, SLNs would be based on the proportions of the programme delivered each year and hence a multi-year programme would result in two or more SLNs. (This is similar to the Higher Education Funding Council for England, (HEFCE) approach where a degree counts as 1.0 Full Time Equivalent (FTE) per year for three years).

Distance/Electronic Learning Courses

21   It is our intention to apply the *agenda for change* Priority-led Funding approach to distance and electronic learning, including the provision delivered by UfI/learndirect. This provision will be converted into SLNs using (a), (b) or (c) in paragraph 18. Much of this provision is either in the NQF, or is well established, and as such will have standard glh values. Otherwise, for provision agreed as part of the delivery plan, providers would be required to agree values with their local LSC. As the *Framework for Achievement* is introduced encompassing a wider range of provision, it is likely that there will be a reducing volume of this locally assessed provision that the LSC will fund.

Question 5: Do you support the suggestions for measuring classroom-based and distance/electronic learning activity? Do you have any additional or different suggestions?

Employer-based Activity

22   This includes apprenticeships and any other college courses for employers but not NETP, which will be considered further in the autumn (see paragraph five, section one above).

23   **NVQs** – SLN values are difficult to set for NVQs, because:

- glh is not a concept that readily applies to them as they are based on competencies that do not directly relate to time of study

- LSC data for FE and work-based learning suggests that NVQs are clearly of different sizes. There is no consistent data available from QCA, Awarding Bodies or the Sector Skills Councils to confirm this observation. When *Framework for Achievement* is implemented, all qualifications will be built up from units and assigned credit values for successful achievement which may be indications of size. In the meantime the LSC is conducting further research into the costs of delivering NVQs

- different learners may need different levels of training time to achieve the same NVQ. The assess/train/assess model implies different inputs for the needs of different learners.

24   It is suggested that in the new approach two SLN values will be used for NVQ delivery in the workplace to reflect the different costs incurred by the provider for any individual. This is based on the assess/train/assess concept. We envisage that for the majority of this type of provision, where learners require a reasonable amount of training, a SLN value of 0.4 will be assigned, if the bands in Table 1 are adopted. Where the proportion of training is more limited and assessment predominates, a reduced SLN value will apply, such as 0.2. This is a redefinition of the arrangements currently applied in the LSC's funding of NVQs delivered on employers' premises by further education.

Question 6: We would welcome your views on the initial suggestions for measuring the size of NVQs, as outlined in paragraph 24. Do you support these? Do you have any further/different suggestions?

Counting SLNs

25   The point at which SLNs are counted can be at a number of different stages of learners' programmes: starts, mid-points, completions or achievements.

26   SLNs can be counted at either one or more than one point in the funding calculation. It would be possible to count SLNs based on starts but also to reflect learner retention (completions) or success (achievements) in the funding formula using historical data this would avoid potentially negative consequences of counting at a single point. To simplify in-year monitoring, we would incorporate success rates in the provider factor.

27   Definitions covering learner starts and success rates will be consistent with those developed through the New Measures of Success.

28   In order to undertake some initial modelling work we have built in the assumption that the funding model would be based on both starts and success. The rationale for this assumption is that it strikes a balance between encouraging providers to take on more disadvantaged learners and also placing an emphasis on learner achievements. To base the count solely on starts could encourage an over-emphasis on recruitment at the expense of retention and achievement. To base the count solely on completion or achievements could, on the other hand, discourage efforts to widen participation, and may encourage some to 'cherry pick' the most able learners. The issues are illustrated in Table 2.

Table 2: Counting SLN – balancing starts and success

Proposed Funding Model

Encourages participation

May encourage gaming

Does not reward success

Encourages increased participation

Encourages success

May encourage cherry picking and reduce participation

Over-rewards success

| 0% | 25% | 50% | 75% | 100% |

(Starts Only)   (Success Only)

We suggest the model is based on start numbers and success rates
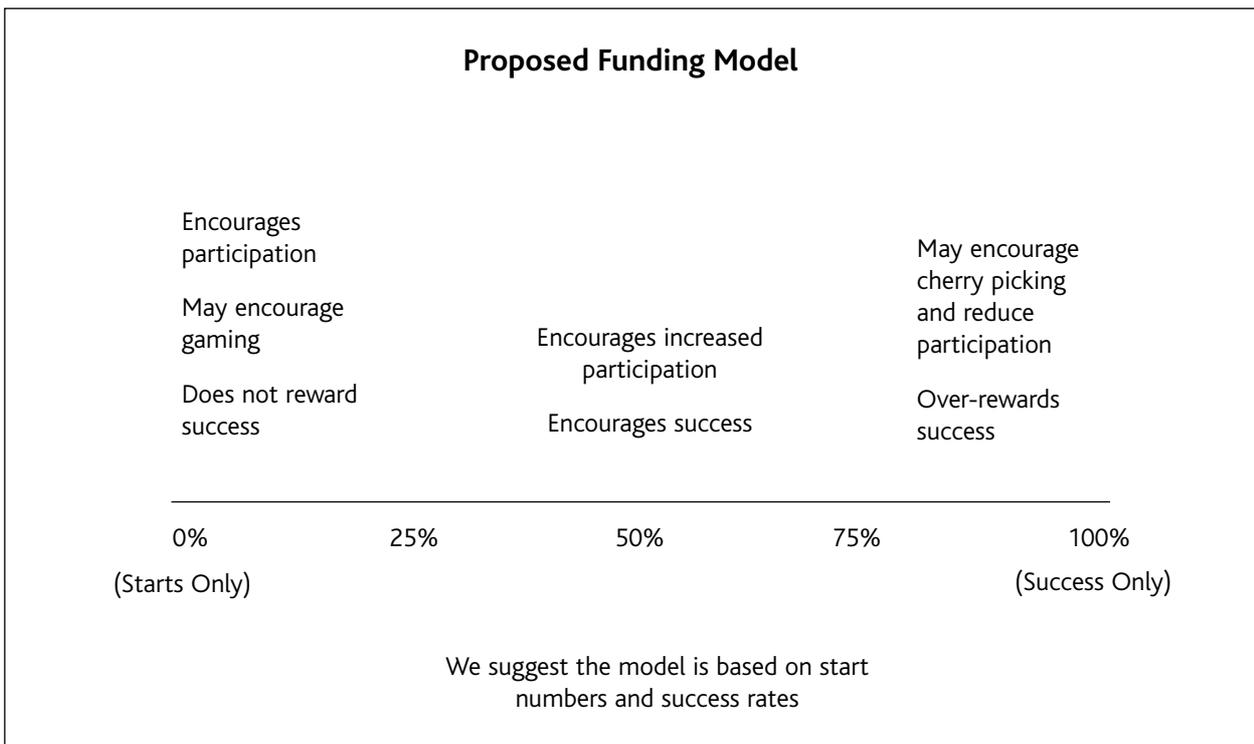
29   A more detailed explanation of the options for counting SLNs is provided in **Annex B.** We are proposing to count SLNs on learner starts (after an appropriate qualifying period of, say, four weeks for learners on longer courses). This would be used for planning and monitoring during the academic year. Learner retention and achievement during the year will determine the provider's overall in-year success rate.

