

# Investing in Skills:

Taking forward the Skills Strategy

An LSC Consultation Paper on Fees, Funding and Learner Support  
in Further Education

Responses are requested by 8 October

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# Foreword

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The Government's Skills Strategy, published in 2003, set out a vision to transform our national investment in skills. It set out the rights and responsibilities of Government, providers, employers and individuals in securing the skills needed for a high performing economy and a fairer society. And it set out the priorities for future public investment in skills, while making the point that employers and individuals should contribute to the costs of learning in relation to the benefits they receive.

This consultation document is about putting into practice that division of responsibilities, in a way which can help increase the overall level of investment in adults' learning. The approach set out here is intended to sit within the framework of the *Success for All* reform programme. It looks at how to bring about the changes needed to ensure that public investment really is applied where it will secure the greatest benefits, and that employers and individuals do indeed contribute in line with the benefits they receive.

The document concentrates particularly on proposed changes to the LSC's further education funding approach. But the principles it sets out should, we believe, have wide application across the learning and skills sector as the LSC continues to develop its overall approach to funding and planning in the sector.

We are considering separately how these principles might apply in work based learning and adult and community learning. In particular we will be consulting later this year on the future funding arrangements for learning which is not externally accredited. The lessons emerging from the employer training and sector skills pilots and other trials will inform the policy development needed to ensure the priorities of the Skills Strategy are delivered effectively through training in the workplace.

At the recent series of LSC roadshows, where we met with college principals, the importance of the further education sector in delivering the skills agenda has been a key theme. These discussions have demonstrated that colleges recognise the need to proactively engage with employers and to review the balance of contributions from the state, employers and learners to reflect the priorities of the Skills Strategy.

The changes proposed in this paper are potentially of great significance for the sector, and for individual learners and employers. They are intended to contribute directly to the "historic shift in expectations and practice about who pays for what" called for by the Secretary of State for Education and Skills in his speech to the Learning and Skills Development Agency 2004 summer conference. So we do not underestimate the significance of these changes, nor the scale of the cultural change that they imply.

The proposals do not change the overall level of public funding for adult learning – but they will affect who benefits from that public investment. We believe that they have the potential to offer gains for all those involved and affected. For learners and employers, greater ownership of their learning, and improved quality; better quality of provision from colleges, which will be able to develop a broader income base; and a more focused use of public investment in adults' learning, at the same time as leveraging in increased investment from individuals and employers.

The proposals in this document have benefited from discussions with a range of interested parties. We are committed to working closely with providers and their representative bodies in securing the successful introduction of this key part of the Skills Strategy agenda.

Responses to this document (see Annex A for pro forma) should be sent to [feesconsultation@lsc.gov.uk](mailto:feesconsultation@lsc.gov.uk), by email

or by post to:

Funding Strategy and Policy Team  
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Responses are requested by Friday 8 October 2004. In order to keep to required timescales, responses received after this date cannot be taken into account. Please raise any queries you may have on the issues in this document with your local Learning and Skills Council in the first instance (see Annex B for contact details).

# Section 1: The Need for Change and the Priorities for Public Funding

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## The Government's national objectives

- 1.1 The Government's Skills Strategy White Paper (*21st Century Skills: Realising Our Potential*), published in July 2003, set out a vision for transforming the way in which the Learning and Skills sector can support higher national investment in skills.
- 1.2 The White Paper's aim is to ensure that employers have the right skills to support the success of their businesses, and individuals have the skills they need to be both employable and personally fulfilled. It emphasised the need to move towards a more demand-led system which places the needs of employers and employees centre stage. The objectives and direction of the strategy have been widely welcomed.
- 1.3 The White Paper set out a strategy to support individuals and employers in meeting their skill needs, within a clear articulation of the roles and responsibilities of the different players. All parties benefit from skills – learners, employers, and the nation. That needs to be reflected in the pattern of contributions to the costs. The state has a responsibility to secure, and fund, high quality initial education and training for young people. That will remain true. But for adults already in the labour market, the state cannot and should not fund all the skills investment that is necessary to sustain a competitive economy with a labour force capable of matching the best in the world for innovation, flexibility and productivity.
- 1.4 The state should target its investment of public funds on 16–18 year olds and on areas of market failure – in particular to help adults with low or no skills or qualifications to achieve the platform of skills for sustainable, productive employment. The rationale for this is in the technical paper for the Skills Strategy issued in March 2003<sup>1</sup>.

## The need for change

- 1.5 Turning the Skills Strategy's vision into reality is going to require a significant shift in expectations and practice about who pays for what. Securing that shift means working closely with employers and learners so that the supply of education and training is well attuned to their needs in terms of delivery, content and assessment. Good progress is being made in implementing the component parts of the strategy, acting on both demand for and supply of training and skills. We are trialling key elements of the strategy in the North East and South East regions.

- 1.6 But this reform programme also needs to include changes of practice by colleges and training providers. The Learning and Skills Council's (LSC's) funding framework needs to send clearer signals about the priorities for investing public funds, who should be expected to contribute to fees, and the broad income flows from employers and learners that we should aim to secure.
- 1.7 At present, the contribution that learners and employers make towards the cost of training in the LSC-funded sector is limited. The latest Individual Learner Record (ILR) data for 2002/03 (the most recent complete records available) show that £155 million was collected in tuition fees for LSC-funded FE provision delivered to adult learners in colleges. That represents 9 per cent of the funding for adults in further education. Evidence from the International Adult Literacy Survey data showed that self-financing of learning by individuals was low in the UK, with 19 per cent undertaking a job related course they had paid for, compared to an unweighted average of 37 per cent across 11 OECD countries. (paragraph 31, *Developing a National Skills Strategy and Delivery Plan: Underlying Evidence, Department for Education and Skills (DfES)*).
- 1.8 There needs to be a wider recognition of the value of investment in training and skills. The evidence is that individuals who invest in their own skills have:
- Improved chances of being in work; Level 2 represents a significant step in employment rates over those holding no qualifications; if you are qualified to Level 2 or higher then you have 20 per cent greater chance of being in employment than someone without a qualification<sup>2</sup> (see Chart 2, *Developing a National Skills Strategy and Delivery Plan: Underlying Evidence, DfES*).
  - Improved earnings – the average wage per hour for someone with no qualifications is £7.10. For people with a Level 2 qualification the average goes up to £8.80 an hour. For those with Level 3, it is £10.40 on average, and for graduates over £14.50 an hour.<sup>3</sup>
- 1.9 Many employers in Britain already invest substantial amounts in training, both on the job and off the job. The latest data from the Learning and Training at Work Survey show that employers spent some £8.9 billion on training, excluding wage costs and informal methods of skills development and training in the workplace, in 2000<sup>4</sup>. But if we are to achieve our national objectives for raising productivity, as a basis for securing our economic and social goals, we will need to keep increasing investment in skills and training.
- 1.10 Many employers are still missing out on the greater benefits that would be available from more effective investment:
- Programmes to improve the literacy and numeracy of employees are reported by employers as reducing error rates at work (a benefit reported by 66 per cent of survey respondents), and increasing productivity (79 per cent)<sup>5</sup>. They reduce workforce turnover and other costs.
  - More broadly, investment in training leads to increased productivity that is over double the increase in wages for employees from the training<sup>6</sup> – in other words, the employer is directly benefiting as well as the employee.
- 1.11 According to ILR data provided by colleges, the amount of employer fee income relating to LSC-funded provision in 2001/02 (the last year for which separate data is available) was around £44 million. So we need a step change in the level of engagement of employers with publicly funded training, and further education is a key aspect of this.

## Priorities for public funding

1.12 In making decisions about the allocation of public funds for adult learning, against this background of current contributions by individuals and employers, we have to prioritise so that funding is targeted where it will make most difference. The Skills Strategy recognised that the balance of responsibility between the state, the employer and the individual for meeting the costs of learning varies between different groups. It depends in particular on the level of qualification. On average, as shown in Table 1, higher qualifications secure a higher rate of return for the individual and their employer. As a result, individuals with higher level qualifications are more likely to think it worthwhile to invest in their own training. Their employers also are more likely to invest in their training. For example, as shown in Table 2, an individual with a degree is almost five times more likely to undertake further employer-supported training than someone with no qualifications.

**Table 1. Wage premium from obtaining qualifications**

	NVQ Level	Men (per cent)	Women (per cent)
<b>Academic Qualifications</b>			
O level/higher GCSEs	2	21	19
A level	3	17	19
First Degree	4	28	25
<b>Vocational Qualification</b>			
Level 1-2 NVQs	1-2	ns	ns
Level 3-5 NVQs	3-5	6	5
ONC/OND or TEC/BEC national	3	10	8
HNC/HND or TEC/BEC higher	4	15	9
Professional qualifications	5	35	41

ns = not statistically significant

Source: Dearden, McIntosh, Myck and Vignoles, "The returns to academic, vocational and basic skills in Britain", Skills Task Force Research Paper 20 (2000)

**Table 2. Participation in job-related training in the last four weeks (employees of working age) in England**

Highest qualification	Number (000s)	% participating in training
Degree or equivalent	885	22.0
Higher education	409	21.8
GCE A Level or equivalent	753	16.0
GCSE grades A-C or equivalent	656	14.1
Other qualifications	307	11.7
No qualification	92	5.2

Source: Labour Force Survey, Winter 2003

1.13 In the light of this evidence on the distribution of benefits associated with training and qualifications, the Skills Strategy stated in paragraph 1.28 that the priorities for public investment should be:

- The introduction of an entitlement to free learning for adults without qualifications, to help them gain a full Level 2 skills foundation for employability. This extends the existing priority of improving adults' basic skills in literacy, language and numeracy.
- Supporting those who are developing their qualifications to a higher level in technician, advanced craft and associate professional skills, particularly where those meet sectoral and regional skills priorities.
- Supporting those who are re-skilling for new careers, and those preparing to return to the labour market, again particularly where that meets sectoral and regional skills priorities.
- Safeguarding a varied range of learning opportunities for personal fulfilment, community development and active citizenship.

