

Learning to Succeed
Post-16 Funding:
Second Technical Consultation Paper

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Post-16 Funding: second technical consultation paper

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How to respond

This consultation will end on **3 July 2000**. We look forward to receiving your responses before that date if at all possible. You can send your responses, as well as any queries, to:

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1. Introduction

- 1.1 The Government's White Paper *Learning to Succeed* promised new funding arrangements to match the vision Ministers had set out in *The Learning Age* for the future of post-16 education and training. The legislation now before Parliament provides for the establishment of a Learning and Skills Council (LSC) from April 2001, which will allocate around £6 billion for the benefit of almost 6 million learners. From the same point, the Employment Service (ES) will assume responsibility for the Work-based Learning for Adults budget.
- 1.2 The LSC and the Employment Service will ensure that the Government's vision is given practical effect, including through new, more coherent and transparent funding arrangements. The two organisations will work closely together, share information and have joint planning arrangements.
- 1.3 We are grateful for the comments received on our January consultation paper on funding and allocations. Some 400 written responses were received by early April and over 750 delegates attended eight regional conferences. A summary of the responses to the consultation is set out in the Annex.
- 1.4 We have built on the initial thinking set out in the first technical consultation paper, taking account of the responses to it. In doing so, we have been working with practitioners drawn from every part of the new post-16 landscape. This second technical consultation paper sets out the fruits of that collaborative work. It makes more detailed proposals for the LSC and ES funding arrangements and invites your comments by **3 July 2000**. This paper will also be supported by regional conferences.
- 1.5 Much of the document is about how formula funding will work. But for areas which cannot be formula funded from the outset, or ever, the document explains what alternative approaches are being developed. In the case of ES-funded provision, chapters 2 (a) and 5 are especially relevant. In the case of LSC-funded provision, the whole paper is relevant except for chapter 5.
- 1.6 A further, linked, paper is also being published today. It is *The Learning And Skills Council - Funding Flows And Business Processes*, which will also be considered by the forthcoming regional conferences. This document follows up the LSC Prospectus published in December 1999 and focuses on the LSC's funding and business relationships with providers and the Secretary of State. Some of the points in that paper will also have relevance for ES.
- 1.7 Shortly, another key paper on LSC and ES arrangements is to be published. It is *Post-16 Quality Improvement Arrangements*. That paper will also cover Standards Fund issues for further education and for work-based training for young people. A separate consultation document on a new common post-16 inspection framework has been published jointly by OFSTED, the FEFC and the TSC.

Developing a workable system

- 1.8** Our aim is to put the LSC and ES in a position to establish a fully workable funding system from April 2001. This consultation is a vital step on the way to having such a system. We shall continue with intensive development work while consultation is underway. That will focus on modelling the results of the May proposals. We propose in this paper the establishment of national rates advisory groups to assist the work of the LSC and ES. We are in the process of creating our own shadow version of these to assist our work over the summer.
- 1.9** In the early autumn the LSC and ES should be in a position to consult providers on new funding rates for provision, from which providers will be able to calculate the broad effects on their future budgets. We do include some figures in this paper, which are employed purely for illustrative purposes at this stage and carry no implication as to the actual rates of funding that will be paid. We shall be testing rigorously both the impact on providers and affordability. Design and policy changes, including moving to one system in place of five, could lead to some changes for some individual providers. The transition arrangements set out in chapter 2 (d) are therefore of critical importance in ensuring that change is as smooth and seamless as possible.

A note on terminology

- 1.10** The LSC and ES will be able to contract directly with further education providers, and other private and voluntary sector organizations, including education-business link organizations such as Education-Business Partnerships. We use the term "provider" to cover all these organizations. Where we write specifically about further education providers, we use this term to cover general colleges of further education, specialist FE colleges, sixth form colleges and FEFC-funded "external institutions". The LSC will not fund schools directly and for clarity we have therefore not used the term "provider" to cover schools. Where an issue has relevance to schools we flag this up explicitly.
- 1.11** In this document we use the phrase "Qualifying for Success" to embrace all the A/AS level, vocational A level and key skill programmes sometimes referred to by others as "Curriculum 2000". And we use the phrase "work-based training for young people" to refer to programmes for young people, eg apprenticeships, of the type currently funded by TECs.
- 1.12** To distinguish financial from academic years, we use a hyphen for the former (eg 2000-01) and an oblique for the latter (eg 2000/01).

Objectives

- 1.13** The objectives of the new funding system are that it should:
- a) *promote excellence, high quality and value for money.* The new system must raise standards and there must be a clear link between quality and the decisions made by the LSC and ES. Drop out levels and achievement rates must improve. Money must follow the learner and must reach the point of provision, not be tied up in bureaucracy. There must be flexibility to support newer forms of provision such

as **learndirect** where Ufl will be a key strategic partner of the LSC. The system must offer coherence across the LSC and ES and minimise administration. It must be accessible to small organizations lacking significant administrative resources;

- b) *be responsive to the demands of individuals, communities and employers.* The new system must secure the entitlement of all 16-18 year olds to free tuition in pursuing qualifications up to level 3. It must meet the wide-ranging demands of individual learners and jobseekers, communities, employers and the economy, including vocational and non-vocational learning. It must promote employability and ensure individuals are equipped with the skills, knowledge and experience needed in the future not in the past. Education-Business Partnerships must be supported;
- c) *maximise participation and social inclusion.* The new system must help expand and diversify demand, widen participation and secure greater social inclusion. More of the available resources need to be directed at those whose backgrounds have disadvantaged them, including through the targeting of funding and by offering more first-rung provision for adults. Economic regeneration and community capacity building must be supported. Poor adult basic skills must be tackled and appropriate support for family learning must be provided;
- d) *support the ES aim of helping people without jobs to find work and employers to fill their vacancies.*

SUMMARY AND KEY ISSUES FOR CONSULTATION

1.14 The main points in this paper are summarised very briefly below. We would welcome comments on any aspect of this paper but have suggested below some key issues for the consultation.

Chapter 2 - Core Approach

We propose a funding system which:

- i) exemplifies the principles of **transparency, objectivity and simplicity**;
- ii) is **flexible**, so that it can cope with evolving policy and deal with everything from full-time conventional learning in an academic setting to brief periods spent on-line accessing Ufl materials;
- iii) offers a **coherent** approach across the LSC and the Employment Service;
- iv) retains the best elements of FEFC's system in being both **national and formulaic**, while dropping concepts such as "units" and "ALFs";
- v) avoids words like "tariff" in favour of **phrases** such as "national rates"; and
- vi) requires that **money must follow the learner**.

In more detail, we propose that:

- a) programme delivery costs should be the main element drawing the great majority of formula funding;
- b) a programme weighting element should be included in the formula to reflect size and complexity of provision, including differential costs;
- c) an achievement element should be included in the formula, the size and nature of which should vary depending on the nature of the programme and policy objectives;
- d) a geographical element should be included in the formula - initially applying only to London, where the case is supported by strong evidence of unavoidable additional cost;
- e) a disadvantage element should be included within LSC formula funding, based on individuals' home location and other indices of disadvantage;
- f) there should be funding for additional individual support outside the formula, above a minimum threshold, for individuals with learning difficulties or exceptional needs. A matrix approach will be developed for the future;
- g) account should be taken of any expected fees from individuals and contributions from employers in the allocation of funding where applicable;
- h) school sixth forms - 2002-03 should be the start date for the new funding arrangements and 2000-01 should be the baseline year for operating the real terms guarantee; and
- i) transition arrangements should be sensitive to the need for as smooth and seamless a change to new arrangements, recognising the different starting points of each provider.