30   To ensure retention and achievement have an appropriate impact on a provider's funding, we are also proposing to include a success rate, based on the most recently available historical data, into the provider factor. Success rates will be incorporated into the provider factor prior to the start of the academic year. It will be used during the planning process and will remain constant for monitoring purposes during the year. This provides more certainty of funding, as monitoring the provider's funding performance will not depend on the availability of examination results. Success rates in-year will be incorporated into subsequent years' provider factor.

Question 7: Do you support the view that SLNs should be counted based on starts and most recently available historic success rates, by incorporating the success rates into the provider factor?

Fully-Funded and Co-Funded Provision

31   It is proposed that the rate per SLN will be differentiated to reflect fully-funded and co-funded provision. This will work as follows:

(a)   Fully-funded SLN Rate

32   This will represent the provision which the LSC will fund at the full rate,.that is the rate including fee remission. Under current policies, this would include all 16-19, Skills for Life, and first full Level 2 provision. The categories of fully-funded provision might be changed over time, depending on government priorities.

33   The fully-funded rate will also apply to learners who are eligible for fee remission (for example, those receiving means-tested benefit). For planning purposes, this will be calculated by using historical data to esti-mate the number of learners in these categories cou-pled with other available planning information (for example, labour force survey data).

(b)   Co-funded SLN Rate

34   This will apply to adult provision which is not funded at the full rate, where the rate is discounted to take account of a fee assumption.

35   It will be possible to have more than one co-funded rate. This would provide the opportunity to differentiate funding to reflect Government priorities, for example to incorporate a higher fee contribution from individuals or employers for different types of learning.

Question 8: Do you support the notion that the funding approach should include the possibility of having more than one co-funded rate?

Provider Factor

36   A provider factor will be calculated based on:

- average subject weighting

- area cost adjustment

- disadvantage and additional learning support

- success rates.

37   These are multiplied together to give the provider factor.

38   The provider factor represents a significant simplification for the FE sector as it is largely based on historical data which providers need to collect for their own management purposes and will be agreed well before the beginning of the year.

39   We do not propose to include a separate specialist college factor within the new funding formula. We intend to review the subject weightings as part of the development of the new funding approach, which will address the position of colleges with substantial amounts of higher cost provision. We envisage that other costs necessarily incurred by some institutions — for example in relation to Care Standards associated with residential provision — would be dealt with outside the main funding formula.

40   Further details of each element are provided below.

Question 9: Do you agree that these elements should be included in the provider factor? Should there be others?

Average Subject Weighting

41 Subject weighting reflects the relative costs of delivering provision (for example, construction is more expensive to deliver than business administration). In the existing funding approach for FE, the subject weighting is currently calculated against each individual learning aim followed by each learner.

42 Under the new approach, it is proposed that an average based upon the mix and spread of all the subject weightings is calculated for each provider to calculate a subject weighting factor to apply as an uplift. It would be possible to use the 15 sector subject areas to calculate the average – this would remove the need to assign subject weightings to each individual learning aim.

43 We intend to consider the possibility of assigning a higher subject weighting to Independent Living learning aims to recognise the significantly higher number of glh which characterises this provision. This will require further investigation and modelling.

Area Cost Adjustment

44 This reflects the higher salary costs of staff in different parts of the country, particularly in London and the south east. The LSC reviews these adjustments periodically, normally every three years. The adjustments are applied to all providers located in these parts of the country.

Disadvantage and Additional Learning Support

45 The aim of the disadvantage element is to take account of learners' backgrounds and is based on the level of deprivation that learners and their families are experiencing. Currently, in FE it is mostly based on the learner's home location.

46 The additional learning support element is designed to cover the extra costs to support some learners. This may come from difficulties with literacy or numeracy, from social or behavioural difficulties or from physical or health problems. In FE it has, until 2004/05, been paid on costs incurred.

47 We propose that the disadvantage and low-level additional learning support elements are combined into one element within the provider factor. In many cases funding for disadvantage and low-level additional learning support needs are for broadly similar types of activity.

48 Building on the reviews of disadvantage and additional learning support recently undertaken, there are a number of options for how the values for disadvantage and additional learning support might be calculated for each provider, including:

(1) for the disadvantage element:

a. continuing to use postcodes, based on updated indices of deprivation. We intend to introduce the Index of Multiple Deprivation 2004, which is based on smaller geographical areas than currently (approximately a quarter of the size of electoral wards), for 2006/07

b. basing disadvantage on the proportion of learners receiving the Education Maintenance Allowance – this would, however, only be applicable for 16 to 18 year-olds and, therefore, would result in a different method of calculating disadvantage for adult learners

c. basing disadvantage on qualifications on entry for 16 to 18 year-olds – as in (b), this would result in two separate methods of calculating the disadvantage element, as reliable prior qualifications data is not available for adults. It would also be reliant upon the implementation of the unique learner identifier to enable electronic transfer of examination results from awarding bodies.

(2) for the additional learning support element:

a. continuing to base on historical data

b. basing on a formulaic approach

c. basing on postcodes, in line with the current disadvantage element.

49 If both the disadvantage and additional learning support elements were to be based on the postcode method, this would enable these elements to be combined, resulting in a significant simplification. The disadvantage factor would then be recalibrated to reflect the further funding required to cater for additional learning support needs.

50 Small changes in numbers of learners requiring higher value additional learning support can have a significant impact on budgets. We propose, therefore, to continue to fund this separately based on claims providers make for learners with particular needs.

Question 10: We would welcome your views on the suggestions in paragraphs 48 section one and section 2 for calculating the values for disadvantage and additional learning support. Do you support the notion that they should be combined?

Success Rates

51   As explained in paragraph 28 section two, it is proposed that both starts and success are used to count SLNs, enabling a balance to be struck between widening participation and rewarding success. Each provider's success rate will, therefore, be incorporated within the provider factor.