1.14 It also remains a Government priority to invest public funds in helping those who most need help by reason of economic disadvantage and the risk of exclusion. So the current national fee remission arrangements will remain in place for those groups that would otherwise risk exclusion from training, such as those on income-related benefits.

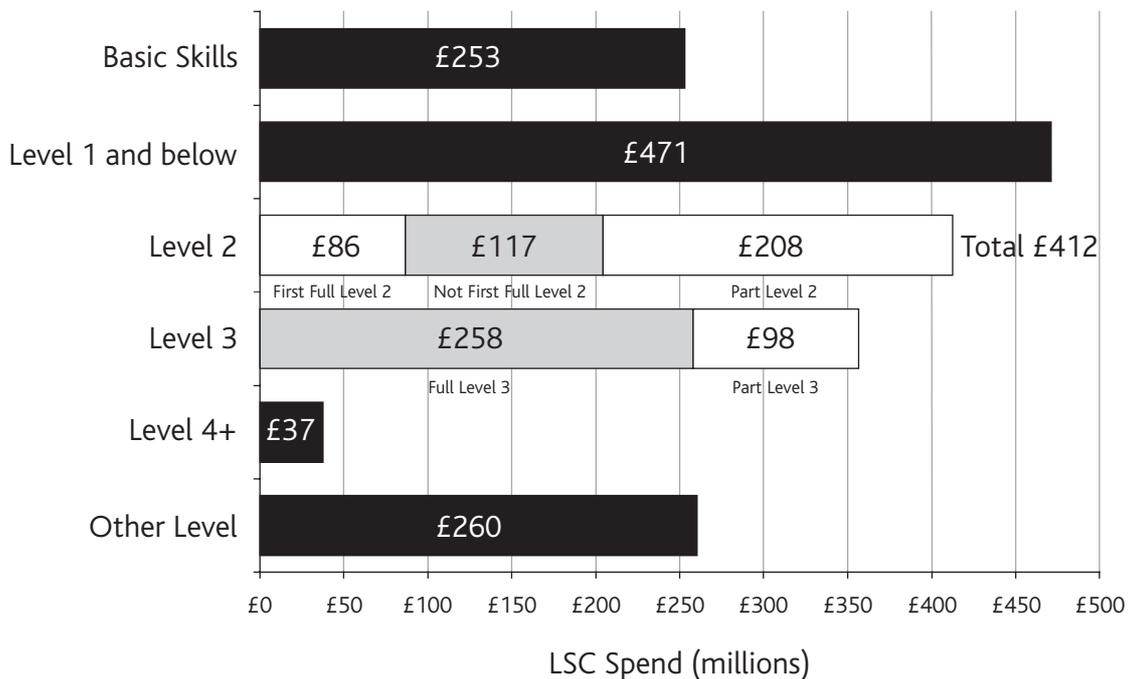
1.15 Public funding will continue to be a major component of the resources available for further education and skills training. The Government will continue to fund further education and training for 16–18 year olds, on the same basis as now. The current cost of that provision, funded through the LSC, is around £4.5 billion (including school sixth forms). In addition, the Government currently contributes some £3.3 billion a year towards the cost of further education, adult and community learning and work based training for adults. The Government will continue to invest substantial public funding in learning for adults.

## Aligning LSC spending with the Skills Strategy's priorities

1.16 The broad pattern of spending within LSC funded FE provision in 2001/02, as shown in Chart 1, was:

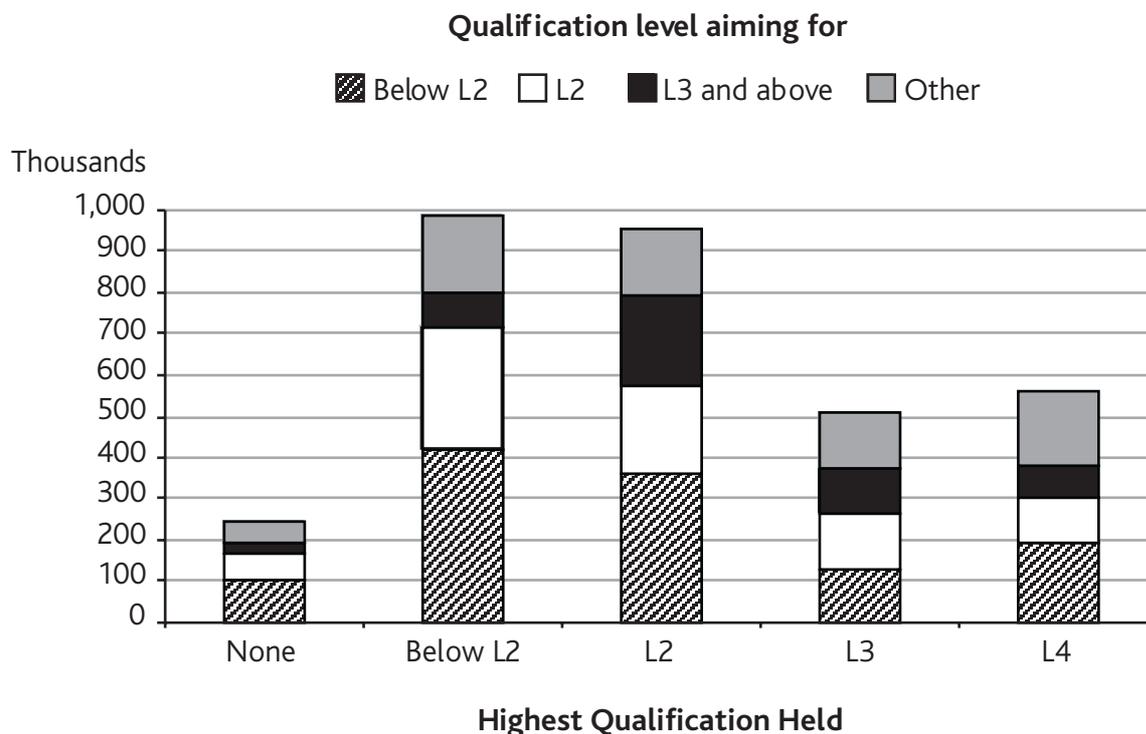
**Chart 1. LSC 19+ FE participation budget, 2001/02 by qualification aim**

Level of Qualification



Source: ILR 2001/02 data on learners' qualification aims and LSC data on funding rates (also labour force survey, which gives first/not first Level 2 split)

1.17 Chart 2 shows the estimated pattern of learning aims categorised according to the learner's prior level of qualification, modelled by combining Labour Force Survey and Individual Learner Record data. It indicates the extent to which people who already have qualifications pursue further courses of training, often to secure additional qualifications at a lower level, or training that does not lead to an accredited qualification.

**Chart 2. Distribution of learners by current and prior qualification, 2001-02**

Source: ILR 2001/02 data on learners' qualification aims and Labour Force Survey (LFS), Autumn 2001 on prior qualification.

1.18 All of this training has value for the learners concerned, who have many different motivations, reflecting their differing circumstances. They cannot be fitted into neat categories. Colleges and providers must retain the discretion to make judgements based on their local knowledge of their local recruitment base and the needs of individual learners. We are not questioning in any way the importance and worth of that range of education and training. But the conclusion we draw is that the current allocation of public funds does not align particularly well with the priorities of the Skills Strategy, set out above in paragraphs 1.13-1.14. If we are to achieve the objectives of the Skills Strategy, more needs to be done to align public support behind the key priorities for public funding.

## Benefits to colleges and providers

1.19 The responses to the Skills Strategy have indicated a large measure of agreement in principle about future priorities and the need for change. But bringing about that change has particular implications for colleges and providers. The proposals set out in this paper represent a major challenge to current practice and expectations. They will not be easy to implement. Nonetheless, we and the Government strongly believe that it is in the interest of colleges and providers, as well as of learners and employers, to go down this route.

## Section 1: The Need for Change and the Priorities for Public Funding

- 1.20 There are two key reasons. The first reason is that we need to raise the profile and standing of colleges and providers as key contributors to the national agenda for national economic development. Secondly we need to continue to raise their position in public esteem, and, particularly with employers, as a primary engine for driving investment in high-quality, relevant skills and training as the bedrock of a successful modern economy and a fair society.
- 1.21 Many colleges already do have significant engagement with employers. Around 29 per cent of establishments who had provided training had used FE college services in 2003 and 81 per cent of them reported that they were satisfied with the service provided<sup>7</sup>. But, at the same time, many employers do not engage with colleges. Most current expenditure by employers on training is not being channelled to LSC-funded colleges and providers. The Employer Training Pilots are showing that employers will choose colleges and providers offering flexible, responsive and often on-site training which meets the skills needs of individual employees and fits in with working times and patterns. But where colleges and providers do not operate in that way, employers may choose to go elsewhere for their training.
- 1.22 There is already good practice in the sector upon which we can build. Many colleges and providers have long seen it as central to their mission that they should be equipping individuals and employers with the skills needed for productivity and business success. They pride themselves on understanding, and responding to, employers' needs, through innovative, flexible delivery. They work closely with local employers, and have set up business units to provide a focus for this area of activity.
- 1.23 Many colleges and providers have taken the opportunity of the Centres of Vocational Excellence (CoVE) programme to step up their employer-focused skills development work, investing in new facilities and developing new ways of working. In some Employer Training Pilot areas, some colleges and providers have seized the opportunity to show that they can deliver what employers want in the way that they want it, and are achieving great success.
- 1.24 We welcome the efforts that these colleges and providers have made, and we want their example to become universal. We want to provide a funding and planning framework which recognises and rewards this way of working and supports the change of culture and practice that is required. We will know that we have all succeeded when employers see colleges and providers as their partners of choice in developing the skills they need for organisational success. The proposals in this paper are a necessary part of achieving that change.
- 1.25 The second major benefit that colleges and providers will derive from the proposed changes is financial. The Government is not proposing increases in private contributions as a basis for making offsetting reductions in the total amount of public funding for further education. On the contrary, as with higher education, increased fee income will be added to public funding so as to increase the level of resourcing available to the sector as a whole. The impact on any given individual college will vary depending on its circumstances (see paragraph 3.37 below), but the overall purpose is to increase aggregate funds for the sector.