Chapters 3 and 4 - Funding provision for young learners and adult learners

Chapters 3 and 4 discuss how the core approach would apply in funding young people and adults respectively. In chapter 3 there is discussion in particular of how it would apply to A/AS levels and vocational A levels; and to work-based training for young people. In chapter 4 the discussion covers basic skills, Ufl, other adult learning and the Adult and Community Learning guarantee.

Chapter 5 - Funding ES provision

This chapter discusses how the core approach should apply to ES-funded provision.

Chapter 6 - Learner support

This chapter discusses how the approach set out in this paper should mesh with the developing arrangements for Educational Maintenance Allowances, training allowances, Access Funds and other areas of learner support.

Chapter 7 - LSC Capital funding

This chapter raises issues relating to the FE capital regime and also discusses capital for Adult and Community Learning.

Key issues for consultation

- 1. Funding formula (chapter 2A). Do the proposals strike the right balance between the need for providers to be clear as to funding principles while ensuring sufficient flexibility to meet evolving needs? In relation to the Government's policy on equal opportunities, is the formula sufficiently flexible to support these?**
- 2. Funding learners with additional needs (chapter 2B). Is the continuation of the matrix for specialist colleges, and adaptation of the current FEFC approach for FE providers, the best interim approach while a new matrix is being developed? What interim approach should be adopted for the work-based training route? What are the desirable features of the longer term matrix?**
- 3. Learner fees and employer contributions (chapter 2C). Will the proposed approach allow providers sufficient flexibility to manage their organizations while also ensuring that learners and employers know where they stand and are being treated equitably? How should we address the issue of increased employer contributions for some job-related training?**
- 4. Transition (chapter 2D). Do the proposed arrangements offer the right levels of reassurance to learners, employers, providers and schools about a relatively smooth and seamless change to the new arrangements? Will they operate equitably across all sectors?**
- 5. Young learners (chapter 3). Do the proposed funding arrangements for A/AS levels and vocational A levels offer the right degree of clarity for schools and FE providers to plan successfully to meet Ministers' policy intentions? Will the proposed arrangements for work-based training for young people ensure that the new AMA and FMA frameworks are supported by the right funding approach?**
- 6. Funding block system (chapter 4). Is the proposal sufficiently fine-grained to distinguish between the many different types and lengths of provision - often part-time, mainly adult - while avoiding excessive bureaucracy?**

7. **Adult learners (chapter 4).** Will the funding arrangements give appropriate support to Ministers' policy objectives in the key areas of (a) basic skills, (b) Ufl, (c) Adult and Community Learning, and (d) engaging residents of the most socially disadvantaged communities in learning?
8. **ES provision (chapter 5).** Will the proposed arrangements support the type and range of provision for which the ES has responsibility?
9. **Training allowances (chapter 6).** Will the proposals ensure that trainees are appropriately supported while undertaking work-based training for young people?
10. **FE capital (chapter 7).** Should the LSC allocate funds to assist the development and enhancement of ILT and IS/IT services and, if so, on what basis? Should further priority be given to funds for the renewal and enhancement of equipment and should FE colleges be required to ring-fence 2% of their recurrent funding for capital purposes?

2. Core Approach

Introduction

- 2.1** This chapter outlines a core approach to funding which we intend should be applied within the LSC and ES. It is consistent with the principles in the January consultation paper, focusing on the key government objectives of raising standards and achievement, widening participation, and contributing to the national skills agenda. It reflects the principle that similar programmes or qualification aims should be funded in a similar way and at similar levels, wherever they are delivered.
- 2.2** Applying the core approach in practice is dealt with in chapters 3 and 4, concerning LSC-funded provision for young people and adults respectively, and in chapter 5 concerning ES-funded provision. Funding for learner support is treated separately in chapter 6. And the LSC's planning and allocation process is dealt with in the parallel document, *The Learning and Skills Council - Funding Flows and Business Processes*.

A. STRUCTURE OF THE FUNDING FORMULA

- 2.3** At the heart of the core approach is a national funding formula. This will govern the great majority of LSC and ES funds in the steady state. However, as section D of this chapter explains (Transition Arrangements), different providers will get to the steady state at different times, depending on their circumstances: school sixth forms will not come within the LSC's ambit before 2002-03, and steady state funding rates will in practice be subordinate to the operation of the real terms funding guarantee; and the national formula will only apply to LEA-maintained Adult and Community Learning as soon as is practicable.
- 2.4** The aim behind the design of the core system is to display the characteristics of a formula, with the transparency and objectivity that this conveys, without locking in an approach which is mechanistic or unable to cope with evolving policy. The funding system will have to cope with everything from full-time conventional learning in an academic setting to brief periods spent on-line at home or at work accessing Ufl materials. We think it important that the LSC and ES have one coherent but flexible system, rather than a collection of sub-systems.
- 2.5** As flagged in the White Paper *Learning to Succeed*, we have taken the best elements of the FEFC system in that the system will be both national and formulaic. But we have dropped FEFC concepts such as "units" and "ALFs". We have also tried to avoid words like "tariff" in favour of phrases such as "national rates".
- 2.6** More substantively, the design of the system constantly emphasises that money is following the learner. This builds on the practice in the New Deal, schools, and TEC-funded sectors. In FE, we consider that too much attention has been paid to maximising units of funding. The implications in terms of numbers of learners, and the learning they have been undertaking, have sometimes been neglected by some FE providers. The parallel document on LSC funding flows and business processes explains that LSC allocations will be explicitly related to learner numbers, and, where appropriate, to other targets such as qualification outcomes.

- 2.7** The January consultation paper indicated that the national formula and rates of funding should reflect the costs necessary to deliver provision, but the formula should also be as simple as possible. A balance has to be struck between these. More targeting of funding to address particular needs results in greater complexities and an increased requirement for accountability on providers. Simplification involves reducing the number of cost variables and limiting the amount of targeted funding that requires detailed eligibility rules.

Elements of the Funding Formula

- 2.8** In deciding whether to include an element within the formula we have applied four tests:

- ▶ Is it relevant to Ministers' post-16 policy objectives?
- ▶ Does it deal with a significant variation in costs between different learners and types of provision?
- ▶ Can it be incorporated into the funding system with equal applicability across schools, colleges, and other providers?
- ▶ Does it introduce unnecessary complexity or bureaucracy?

- 2.9** In summary, the funding elements proposed in this chapter, and on which we would welcome views, are:

- a) programme delivery costs should be the main element drawing the great majority of funding;
- b) a programme weighting element should be included to reflect size and complexity of provision, including differential costs;
- c) an achievement element should be included, the size and nature of which should vary depending on the nature of the programme and policy objectives;
- d) a geographical element should be included - initially applying only to London, where the case is supported by strong evidence of unavoidable additional cost;
- e) a disadvantage element should be included within LSC funding, based on individuals' home location and other indices of disadvantage.