Question 11: We are proposing to use a 50 per cent proportion of the success rate in the provider factor. Do you agree that this gives the right balance between starts and success?

Example Calculation

52   The following example shows how the provider factor would be calculated and used to determine the commissioned element of funding for an agreed volume of standard learner numbers.

Example: A general FE college

A general FE college has an average programme weighting of 1.24, an area cost adjustment of 1.0, a disadvantage and additional learning support factor of 1.09 and a success rate of 72%.

Provider factor = 1.24 x 1.0 x 1.09 x 0.86 = 1.1623

Note. This example has used a 50% proportion of the success rate (SR) in the provider factor. Hence, the effect of the success rate is $1 - (1 - SR) \times 0.5$, which in the worked example is $1 - (1 - 0.72) \times 0.5 = 0.86$.

Commissioned funding = Number of SLNs x funding rate x provider factor

For instance, the provider and the LSC agree that there will be 225 commissioned SLNs, at a national funding rate of £2,975.

Commissioned funding = 225 x £2,975 x 1.1623 = £778,015

53   For larger providers, evidence indicates that the average subject weighting, disadvantage and additional learning support elements will not vary significantly from year-to-year and can be calculated from historical data. Therefore, the provider factor for these elements could be reviewed and re-calculated on a three-year cycle for larger providers. To do so on a more frequent basis could lead to a disproportionate amount of work to produce very small changes. On the other hand, changes would accumulate over a three-year period and the new provider factor, determined after the three-year review, could alter some institutions' factors significantly. Success rates, however, appear to vary more significantly year-on-year.

Question 12: Do you agree that for larger providers, elements of the provider factor should be reviewed on a three-year cycle? Which elements should be reviewed on a three-year cycle and which annually?

A Simple Funding Formula

54   We believe that these proposals represent significant simplification for the FE sector. A major step forward will be that much of the complexity associated with the current funding methodology would be removed as the funding calculations would be undertaken at a single point in time, prior to the beginning of the funding year, thus improving predictability. This is in contrast to the current system where funding is calculated at regular intervals throughout the funding year, and after the year-end, in order to estimate the provider's funding position for the year.

55   The simplifications to the system are described in Table 3:

Table 3: Simplifications to the FE Funding System

Feature	2005/06 Plan Led funding	*agenda for change* proposals
Retention	Measured using census dates	Removal of census dates. Retention incorporated within the success rate element of the provider factor
Achievement	Historical data used from 2004/05. This enables funding outturn to be finalised at year-end, without waiting for all achievement data to be collected	To use historical data within the provider factor
Franchise discount	33% discount for most franchising (franchised activity is reducing and currently amounts to 0.2% of the FE budget)	Franchise discount removed
Funding using individual learning aims	Yes	No. Funding using SLNs based on size of programmes
Listed and load banded funding rates	Yes	No. Eliminated by using SLNs
Programme weightings	Calculated separately for each learning aim	Aggregated historical data used in provider factor
Disadvantage	Calculated separately for each learner	Aggregated historical data used in provider factor
Additional learning support	Costed separately for each learner, but audit evidence not required for claims less than £4,500	Historical data that could be based on a formula for lower level claims or combined with disadvantage element. Higher level claims funded separately
Funding taper	Yes – complex limits on larger programmes	No. Eliminated by using SLNs
Specialist College Factor	Yes – 10% extra funding for Agricultural and other specialist colleges	Factor removed. Consideration to be given to how position of specialist providers can be reflected in the new approach
ILR returns	3 returns a year, plus data sharing using standard LIS report	Some reduction in number of data fields. Data to be drawn directly from providers rather than from returns

Section Three: The Allocations and Review Process

Introduction

1   This section provides the detail of the proposed allocations and review process. The approach provides a framework which:

a.   provides a reasonable degree of in-year certainty and year-on-year stability for providers

b.   provides the LSC with sufficient flexibility to address priorities and identified gaps in provision

c.   supports the annual planning review and revision of the development plan agreed with providers as part of the Business Cycle

d.   removes the need for funding reconciliation at year-end for grant/grant-in-aid providers

e.   restricts the need for in-year adjustments to exceptional circumstances only

f.   shifts the focus of the review process to consider what provision has been delivered rather than what funding has been 'earned' by the provider.

The Core and Commissioned Approach

2   The core and commissioned approach will provide the LSC with the leverage to agree changes to providers' overall provision through the planning process, to ensure their development plans are addressing the priorities.

3   Providers will receive a substantial guaranteed **core** of funding of between say 90 per cent and 95 per cent based on their previous year's allocations (plus inflation, subject to affordability), for equivalent (but not necessarily the same mix and balance) volumes of activity. The core should enable providers to plan on a three-year cycle with some confidence and certainty over the level of resources that will be available to broadly meet known and projected costs.

4   Alongside the guaranteed core there will be a **commissioned** element of funding, which will incorporate the remaining funds above the core and any available growth funding. This will provide the LSC with:

- the ability to commission provision from other providers to secure high quality learning, including enabling providers to widen the range of activity they deliver

- the opportunity to open up the market for new providers to address identified gaps in provision, to meet specialised areas of provision or to stimulate the market.

5   The commissioned element will strengthen the LSC's influence in planning discussions. It will also provide a strong incentive for providers to plan ahead for changes to the pattern of provision to meet LSC priorities. It will place an obligation on the LSC to be clear about its priorities for funding. It will also provide the flexibility year-on-year for the LSC to respond to major changes in demand.

6   It will be essential for the LSC to set out a clear process for the operation of the commissioned element. Where, for example, providers are delivering good quality, priority provision in line with the agreed plan and at the agreed volumes, it is highly likely that they will receive at least 100 per cent of their allocation in the subsequent year.

Funding Rate for the Commissioned Element

7   The funding rate associated with the commissioned element will be determined annually by the LSC at a national level, taking account of policy objectives and targets, including:

- the degree of stability for providers

- the amount of additional activity we want to secure

- the average level of funding we consider to be necessary to secure good quality provision.

8   It will also be possible to fund the commissioned element at different rates depending on whether provision is fully-funded or co-funded (see section two, paragraphs 31 – 35).

9   An illustrative example of how the core and commissioned approach might work for two colleges is provided in **Annex C.** The example assumes that the commissioned element is paid at a standard rate and shows the differing impact depending on providers' core rates of funding per standard learner number.