1.26 The changes are intended to provide better support for the LSC-funded sector to achieve its primary purpose of offering high-quality, relevant education and training to the largest possible number of people. At present, the sector is heavily dependent on public funds, which are necessarily limited and subject to many competing priorities. As discussed in Section 2, current practice has not sought to maximise private funds. As a result, we risk being locked into a situation where learners and employers do not expect to pay a realistic contribution towards the cost of their learning. We must break out of this position, to provide a broader income base which helps colleges and providers to invest in staffing, facilities and equipment, which allows them to offer the highest quality, relevant training. A diversified and increased income base should provide a platform for a more buoyant, expanding, customer-responsive service, competing on the range, quality and responsiveness of what they offer.

1.27 This is not a new principle for colleges and providers. Employers and individuals have always been expected to contribute to the costs of training because of the benefits they derive. Fees and income earning have consequently always been features of the way further education operates. Many colleges and providers are well used to managing their fee and income policies in a sophisticated way, carefully tailored to the needs and circumstances of the different customer groups they serve. All of that is important experience to build on.

1.28 The discussions so far suggest that many in the LSC-funded sector recognise these potential benefits. But a lot depends on the way in which the changes are implemented. The development of more outwardly focused, entrepreneurial organisations, fully engaged in local economic and community activities, must be led by college managers, building on the best examples and experience that exists. We want to develop with the sector the best way forward to:

- develop persuasive arguments around the economic and social returns from further education, to encourage more investment in learning
- explore alternative co-funding sources of income, both capital and revenue, including European Social Funding and Regional Development Agencies
- realise potential efficiencies in the sector from collaboration, curriculum development, and sharing of back-office functions
- minimise bureaucracy so every possible penny gets to the front line and benefits learners
- diversify income sources to support learning so a 'mixed economy' develops in the sector reflecting a balance of private and public investment.

The Government and the LSC will provide as much support as we can for colleges and training providers to manage the transition, giving a clear lead in terms of the change of culture and practice that needs to be achieved.

**Question 1: Do you have any comments and views on the analysis in this section about:**

- **the case for change?**
- **the priorities for the investment of public funds?**
- **the benefits for colleges and training providers?**

<sup>1</sup>Department for Education and Skills (2003): Developing a National Skills Strategy and Delivery Plan: Underlying Evidence

<sup>2</sup>Labour Force Survey, Winter 2003

<sup>3</sup>Gross weekly pay of full-time workers by highest qualification, England & Wales, 2003 (LFS, Winter 2003)

<sup>4</sup>Learning and Training at Work 2000. D. Spilsbury (2001)

<sup>5</sup>Long, E. 1997. 'Impact of Basic Skills Programs on Canadian Workplaces', ABC Canada Literacy Foundation

<sup>6</sup>Dearden, L, H Reed and J Van Reenen, (2000) Who Gains when Workers Train?

<sup>7</sup>National Employers' Skills Survey 2003: Key Findings, LSC

# Section 2: Proposed Approach and Levers for Change

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2.1 This section sets out how the funding system can contribute to achieve the objectives in Section 1, through using our Business Cycle, Strategic Area Reviews and plan-led funding reforms, to support the setting of aggregate income targets and new national fee assumptions for colleges and providers.

## **LSC Business Cycle and Strategic Area Reviews**

2.2 The development planning dialogue between local LSCs, colleges and providers should be a key mechanism for securing, through negotiation, a sensible re-alignment that better matches public funds with the national priorities set out in Section 1. That dialogue is part of the plan-led funding reforms.

2.3 We are introducing a new and more streamlined planning cycle which will support this dialogue. It provides a framework for discussing:

- national, sectoral and regional skills priorities
- their consequences for the pattern of education and training programmes which each college or provider should offer within the LSC funds available
- the scope for raising fees and other income within each college or provider's particular market
- the realistic rate of change.

2.4 This planning dialogue in turn needs to reflect the outcomes of Strategic Area Reviews (StARs). These are identifying the appropriate mix and pattern of provision for each area and the distinctive contribution which each college or provider can make to the range of post-16 provision in its area. Colleges and providers have been encouraged to clarify their mission, to focus on their strengths. The StARs process will help to reduce gaps and duplication in provision. The outcome of StARs will provide a template for assessing, in each year's Business Cycle, the learning opportunities that each provider is best placed to offer consistent with its mission, and to meet local priorities.

2.5 This new approach to planning and funding provision will be used to deliver, amongst other things, the new entitlement to support low skilled adults to achieve their first full Level 2 qualification as a platform for employability (the Level 2 entitlement). As a first step, we are seeking to secure expansion of full Level 2 programmes to support an additional 30,000 learners achieving a first full Level 2 qualification by 2004/05 and 50,000 by 2005/06. The rate of expansion needed thereafter will be reviewed in the light of experience and decisions on the allocation of public funds in the light of the current Spending Review 2004. In addition, we will encourage colleges and providers to support learners who are progressing to higher levels of qualification, and to deliver provision which meets sectoral and regional priorities identified by the Sector Skills Councils and Regional Skills Partnerships.

***Question 2: How could we best integrate the new approach to fees, income targets and learner support with the LSC Business Cycle?***

## Reforming the fees framework

2.6 To achieve the wider objectives set out in Section 1, we also need to reform the national approach, incorporated within our funding method, for setting and collection of fees for FE provision.

2.7 At present, our funding framework for FE provision sets a national fee assumption of 25 per cent of base rates. That means the proportion of public subsidy towards the full costs of a course is at least 75 per cent. On average, that proportion rises to about 80 per cent of overall tuition costs once the various weightings such as disadvantage and area costs are taken into account. The remaining 25 per cent of the unweighted national base rate (usually around 20 per cent of the full rate for a course) represents the amount which it is assumed the learner (or their employer on their behalf) will pay in fees, in cases where the learner is not entitled to fee remission. Previously, a higher fee assumption of 50 per cent was specified for employer contributions for training dedicated to that employer's needs. That differential rate was removed from 2004/05 in order to simplify funding, as part of plan-led funding reforms.

2.8 We specify that learners in the following groups must have their fees remitted:

- students aged 16 – 18
- adult learners following a basic skills course
- learners in receipt of a relevant income-related benefit.

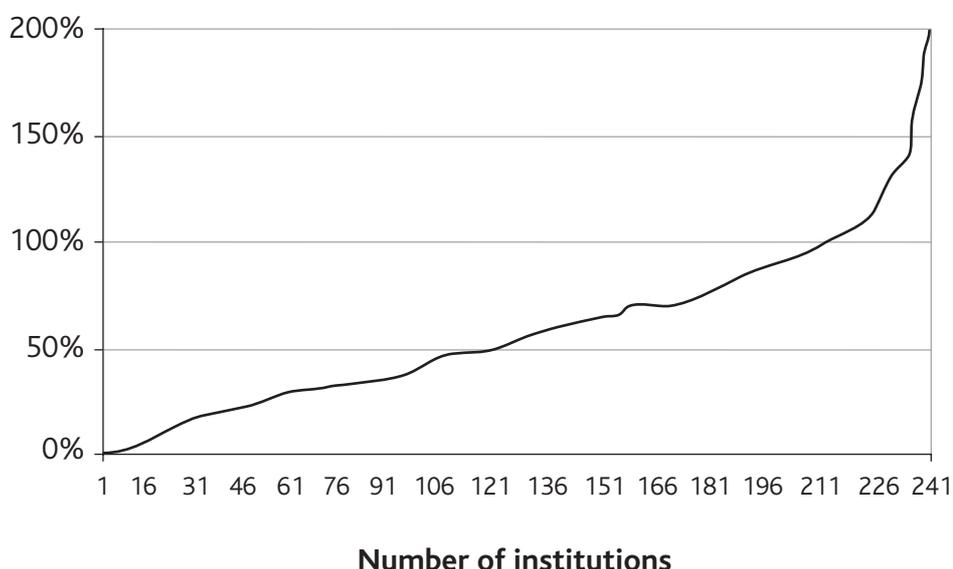
2.9 The Skills Strategy also establishes a new group entitled to fee remission, namely adults in the workforce pursuing their first full Level 2 qualification.

2.10 Beyond this national framework of fee assumptions, colleges and providers have wide discretion to remit part or all of the fees payable or to charge higher fees within existing guidelines.

2.11 We know from recent research<sup>8</sup> that colleges and providers are not collecting some or all of the fees payable in a significant proportion of cases. We estimate that approximately £260 million (at 2002/03 levels of funding) could be collected in fees if the national fee assumptions were applied in full to all learners outside the national fee remission groups. In practice, the evidence<sup>9</sup> suggests that the FE sector did not collect around £100 million of that £260 million in potential fee income in 2002/03.