- 2.10** These points are considered in more detail below. In addition to these formula elements, further key funding factors are that:
- a) there should be funding for additional individual support above a minimum threshold for individuals with learning difficulties or exceptional needs - see section B of this chapter;
 - b) account should be taken of any expected fees from individuals and contributions from employers in the allocation of funding where applicable - see section C of this chapter; and
 - c) transition arrangements should be sensitive to the need for as smooth and seamless a change to new arrangements, recognising the different starting points of each provider - see section D of this chapter.

Programme core costs element

- 2.11** We propose that, for all types of provision, two programme elements should account for the largest share of the overall funding available - for core costs and, as discussed below, cost weightings. This simply reflects that the great majority of costs depend on the length, size and complexity of the programme followed by the learner.

Programme length

- 2.12** Programme length will be a key determinant of the programme core costs element under the funding formula. This mirrors the fact that the length or size of a programme will be the main determinant of provider costs. This in turn reflects that staff costs remain the most significant element of delivery. Some other costs such as accommodation will also relate to the extent of teaching or supervisory time.
- 2.13** For many programmes the FEFC concept of guided learning hours will be a sufficient guide to programme length, defined as all those times when a member of staff is present to give specific guidance towards the qualification or module being studied on a programme. This includes lectures, tutorials, and supervised study in, for example, open learning centres and learning workshops. It also includes time spent by staff assessing learners' achievements, for example in the assessment of competence for NVQs. It does not include hours where supervision or assistance is of a general nature and is not specific to the study of the learners.
- 2.14** However, the funding system will need to be flexible enough to cope not only with traditional academic and vocational programmes, but also work-based training and the worlds of on-line and distributed and open distance learning. Length will be a guide but not the only guide to programme core costs. We set out in chapter 3 two compatible but not identical approaches to how we propose that long, intense, and often full-time programmes should be funded - under the respective umbrella terms of "Qualifying for Success" and "work-based training for young people". Although chapter 3 is primarily about LSC funding for young people these two approaches would cover all long, intensive (usually full-time) provision, including for adults. In chapter 4, we set out

an approach to how short and part-time learning will be funded by the LSC, such as basic skills provision. Although that chapter is primarily about adults, the approach there would apply to all LSC-funded short (and often part-time) provision, including for young people. In Chapter 5, we set out the approach on how ES proposes to accommodate its diverse provision within a single funding system which takes into account both the length and intensity of provision.

Retention

- 2.15** It is important that the funding system does not give a perverse incentive by continuing to fund those who have dropped out of learning. Nor should it err in the direction of encouraging time-serving on a programme, such as New Deal, where getting a job is the main outcome. We therefore propose that the funding system should only pay for learners who are in learning. This principle is well understood under the FEFC and TEC funding systems where it has been reflected in the “retention” and “on-programme” elements of funding. But it is not a common feature within school sixth form funding. The implications for school sixth forms are explored in the parallel LSC funding flows paper.
- 2.16** Checking that learners are still in learning will need to be done accurately and appropriately, without excessive bureaucracy. These issues are explored in chapter 6 of the parallel LSC funding flows and business processes document.

Programme weighting element - differential costs of provision

- 2.17** In addition to the core costs element, we need a funding element which reflects that some programmes of the same length or status are more costly to deliver. The funding system must avoid unconscious bias towards, for example, academic humanities programmes as against science or training programmes in cases where the latter are more expensive. The programme weighting element will ensure that, for example, where one programme is more expensive to run than another, eg engineering compared to English literature, this will be picked up by the weighting factor. These points are pursued in more detail in Chapters 3-5.
- 2.18** We propose to aim for a limited number of programme weightings in the interests of simplicity. A number of current systems use five weightings and we propose to use this as a starting point as potentially offering the right balance of accuracy and simplicity. However, we will need to review this in the light of more detailed work, and we do not rule out the adoption of a much larger number of weightings if the modelling work we carry out over the summer suggests this is necessary.

Rates Advisory Groups

- 2.19** As envisaged in January, we think the LSC and ES will each need to establish Rates Advisory Groups to offer advice on funding rates and programme weightings. The groups would be drawn from providers and schools and others with appropriate expertise, including QCA and NTOs. There should be cross-membership. Advice would be offered by the groups on an independent basis and the proceedings, and the evidence received, would be published. The groups would advise on:

- a) relativities and programme-weighting factors, seeking to ensure fair differentials and comparability between individual qualifications, courses and programmes - including key skills - across the post-16 learning sector, whichever route the learner chooses;
- b) financial benchmarking of provision and other issues of value for money, to ensure that national rates reflected reasonable assumptions on levels of drop-out and achievement; and
- c) the criteria that should govern any departure from national rates in exceptional circumstances.

We shall be establishing a shadow group to work over the summer, as indicated in the introduction to this paper.

Achievement element

- 2.20** Raising achievement levels is a key government objective and, as flagged in January, we propose that an achievement element will be built into the core formula funding arrangements.
- 2.21** Where an explicit achievement is expected as part of the programme, a minority amount of the programme funds will be linked to achievement of the desired outcome. But there will be no assumption that every programme should lead to an achievement.
- 2.22** In terms of defining what is meant by achievement, we propose that different definitions should be used for different programmes. So, for many 16-18 year olds, we would expect the achievement element to be tied to learners obtaining NVQs, or completing a modern apprenticeship framework, or obtaining academic or vocational A levels or the equivalent. In another example, of New Deal provision, we would propose that obtaining a job should be counted as a measure of achievement, but qualifications would again be a relevant measure. For some adult provision, on the other hand, it may be appropriate for there to be no achievement requirement.
- 2.23** We do NOT propose to have the same percentage factor for every programme. High percentages can destabilise providers and cause cashflow problems. They should be reserved for cases where for policy reasons a high figure is needed, or where it is necessary to establish a culture of delivery. So, for example, in this paper different rates are proposed for ES provision, for work-based training for young people and for academic and vocational A levels, based on different policy imperatives and different current success rates in helping learners to achieve their goals.
- 2.24** The establishment of an achievement element will be new for most school sixth forms, other than those which have been involved in LEA sixth form funding pilots. Comments during recent consultations by some schools suggest that there is wide understanding of the potential benefits of this development for successful sixth forms and the challenge it will pose to less successful schools. This consultation paper now affords schools the opportunity to comment more formally on the proposal. The effects of the change will, of course, be moderated by the real terms funding guarantee discussed later in this chapter under section D - transition arrangements.

Area costs element

- 2.25** The next element of the basic formula is for area costs. In principle, any area of the country could qualify for a weighting factor. Virtually every provider could make a case for special treatment based on its size, specialisms, or location. Introducing factors to cover these issues would add needless layers of complexity to the formula, with different factors working to cancel each other out. The LSC will have the capacity to support particular providers in the light of its duty to secure 'proper' or 'reasonable' facilities for education and training.
- 2.26** In practice, evidence points to London as the only high cost area worth reflecting at present through a discrete formula element. London costs are reflected in the current funding of FE providers and schools, but not all private and voluntary sector training providers. We intend that the London factor should cover all providers and school sixth forms, including providers funded by ES. It would be open to the LSC and ES to consider adding other areas in the future if the evidence justified this, and their Rates Advisory Groups will also need to keep under review how much should be devoted to this element. Over the summer we shall undertake detailed work on establishing the right amount to include under this weighting element and developing appropriate area banding arrangements.

