learning and skills development agency

Performance related funding in the FE sector

An initial assessment

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research report

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Executive Summary

In June 2004 the LSDA was asked by LSC to undertake an initial assessment of the performance related funding (PRF) arrangements that had been announced in March 2004 for implementation from August 1st that year. The research took place during June and July 2004 in order to report in August.

The study involved interviews with senior staff in a sample of eighteen colleges that were broadly representative of the sector, and with counterparts in the local LSCs. The colleges included some receiving premium funding, some receiving inflation only funding and some on standard rates.

In addition to the college interviews a series of telephone interviews were undertaken with representatives of national bodies and representative organisations. The work was undertaken by a team of 6 consultants who shared the planning and regularly exchanged draft findings and perceptions though email and teleconferencing.

The research found that there was a substantial degree of concern across the sample about the arrangements. While those colleges that received premium funding were in general pleased with the arrangements, others, and almost all other stakeholders were critical. Many respondents were strongly critical; even some of the beneficiaries questioned the fairness and logic of the scheme.

The principal concerns identified by the researchers were

- Most colleges felt that they were unlikely ever to attract premium funding
- The current arrangements were felt to disadvantage general FE colleges
- A 1% uplift was felt insufficient to motivate change
- Performance was seen as already well reflected in funding arrangements
- Extra resources seemed to be going where they were least needed

In addition the researchers identified that there was very little evidence that PRF had changed behaviour, and good grounds for believing that it would not do so in the future.

The researchers conclude that

- In its current form PRF is not helping LSC to meet its objectives
- There is nevertheless general support for rewarding achievement

It is therefore recommended that LSC review the PRF arrangements with a view to developing a scheme that is capable of engaging a broader range of providers. In particular it should consider a focus on improvement rather than excellence, and the possibility of rewarding partnerships rather than single institutions.

Background

In the White Paper 'Success for All' published in November 2002 the government set out a policy aim of linking the funding of FE colleges to performance. The stated aim was to invest in excellence and to provide an incentive for FE providers to raise standards. The LSC consulted widely on proposals for implementing this policy in Circular 03/10 and announced the arrangements for performance related funding (PRF) that would apply from August 2004 in March 2004.

The arrangements provided that a limited number of colleges, that could demonstrate excellent performance, would be eligible for premium funding at 1% above standard rates. A smaller group of colleges, whose performance gave rise to concerns, would be restricted to inflation only funding; 2.5% less than the standard rates. To achieve premium funding colleges had to be graded excellent in the Spring 2004 provider review and to show outstanding quality either through a recent inspection, or by having success rates well above the sector average for their curriculum mix.

In the consultation about the proposals many respondents expressed concern about the principles and the implementation of PRF. Nearly half of those responding had reservations. Furthermore, in the implementation of PRF great care had to be taken to avoid unintentional bias for or against any category of institution. For these reasons it was decided to commission LSDA to undertake an early evaluation to help assess whether any changes were needed to the arrangements for subsequent years.

In order to meet the timetable for proper consideration of possible changes it was necessary for an interim report to be available in August 2004. The LSDA research therefore was carried out in June and July 2004 with a draft report being presented to a steering group of DfES and LSC colleagues at the end of July.

Aims and Method

The overall aim of the research was to provide an assessment of the impact of the PRF arrangements on practice and provision in the sector in the light of the LSC's overall approach to planning and funding. To achieve that aim the research set out to

- Identify the views of stakeholders about the extent to which PRF has been, or might become, helpful in achieving LSC targets and priorities
- Identify the views of stakeholders on the extent to which the PRF arrangements in the FE sector might be the basis for a LSC wide funding approach.
- Identify any evidence on the extent to which the PRF arrangements have changed or are likely to change provider behaviour
- Identify the views of stakeholders about the practical operation of the PRF scheme
- Recommend ways in which the LSC funding arrangements might be developed in the light of experience to date with PRF.

In the time available it was unlikely that any evidence about the impact of PRF on learners would be available; and it was too soon to expect to be able to see change reflected in sector statistics. The research design was therefore focussed on interviews with a sample of colleges and their respective LLSCs, supported by a series of interviews with national representative bodies such as AoC and NIACE. The interviews were conducted by a group of six researchers, two of whom had had experience as college principals; and two of whom were based in Scotland and were therefore a little detached from the English FE sector.