2.12 We recognise, however, that behind these global figures, there is great variation in the amount of fee income collected by colleges and providers. Some colleges and providers collect more than the existing 25 per cent fee assumption, whereas others operate extensive local discretionary policies. Chart 3<sup>10</sup> below shows the range of practice. Notwithstanding this variation in practice, the overall position represents a substantial loss of potential income for the FE sector and increases pressure on resource levels.

**Chart 3. Proportion of adult fees charged (compared with LSC fee element)**



2.13 In recent years colleges and providers have increasingly chosen to waive fees on a discretionary basis. This reflects a variety of factors, including:

- a. Ambitious Government targets for growth in participation were reflected in the funding system in such a way that it became rational for colleges to waive fee contributions. That helped them maximise student enrolments in order to meet their recruitment and delivery targets. The funding methodology encouraged colleges and providers to ensure that a sufficient volume of eligible provision was delivered in order to avoid financial penalties for under-delivery. Waiving fees was a means of increasing the overall volumes.
- b. Colleges and providers which try to charge fees may fear being undercut by other publicly-funded providers which do not, thereby putting themselves at a significant disadvantage in the highly competitive market for recruiting students.
- c. Colleges and providers may be concerned that fees might discourage participation by the disadvantaged and economically inactive. Many colleges and providers see it as fundamental to their mission to encourage those groups back into learning, and therefore have sought to offer free access wherever possible.

d. Training initiatives funded from other sources such as European Social Funds and the Single Regeneration Budget encourage an expectation that learning will be available at low cost or free of charge in some localities. It is clearly difficult for an individual college or provider successfully to raise an appropriate contribution through fees for training programmes which the community has come to expect to be provided free of charge.

2.14 These factors created an environment which put a premium on attracting learners often at the price of reducing fee income. It encouraged a culture where many learners and employers ceased to expect to pay a realistic economic price for the value of the service they were receiving in relation to the benefits they accrued.

2.15 We recognise that the recruitment of students, and the provision of training programmes to employers, will remain an inherently competitive process. Used in the right way, competition is a force for good. Ensuring that learners and employers have a choice of training provider is an important driver of quality, value for money and relevance. That is one of the lessons of the Employer Training Pilots. Competition legislation prohibits anti-competitive practices, and that applies to the training market. But none of these factors require us to perpetuate an approach which is causing a significant loss of potential income to the FE sector, and generating outcomes that are contrary to the national interest, because they are tending to depress the volume and quality of training that could potentially be available.

2.16 So we need a new framework. It needs to strike a balance between the following factors:

- It must be fair, reflecting that individuals, employers, and the community all benefit from skills. Relative contributions should be commensurate with those benefits.
- It must operate alongside the learner support framework in such a way that those without the means to pay are helped to access the training they need. Complementary reforms to learner support are discussed later in this document (see Section 4).
- It must focus public funding particularly to help low skilled adults gain the platform of basic and employability skills. At the same time, as the Skills Strategy made clear, there must continue to be a broad range of opportunities for those who get pleasure and personal fulfilment from learning.
- It must be straightforward for colleges and providers to administer, avoiding unnecessary bureaucracy and observing the recommendations of the Bureaucracy Review Group.
- It must form a part of the development planning dialogue between colleges and providers and the LSC, and the related plan-led funding reforms.

## **A combined approach to income targets and fees**

2.17 There are various options which could, in principle, deliver a new approach. But from discussions and analysis so far, we believe that the best way of implementing the new fees framework is by setting an aggregate income target for each college and provider, combined with setting a new base rate fee assumption.

2.18 We have considered other options. One option would be to introduce a detailed, mandatory fees schedule, specifying the different fees that should be charged to different groups of learners for different forms of learning. The fees schedule would have to be set out in sufficient detail to deliver the prioritised investment of public funds set out above. That could offer advantages in terms of full clarity of what is expected. But, on balance, we do not believe that that would be an attractive solution, for two main reasons:

- a. It would remove from colleges and providers the ability to manage their own fees policy in a way that takes account of their local market, their assessment of the scope for charging fees to different groups, and the need to take account of the circumstances of individual learners. They would simply have to apply the fees schedule irrespective of whether it met their circumstances and priorities.
- b. It would bring with it the risk of a substantially increased audit burden, because it would be necessary to check whether the right fees were being charged to the right groups.

2.19 A second option we have considered, but which we believe to be less attractive, would be simply to set a new, higher national standard fee assumption without also setting income targets. The existing national fee remission categories would remain in place and providers would continue to have discretion as to whether they charged the higher fee assumption or not, remitting fees in whole or part to individuals or groups as they saw fit. We do not believe that this would be a satisfactory approach either, because:

- a. We doubt whether it would be sufficient to overcome the factors identified above, which are reducing fee income. It would still be wholly dependent on decisions by each individual college and provider as to whether they chose to forgo fee income. Unless all providers are confident that the sector as a whole will move in the same direction, we will not achieve the collective momentum necessary to secure a general change in practice.
- b. As a result, there would be a considerable risk of a further erosion of the total income available to support learning outside the priorities identified in paragraph 1.13, thereby jeopardising quality.

2.20 So our third, and preferred, option is that income targets are established as a necessary component of fee reform alongside changes to national fee assumptions.

2.21 Overall, the balance we want to achieve is a strong, consistent national push to drive up income for the sector, both from those learners who already have skills and qualifications, and from employers, reflecting the benefits they receive from skills and training; but which can be implemented in a way that is sensitive to the differing circumstances of different colleges and providers. That should form part of the strategic dialogue between the college and provider and the local LSC, as an integral part of the annual planning and funding cycle.

***Question 3: Do you agree with the proposed approach to reforming fees?***

***Question 4: Do you support the proposed approach to income targets?***

***Question 5: Are there other options, besides those set out above, that would better achieve the objectives set out in Section 1?***

<sup>8</sup> Fees in Colleges – A Review of the Use of Discretionary Fee Remission in Further Education: November 2003: DfES Research RB496

<sup>9</sup> analysis of ILR data for 2002/03 relating to LSC-funded further education provision

<sup>10</sup> Chart 3 is based on 2002/03 ILR data and includes general further education colleges and other institutions where the assumed fee element is at least £500,000. It compares the tuition fee received as recorded in field A13 of the ILR with the assumed fee element which is 25 per cent of the base rate for the learning aim studied.

# Section 3: Putting the New Approach into Operation

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## Introduction

- 3.1 Sections 1 and 2 have set out the case for change and the broad approach we propose. This section sets out in more detail how we propose to put the changes into operation.

## Scope of the proposals

- 3.2 The proposals contained within this document are intended to apply to all further education formula funded provision irrespective of recipient institution. They will not apply to school sixth forms. But the principles should, we believe, have wide application across the learning and skills sector as the LSC continues to develop its overall approach to funding and planning in the sector. We are considering separately how these principles might apply in work based learning (WBL) and adult and community learning (ACL). We will be consulting later this year on the future funding arrangements for all learning which is not externally accredited. The goal will be to bring coherence and consistency to this provision. The lessons emerging from the Employer Training and Sector Skills pilots and other trials will inform the policy development needed to ensure the priorities of the Skills Strategy are delivered effectively through training in the workplace.

## Introducing income targets

- 3.3 As proposed in Section 2, the income target would be agreed as part of the development planning processes and plan-led funding. The main features of the approach that we propose are:
- a. The target would be set as part of the annual Business Cycle discussion between the college or provider and the local LSC. It would not be a separate exercise, but fully integrated within the annual discussion of performance, priorities, plans and budgets.
  - b. The starting point for setting the income target will be informed by ILR data, by making a projection of the total fee income that could be collected based on those learners not in the fee remission categories. The 'theoretical' income could be compared with fees actually collected by the institution, as recorded in the ILR and college accounts. The process of setting a fee income target, as part of the wider planning dialogue, will centre on agreeing how far and over what time period the gap between actual and 'theoretical' fee income should be closed.

### Section 3: Putting the New Approach into Operation

- c. The target would be individualised to the college or provider, reflecting in particular its business plan as agreed with us. For ease of administration, we will need some formulaic elements. But it would not just be a flat rate. It would take account, in broad terms, of:
- the college's or provider's mission (recognising, for example, that by their nature sixth form colleges will have little or no capacity to charge fees)
  - the scale of its provision within those categories where no fees are chargeable (including in future first full Level 2 qualifications, as well as 16–18 year olds, basic skills and other national fee remission categories)
  - the scale of its provision within those categories where fees are chargeable, and particularly vocationally-oriented programmes for well-qualified adults
  - the socio-economic profile of its recruitment area.
- d. While the target will be individualised to each college or provider, the local LSC will also consider the record of other comparable colleges in raising income. Over time, we expect some broad benchmarks and expectations to evolve about the income generating potential of different types of colleges.
- e. The target would be expressed as a single, aggregate sum covering all relevant forms of income. So long as that aggregate target was met, it would be for the college and provider to decide how to meet it. Hence, monitoring arrangements would not need to include consideration of the distribution of income within the target and whether fees were, or were not, charged to particular individuals or groups. It would merely need to verify whether the total had been met. We are anxious to avoid income targets becoming a cause of external micro-management. There would be no sub-divisions for particular forms of income which the college or provider was expected to achieve.
- f. Each college or provider would have both the right and the responsibility to decide how best to achieve its target once set. A range of strategies could be used, and the balance between them would be for the college or provider to decide. Indeed, part of the purpose would be to encourage creativity and innovation by colleges and providers in deciding how they could best increase and diversify their income streams. In other words, the intended focus is on the gross income that is required to sustain the full range of good quality programmes and support activities by that provider, not just the net grant from the LSC or the net fee income.
- g. Success in achieving the target would be one factor reviewed as an integral part of the LSC performance management cycle and informing the overall assessment of performance. As with other elements of the performance management framework, there would be incentives for successful achievement of the target and penalties if it was not achieved.
- h. Each provider would continue to have discretion, subject as now to meeting the national fee remission requirements, to set and collect fees according to their own assessment of local need and demand, based on its own judgement of what it was realistic to expect different groups to contribute.
- i. We would work with the sector to develop and disseminate good practice guides on the development of fees policies in colleges and providers, and communicating these to learners and employers.