Disadvantage element

- 2.27** As proposed in January, we intend that there should be an explicit formula element for disadvantage. This will be a percentage uplift applied once the elements have been calculated for programme costs, programme weightings, achievement and area costs. It is not intended to cover additional learning needs, for which we have built in an additional support factor (see section B of this chapter). Those familiar with the funding of local authorities will recognise the distinction between having an element for additional educational need and one for the special educational needs of a particular individual.
- 2.28** The main purpose of a disadvantage factor would be to promote and reward wider participation, ie to encourage disadvantaged individuals or groups to undertake learning to improve their own lives and careers, to contribute to greater business competitiveness, and to improve social inclusion. This approach will build on FEFC's widening participation factor. The FEFC figure was already planned to rise to 10% in 2001-02 from its current figure of 6%. We intend that the LSC should review how to increase the 10% figure still further.
- 2.29** In terms of establishing an objective indicator of disadvantage, factors such as free school meals or the learner's postcode are employed in current post-16 funding systems. But some have seen difficulties with using postcodes to measure disadvantage, with the method regarded as not sufficiently sensitive to individual disadvantage within more affluent areas. This is why, for example, the FEFC extended its widening participation factor to non-postcoded groups such as care leavers and travellers, and to those on basic skills programmes irrespective of their postcode. In its current consultation, the FEFC is testing opinion on the use of prior educational attainment as an indicator of disadvantage for 16-18 year olds. We consider that the LSC should mount a thorough review of the method of indicating disadvantage across all post-16 learning, taking into account the results of the FEFC's consultation.

- 2.30** Sixth forms and TEC-funded providers will need support in adjusting to this approach to disadvantage. This has been taken into account in designing the transition arrangements discussed in section D of this chapter.
- 2.31** As already indicated, the disadvantage factor is not the only source of funding for disadvantage but is the element most directly linked to widening participation. Further sums will be available from local LSCs, from their non-national formula budgets, to help meet targets for growth in provision for the disadvantaged, eg for community-based approaches to the engagement of non-learners, including intensive outreach work. This approach would also be linked to other sources of funding, such as ESF and SRB, emphasising the importance of partnership. Success in achieving growth would be reflected in providers' subsequent widening participation factors.
- 2.32** In the case of ES clients, we do not propose to apply a separate disadvantage element. ES uses programme eligibility criteria to ensure that help is targeted at the most disadvantaged clients. With ES provision, there is less need to promote wider participation or outreach work. So we can gain a helpful simplification by removing any need for a separately identifiable disadvantage factor and building these additional costs of helping more disadvantaged clients into the programme element.

European Social Funding

- 2.33** As indicated in January, we intend that both the LSC and ES should be able to allocate ESF funds alongside matched LSC or ES funds - this "co-financing" approach is explained in more detail in the parallel LSC funding flows paper. We intend that the LSC, in making joint allocations of LSC and ESF funds, will clearly wish (a) to target these on disadvantage and (b) employ the funding formula approach set out in this chapter unless the type of provision is unsuitable to be formula funded.

Treatment of other potential elements

Starts/Entry

- 2.34** The January paper proposed an entry, or starts, element which is a feature of FEFC and TEC funding but not LEA funding for sixth formers or adults. But as we have been consulting, and continuing with development work, this has been criticised for adding cost and complexity, for not being calculated in relation to real costs and for creating perverse incentives. In the FEFC system, over time there has also been pressure to reduce the entry element for shorter courses so that it does not allocate a disproportionate amount of funding compared with the on-programme element. More generally, the concept of a discrete starts/entry element has been challenged as missing the real issue, which is the need for recognition of the special costs of outreach and assessment of those from disadvantaged backgrounds - factors which will now be dealt with by the disadvantage element and other targeted funds.

2.35 We have listened carefully to these arguments and have been persuaded by them. We propose that, on balance, it would be a valuable simplification if we dropped this element. In doing so, it is important to note that (a) the funds for starts will be merged with the main programme element, ie this is not a funding reduction, (b) the disadvantage factor will be a key source of extra funding for the most difficult to recruit and assess, and (c) cashflow patterns will be maintained by profiling payments in line with expected delivery, including the timing of recruitment and initial assessments (traditionally linked to the starts element).

Mode of delivery

2.36 The LSC and ES will encourage providers to deliver goals in the most appropriate and effective way possible, which will mean keeping pace with developments in information technology. But we do not propose to introduce an element in the funding system which discriminates on grounds of different modes of delivery, eg institutional learning as against e-learning, or classroom-based learning as against learning in the workplace. There is, at present, no evidence of a systematic differential in the recurrent costs to providers of delivery through open/distance or e-learning, compared with classroom methods. Differentiation by mode of delivery would introduce a significant and unwarranted complexity into the funding arrangements, in effect requiring a parallel formula for any particular course or programme and require precise definitions of 'open', 'distance', and 'ICT-based' learning.

2.37 However, what is clear is that the funding system must be flexible enough to cope with the on-line learning revolution. We consider that the funding system proposed in this paper will be fully consistent with the principles that make up "e" learning. It will allow people the choice to learn anytime, anyplace, anywhere. Funding will follow the learner and be driven by their needs. The funding system will be consistent and fair across both traditional and e-learning. It will be able to:

- ▶ fund bite-sized pieces of learning. The FEFC will in 2000-01 fund a variety of **learndirect** provision, including some lasting a few hours;
- ▶ recognise the individual's irregular patterns of learning, for example start and end dates that are independent of a provider's teaching calendar, or gaps in learning of more than four weeks;
- ▶ fund learning whether it leads to a qualification or not - FEFC have already been able to fund **learndirect** learning of this sort on an experimental basis; and
- ▶ take account of the way in which learners are supported, without having to record, say, every phone call, or email.

2.38 Funding for **learndirect** learners is discussed in chapter 4. The funding relationship between the LSC, Ufl Ltd and Ufl hubs is discussed in the parallel document on LSC funding flows and business processes.

B. LEARNERS WITH ADDITIONAL NEEDS

- 2.39** Every learner has particular needs, and for most learners it is expected that mainstream funding will be adequate to cope with these. We made a commitment in the previous consultation document to devise a funding system for the support of post-16 learners with additional needs beyond this level that was transparent and equitable and which would be applicable across all sectors. We also need to ensure that such a system is manageable in terms of not imposing unnecessary burdens on providers and on learners and those who support them, yet is sufficiently responsive to individuals' needs.
- 2.40** There are compelling arguments for bringing coherence to this area. With the establishment of the Connexions Service, more emphasis is being placed on assisting young people to make appropriate choices regarding their further education and training. We need to establish funding arrangements which allow learners and their advocates to understand what they are entitled to expect in the way of support. The introduction of a common system for funding support for additional needs will assure learners that their support will be funded in the same way wherever and however they learn. This will ensure that their decisions about where and how to learn can be based on their learning needs and aspirations alone.
- 2.41** This part of our proposals relates in particular to the FE sector and to work-based training for young people. School sixth forms will receive LSC funds through their LEA, which will retain responsibility for determining patterns of provision for young people with special educational needs, and the funding of those needs. We will expect LEAs to have regard to the levels of support available to young people with similar needs not in the school sector. We will also expect LEAs to put in place appropriate arrangements in the adult and community learning sector.