Monitoring Plans and Year-end Process

10   For providers receiving funds through grant-in-aid or grant (FE colleges and local authorities) there will be no retrospective adjustment to allocations, provided they meet basic standards of financial control and data accuracy. However, different arrangements will be necessary for independent providers. We will explore the issues further with representatives of independent providers in the autumn.

11   Other than in exceptional circumstances, we would not envisage in-year adjustments to allocations taking place. The LSC will intervene where there is a significant departure from the agreed plan. This intervention would initially take the form of renegotiating the plan to take account of changed circumstances. However, the LSC reserves the right to recover funds if it is not possible to agree a satisfactory revised plan.

12   The monitoring of performance against plans in-year should continue to improve the accuracy of the allocations process. The process of agreeing baseline budget positions with the DfES will provide a stronger basis for planning LSC budgets and further reduce the need for in-year remedial action.

13   The removal of the need to reconcile funding 'earned' (and, therefore, the potential delay of ILR validation checks) should enable providers to share up-to-date management information focusing on the volume of learner starts. Through the development of data systems that enable better and more timely data sharing between providers and the LSC, there should be an early-warning system in 'real-time'. This will then allow early intervention by the LSC to address under-performance issues. This is preferable to a system in which under-performance is often only recognised after the year-end and where retrospective clawback has to be carried out, sometimes leading to de-stabilisation of the provider.

The Annual Planning Review Process

14   Proposals for funding reform through *agenda for change* continue the shift in emphasis, begun in *Success for All,* from a relationship with providers based on contracting, monitoring and reconciliation to one which is based on principles of planning, dialogue, partnership and trust.

15   The planning process should support the more efficient use of funds at local level by firmly anchoring plans to the resources available to the LSC to deliver its priorities and targets. This will require much closer integration between national priorities, regional and local plans, and local purchasing decisions.

16   The LSC must be assured that the provision it is funding is of the necessary quality and is appropriate to its strategic priorities and mission. Providers' self assessment of their performance in delivering the commitments set out in the agreed development plan will form the starting point for discussions about revisions to the plans and allocations in the subsequent year. The review process will consider performance against overall volumes of SLNs delivered compared to those originally agreed, performance against benchmarks for the effectiveness and efficiency of provision delivered as set out in the development plan, an assessment of delivery against priorities and outcomes agreed in the plan, and the extent to which a provider has achieved improvement targets and other measures.

17   Delivery of those volumes will be mapped to agreed priorities such as 16-19s, Level 2 entitlement, Skills for Life and Apprenticeships. The LSC and the provider will jointly consider the changes to provision, volumes required and key actions to improve quality and effectiveness, taking into account each provider's strengths and unique contribution within the local area. These discussions will inform decisions about planned volumes of activity and allocations for the subsequent year.

Funding and the Business Cycle

18   The following is an illustration of how the 'core' and 'commissioned' approach will fit within the LSC's Business Cycle. The example below is for the 2007/08 funding year; for illustration only, the core is set at 95 per cent and the commissioned element at 5 per cent

Date	Activity
August 2006	Start of the 2006/07 funding year
September 2006	Calculation of standard learner numbers (SLNs) for 2005/06 (based on whole-year data) as part of the assessment of providers' 2005/06 performance against development plans
October 2006	Calculation of 'core' funding for 2007/08 – 95 per cent of 2006/07 allocation (plus inflation) and 95 per cent of 2006/07 planned SLNs
November 2006	Grant letter confirms LSC funds for 2007/08
	LSC's annual statement of priorities published
	Ongoing sharing of data between providers and LSC on progress of 2006/07 planned delivery
December 2006	Assessment of 'commissioned' funds available for 2007/08 (5 per cent of 2006/07 allocations (plus inflation) and any growth funds)
	Assessment of additional capacity to deliver SLNs required by LSC to achieve priorities
	Calculation of commissioned £ per SLN for provision *
January 2007	Initial allocation of funds to regions (core funding, and 'commissioned' SLNs and associated funding)
	Regional assessment of priorities for distribution of 'commissioned' funding – to support both growth in learner numbers in priority areas and commissioning of new provision
	Annual review of providers' development plans – discussion of priorities and quality improvement aims for 2007/08 and assessment of progress in 2006/07, estimate of SLNs outturn for 2006/07**
February 2007	Initial allocation of 'commissioned' SLNs for 2007/08 by local LSCs to all providers. Calculation of indicative allocations comprising core and 'commissioned' funds and SLNs
	Indicative allocations for 2007/08 notified to all providers, together with issues to be addressed in development plans
March 2007	Discussion of indicative allocations and final adjustments
April 2007	Funding allocations for 2007/08 confirmed to providers.

* The commissioned £ per SLN figure will be set by the LSC, taking account of the amount of provision needed to achieve targets and the desired average funding per learner

** Estimate of SLN outturn for 2005/06 based on ongoing sharing of in-year performance data and profile of enrolments in previous years

Section Four: Implementation Plan

1   Following feedback from the *agenda for change* summer 2005 roadshows, the LSC does not consider it feasible to implement the proposals within this document in 2006/07. A detailed consultation period is needed to enable the LSC to work with providers in taking the proposals forward.

2   We will continue to work with representatives from the sector, employers and learners to ensure that issues are fully considered. We will also work with technical groups to examine the practicalities of the proposals.

3   With these in mind, we intend to undertake trialling in 2006/07 with groups of providers, issuing shadow allocations in parallel with standard allocations. Trialling will include the modelling of:

- the individual components of the provider factor

- the rates for fully-funded and co-funded SLN

- the balance between commissioned and core funding.

4   This trialling will run alongside the *agenda for change* reforms to the LSC's data systems. The Prospectus sets out our proposals for achieving a radical reduction in bureaucracy and complexity associated with data collection and management information processes across the FE sector. With a clear mandate for action, an extensive pilot with a range of colleges is planned to be undertaken during 2006/07, with the intention of implementing the reforms across the sector in 2007/08.

5   As mentioned earlier, we will be engaging in discussions with the DfES and sector representatives to ensure how NETP and safeguarded adult learning funding will be best aligned with the proposed new common funding approach in 2006/07. We do not, therefore, provide details in this document of how these might be implemented.

6   The LSC also intends to align its approach to the strategic planning and delivery of provision with the proposals under *agenda for change*. It is, therefore, proposed that we introduce into the Business Cycle for 2006/07, and fully implement in 2007/08, changes to:

- provider development plans

- local LSC annual plans

- the LSC's annual statement of priorities.