**Question 6: Does this approach to setting income targets look feasible and appropriate?**

**Question 7: What considerations should be taken into account in setting the target?**

## Scope of the target

- 3.4 There are two broad options for defining the scope of the target. We could limit it to fees income alone. Or we could make it a broader target covering a wider range of income.
- 3.5 Potentially, there are several income strands which could be included in the scope of the target:
- a. tuition fee income from individuals and employers in respect of LSC-funded training programmes
  - b. income from non-LSC-funded students, where the full cost of the training is already recovered through fees. Such students include overseas students from outside the European Union
  - c. income from full-cost recovery training and support programmes provided for local employers
  - d. income from other activities not related to tuition, such as sales of goods and materials and letting of premises.
- 3.6 Our first assumption is that income targets should not include the last item (d) in scope. This is because a limitation to forms of income which are broadly related to teaching and learning activities provides a focus for the definition and operation of the income target. The revenue raising potential of an individual college or provider under item (d) will be more dependent on specific circumstances.
- 3.7 Beyond that, there is a case for limiting the target to item (a) alone. The arguments in favour of this approach are:
- It would achieve a clear focus on the core issue of fees.
  - The target might then be easier to construct, because it would relate directly to the gap between the college's or provider's actual fee income compared with the total fee income notionally achievable if the national fee assumption was applied to all the college's or provider's learners outside the nationally prescribed remission categories. We would then discuss with each provider what proportion of the gap it would be appropriate to seek to fill, and over what timescale, taking account of the factors in paragraph 3.3 above.
  - It would relate directly to that area of income generation which is clearly related to LSC-funded provision, rather than the local LSC considering other forms of revenue-raising activity which are not supported by LSC funding, and which the college or provider may consider to be its private business.

3.8 Alternatively, the scope could cover items a–c above. The arguments in favour of this approach are:

- We are seeking to incentivise increased contributions to the overall costs of individual courses, but also contributions from employers through the provision of customised training and support programmes. One deliberate goal of the wider Skills Strategy is to promote more provision of training tailored for employers, delivered on their premises to suit their operational needs.
- It would give colleges and providers more flexibility and discretion to balance different strategies for achieving their target. If they chose to forgo proportionately more fee income from learners, but offset that with proportionately more revenue-earning training programmes customised for employers, that would be their decision.

**Question 8: How widely should the scope of the income target be drawn?**

**Question 9: Should it focus exclusively on fee income, or a wider range of income sources broadly related to training and tuition costs? Which of the categories a-c above should be within scope of the income target?**

## Role of the governing body

3.9 The college corporation (the 'governing body') is responsible for setting the strategic direction of the college. An important aspect of this is its financial strategy, including its policy on fees. Practice varies, however, with some governing bodies taking a more active interest than others.

3.10 We believe that fees and income raising should be seen as integral and important parts of each college's overall business plan and strategy. It should be directly related to its mission. And performance in relation to collecting fee income and raising other income is a significant aspect of maintaining financial health.

3.11 For these reasons, we believe that governing bodies should in all cases take a close interest in the college's approach to fees and income generation, and its performance against target. Governing body members will often have substantial personal and professional expertise to bring to bear in considering this aspect of the college's business. We would welcome proposals for how governing bodies could be better supported in undertaking this role.

**Question 10: What is the best way to engage governing bodies in consideration of fees and income policies, and performance against targets, as an integral part of business planning?**

## Collective local ownership of income targets

- 3.12 One of the purposes of income targets is to generate a change in collective practice amongst colleges and providers.
- 3.13 One way of supporting that change would be to treat the income target as a shared local responsibility among all colleges and providers in an area. We could determine an aggregate income target covering all the providers in the local LSC area or in sub-areas. This would be a matter for annual discussion between the local LSC and colleges and providers, so that they could reach a common understanding of the local context, both the factors which might limit income generation and the opportunities to expand it.
- 3.14 In the light of that collective discussion, the local LSC would pursue with each individual college and provider its own target as a share of that aggregate.
- 3.15 Such an approach could foster collective responsibility, and develop a strategic partnership in which the local LSC and the college and provider network would work together. It would, of course, be essential to continue to observe in full the requirements of the Competition Acts in prohibiting anti-competitive practices, so it would remain for each individual college and provider to determine its own approach to fees. But the colleges and providers in each area often have a good understanding of each other's circumstances. Within the spirit of the trust relationship that we are seeking to build, it would be beneficial to draw on that common understanding to incorporate an element of self-regulation within the system. In particular, it could help to identify cases where a given provider was genuinely hard-pressed to achieve a significant income stream, by virtue of its mission and the characteristics of its local community, compared with a college or provider with a large potential to raise income which it is choosing not to exercise.
- 3.16 Such detailed and sensitive understanding of the circumstances in a local area could valuably inform collective discussion between colleges and providers and the local LSC, deciding how the target is to be apportioned, and what strategic actions might be taken to maximise the income raising potential across the area.

***Question 11: Is there a role for collective local discussion and ownership of income targets? If so, how is that best managed?***

## Incentivising the achievement of income targets

- 3.17 The proposals in this document represent a significant change of culture and practice for many colleges and providers, and for the public. The way we implement the reforms must be sensitive to that, taking account of the realities of managing this sort of change.
- 3.18 That may be an argument for concluding that a college's or provider's performance in delivering against its income target should not carry any rewards and sanctions. But on balance, we think the opposite argument is more persuasive. It is precisely because we are seeking a collective, national change of culture and practice that we need ways of giving all colleges and providers confidence and assurance that all are being treated fairly. If some colleges and providers chose simply to ignore the fees and income targets reforms, knowing that that would have no consequences for them, it is unlikely that we would secure the collective change in behaviour we need.

3.19 It would not be a sufficient sanction for such a college or provider merely to forgo the income they could have earned, because recent experience demonstrates that many colleges and providers do forgo that income. There would be too great a risk of a provider jeopardising the quality of the programmes it was able to offer as a result of forgoing fee income and thereby undermining the overall resource that should be available. It may also affect the ability of other institutions to collect fee income and reduce the overall funding available for the sector.

3.20 So we propose to incorporate the income targets into the wider performance management framework under the *Success for All* programme. That is, performance against the income target would be one element which is reviewed in the annual discussions between the local LSC and the college or provider.

***Question 12: What would be the most effective way of incentivising the achievement of income targets, within the performance management framework?***

## Changing the fees framework

3.21 In Section 2 we proposed setting a new national fees assumption within our funding method. Current arrangements for fee remission would continue to apply, and will be extended in future, to cover learners undertaking their first full Level 2.

3.22 We propose that the fee assumption for learners outside those defined categories should increase from its current level of 25 per cent of the base unit of funding.

3.23 There is no 'right' level for the fee assumption. It requires a balanced judgement taking account of:

- what is equitable and proportionate for employers and learners to pay
- what is feasible and achievable for colleges and providers to charge
- what is necessary to achieve the shift in culture and behaviour we want to see, as set out in Section 1, so that public resources for adult learning can be focused on priorities, within a buoyant, expanding, customer-responsive sector.

3.24 The three key issues are:

- at what level should the fee assumption be set?
- over what time period should the increase in the fee assumption take place?
- when should the change in the fee assumption start?

## Level of fee assumption

3.25 One option would be to increase the fee assumption for learners outside the nationally prescribed groups (including the first full Level 2 learners) to around 35 per cent. That would release around £100 million of public funding (at 2005/06 rates) to support the better alignment that is now needed between provision and the national priorities.

3.26 As an example to illustrate the impact on learners' fees, the current expected contribution of a learner represents approximately £1.23 per hour. Increasing the fee assumption to 35 percent would represent on average a rise of 50p to £1.73 per hour. A fee level of 35 percent would still represent good value for money for learners. Staging the increase over, say, two years would mean an increase of around 25p per hour in each year. The fee assumption applies only to the basic funding rate provided by the LSC. So for more expensive programmes that carry higher programme weightings, the fee expected from the learner does not increase proportionately. For example, for a construction or engineering course, the fee for the learner would remain at £1.73 per hour, whereas the level of public subsidy would equate to £6.79 per hour. In this example, the learner is contributing some 20 per cent to the actual costs of the course, with the remaining 80 per cent being met from the public purse. Currently, individual learners are usually unaware of the proportion of the real costs that they are paying.

## Phasing of the change in the fee assumption

3.27 Another key issue is the timescale for implementing such a change. We have considered two main options. The first is a relatively rapid implementation over two years, from 25 per cent to 30 per cent in year one and from 30 per cent to 35 per cent in year two. The second option is to phase the change over a longer period of four years – a 2.5 per cent change each year. This would equate to an actual increase in fees of approximately 10 per cent a year, a level of change that we are aware has been implemented in some colleges and providers where it had proved necessary. Clearly other phasing is possible – for example a three year or five year period – and respondents are invited to outline their preferred option.