A matrix approach

- 2.42** Our January consultation paper made clear that we see potential merit and equity in the development of a matrix funding approach. Under such an approach the additional support needs of learners would be identified, and the provider would be entitled to additional funds from the LSC to meet the needs identified. In principle, the matrix approach will ensure that any provider will receive the same level of funding for learners on the same programme with the same support needs. This principle of equity is consistent with other proposals in this paper.
- 2.43** At the same time, the approach we want to develop is about funding the additional needs of individuals. It will need to be sensitive to individuals' needs and the nature of the support they receive. For example, people with the same kind of learning difficulty might have quite different support needs depending on the education or training they are undertaking. Transparency will be essential for both learners and providers. The tension between simplicity and sophistication will be very real.
- 2.44** We recognise the wide variety of individual needs, the vast range and diversity of LSC and ES funded provision, and the variety of locations and approaches through which providers reach out into the community. This presents a huge challenge to devise an approach which will work across the range. A large number of questions of principle and practice need to be answered before we can put in place a single, coherent

approach to funding additional needs. One example we have of a matrix approach in action is that being introduced by the FEFC in 2000-01 for the funding of learners at specialist colleges. We do not think that it can be adopted immediately for a wider purpose by the LSC. However, it is a useful aide-memoire when addressing issues to do with a matrix approach.

Constructing the matrix

- 2.45** In order to develop a matrix, we need to decide what should be represented on its axes. We consider that one of the axes should be the type of support eligible for funding. Do you agree? What should the other axis be? Should it be the level of support?
- 2.46** *Types of support.* If the matrix has as one axis the types of support eligible for additional funding, we need to consider under what headings this support can be classified. The FEFC matrix for specialist colleges has five of these, related to: tuition, independence training, personal care support, therapy/counselling and equipment. However, these headings might not be appropriate or sufficient for an LSC matrix, bearing in mind the full range of contexts. Are the headings in the box below comprehensive? How might they be adapted? What other headings might be used?

Possible Headings of Types of Support

- ▶ Initial assessment and identification of support needs e.g. assessment for dyslexia, assessment for assistive technology and technical support, diagnostic assessment of learning needs;
- ▶ staff support on the learning programme e.g. extra tutorial support, sign language interpreter, personal care, note taker, therapy input, psychologist input, counselling, workshop and small group support;
- ▶ assessment of achievement e.g. special examination arrangements, producing portfolios in alternative formats, extra invigilator time;
- ▶ equipment e.g. assistive technology, brailers, CCTV, laptop computers, induction loops, speech software;
- ▶ transport on the learning programme e.g. use of adapted vehicles, taxis, escorts, travel training;
- ▶ administration e.g. liaison for transition, examination entries, agreement with external support agencies, additional recording and reporting requirements;
- ▶ residential provision e.g. 24 hour curriculum, additional costs of residential elements of programmes.

- 2.47** *Levels of support.* The other axis in a matrix would need to categorise levels of additional support. It would need to capture the amount of support provided and the duration of time for which support is provided. This could vary from intensive 1 to 1 support for sustained periods of time through to inputs of support to a small group for a fixed duration.
- 2.48** *How to reflect the full range of LSC-funded provision.* Any new matrix approach will need to be sufficiently flexible for providers to claim for short periods of support (resulting, for example, from injury, crisis or some other temporary condition, or fluctuating conditions such as mental ill health) and regular short packages of support (such as basic skills input). It will also need to take account of whether the learning programme is full time or part time, and whether it is day or residential. How can the matrix be developed to cover the full range of LSC provision without becoming too complex? How should this be managed?
- 2.49** *Placements at specialist colleges.* The LSC will need to establish procedures whereby funding is agreed for those learners requiring residential provision. Whether such a placement occurs in accommodation provided by the local college or in a specialist independent college, the matrix will need to identify and include the relevant costs.
- 2.50** *Reflecting the potential for technology-based learning.* As with any other group of learners, technology is revolutionising the way learning can occur. Models of distance and open learning may have value for learners with periods of mental or physical ill health. They may open up opportunities for those isolated by geography, mobility or family commitments. ICT may promote access to vocational training as well as everyday communication. How should the additional support delivered through open, distance and online learning be accounted for in a matrix approach?
- 2.51** *Avoiding perverse incentives.* The intention of the duties placed upon the LSC and the intended provisions of the new legislation arising from the recommendations of the Disability Rights Task Force is to secure equality of access for those with learning difficulties and disabilities to education and training facilities. It will be important to ensure that providers are not penalised by a matrix approach if they provide proper support that is both sufficient and appropriate in quality. All providers will be expected to provide a range of generally available facilities and support services for all their learners as a matter of good practice. They will not expect to claim additional support to develop these facilities and services if they have failed to provide them in the past.
- 2.52** *Local issues.* Some learners, or groups of learners, may have difficulty in finding the support they require locally. It will be important that local LSCs include within their planning the development of facilities for those with learning difficulties in order to fill identified gaps. LSCs might wish to develop cost effective provision and support locally, and might need to pump prime such developments. Should LSCs be able to vary the national matrix rates in order to do so? Or should there be another mechanism for pump priming new developments? If so, what should it be?

2.53 These (and other) issues are far from straightforward. We are committed to consulting on and testing out the new proposals as they are developed. A great deal of complex work will be required to shape a coherent and unified matrix for formula funding all post-16 learning for people with additional needs. While we remain committed to achieving this, we have concluded that the earliest it could be in place is August 2002. We therefore propose to retain, for 2001-02, three separate funding approaches for additional needs, though each will need to be adjusted in more or less complicated ways.

Transitional arrangements for learners with additional needs

2.54 The principle which we propose should be adopted for this transitional period is that learners whose programmes begin during it should be assured that they will receive no less support than they would have under existing arrangements. Equally, learners already on programmes in 2000-01 should not experience a decline in support as they move into 2001-02. This requirement is likely to require a flexible approach by local LSCs. We are working on establishing a database of information of current TEC funding to providers, including for people with special training needs.

2.55 In the case of specialist colleges, the matrix introduced in 2000-01 should continue into 2001-02. The LSC might want to consider adjustments in the light of experience in the first year. However, we would expect these to be minimal.

2.56 All other current FEFC-funded providers will continue, as under the existing additional support mechanism, to identify and cost the needs of individual learners over and above the standard costs of the programme they follow. At present, providers are required to anticipate levels of demand in February for indicative allocations for the following academic year. Part of this calculation includes additional support. This is currently expressed in units, not cash. Consistent with wider changes to the funding methodology in 2001-02, providers will be required in February 2001 to identify in cash terms the anticipated requirements for additional support. This is likely to be in line with numbers of units claimed for additional support in 2000-01 - a credibility check for this baseline figure will be possible. This earmarked cash sum will be identified within the allocation to the provider for 2001-02. Audit requirements will be as now.