7   We will be taking first steps towards improving the development planning framework in autumn 2005. These new arrangements will place a provider's self-assessment of its own effectiveness at the heart of the planning dialogue with the LSC. The planning framework must therefore be able to support the appropriate context and timeframe for areas of quality improvement and development. Improvements or changes to the mix and balance of provision must be aligned to and support the unique role and mission of each provider.

8   We will work with schools and Local Authorities during 2005/06 to explore how the Priority-led Funding proposals can support schools. Our discussions will form part of our engagement on funding with: the roll-out of the New Relationship with Schools; the Secretary of State's future plans for the overall funding of schools; the delivery of the 14-19 agenda; and the LSC's leading role over 16-19 organisation issues.

9   We shall be consulting early in the autumn on the LSC's school sixth form funding arrangements for 2006/07 and 2007/08. Those proposed arrangements will align with the Secretary of State's recently announced school funding arrangements for those years, and will reflect elements of this Priority-led Funding consultation – including data collection.

10   Following our work in 2005/06 with partners over the potential for applying our Priority-led Funding proposals to school sixth forms, we expect to consult widely during 2006/07 on potential implementation in schools from 2008/09. We anticipate seeking to shadow current funding methods with our new proposals in preparation for full implementation.

Section Five: Responding to this Consultation

Response Pro Forma

Responses are requested by: Monday 7 November 2005

(Reference: LSC *agenda for change*: Proposals for Funding Reform)

Please complete and return this form by letter or by E mail

The information you send us may need to be passed to colleagues within the LSC and/or published in a summary of responses received as a result of this consultation. We will assume that you are content for us to do this, and if you are replying by email, your consent overrides any confidentiality disclaimer that is generated by your organisation's IT systems, unless you specifically include a request to the contrary in the main text of your submission. Email responses should be sent to agendaforchangefunding@lsc.gov.uk

You can respond electronically by following the links from www.lsc.gov.uk

Please cross this box if you want us to keep your response confidential ☐

>lsc

Leading learning and skills

Name *(please print):*	
Organisation *(if applicable):*	
Address:	
	Postcode:

If you have any query relating to this consultation please contact Rebecca Smith at rebecca.smith@lsc.gov.uk

Please insert 'X' in **one** of the following boxes that best describes you as a respondent.

Further Education College	☐	Independent Provider	☐
Local Authority	☐	Representative Body	☐
Trade Union	☐	National Organisation	☐
Employer	☐	Voluntary Organisation	☐
Sectoral Body	☐	Individual	☐
Regional Body	☐	Other (please specify) _____
Adult Learning Provider	☐	_____

Comments are invited on the following questions:

Q1   Do you think SLNs should be calculated using bands or a divisor? Or do you wish to suggest an alternative method of calculation?

Yes ☐   No ☐

Comments

Q2   If calculating using bands, do you think the number of bands suggested in Table 1 is right? If not, how many bands should there be?

Yes ☐   No ☐

Comments

Q3   If using a divisor to calculate SLN values, do you agree with the suggestion that the divisor should be 450 glh, with a cap at 650 glh?

Yes ☐   No ☐

Comments

Q4   Do you agree that there should be an enhanced SLN factor for those learners on significantly larger full-time programmes?

Yes ☐   No ☐

Comments

Q5   Do you support the suggestions for measuring classroom-based and distance/electronic learning activity? Do you have any additional or different suggestions?

Yes ☐   No ☐

Comments

Q6   We would welcome your views on the initial suggestions for measuring the size of NVQs, as outlined in paragraph 24, section two. Do you support these? Do you have any further/different suggestions?

Yes ☐   No ☐

Comments

Q7   Do you support the view that SLNs should be counted based on starts and most recently available historic success rates, by incorporating the success rates into the provider factor?

Yes ☐   No ☐

Comments

Q8   Do you support the notion that the funding approach should include the possibility of having more than one co-funded rate?

Yes ☐   No ☐

Comments

Q9   Do you agree that these elements should be included in the provider factor? Should there be others?

Yes ☐   No ☐

Comments

Q10 We would welcome your views on the suggestions in paragraphs 48 (a) and (b) in section two for calculating the values for disadvantage and additional learning support. Do you support the notion that they should be combined?

Yes ☐   No ☐

Comments

Q11 We are proposing to use a 50 per cent proportion of the success rate in the provider factor. Do you agree that this gives the right balance between starts and success?

Yes ☐   No ☐

Comments

Q12 Do you agree that for larger providers, elements of the provider factor should be reviewed on a three-year cycle? Which elements should be reviewed on a three-year cycle and which annually?

Yes ☐   No ☐

Comments

Annex A: extract from *agenda for change* – The Prospectus
Theme Three - Funding

Introduction

We will radically simplify our **funding** methodology and allocation process, making it more transparent, more demand-led, and more responsive to changing needs.

1   The move towards a demand-led system for employers, and the drive on quality described above must be underpinned by a radical shift in the way we approach funding. We acknowledge that funding is a powerful driver and it is clear that there is a need for a fundamental overhaul of the complex funding systems of the LSC. By changing the funding system, we will re-define the strategic relationship between the LSC and the post-16 sector. Our proposals aim to make a reality of the following principles – enabling a focus on the needs of learners and employers, simplification, transparency, putting the employer in the position of in effect being purchaser for workplace delivered training and removing barriers to collaboration between providers.

2   The proposals are based on the work of the *agenda for change* funding theme **task group** and developed further in light of feedback following the roadshows and discussions with DfES. As explained later in this chapter, a more detailed technical document will follow.

3   The proposals have been largely developed working with the FE sector, but we are clear they have potential for **application** in other parts of the post-16 sector. We will want to explore this approach with a whole range of partners as we go forward, before making recommendations for decision to the DfES in the autumn. This is set out in more detail below.

Key Features Of Our Proposals

Funding that 'follows the plan'

4   The central principle driving the proposals is that funding should be used to develop and support the capacity of the learning and skills sector to meet national, regional and local priorities. Effective planning and quality improvement strategies will enable us to address our key objectives such that the funding method becomes less prominent in influencing delivery. We need to improve the **development planning** framework to make it better able to provide the necessary basis for a more informed planning dialogue that takes account of the individual strengths within the provider network, and has a sharper focus on quality improvement and the promotion of equality. We will begin introducing some of these changes for the 2006/07 planning round that begins in autumn 2005.

5   The role of funding should be to underpin colleges' agreed plans to meet employers' and individuals' needs, to improve quality and to promote equality, while giving colleges and other providers sufficient stability to use their resources to develop and maintain the required capacity to deliver. This requires a long-term relationship between the LSC and FE and a high degree of trust. Under our proposals, the LSC will **'fund the plan',** support the provider to deliver it, monitor performance, and agree changes to both the plan and funding in the following year. In essence, this will enable the LSC to look towards the future with its partners, rather than making retrospective changes based on past performance.