**Question 13: Should changes to the fees assumption be introduced over (a) a two-year period or (b) a four-year period?**

**Question 14: Is there an alternative timescale you would suggest?**

## Timing of introduction

3.28 We believe that it is essential to start the process of changing expectations of individuals and employers about fee paying as soon as possible. We want, however, to ensure that an increased fee assumption (and consequently reduced LSC contribution per learner) is matched by a real increase in fee income which will be demonstrated by the achievement of the fee income target. Changing the culture will be challenging and a variety of local and regional strategies will need to be developed. We need to consider how the steps to secure changes in raising income, most importantly through income targets, fit with changes to the fee assumption. One option is to negotiate income targets with colleges and providers for 2005/06 based on current fees, and introduce an increase in the fee assumption from 2006/07 onwards. This would give institutions, individuals and employers, more time to adjust to the new arrangements. However, this would delay the process of introducing the new fees framework, which was first flagged in the Skills Strategy in July 2003. The alternative option and one we will also consider is to start the incremental increase in the fee assumption in 2005/06 alongside the development of income targets. This would send a very clear early signal of the intent to press ahead with the major change of culture that is needed.

***Question 15: What are the key factors which should determine when to start changes to the fee assumption?***

## Supporting learners progressing to Level 2

3.29 Changing the fee assumption does not change the overall level of funding that we determine is needed for a particular course. Hitherto, that process of defining the appropriate overall funding rates which we should pay for different types of programmes has been undertaken through a separate process, operated through the National Rates Advisory Group. It will remain necessary to define the funding appropriate to each type of programme. By changing the fee assumption, we change the level of assumed learner contribution towards that overall cost. For learners in the nationally prescribed groups (including, in future, those qualifying for the Level 2 entitlement) under these proposals a provider would continue, as now, to receive 100 per cent of the appropriate funding rate defined by us.

3.30 We set out below the implications of the fee assumption changes for individuals, employers and colleges and providers and in section 4 suggest how to mitigate any impact of higher fees on low skilled learners (without a full Level 2 qualification) undertaking courses at Level 1 or other progression provision.

***Question 16: What factors should we take into account in setting an appropriate level of increase in fee assumptions for learners outside the nationally prescribed groups?***

## Implications for individuals, colleges and providers, and for employers

3.31 The implications of these proposals for different individuals, colleges, providers and employers will vary substantially, depending on their particular circumstances. It is not possible to model centrally in detail what that impact will be, since these reforms will necessarily change the way learners, providers and employers behave. So modelling based on current behaviour is of limited use in assessing the actual impact. But subject to those caveats, this section sets out the expected implications of the reforms.

### Learners

3.32 The Skills Strategy proposed (paragraph 6.29) that learners who have already achieved qualifications at Level 3 or above and were seeking further qualifications at the same or lower levels would be expected to contribute more towards the overall cost of their learning. We continue to support the principle that the increase in fees should focus primarily on those who have already been helped to gain good qualifications, and who are seeking further qualifications.

3.33 We recognise, however, that the way in which this is managed on the ground will require a careful balance. The balance we need to strike is to create a system where those individuals or employers who can and should contribute more to their training are expected to do so, without causing unnecessary bureaucracy or complexity.

3.34 For **learners** (full-time and part-time) we are proposing to apply, for the purposes of the LSC funding methodology, a flat rate increase in the fee assumption for all those outside the nationally prescribed remission groups. That flat rate approach is designed to keep the funding calculations simple, and to keep bureaucracy for learners and providers to a minimum. However, many colleges waive fees for full-time adult learners. The new Level 2 entitlement, when it is introduced, will mean that some of these learners will be entitled to free tuition and will attract 100 per cent funding. Learners who already have a full Level 2 qualification will not be part of the Level 2 entitlement group although colleges may still wish to waive fees. This issue needs to be considered when setting the fee income target to reflect colleges' likely fees policies for such learners.

3.35 The major factors that will determine the impact on individual learners are:

- Whether they are in a nationally prescribed fee remission group. The new Level 2 entitlement being introduced under the Skills Strategy will substantially extend the number of adult learners who benefit under this heading. All 16–18 year olds, basic skills students, and those on relevant income-related benefits will also continue to be exempt from any fees.
- Whether they are in one of the other priority groups defined in the Skills Strategy (see paragraph 1.13 above), such as those seeking Level 3 qualifications in areas of sectoral or regional skills priority. The LSC, through its annual Business Cycle, will be using available public funds to support expansion of these priorities, so that more learners can benefit.

- Whether they qualify for learner support funding. As set out in Section 4, we are simultaneously seeking to make learner support programmes more effective. The Government is introducing a new Adult Learning Grant, offering guaranteed support for the first time to eligible adults. Even where learners are outside the prescribed remission groups and face higher fees than now, they may qualify for help through the learner support funds which can be used to help meet those fees.
- The position of low skilled learners pursuing study below a full Level 2 needs particular consideration. It is important to sustain a wide range of first step and return to learn opportunities, for those who do not have the confidence to move straight to a full Level 2 qualification, to help ease their path back into learning. We need to maintain and develop clear pathways for learners progressing through smaller steps. That is best handled through the exercise of local discretion by colleges and providers, making judgements as now about the use of available learner support funds to target those most in need of help.
- Whether the college or provider chooses to exercise its continuing discretion in order to remit fees for individual learners or groups. The actual rate of fee charged to learners outside the nationally prescribed remission groups will continue to be set by individual colleges and providers, within the new framework proposed in this paper. Those fees will still need to take into account the needs, likely behaviour, and price sensitivity of particular groups of learners.

### Colleges and training providers

3.36 For **colleges and providers**, the overall impact of these reforms should be that aggregate income to the LSC-funded sector increases – because the public funds available to the sector will not be reduced to take account of increased fee income. The changes will help colleges and providers prioritise and attract more learners in the Government’s priority groups and ensure a greater focus for public investment on those groups.

3.37 For any individual college or provider, the impact will differ depending on their particular circumstances and pattern of provision. The major factors that will determine that impact are as follows:

- Colleges and providers will receive full LSC funding, with no fee assumption, for all those learners in the nationally prescribed remission groups. This means that for sixth form colleges, focused on 16–18 year olds, there will generally be little or no impact. There will also be no impact on LSC funding for any school sixth forms.
- Much will depend on the scale of their programmes within the priority areas. Those with substantial programmes for basic skills and in future, full Level 2 programmes will receive full LSC funding for entitled learners, with no assumed fee income. In these cases, LSC income may well increase, depending on the balance between provision in those priority areas and other learning.
- The impact on colleges and providers will also vary depending on the extent to which they benefit from the other weightings in the LSC funding formula. For example, those which benefit from high programme cost weightings, or from high disadvantage uplifts, will be less affected by a given increase in the fee assumptions in the national base rates.

- The annual discussion between the local LSC and the college or provider about its development plan will cover their intentions for offering provision in the priority areas. The effect and intention of raising the national fee assumption is that it allows available public funding to be focused on priority groups, while maintaining overall resources so that a broad pattern of adult programmes can be maintained. That is the benefit that we derive nationally from raising fees – that more priority learners overall can be helped to gain skills.
- In the annual development plan discussions, we will aim to distribute available public funds to get the best alignment with the national skills priorities, offering prospective benefits to those providers which wish to sustain and expand programmes in those areas.
- The net financial impact for any individual provider will therefore reflect the combination of:
  - the balance of its provision between national fee remission groups and other learners who will be within scope of the higher fee assumption
  - the proportion of provision that reflects other Skills Strategy priorities, and therefore stands to benefit over time as we seek to expand provision in those areas within the public funds available for each year
  - its potential for earning income through fees, the income target negotiated with us to reflect that potential, and its actual success in achieving that target.
- All colleges and providers will retain the fee and other income they raise for their own use. They will keep the current level of discretion to set their own fee rates, outside the national remission groups, and to decide how to use the fee income they receive.
- Successful achievement of income targets should ensure colleges and providers maintain a stable financial position. Depending on their pattern of provision, many providers will see their LSC grant funding increase, to support expansion of the Level 2 entitlement and the national fee remission groups. Some providers could see their LSC grant reduce, where they have a significant proportion of programmes outside the priority areas, but that should be offset by greater capacity to earn fees if they apply the higher national fee assumption.

3.38 As we take forward this consultation, we will model the likely effects on colleges and providers, and work with them to assess the impact on each, and to build that into the annual Business Cycle discussions. Colleges and providers could derive more detailed estimates of likely impacts from 2005/06 using their own forward planning assumptions, including their fee collection policy. We recognise that the 2004/05 funding position is already challenging for some colleges and providers, and will want to work very closely with colleges and providers to ensure that their financial viability is not undermined.

## Employers

3.39 For **employers**, the impact will vary depending on their training needs and individual circumstances. The main factors that will determine the impact are:

- Where the training they wish to secure is for employees in national remission groups (for example 16–18 year olds or basic skills learners), that training will be funded at national rates by us, and therefore free to the employee and the employer. In the case of employees seeking their first Level 2 qualification, they will be within the scope of the Level 2 entitlement on the same terms as others learners engaged in further education provision and therefore eligible for free tuition at standard costs. Beyond that, however, colleges and providers will be free to negotiate fees from employers in relation to training for other employees, other costs of training delivery, or where – for instance – training is customised to meet the employer’s needs.
- In the eighteen Employer Training Pilot areas, participating employers receive a package of free or heavily subsidised training, brokerage, wage compensation and advice and guidance focussed on the low skilled. But, as elsewhere, employers in these areas are expected to contribute to the costs of training for higher skilled employees.
- Sector Skills Councils and Regional Skills Partnerships will be identifying employers’ skills priorities by sector and by region. That will drive the LSC’s annual Business Cycle, so as to use available public funds to support expansion in those priority areas.
- Employers will be expected to contribute a higher proportion of total costs for training programmes outside the national remission groups, reflecting the benefits they receive. But as a result of the whole range of Skills Strategy reforms, that training should be better designed and delivered to meet their needs. Our plan-led funding reforms will give colleges and providers more freedom to respond flexibly to the training needs of local employers. They will continue to be able to negotiate with colleges and providers for customised training packages to be delivered at a locally agreed price.