2.57 It will not be appropriate to roll forward the existing arrangements for funding provision in the work-based route as the multiplicity of funding regimes currently employed by TEC/CCTEs would make this impracticable and inconsistent with LSC arrangements. Therefore transitional arrangements will be needed for April 2001 to August 2002. These will need to ensure that the quality of training provision to the individual is maintained.

2.58 Under existing arrangements, young people with additional needs are identified through a process of assessment and endorsement. Although the system generally works reasonably well, it is widely recognised that it is inconsistently applied and does not provide a basis for fine-tuning levels of support to individual need. Indeed, had the status quo prevailed it would have been comprehensively reviewed.

- 2.59** The period leading up to April 2001 now presents an opportunity to work with key partners to develop transitional arrangements - building on the current system - to develop a more consistent assessment process and to accurately identify the young people and the additional help they require. Any changes will need to be consistent with, and a stepping stone towards, the ultimate goal of the matrix described above.

Life Skills provision within the Learning Gateway

- 2.60** The Learning Gateway has been in place since September 1999. It provides Life Skills training to 16/17 year olds not engaged in learning or employment who need additional support before they are able to enter mainstream learning. The diverse nature of the Life Skills client group and the fact that it includes many of the most disaffected young people means that the provision has to be flexible and innovative. It is also individually tailored which means that a formula-funded approach is unlikely to be appropriate. For 2001-02 we propose to ring-fence funding for Life Skills provision under the LSC and to give local arms the discretion to apply these funds in ways that are most effective for the individual. Once again, it will be important to ensure consistency with similar provision in the FE sector.

C. LEARNER FEES AND EMPLOYER CONTRIBUTIONS

General principles

- 2.61** We propose the following principles:

- a) young people aged 16 to 18 should not be expected to pay fees for their tuition;
- b) adults on basic skills courses should also receive free provision, ie those taking programmes where the primary learning goal is Adult Basic Education or English for Speakers of Other Languages;
- c) those who cannot afford to pay should also receive free provision, ie
 - ▶ unemployed people in receipt of a Jobseeker's allowance;
 - ▶ those in receipt of a means-tested state benefit¹;
 - ▶ the unwaged dependants of those listed above;
- d) employers should be responsible for investing in, and paying for, the job-related training of their employees;
- e) the state should be prepared to fund the assessment and certification costs of some employee training, where it would increase the number of individuals with portable qualifications, and improve the quality of training offered, thereby promoting their employability and benefiting the wider economy;

¹Family Credit, a means-tested benefit, was replaced by the Working Families Tax Credit (WFTC) on 3 April 2000. More families will be eligible for WFTC than were eligible for Family Credit. Not all those receiving WFTC will be entitled to 100% fee exemption, which will be limited to those able to claim help with NHS charges. This reflects the approach taken towards part-time learners in HE. From October 2000, a statement of entitlement to free NHS treatment will be included on the tax credit award notice.

- f) depending on their circumstances, individual learners should make some contribution to their own learning, except where it falls to be fully funded by an employer or from the Exchequer; and
- g) all those on ES-funded programmes should be fully paid for by ES.

Learner fees

- 2.62** Reflecting the principles above, the general presumption is that adults should make a contribution to their learning, unless it is fully funded by an employer or by the Exchequer. The LSC will make a significant contribution, which in 2001-02 we propose should be 75% of the programme elements (ie programme costs, programme weighting, achievement and area costs) , and 100% of any elements for disadvantage or additional learner support. But it will be assumed that the adult would cover the remaining costs, ie some 25% in most cases. Many learners do, however, stand to be assisted by the Government's policy on Learning Accounts (see chapter 6).
- 2.63** Fee exemption does not extend to registration or examination fees, or charges for materials, which will be a matter for each provider. However, in applying the principles set out at the start of this section, we shall no longer draw any distinction between what is currently termed schedule 2 and non-schedule 2 provision. More generally, there is an issue about whether, as provided for in the Learning and Skills Bill, the LSC should require providers to collect the fee levels assumed within the LSC funding system. And a further issue as to whether providers should be able to charge individuals fee levels in **excess** of those assumed by the LSC.
- 2.64** On the collection issue, some providers currently waive or reduce fees in order to attract disadvantaged learners who do not meet the conventional fee exemption criteria. This does tend to squeeze unit funding for others for whom they are making provision. Some other providers also tend to oppose waiving or reducing fees because it impairs the level playing field that is otherwise achieved in a system where there are national funding rates. However, we do not propose that the LSC should introduce a mandatory requirement, at least for 2001-02 and 2002-03, although payments from the LSC will assume the collection of fees. But the LSC should review the issue with providers to establish a clear position for the long-term.
- 2.65** On the excess fees issue, we do not consider that providers should charge individual learners more than the fee levels assumed by the LSC, where the LSC is being expected by the provider to make a contribution. Learners have a right to equal treatment from one provider to another and should not face high costs on an arbitrary basis. We therefore propose that the LSC should make it a funding condition that fees to individuals must not exceed the levels assumed by the LSC - employer contributions are discussed separately below. This stipulation does NOT apply in cases where a provider is charging full cost to an individual, with no LSC contribution, in which cases the fee is a matter for agreement between provider and learner.

2.66 Fees policy and practice within LEA Adult and Community Learning would fall outside the regime described above for 2001-02 and 2002-03, while the two year funding guarantee to LEAs was in place. However, as part of its consultations on bringing in the national formula for Adult and Community Learning from 2003-04, the LSC should also consult on the fee regime that should apply from that year.

Employer contributions

2.67 There is general agreement that employers should contribute to the costs of training, and that the state should be prepared to fund the assessment costs of some employee training. However, at this stage it is not as easy to see how best to translate these principles into practice. There are three key questions:

- a) what proportion of costs should be contributed by an employer for training that is wholly or mainly job-related, and what proportion should be borne by the state?
- b) what rules should govern the charges made of employers by providers?
- c) in what circumstances should the state contribute to the assessment and certification costs of employee training?

Proportionate contributions

2.68 The arrangements for work-based training for young people (WBTP, covering the full age range of 16-24) are dealt with separately in chapter 3. Leaving aside WBTP, employers will currently tend to contribute sums ranging between 50% and 100% of the costs of training that is wholly or mainly job-related. We consider that there needs to be greater consistency in this area with the advent of the LSC.

2.69 There are numerous options that could be explored. A key issue on which we invite views is the proposition that it is impossible to lump all job-related training together. If it were possible, this would have tended to argue for a high contribution from employers, perhaps even 100% across the board. However, if respondents agree that this is not possible, it tends to argue for a graduated approach. Where training is only loosely job-related, and is undertaken mainly on the initiative of the individual, most would tend to argue that the state's contribution should be 75%, subject to availability of resources. The individual would be responsible for funding the remainder, unless they can secure a contribution from an employer or other sponsor. But how might we develop a fully graduated approach which allowed for, say, employer contributions of 50%, 75% or 100%, depending on clearly differentiated degrees of benefit to the employer? Or is this unrealistic and best left to local LSC discretion?