6   There is radical **simplification** to be gained from 'funding the plan' - moving away from micro-management of providers to a more strategic overview of delivery and performance. The detail of the mix of programmes and the balance of provision to be offered by colleges will sit firmly within planning discussions with the LSC, leaving the funding discussions to focus on learner volumes, as detailed below.

7   The roll out of the **National Employer Training Programme** will provide a powerful, demand-led mechanism for changing the way in which training for adults is delivered. Our reforms, which were informed by the detailed work of the task group, the feedback from the roadshows and our ongoing discussions with the DfES, will incorporate the core principles for funding under the NETP as set out in the Skills White Paper of March 2005 and outlined in paragraph 26 above. Once employers' skills needs have been identified, skills brokers will identify the most appropriate providers. Where a suitable provider is not identifiable locally, the skills broker will work with the LSC to identify a provider from outside the area if necessary. Those providers with excellent inspection grades and, over time, those providers who hold the proposed Quality Mark will be well placed to benefit when skills brokers are looking to expand the local market with other suitable providers.

8   Within overall LSC budgets, the NETP budget will be identified annually; and over time, as set out in the March 2005 White Paper, allocations of funding will operate on a principle of contestability based on the success of colleges and other providers in meeting employers' needs. We will need to assess with DfES, how far and how fast this principle can apply in the initial implementation phase. Plans for 2006-07 and 2007-08 in particular will depend on decisions by ministers in the autumn on the speed of build up of NETP.

A common funding method

9   The proposals set out in this Prospectus are based so far on discussions and debate with representatives of the further education sector and the DfES. In principle, we can see advantages in extending these principles across the wider post-16 sector, including to school sixth forms. A common funding method would be **simpler** for both providers and the LSC to manage as there will be only one set of funding 'rules', data collection and systems requirements. We will therefore explore with partners across the learning and skills sector, the potential for the development of a **common funding method** which provides a basis for the LSC to allocate funds to whichever provider is best suited to deliver the priorities. At the same time, we will of course keep discussing with employers and their representative

organisations how these proposals can best be implemented in order to make a reality of the demand-led principle in relation to provision delivering skills for employers. Based on further comments from partners, we will make proposals in the autumn to the Government.

A simple funding formula

10   Our proposals introduce the concept of **standard learner numbers** as the basis of a common measure of the volume of activity planned to be delivered by each provider. The 'standard learner numbers' measure takes account of the size of learners' programmes, but does not require each element of the programme to be funded separately. For example, two groups of programmes should be sufficient to cover full-time learners: one including those typically followed by many adult learners or young people studying a smaller number of A/AS levels; and one including more substantial programmes followed by most young people in schools and colleges and undertaking Apprenticeships and Entry to Employment. This will simplify the funding calculation while retaining a reasonable link with the resources required by the provider. As the 'Framework for Achievement' develops, we will need to work through the impact - it may be possible to measure 'standard learner numbers' in terms of the volume of 'credits' assigned to units, which will form the building blocks of learners' programmes.

11   A **provider factor** will be calculated to take account of costs associated with its mix of programme types, disadvantage and the need for additional learning support/special educational needs, and area costs. We propose that the provider factor will also incorporate learners' success rates.

12   The factor will be derived from data that a college needs to collect for their own management purposes, as well as the planning and quality improvement dialogue with the LSC. It would be agreed before the start of the funding year, and would represent a **simplification** as funding will be de-linked from the actual delivery of individual learning aims throughout the year. The factor could be reviewed periodically; we envisage that this will normally be aligned to the three-year development planning cycle, though it may need to be more frequent for smaller providers where changes in the pattern of provision have a larger overall effect.

13   The funding rates assigned to the 'standard learner numbers' will be differentiated according to whether the provision is **'fully-funded' or 'co-funded'.** Fully funded provision could include 16-19s, skills for life and first full Level 2, and would provide the LSC with the flexibility in the future to set new priorities

and fund them at the fully funded rate. Co-funded activity would be discounted to reflect the assumption that a fee is being paid (for 2005/06 this is 27.5 per cent of the course funding).

'Core' and 'commissioned' elements of funding allocations

14   We intend to introduce an allocations system which guarantees providers a substantial **'core'** of funding of between say 90 per cent and 95 per cent based on their previous year's allocations, for an equivalent volume of activity, although the planned mix may well change year on year in response to changing demands and emerging priorities. This will provide reasonable financial certainty from one year to the next. The remaining funding above the 'core', plus any growth funding, will represent a **'commissioned'** element which will give the LSC the flexibility to direct funding to meet its priorities, to reflect changing policy priorities, or to move provision to higher quality providers, including those who achieve the Quality Mark for the delivery of workforce development services to employers.

15   We envisage that those delivering good quality priority provision will receive **'commissioned'** funding to enable them to at least deliver the same volume of activity as the previous year. But the 'commissioned' element will give the LSC leverage to ensure that the whole of a provider's plan addresses agreed priorities including those identified by brokers on behalf of employers. It will also enable the LSC to redirect funding to commission new provision and/or new providers in areas of need and unanticipated demand within priority areas. And it will provide the LSC with the flexibility to respond to the costs of priority demand-led provision rising faster than envisaged, an important flexibility given the recent funding difficulties faced by the LSC and providers.

16   The 'commissioned' element could in part support the funding for the NETP, since one priority within that element will be delivery of training on NETP principles. It will reinforce the wider aims of NETP that provision should be demand-led and employer responsive, thereby enabling more employers to work with the best providers for all of their investment in skills. That is part of our strategy for increasing the overall total investment in skills.

Year-end reconciliation of the plan, not the funding

17   The process of agreeing providers' allocations will focus on discussions about **learner volumes delivered against the plan,** removing the need to monitor funding 'earned' as in the present system. Providers and the LSC will share data on the progress of plans and the quality of provision as the year progresses. For those receiving funds through grant-in-aid or grant (such as FE colleges and local authorities) there will be no retrospective adjustment to allocations, provided they meet basic standards of data accuracy. But because of their different contractual position, for independent providers we envisage that it will be necessary to reconcile contracted and actual volumes and adjust funds accordingly.