***Question 17: Have we correctly identified the key impacts for learners, providers and employers?***

## Supporting colleges and providers in making these changes

3.40 Neither the LSC nor the Government under-estimate the challenge that these changes would represent. We believe that change is essential, and we believe, as argued in Section 1, that it will bring major and direct benefits to colleges and providers, as well as to employers and learners.

3.41 Nonetheless, this is a major change programme that will need to be implemented carefully. It is in no-one’s interest that the reforms should cause destabilisation of colleges or providers. So the Government and the LSC will provide as much support as we can for colleges and providers to manage the transition, giving a clear lead in terms of the change of culture and practice that needs to be achieved.

3.42 We welcome proposals from colleges and providers and their representative bodies on the approaches that would be most useful. But we think we need to apply the following principles:

- We will maximise the discretion of colleges and providers to operate fee policies to suit their own circumstances. This reflects the general principles of plan-led funding to devolve ownership and control to frontline managers and reduce bureaucracy.
- We will minimise the bureaucracy involved. We will not set detailed fee schedules for different groups of learners and we will operate income targets at an aggregate level to avoid complex tracking and audit processes.
- We will operate within the trust relationship that has been developed through the work of Sir George Sweeney's Bureaucracy Task Force. In particular, we will expect the colleges and providers in each area, working with the local LSC, to provide a high level of self-regulation in operating income targets.
- We will implement the changes in a way that is sensitive to the realities of managing change, respects the relationship between colleges and providers and their learners, and maximises discretion for colleges and providers to make their own judgements about their own approach to their own markets within a clear, national framework.
- We will work with the sector to identify and overcome barriers to achieving this policy, individually and collectively and to spread best practice.

3.43 We think there are some specific steps that could help. These could include:

- We will work with the sector, if that would be helpful, to develop a good practice guide. Standard reporting arrangements to governors covering issues such as the cost of concessionary policies, progress towards achieving agreed income targets, and scrutiny of fee collection may all help.
- Colleges and providers will be encouraged and supported to heighten awareness amongst learners of the level of public subsidy which their courses attract. That will help establish a culture in which funding learning is accepted as a shared responsibility. The full cost of every course could be included in college brochures, to highlight the actual costs involved in learning, and the level of public subsidy.
- Similarly, we should raise awareness of the extensive current national fee remission arrangements for many adult learners, and their future extension to cover the Level 2 entitlement.
- At regional and local level, the LSC will seek, through the Strategic Area Reviews, and the Business Cycle process, to address the culture of not expecting to pay a realistic contribution to the cost of learning.

***Question 18: What forms of support would best help providers implement the reforms effectively?***

# Section 4: Developing Financial Support for Adult Learners

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## Introduction

- 4.1 The Skills Strategy recognised that some adults need financial help to be able to undertake further education and training. Such support can provide motivation to adults to participate and remain in learning and can help overcome financial barriers to learning. It can give incentives to encourage adults to focus their learning in priority areas.
- 4.2 There needs to be a close link between reforms to the fees framework and the forms of learner support available. They need to be mutually reinforcing, so that learner support is providing effective, targeted help in facilitating access to training for those who most need it. The new Level 2 entitlement may increase the demands on the finance available for learner support. At the same time, the proposed increase in national fee assumptions outside the remission groups means that some people may need more help than before to meet those costs.

## Scope and key issues

- 4.3 This section starts by outlining what happens now with financial support for adult learners. It then looks at proposed objectives for the future, making specific proposals to ensure the best link with the new approach to fees. The key issues addressed are:
  - how best to align learner support with the priorities of the Skills Strategy
  - what forms of learner support should be available for those within the new Level 2 Entitlement group
  - the implications for the allocation of learner support in the light of the higher contribution some learners may make
  - the need to improve coherence in the range of different forms of learner support that are available, so the relationship of the different elements is clear, the system is easy for applicants to understand, and the various forms of support are easy to access
  - how we might improve and simplify the administration of adult learner support, for the benefit of learners and colleges and providers.

## What happens now

- 4.4 There are several schemes and programmes providing financial support for adult learners in further education. They have evolved separately, with a variety of delivery mechanisms. Each initiative may be highly effective in achieving its own objectives, but it is not clear that, taken together, they represent a coherent system of financial support.
- 4.5 The major nationally supported elements are:
- Learner Support Funds (LSF). These include access, childcare and residential bursary funding. These funds are subject to national guidance but with local flexibility on priorities. Criteria are primarily focused upon need, particularly in terms of the learner's financial means. Administered by colleges, in 2003-04 the LSF budget is £96.5 million for adults and supports around 200,000 learners.
  - Adult Learning Grant (ALG). This is a new grant, announced in the Skills Strategy. In 2003/04, it is available in 10 trial areas. In 2004/05, it will be extended to cover the whole of the North East and South East regions. In 2005/06, the aim is for national coverage. Criteria are based on mode and level of study and age. The grant is available to any adult seeking their first full Level 2 qualification by full-time study, and to those up to the age of 30 seeking their first full Level 3 qualification by full-time study. The grant is means tested, offering up to £30 per week. The programme is currently managed by Manchester City Council. Around £2 million was spent on learners in the 10 pilots in 2003/04.
  - Career Development Loans (CDLs). Administered by three commercial banks, eligibility is based around course type and ability to repay. Banks take the final decision whether to lend to an individual. CDLs currently have significant take-up by learners seeking qualifications above Level 3, including postgraduate qualifications. The public subsidy covers the cost of postponing the repayment of interest until after the training is completed. Otherwise, the loan is offered on fully commercial terms, and the costs of tuition are not subsidised. The budget for CDLs in 2003-04 is £14.8 million, which supports a total new loan allocation by the banks of £73.9 million to over 17,000 new learners.
- 4.6 There is a range of other support arrangements available to adults in further education, including a programme of bursaries paid to adults on residential courses in a small number of specialist colleges. While the detailed proposals in this paper focus on the three major schemes above (LSF, ALG and CDLs), we would welcome views on any aspect of the current financial support framework for adults.

## Objectives for future development of learner support

- 4.7 We propose that the following objectives should underpin the future development of support funding for adult learners:
- a. To ensure that the learner support available for adults better focuses discretionary funding on supporting the objectives of the Skills Strategy.
  - b. To ensure that learner support available is geared to increase the numbers of learners who complete and succeed on their courses, in line with the commitment to improvements for learners in *Success for All*.

- c. To clarify the support that can be offered, within the public funds available, for those outside the Skills Strategy priority groups. The proposals in the earlier sections of this paper mean that higher fees will need to be charged for some learners. If an individual's circumstances are such that that would create a serious barrier to access, we need to consider how that can be addressed.
- d. To cut out unnecessary bureaucracy for colleges and providers and learners and ensure financial support for adults provides best value for money.
- e. To put in place a system that is coherent and easy to understand for the learner; that can provide information about the range of financial support that is available, and speedy assessment of the support that prospective learners in specific circumstances would be likely to receive.

**Question 19: Are these the right objectives for developing financial support for adult learners?**

## Components of the future approach

- 4.8 As set out above, there are currently three main types of financial support:
- discretionary means tested support, focused on those learners most in need
  - a new income-related grant to support full time learners – the Adult Learning Grant
  - loan support.
- 4.9 We believe that there is a place for all three elements in the future framework, to offer flexibility in responding to the diverse needs of adult learners.

## Prioritising discretionary learner support

- 4.10 At present, Learner Support Funds are allocated at the discretion of colleges and providers, within a framework from the LSC, which sets out general priorities – for instance, unemployed people receiving Job Seekers Allowance and adults aged 19+ without a Level 2 qualification. The primary criterion is financial need – that is, to support individual learners who would not otherwise have the means to pay for, and access, their learning. LSF can support the costs of fees, transport, childcare and other costs of participating in learning.
- 4.11 We propose that discretionary learner support should remain primarily means-related, so that, within each college's or provider's budget, funds are allocated to learners in greatest need, within a framework set by the LSC. To that framework, however, we believe we should add prioritisation of discretionary learner support for those groups identified in the Skills Strategy as priorities for investment of public funds (see paragraph 1.13 above). We would intend that the national priorities for investing public funds, as stated in the Skills Strategy, would be incorporated into the guidance to colleges. This should shape each provider's practice in determining who, apart from the national fee remission groups, could be offered support with the costs of fees. The guidance would be advisory to colleges; it would not be compulsory or audited.

- 4.12 Under the Skills Strategy, many learners will receive more support than in the past. Those within the scope of the new Level 2 entitlement will be guaranteed free tuition when this comes into effect. And the new Adult Learning Grant will help support those studying full time for their first full Level 2, or their first full Level 3 for those up to the age of 30. So some learners in those groups may need less support from discretionary learner support funds than before, because they will have greater access to guaranteed funds. Even so, some may still need extra support to participate, for example in relation to childcare costs.
- 4.13 In Section 3 we proposed a flat rate increase in fee assumption for all those outside the national remission groups for the purposes of the LSC funding approach, in order to keep the calculations simple. But it is important that this does not impact adversely on low skilled and disadvantaged learners who are not in a national fee remission category, but for whom nonetheless fees may be a barrier to access and progression, especially at Level 1 and for those progressing to Level 2.
- 4.14 One option to deal with this would be to enhance the Learner Support Funds allocated to colleges and providers. This would enable providers to offer targeted support to meet the cost of fees for low income and low skilled or disadvantaged learners who are not in a national remission category, and whose engagement in learning and progression might otherwise be adversely affected. This would apply particularly to those studying below full Level 2, so as to sustain support for low skilled adults seeking to progress.