Provider charges

- 2.70** Currently, providers are free to charge employers what they think the market will bear for employer-related training. Where the provision is to be fully funded by the employer, we think this “negotiated” approach is the right way to ensure that both the provider and the employer are content with the outcome - there is no reason for the LSC to take a view. However, where the state is making a percentage contribution, it will in effect have taken a view as to the maximum price that is appropriate for the programme. It can be argued that the employer should not be expected to pay more than the share the state is assuming the employer will be paying. However, *this is another area where we invite views.*

Assessment costs

- 2.71** As already indicated, many employers are already fully funding training for their employees, either in the form of programmes put on by providers, or through in-house training. In some cases, those successfully completing this training will have reached a standard equivalent to NVQ level 2 or even NVQ level 3. Some employers will acknowledge this by paying for a further assessment to ensure the trainee has a portable qualification. Others cannot or will not. This raises the issue of whether the state should contribute the costs of such assessments and certification in some cases.
- 2.72** The January consultation paper made clear that the state does not intend to substitute taxpayers’ money for provision previously funded by employers. However, we do see an argument for a state contribution where a local LSC judges it would be inappropriate to expect an employer to meet the costs of assessment on top of fully funding the training, and where such assessments are not currently taking place, subject to the availability of resources in the future. *We invite views* on whether local LSCs should, from within their funds for adult participation, be able to contract directly with employers to offer support for such assessment costs if sufficient funding is available; ie for the cost of accrediting learning. The purpose would be to increase the number of individuals with portable qualifications, thereby promoting their employability and benefiting the wider economy, and also to ensure that a greater proportion of training is undertaken to NVQ standard.

D. TRANSITION ARRANGEMENTS

- 2.73** A typical approach to transitional funding, when introducing a new system, is to move providers to a convergence point in equal steps over a set period of years. This happened, for example, when Local Management of Schools was first introduced for schools beginning in 1990-91; and when the FE sector was incorporated, beginning in 1993-94. However, this approach is too crude to cope with the post-16 transition, as providers are not only having to converge from different funding levels, but are also moving from five different sectors and five different types of funding system, administered by over 200 different funding bodies. Moreover, on the LSC side, they stand to be in a position to compete with each other for funds previously ring-fenced to each particular sector.

- 2.74** We propose that the transition arrangements should therefore be adjusted to the needs of each sector, recognising that each has a very different starting point. In outline, the transition arrangements we are proposing for each sector are:
- a)** work-based training for young people. We intend this summer to create the first ever national database for some two thousand private and voluntary sector training providers to establish a baseline position for each of them. This will enable the LSC to offer a phased transition over three years, ie all these providers would be on steady state national rates for the funding year 2003/04. This is discussed in more detail in chapter 3;
 - b)** ES-funded providers. We propose that significant parts of the ES provision will move to the new funding system from April 2001. The arrangements for providers of, for example, New Deal and Work-based Learning for Adults are covered in chapter 5;
 - c)** Further education providers. We propose that FE should move to new funding levels from 2001/02 if possible. The changes for FE should not be great as the new system is based around national rates as at present. FEFC applies a safety net so that no college can lose more than 10% in cash in that year. There are also discretionary arrangements to deal with cases where that degree of change would be untenable. We propose that current approaches should continue but that the LSC should review the efficacy of them for 2002/03 and subsequent years;
 - d)** LEA Adult and Community Learning. The Secretary of State has already guaranteed to local authorities that for the first 2 years of the LSC they will get comparable amounts to those they now spend from their own Education Spending Settlement resources on Adult and Community Learning. During the period of the guarantee, we intend that local LSCs should initially buy plans from the local authorities on the basis of indicative costs and volumes. We propose that work should now begin on extending the national formula to most of this provision. This should come into effect as soon as is practicable, subject to identifying any difficulties and any need for further phasing (see also chapter 4 on Adult and Community Learning); and
 - e)** School sixth forms. The Secretary of State has already confirmed that sixth forms will have their current funding guaranteed in real terms provided numbers do not fall. Further points on the transition for sixth forms are discussed immediately below.

Transition for school sixth forms

- 2.75** In the light of consultation, we propose that the LSC should begin to fund LEAs for their school sixth forms with effect from April 2002. The Government is committed to avoiding any significant additional audit and information burdens on schools as a result of applying the funding formula. That is why income will continue to flow to the school via the LEA, not directly from the LSC, and why the system will continue to allow schools to make internal virements. Whilst the audit regime will not alter for schools, a new audit relationship will need to be established between local LSCs and LEAs. This, and data issues concerning schools, are also discussed in the parallel paper on LSC funding flows and business processes.

- 2.76** With effect from 2002-03, we propose to transfer to the LSC, out of the Education Spending Settlement, an amount which represents the funding delegated to schools for sixth form provision, including the funds made available to schools by the Secretary of State. The baseline year for this calculation will be 2000-01, uprated to 2002-03 prices and taking account as appropriate of the funding available for Qualifying for Success. Schools were divided in their responses to the January consultation, some favouring 1999-2000, some 2000-01, some 2001-02, and a small number favouring an average of all three years. But a baseline year later than 2000-01 would prevent the LSC from taking up its responsibilities for funding LEAs for their sixth forms until 2003-04. As proposed in January, we think that 2000-01 is the most appropriate and up to date baseline to adopt for a 2002-03 start to the LSC's sixth form responsibilities.
- 2.77** The baseline will be calculated as the pupil-led funding for sixth form pupils, plus a proportionate share of non pupil-led delegated funding, for each school. The budget statements prepared by LEAs for 2000-01 have been redesigned to make such a calculation easier. We do not propose to adjust this amount for any in-school virement of resources between sixth form and other provision, in line with our undertaking that schools should be free to vire between pre- and post-16 provision in the future as now.
- 2.78** Transitional funding for ex-GM schools would be excluded from the calculation, as would central expenditure by LEAs. Central spending by LEAs on services relevant to sixth form pupils would continue to be at the discretion of local authorities (subject to requirements on delegation levels). There would be no need to, and LEAs would not be able to, top-slice LSC funds for school sixth forms.
- 2.79** The Secretary of State has confirmed his guarantee that funding for each sixth form will not fall in real terms provided that its pupil numbers do not fall. We propose that the portion of a school's funding to which this guarantee relates will be the same as that used to calculate the Education Spending Settlement transfer as discussed above. Following the January consultation, we intend that the guarantee should relate to the financial year 2000-01.
- 2.80** The detailed operation of the funding guarantee would be set out annually in regulations made by the Secretary of State under section 47 of the School Standards and Framework Act 1998. Those regulations set out the rules for the determination of budget shares by LEAs, and they will continue to do so under the new system.
- 2.81** Consultation respondents asked for a definitive view on how rises or falls in pupil numbers should be dealt with under the guarantee. In the case of reductions in numbers, we intend that they should be fully pro rata to the loss of pupil numbers, given that the funding is originally provided on a pupil number basis. We do not envisage that sustained or significant falls would lead to reductions that were bigger or smaller than the pro rata approach proposed.

- 2.82** In the case of increases, we intend that increased numbers would mean increased funding, but whether that could be fully pro rata would depend on the availability of resources. A sixth form that was already enjoying unit funding well above the levels suggested by LSC national rates would clearly have a less good case for pro rata additional funding than a sixth form that was below national unit funding levels and was growing in numbers.
- 2.83** Further consultation on the implementation of LSC funding arrangements for schools will be undertaken in autumn 2000, taking account of the results of the present consultation.