18   Other than in exceptional circumstances, we do not envisage **in-year adjustments** of allocations taking place. Data on which in-year adjustments could be made are estimates at best and would require further reconciliation later, cutting across the principle of funding the provider's plan. The monitoring of performance against plans in-year should continue to improve the accuracy of the allocations process. The process of agreeing baseline budget positions with the DfES will provide a stronger basis for planning LSC budgets and further reduce the need for in-year remedial action. With the full roll out of NETP, when it is in steady state, it will be a basic principle that colleges and other providers have to earn their business by being selected by employers as the preferred supplier, rather than being guaranteed funding in advance. But it should in practice become a reasonably predictable element of the budget of most colleges and other providers, assuming that quality and responsiveness is always high. This will maximise the ability of colleges and other providers to plan ahead with confidence.

19   The removal of the need to reconcile funding 'earned' in year should enable providers to share up-to-date **management information** with the local LSC focusing on the volume of learner starts and the mix of provision. As set out in the chapter on data, it will then be possible to develop systems that enable better and more timely data sharing between providers and the LSC, thus providing an early-warning system in 'real-time'. This is preferable to a system in which under-performance is often only recognised after the year-end and where retrospective clawback has to be carried out, often leading to de-stabilisation of the provider.

Benefits Of Our Proposals

20   If they were to be applied across the sector, our proposals would enable the LSC and providers to:

- **support effectively the skills, 14-19 and quality policies** by placing an emphasis

on what is being delivered rather than how funding is earned. This would drive a change in the relationship between the LSC and providers by focusing discussions on planning, performance and quality strategies, with funding as an issue taking a backseat. A common funding method would dissolve the artificial barrier between learning sectors; support rational decisions on what to fund; support effective contestability between providers; and enable purchasing decisions to be made on the basis of capacity and quality

- **support new delivery requirements** – collaboration within 14-19 clusters would be easier under a common funding method. The method will deliver the NETP set out in the Skills White Paper, by in effect putting the employer in the position of the purchaser of training. Quality and responsiveness will be the major driver of commissioning delivery, supported by employer choice and demand within NETP as a determinant of that quality

- **simplify and reduce bureaucracy for providers** through funding the 'capacity to deliver' and ending the need to justify funding 'earned'. The LSC would not expect providers to present management information on individual learning aims in-year for funding purposes; instead, the focus would be on overall learner numbers. This would lead to reduced data requirements for funding purposes and remove the need for a funding reconciliation at the year-end

- **ensure the equitable distribution of funds.** A common funding method presents the opportunity of establishing common national rates for learners. The real and significant cost differences between providers would be reflected through the provider factor, which will then be reviewed on a regular basis and benchmarked across all providers, using common data sets

- **enable a balance to be struck between reasonable stability for providers and flexibility for the LSC.** Reasonable stability would be established as there will rarely be in-year adjustments or year-end reconciliation of funding (for grant in aid/grant providers) and there would be a guaranteed 'core' of funding year-on-year. Flexibility for the LSC to meet priorities will be possible through the 'commissioned' element of

funding, and year-on-year discussions over the mix of provision with the 'core'. The proposed funding method will also provide the opportunity to differentiate national rates to reflect Government priorities, for example to reflect the need to collect fees from individuals for some types of learning or to encourage employer contributions for other types of learning; and

- **support collaboration and employer choice.** Collaboration between providers would be far easier as the funding method will be commonly applied and measured. We would work with other commissioning agencies such as Jobcentre Plus to see how far we could integrate planning and funding approaches, so simplifying bureaucratic processes. We would be improving employer choice through increasing the number of high quality colleges and other providers able to offer skills solutions; and ensuring that skills brokers are able to encourage employers to develop relationships that will meet their ongoing skills needs.

Next Steps

21   We have been working closely with our FE funding theme task group to develop details of the funding formula and allocation and review process. A technical consultation document will follow.

22   We will continue to work with representatives from across the post-16 sector to take forward the detail of our proposals, giving particular consideration to how the approach might operate for each part of the sector. We recognise that for both NETP and safeguarded adult learning provision, there are existing commitments to introduce new funding arrangements from 2006/07. Therefore, we will be engaging in detailed discussions with sector representatives to ensure that these align with the proposed new common funding approach.

23   For schools, we will continue to work with schools, local authorities and the DfES in implementing the 14-19 agenda and rolling-out the *New Relationship with Schools* initiative. We will also be analysing detailed aspects of school sixth form funding arrangements following announcement of the Secretary of State's plans for the funding of schools from 2006/07. We will also work over the next few months with schools and local authorities to explore how the *agenda for change* funding proposals might support these wider developments over the longer term.

24   From these further discussions, we envisage
making firm proposals to the DfES in the autumn for
the roll out of changes to funding for the various
elements of the post-16 sector. Once ministers have
taken decisions, we will develop an implementation
plan to make explicit the detailed arrangements
of how a new funding approach might be rolled out.

Annex B: Counting Standard Learner Numbers

Counting at One Point Only

1   We firstly consider the option of using a single stage for counting purposes. This could be start, mid-point, completion or achievement.

(a)   Start

2   Following this option would mean that 100 per cent of the funding would be drawn down for all learners who start courses. A sensible definition of a start can be based on a period of continued study from the beginning of the course.

3   For example, a start could be defined as a learner still on the programme after four weeks from the first taught session for longer courses, two weeks for shorter courses and one attendance for very short courses.

4   Each academic year would be counted separately when the learner's programme spans more than one funding year.

5   Using starts would mean that the funding rate per SLN would have to be lower to allow for withdrawals. It would favour providers with poor retention rates and may encourage providers to artificially increase the volume of their enrolments to obtain a funding advantage. In turn, this would be likely to have a detrimental effect upon retention rates generally.

6   The ILR data currently collected for FE would enable this method to be used.

(b)   Mid-point

7   This option would mean that 100 per cent of the funding would be drawn down for learners still on programme at the mid-point of their period of study. Those withdrawing before the mid-point would not be funded at all, and no additional funding would be paid

for completion or achievement. For longer courses, each academic year would be considered separately. This would become complex for learners following more than one learning aim, as this method would have to be calculated for each aim.

8   The method takes into account withdrawals and the level of funding is fairly neutral in respect of the effect upon providers with good or poor retention.

9   The method would be more bureaucratic and complex to administer than funding based upon starts alone. The ILR data currently collected for FE would enable this method to be used, although the calculation would not be straightforward for learners on complex programmes where the component parts of the programmes are of different lengths.

(c)   Completion

10   Under this approach only learners who complete their study would be funded. No funding would be paid in respect of learners who withdraw at any point prior to completion.