***Question 20: Do you agree with the proposed approach to prioritising discretionary learner support funds?***

***Question 21: How can we develop the existing Learner Support Fund to support access to learning for low skilled and disadvantaged learners?***

## **Extending the Adult Learning Grant**

- 4.15 In 2004/05, we will be extending the Adult Learning Grant in the Skills Strategy trialling regions, the North East and South East. The intention is that it will then be rolled out nationally from the following year, 2005/06.

## **Extending support through loan finance**

- 4.16 We want to continue to support individuals to pursue their choice of learning, while re-balancing the contributions of state, employers and individuals and prioritising the investment of public funds where they are most needed. One way in which we might be able, in principle, to support those learners who are already qualified is through the availability of loans. That is particularly appropriate where the rate of return from the additional qualification is high, bringing direct benefits to the learner and their employer.
- 4.17 The Career Development Loans scheme currently operates on a limited scale and is not widely understood. Nonetheless, it provides good value for money in terms of helping learners access commercial loan funds at a limited cost to the state. We think there are ways in which the current scheme could be developed to better support the Skills Strategy

4.18 There are several options for developing support through loans. These include:

- A tiered system of support through loans, whereby a sliding scale of loan subsidy might be operated to help priority groups. For example, at one end of the scale, those over the age of 30 who are seeking a first Level 3 qualification in an area of sectoral or regional skill priority, might be offered some measure of interest relief, not just during the period of their training but for the repayment of the loan itself. At the other end of the scale, those who are already very highly qualified, and seeking further qualifications at a lower level, might be expected to meet the full commercial cost of their loan without public subsidy.
- The introduction of a form of financial incentive for successful completion of the training, while retaining a standard rate of interest for all borrowers. That incentive might take the form of a bonus or 'cashback' payment, which the learner could use to offset some of the loan repayment costs. Again, that might be restricted to priority groups seeking higher qualifications in areas of sectoral or regional skills priority.
- Limiting eligibility for loans to those undertaking training through providers that have been assessed through the LSC's quality assurance process (for example, approved for receipt of LSC funding). The current CDL system operates a separate registration process for training providers at present.
- Linking some aspects of the administration of loans to the wider LSF and ALG administration systems, so that learners can get information and advice from a single source, and can undertake an assessment of eligibility through a single process. We would still want to include the participating commercial banks as lenders of the funds, and consequently their assessment methods would still apply. But some of the front end eligibility and administration functions undertaken currently by the DfES could potentially be integrated within a reformed locally administered learner support programme.

***Question 22: How could we best develop the use of loans as part of a more coherent, reformed learner support programme?***

## **Improving administration of financial support**

4.19 In seeking to create a more coherent system of financial support for adults, we need to look at how funds are administered. At present ALG, LSF and CDLs and other support are administered separately. We believe there would be advantages in linking them more closely together.

4.20 Possible options for assessment and payment of ALG and LSF are:

- local assessment of learner eligibility and need with local payment of support funds
- local assessment with central payment of funds.

4.21 We are committed to ensure that local decisions can continue to be made on discretionary funding. Colleges and providers know their students best and are best placed to gauge individual needs and circumstances. But that does not automatically mean that the administration of grant payments is also best done locally, because there may be scope to increase the efficiency of payment systems through some element of centralisation.

**Question 23: How could the assessment and payment process for financial support for adult learners be improved?**

**Question 24: Would local assessment of eligibility with a central payment function be helpful?**

## **Reducing bureaucracy for the learner: single assessment for adult learners?**

4.22 We want to minimise the amount of form filling required of individuals and providers in assessing learners' needs for financial support, both to make things simpler for learners and to help move towards the Government's aim of making all dealings with the public capable of electronic delivery. The ultimate aim should be to develop a system where learners need supply their details once only when applying for both learning and financial support. One system might then assess:

- the learner's previous learning career, including qualifications already achieved
- the learner's financial means
- whether they are eligible for automatic financial support, such as Adult Learning Grant
- whether they are eligible for any available discretionary support through a grant or loan.

4.23 Developing that sort of comprehensive learner assessment system would be a long-term project. It is best linked to current work on the desirability of, and options for, a Unique Learner Number. Meanwhile, however, there are still improvements we can make to ensure that entitlement and eligibility for financial support are addressed in the round. Learners should be assessed first for their eligibility for ALG, then for discretionary funding (LSF); then, if ineligible or if more is needed, for a loan. Final decisions on the loan would lie with the relevant lending banks as the providers of that funding. We recognise that there are also assessment systems for young people accessing learner support funding and ideally we would want to see a single assessment process for all ages.

**Question 25: Do you support the principle of working towards single assessment of learners?**

# Section 5: Next Steps

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5.1 This document has set out a range of proposed reforms relating to fees and learner support funding, which are needed to facilitate implementation of the Skills Strategy. We recognise the challenge of these reforms and welcome views both on their scope and implementation.

## Timing of the changes

5.2 Subject to the responses to this consultation, we envisage the following timetable for introduction:

- August 2004: start of Skills Strategy trials in the North East and South East regions, including next phase of roll out of Adult Learning Grant
- September 2004: seminars with colleges and providers to discuss the proposals in this document and their implementation
- October 2004: deadline for responses to consultation
- November 2004: final decision on income targets and national fee assumptions taken by LSC in the light of the consultation responses, and incorporated into initial stages of LSC planning and funding round for 2005/06
- December 2004: extension of the application of the Level 2 entitlement for 2005/06 finalised, in the light of the regional trials
- January 2005: initial discussions between local LSCs and colleges and providers on their planning and funding for 2005/06, including setting of initial income targets, implications of any change in standard fee assumptions, and focusing of funds on priority areas
- September 2005: national roll out of Adult Learning Grant in all regions envisaged
- November 2005: confirmation of funding arrangements for 2006/07
- January 2006: initial discussions between local LSCs and colleges and providers on their planning and funding for 2006/07. Covers the review of performance in relation to 2005/06 targets, including the initial income targets, setting second round of income targets and the further focusing of funds on priority areas.

5.3 The timing of changes to learner support funds, other than the planned national roll out of the Adult Learning Grant, will be decided in the light of responses to this paper.

## Invitation to respond

5.4 We would welcome your comments on the suggested timetable, and on any aspect of the proposals in this document.

Responses should be sent to [feesconsultation@lsc.gov.uk](mailto:feesconsultation@lsc.gov.uk), by email

or by post to:

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Learning and Skills Council National Office  
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CV1 2WT

Fax: 02476 825 690

Responses are requested by Friday 8 October 2004. In order to keep to required timescales, responses received after this date cannot be taken into account. Please raise any queries you may have on the issues in this document to your local Learning and Skills Council in the first instance (see Annex B for contact details).

# Annex A: Questions for Consultation

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**Comments are invited on the following questions.** If you wish to fax your comments please send to 02476 825 690

## **Section 1: The Need for Change and the Priorities for Public Funding**

Question 1: Do you have any comments or views on the analysis in Section 1 about:

- the case for change?

**Comments**

- the priorities for the investment of public funds?

**Comments**

- the benefits for colleges and training providers?

**Comments**

## Section 2: Proposed Approach and Levers for Change

Question 2: How could we best integrate the new approach to fees, income targets and learner support with the LSC Business Cycle?

**Comments**

Question 3: Do you agree with the proposed approach to reforming fees?

Yes  No

**Comments**

Question 4: Do you support the proposed approach to income targets?

Yes  No

**Comments**

Question 5: Are there other options, besides those set out in Section 2, that would better achieve the objectives set out in Section 1?

**Comments**

### Section 3: Putting the New Approach into Operation

Question 6: Does this approach to setting income targets look feasible and appropriate?

Yes

No

**Comments**

Question 7: What considerations should be taken into account in setting the target?

**Comments**

Question 8: How widely should the scope of the income target be drawn?

**Comments**

Question 9: Should it focus exclusively on fee income, or a wider range of income sources broadly related to training and tuition costs? Which of the categories a-c in paragraph 3.5 should be within scope of the income target?

**Comments**

Question 10: What is the best way to engage governing bodies in consideration of fees and income policies, and performance against targets, as an integral part of business planning?

**Comments**

Question 11: Is there a role for collective local discussion and ownership of income targets?  
If so, how is that best managed?

Yes  No

**Comments**

Question 12: What would be the most effective way of incentivising the achievement of income targets, within the performance management framework?

**Comments**

Question 13: Should changes to the fees assumption should be introduced over (a) a two-year period or (b) a four-year period?

**Comments**

Question 14: Is there an alternative timescale you would suggest?

**Comments**

Question 15: What are the key factors which should determine when to start changes to the fee assumption?

**Comments**

Question 16: What factors should we take into account in setting an appropriate level of increase in fee assumptions for learners outside the nationally prescribed groups?

**Comments**

Question 17: Have we correctly identified the key impacts for learners, providers and employers?

Yes

No

**Comments**

Question 18: What forms of support would best help providers implement the reforms effectively?

**Comments**

## Section 4: Developing Financial Support for Adult Learners

Question 19: Are these the right objectives for developing financial support for adult learners?

Yes

No

**Comments**

Question 20: Do you agree with the proposed approach to prioritising discretionary learner support funds?

Yes  No

**Comments**

Question 21: How can we develop the existing Learner Support Fund to support access to learning for low skilled and disadvantaged learners?

**Comments**

Question 22: How could we best develop the use of loans as part of a more coherent, reformed learner support programme?

**Comments**

Question 23: How could the assessment and payment process for financial support for adult learners be improved?

**Comments**

Question 24: Would local assessment of eligibility with a central payment function be helpful?

Yes

No

**Comments**

Question 25: Do you support the principle of working towards single assessment of learners?

Yes

No

**Comments**

# Annex B: Addresses of Local Learning and Skills Councils

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## East Midlands Region

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# Notes

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# Notes

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