The colleges were selected to give a broad cross section of the sector. They included colleges from London, the major conurbations and more rural areas. Five of those visited were 6th form colleges, and one was a specialist institution. It was felt that the views of colleges might differ depending on whether they were in receipt of premium funding, inflation only or standard rates so the initial sample included four premium funded colleges and two in the inflation only category. In the event one of this latter pair proved to be funded at standard rates and in any event withdrew at a stage when it was too late to find a substitute. Three other colleges withdrew for reasons that appeared to be unconnected with their PRF status (eg the illness of a Principal) and in each case a college with similar characteristics was substituted.

An initial hypothesis was that colleges that were near the borderline between standard funding and the premium or inflation only categories might respond differently to those in the centre of the distribution. An attempt was made with the help of LSC colleagues to identify colleges in these positions and this analysis is included in table 1 below. It should be stressed that this categorisation has no formal status, needs to be treated with caution and was not communicated by the team to the colleges. The findings do not depend to any great extent on these judgements.

Table 1 College Sample

	6th Form College	General FE	Specialist
Premium	2	2	
Standard (high)	1	2	
Standard (med)	1	6	
Standard (low)		2	1
Inflation only	1		

Findings

The major finding from the research is that there remains a high degree of concern in the sector about the arrangements. Those colleges that benefited from PRF were generally supportive, though even in this group there were those who doubted the fairness and inherent logic of the approach. Among others and among the national and regional stakeholders there was consistent opposition to the arrangements. Some of the national stakeholders in particular expressed their concern in forthright terms; the scheme was "*fundamentally misconceived*", or "*a wholly bad thing*" and the extension to the schools sector would be "*totally opposed*".

The views of LSC staff were if anything more critical than those of colleges. While the recipients of premium funding were pleased to receive what they regarded as an unplanned bonus LSC colleagues were concerned that these resources were not directed toward any explicit purpose. "*What will X do with the money? Buy a few whizzy bits*" sums up a widely held response.

A minority expressed the view that it was good that there were carrots as well as sticks in the funding system, though this did not overcome more general reservations. Nevertheless it is important to note that this aspect of the original intention to reward success does resonate with many in the sector.

The views of the majority of providers and others interviewed can be characterised under a few broad heading .

- It was felt that most providers could never attain premium status. One LSC interviewee described the position of colleges in the middle range as being "*in a pit* *with a rope hanging in it*" Another LSC said that "*Its really difficult to move up*" and a college commented "*if you are around the average you get nothing*" Most national stakeholders were of the view that an institutions position in the rankings was relatively fixed; and that some colleges would get premium funding without effort while others could never do so.

- PRF was felt to be 'stacked against general FE colleges'. The comment that it was far easier for 6th form colleges to get premium funding came not just from FE and not just from colleges. Some of the 6th form colleges accepted that it appeared to be easier for them to achieve premium status; and others pointed out that it is easier to be excellent in one programme area than many. An excellent department in a large general college will miss premium funding through no fault of its own.
- Performance is already well reflected in funding. Providers and others pointed out the many ways in which the existing system rewards success. Funding reflects success in recruitment, retention and achievement; and a rigorous inspection regime together with league tables already gives a powerful incentive for quality improvement. These aspects of the system, together with CoVE and Beacon funding appeared to have greater legitimacy in the eyes of stakeholders than PRF.
- A 1% premium is insufficient incentive. Several providers pointed out that 1% of funding represented a lesser sum than other challenges that they were currently wrestling with. One college was disputing the application of area cost weighting that was far more significant in scale; another was more concerned at a reduction in anticipated recruitment. The view that premium funding was very difficult for an ordinary college to achieve influenced these perceptions considerably.
- Its money for nothing. LSC staff in particular were concerned that the PRF arrangements tended to direct money where it was least needed. They contrasted PRF with Beacon and CoVE status where money was allocated for specific and agreed purposes. The premium funded colleges however particularly welcomed money that came 'without strings'. Some argued that it was recognition of extra costs that they had had to incur to achieve excellence such as paying top rates for key staff.

There was little support for the extension of the PRF arrangements to other sectors with the schools representatives being particularly opposed. One of the ACL interviewees was strongly opposed though another felt that in the interests of a level playing field the same incentives and rewards should be available to ACL as to FE. Colleges interestingly opposed any extension to the schools sector "*unless they get all the other elements of the FE approach*"

There was much discussion, particularly by national stakeholders, about the possible perverse incentives of PRF. It was suggested that it would act as a disincentive to widening participation; and that there was a risk of minority provision being abandoned. There was however no evidence either that this had happened or that it had seriously been contemplated. In most cases colleges seemed to see the prospect of premium funding as so remote that they had not considered specific action of a perverse or any other sort.