11   The definition of a completion could be a learner still on the programme within four weeks of the planned end date for longer courses, two weeks for shorter courses and one attendance for very short courses. This definition could be applied to FE although it would require accurate records, such as class registers, to be kept and checked. Experience suggests it can be difficult to pinpoint accurately the date the learner finishes studying; for example, a learner may stop attending classes but continue to study in their own time up until the time they undertake the final examination.

12   Using completions would mean that the funding rate per SLN would have to be higher to allow for withdrawals. It would favour providers with good retention rates. It would encourage providers to 'cherry pick' the most able learners, leading to a likely reduction in learner numbers as places are denied to the less able.

(d)   Achievement

13   Under this approach only learners who achieve their learning aims would be funded; any withdrawals and examination failures would not be funded. This is 100 per cent output-related funding. For FE it would be simple to administer.

14   Using 100 per cent achievement funding would mean that the funding rate per SLN would have to be even higher to reflect withdrawals and those who complete but do not achieve. The method would probably be seen as unfair. It would favour providers with good success rates and would more strongly encourage providers to 'cherry pick' the most able learners, leading to a likely reduction in learner numbers as places are denied to the less able.

Counting at Two Points

15   Counting at only one point in a learner's study introduces the potential for changes to providers' behaviour, who may either seek to increase their funding or reduce their costs at the expense of the service they offer their learners.

16   It is proposed, therefore, that we consider counting at two points in each learner's programme. This could be either 'start and completion' or 'start and achievement'.

(e)   Start and Completion

17   This is based on funding the number of learners starting, coupled with the provider's retention rate. It is closely linked to the costs of delivery and was the method recommended by the LSC in its consultation circular on plan-led funding (reference 03/15). Its main disadvantage is that determining the date when a learner has actually completed or withdrawn may be problematic. It may encourage providers to 'game' by keeping learners on courses where they know the learners have little chance of success, rather than looking for suitable alternatives.

18   In practice, the method would operate by counting SLN as learner starts. Hence, the in-year measure of volume of provision is based only on recruitment.

19   Completions would be incorporated in the provider factor as a 'retention rate' based on the most recently available historical data. Earlier work in preparation for FE plan-led funding has shown that retention rates for many providers do not change significantly between years. Hence, using the previous year's retention rate is sufficiently accurate for the way the funding calculations will be used in the proposed approach.

(f)   Start and Achievement

20   This is based on the number of learners starting, coupled with the provider's success rate. It has a relationship with costs of delivery, but not as closely as the starts and completions option. For FE measuring achievement is straightforward to record.

21   The practical implementation of the approach is similar to the start and completion method described above. SLNs would be counted from learner starts. Hence, the in-year measure of volume of provision is based only on recruitment.

22   Achievements would be incorporated in the provider factor as a 'success rate' based on the most recently available historical data. Earlier work in preparation for FE plan-led funding has shown that success rates for many providers do not change significantly between years. Hence, using the previous year's success rate is sufficiently accurate for the way the funding calculations will be used in the proposed approach.

Annex C: Illustrative Examples of the Core and Commissioned Approach 2006 – 09

1   Shelbyville College (see guidance notes)
Illustrative example of a provider with increasing funding under SLN approach

		SLN	£
a.	**2006/07 allocation**		**11,000,000**
b.	total college SLNs	3,077	
c.	Shelbyville college rate per SLN		3,575
	2007/08		
d.	core 95%		10,450,000
e.	total core SLNs @ £3575	2,923	
f.	commissioned rate per SLN		3,900
g.	LSC funds 157 SLNs @ standard rate £3900	157	612,300
h.	**2007/08 allocation**		**11,062,300**
i.	total SLNs 2007/08	3,080	
j.	recalculated SLN rate for institution		3,591
	2008/09		
k.	core 90 per cent		9,956,070
l.	total core SLNs @ £3591	2,772	
m.	commissioned rate per SLN		3,900
n.	LSC funds 313 SLNs @ standard rate £3900	313	1,220,700
o.	**2008/09 allocation**		**11,176,770**
p.	total SLNs 2008/09	3,085	
q.	recalculated SLN rate for institution		3,623

2   Springfield College (see guidance notes)
Illustrative example of a provider with decreasing funding under SLN approach

		SLN	£
a.	**2006/07 allocation**		**13,000,000**
b	total college SLNs	3,065	
c.	Springfield college rate per SLN		4,241
	2007/08		
d.	core 95%		12,350,000
e.	total core SLNs @ £4241	2,912	
f.	commissioned rate per SLN		3,900
g.	LSC funds 155 SLNs @ standard rate £3900	155	604,500
h.	**2007/08 allocation**		**12,954,500**
i.	total SLNs 2007/08	3,067	
j.	recalculated SLN rate for institution		4,224
	2008/09		
k.	core 90%		11,659,050
l.	total core SLNs @ £4224	2,760	
m.	commissioned rate per SLN		3,900
n.	LSC funds 315 SLNs @ standard rate £3900	313	1,228,500
o.	**2008/09 allocation**		**12,887,550**
p.	total SLNs 2008/09	3,075	
q.	recalculated SLN rate for institution		4,191

Core and Commissioned Funding Approach – Guidance Notes

Line a.	total budget allocation for 2006/07
Line b.	total standard learner number volume for the provider
Line c.	provider SLN rate calculated by dividing line a by line b

2007/08

Line d.	for 2007/08, the provider is guaranteed core funding 95% of funding from the previous year
Line e.	volume determined for 95% core based on the provider SLN figure
Line f.	the commissioned SLN figure, to which all providers will converge
Line g.	commissioned SLNs funded at the standard rate
Line h.	total allocation for 2007/08 = core (line d) + commissioned (line g)
Line i.	total SLNs in provider's 2007/08 allocation (line e + line g)
Line j.	provider SLN rate recalculated by dividing total allocation (line h) by total SLNs (line i)

2008/09

Line k.	for 2008/09, the provider is guaranteed core funding 90% of funding from the previous year
Line l.	volume determined for 90% core based on the provider's recalculated 2007/08 SLN rate (line j)
Line m.	the commissioned SLN figure, to which all providers will converge
Line n.	commissioned SLNs funded at the standard rate
Line o.	total allocation for 2008/09 = core (line k) + commissioned (line n)
Line p.	total SLNs for provider (line l + line n)
Line q.	provider SLN rate recalculated by dividing total allocation (line o) by total SLNs (line p)

Notes

Please note the *agenda for change* Prospectus accompanies this technical funding document.
It is available from the LSC Website www.lsc.gov.uk