The researchers were able to identify some evidence that college claims that PRF had had no effect were true. On occasion it was clear that colleges had not calculated what they had to do to achieve premium funding; it was also most frequently the case that PRF was presented to staff and governors as an item for information rather than as part of a change strategy. The one contrary example highlights the lack of use in other colleges. One premium funded FE college had included the prospect of PRF in negotiations with staff and was able to outline the ways in which it had been used in a series of staff meetings to help raise motivation.

Local LSCs similarly spoke in terms of having administered the arrangements rather than having used them as a vehicle for driving forward change. At a technical level they appear to have done a good job with the two instances of serious dissatisfaction encountered being with national rather than local decisions. In one case a college felt aggrieved because a good inspection report was not recent enough to count; in another the college felt that its financial status should not over ride the quality of teaching and learning. There do appear to have been some misunderstandings however with one LSC seeing premium funding as needing to be earned though increased volumes of activity and another suggesting that a college should keep its premium funding status a secret.

Conclusions

Although the sample of colleges visited is too small for statistical validity the researchers are confident that the evidence they have discovered is representative of the sector as a whole. The reasons for this are the high degree of consistency of views among those interviewed, and the congruence between the views expressed to the team and other sources. The views found are consistent with opinion reported in the media, with the earlier LSC consultation, and feedback from other sources such as the LSDA regional directors. The evidence leads to the following conclusions.

- The current arrangements lack support and credibility. There is a widespread view that the current PRF arrangements are both inequitable and ineffective. Whether this view is right or wrong is less important than the fact that it leads many colleges and many LSCs to make no active use of the PRF scheme and the potential for improvement that it scheme could represent. At its worst there is some sign that it is contributing to a view that general FE colleges are *"under siege"*
- The current arrangements are not stimulating action to improve performance. Those achieving premium funding maintain that they have made no special efforts to achieve it. Those on standard funding tend to feel that they can do little to change their status. Other stakeholders generally agree that most colleges can do little to affect the outcomes of the current PRF assessment. It is revealing that the two colleges in the sample that did not get premium funding when they (and others) thought they should were concentrating their efforts on seeking to change the rules rather than change their practices.
- The current arrangements are not likely to improve performance in future. The reasons for the ineffectiveness of the policy are not likely to change. There are no grounds for believing that colleges or other actors will change their views on the ability of colleges to influence their ranking. The 1% will represent no more of a motivation than at present (though there may be increased resentment if current premium funded colleges get the 1% consolidated and a further 1% next year.)
- The current arrangements do not give a sound basis for an LSC wide approach. There are no grounds for believing that the arrangements would be any more effective in schools, ACL or WBL than in colleges and some evidence that the opposition, particularly from schools, would be sharper. The existence of separate PRF arrangements for the FE sector however compromise the LSC objective of a common funding approach or 'level playing field'
- Colleges and others are not opposed in general to incentivising improvement. There is a sharp contrast between the views of most colleges and other stakeholders about the current PRF arrangements and their views on other aspects of performance linked funding. The fact that funding depends upon hitting recruitment targets, or is linked to retention and achievement is seen as legitimate. There is not the overt hostility to Beacon or CoVE funding that there seems to be to PRF. This acceptance of some forms of outcome linked funding could be built upon.

Implications and Recommendations.

There are three major implications that the researchers draw from this work.

1. There are likely to be no benefits to the LSC or DfES from continuing the PRF arrangements in their current form. They are not achieving the desired effect and at worst acting to undermine trust, particularly in general FE colleges. They do not offer a basis for moving towards a common sector wide approach.

2. There is evidence of support for the principle of incentivising improvement on which LSC and DfES can build. Aspects of the current methodology that link funding to achievement are not widely rejected in the same way as PRF. There is a welcome for the introduction of "carrots as well as sticks" that is in danger of being drowned out by concerns about the specific approach adopted.

3. There are clear messages about the preconditions for an effective scheme. In developing an improved scheme the LSC needs to convince most colleges that the achievement of enhanced funding is really within their grasp. More attention needs to be paid to ensuring that it is not felt to discriminate between types of providers and types of provision. There also needs to be an explicit rationale for the allocation of funds or 'something for something'

In developing options for an improved scheme the LSC needs to consider a range of proposals but two points deserve particular attention.

By definition not every college can be the best but all can get better. A focus on improvement therefore would provide a better basis for a system in which all colleges thought they had a chance of extra rewards and were therefore motivated to take action. Focussing rewards on improving colleges would also allocate resources where they were needed without the perverse incentive of rewarding failure.

It would be possible to develop arrangements that rewarded successful partnerships rather than individual institutions. Institutions that are successful largely because they are selective could only achieve PRF through helping their neighbouring colleges to improve, while weaker colleges might be motivated by being part of a team.