3. Funding Provision for Young Learners

Introduction

3.1 Chapter 2 identified the elements of the proposed core formula, as follows:

- ▶ programme core costs
- ▶ programme weighting
- ▶ achievement
- ▶ area costs
- ▶ disadvantage

That chapter also discussed additional learning needs and transition arrangements, all of which are relevant to the funding of young people.

3.2 This chapter describes our proposals for *applying* the funding system to long, intensive programmes for young people. It covers 16-18 year olds on all routes and those aged 19-24 who follow the route of work-based training for young people. But all adults pursuing, say, a package of A/AS levels over 2 years full-time would be funded according to the same formula as a young person following the same programme; only the fee regime would be different (see section C of chapter 2). And a young person following a short course of study would (apart from fees) be funded in the same way as an adult taking the same course as under chapter 4.

3.3 The present chapter gives practical form to a key objective for the new learning and skills planning and funding systems. This is to extend - for the first time - a formal entitlement to free learning and training for all young people between the ages of 16 and 18. That means free suitable education and training programmes, leading to approved qualifications², on demand for every 16-18 year-old learner.

3.4 A further objective is for the system to recognise the respective merits and benefits for young people of the school sixth form, further education and the work-based training routes, and to provide comparable funding for comparable provision.

² by "qualification" we mean an external qualification as described in clause 88 and approved under clause 90 of the Learning and Skills Bill.

A. 16-18 YEAR OLDS ON LONG PROGRAMMES AT SCHOOLS AND FE PROVIDERS

A coherent funding system

3.5 The majority of young people will be following courses and programmes that lead to A levels, AS levels, vocational A levels and equivalents. Many schools and FE providers will tend to deliver these courses and programmes in a similar way. In addition to such programmes, many learners will be undertaking other programmes - such as an additional GCSE, or sport, music or community-related qualifications. Moreover, a substantial number of young people in the FE sector undertake other programmes. This would include young learners who undertake only part-time studies or very small programmes. Although we focus below on A/AS levels and vocational A levels, the LSC funding system will be flexible enough to cope with all these different types and combinations of programmes.

Funding A/AS levels, vocational A levels and key skills

3.6 Last year, the Government announced its *Qualifying for Success* reforms to the post-16 curriculum. These reforms are designed to help young people to take on broader, more demanding programmes of study at 16 than the traditional norm in this country, in order to meet the increasing demands of employers and universities in the new millennium.

Qualifying for Success features

- ▶ a new Advanced Subsidiary (AS) qualification, representing the first half of the full A level, designed to encourage take-up of more subjects in the first year of post-16 study and reduce the numbers who drop out with nothing to show for their efforts;
- ▶ new GCE A level specifications, normally made up of six units, offering candidates the choice of end-of-course or modular (staged) assessment, and with a new requirement for a significant element of "synoptic" assessment, which tests understanding of the whole course;
- ▶ new "vocational A levels" (as well as "vocational ASs" in some subjects) replacing the current General National Vocational Qualifications (GNVQs) at advanced level and based on a more rigorous assessment regime to secure comparability with GCE AS/A level;
- ▶ a new Key Skills qualification to encourage all young people to develop the essential skills of communication, application of number and information technology; and
- ▶ new "advanced extension awards" for the most able, based on revised special papers but designed to be more widely accessible.

The reforms are intended to enable young people to take on - and institutions to offer - programmes of study which best meet their own needs and circumstances. However, Ministers are looking to schools and colleges to encourage the great majority of young people to take on broader, more demanding programmes of study, in particular by taking on additional subjects, combining academic and vocational learning and gaining the new qualification in Key Skills.

- 3.7** It is already clear that many schools and FE providers are responding positively to this challenge. We want to ensure that the reforms continue to be implemented successfully under the future LSC funding arrangements. A common method of funding these programmes across schools and FE providers is set out below.
- 3.8** In the case of schools, the LSC approach will not apply until 2002-03 and the LSC will work in full partnership with schools and LEAs towards implementation. In practice, the real terms guarantee will be the main determinant of funding for many sixth forms for some time. Financing the guarantee will limit the scope for change both for sixth forms which have been well funded in the past and for those which have been less well funded. The changes to sixth form funding described in section A of this chapter, for example in relation to the funding elements for achievement and disadvantage, will therefore not have full effect in sixth forms for as long as it is necessary to maintain the guarantee. We do, though, expect there to be some movement towards the steady state each year, beginning in 2002-03.
- 3.9** In considering how best to fund these programmes across FE providers and schools, we have been conscious of their very different starting points. Most schools have become used to the simplicity of LMS/fair funding, under which most money follows the learner, with no adjustment for in-year drop outs, or achievement. FE providers, on the other hand, have been funded in a way that does feature such adjustments. However, the individual learner is harder to detect in an FE system involving the accumulation of numerous funding units for each learner - typically at least 120 units (currently worth about £17 each) for each year of full-time study for a 16-18 year old.
- 3.10** We think the core approach set out in chapter 2 represents a good balance of extra simplicity for FE providers, while also extending to schools the targeted funding geared to reducing drop-out and increasing achievement rates.

Programme core costs

- 3.11** We propose that, subject to the effects of the programme weighting element below, comparable qualifications would attract comparable rates of funding. So the core funding for an English A level and a physics A level would be identical, but the English A level would be unlikely to attract a programme weighting (see below). AS levels would be worth half of a full A level.
- 3.12** The amount for key skills and enrichment would also be set at the equivalent of an unweighted A level, but we would expect a learner to be undertaking a substantial package of qualifications, equivalent to at least two AS levels per year, in order for them to attract funding for key skills and enrichment.

- 3.13** For some exceptionally large programmes, such as someone undertaking more than five A levels, a taper would be applied.
- 3.14** This approach builds on the system the FEFC is introducing from 2000/01. This allows for common programmes that individual learners take to be identified and converted to a common currency. For example, one learner might be studying for 2 x AS, a 6 unit vocational A level and 2 x A2 over two years, whereas another would be a learner taking 4 x AS and 3 x A2. In this example, the conversion process reveals that both learners should attract similar funding. Similarly, a learner studying for an Advanced GNVQ - to be replaced by 12 unit vocational A levels - would attract similar funding to a learner taking three A levels.

Programme weighting

- 3.15** The programme weighting element will reflect the relative costs of the subjects being taken - a programme including engineering will be more expensive than one of the same size confined to the humanities.
- 3.16** The modelling we are undertaking will allow us to establish the appropriate programme weightings. This includes the number of weightings, their value, any staged differentials between them, and the individual course, programme and qualification combinations to be covered allocated by each weighting. In doing so, we shall use evidence - including from schools and the FEFC - of the relative costs of, and current payment levels for, courses and programmes. The LSC's Rates Advisory Group would then need to keep the initial weightings up to date through regular reviews.

Achievement

- 3.17** We propose that the appropriate figure for A/AS levels and vocational A levels should be 10%.

Disadvantage and area costs

3.18 The disadvantage and area cost elements would also be applied.

Illustration

The LSC system would build on the approach being taken by the FEFC for academic year 2000/01. For example, under the FEFC, the funding for a learner studying three A levels in humanities over two years would be determined on the unit based system as follows:

| Category | Units |
|--|---|
| Entry | 8 |
| Key skills | 48 |
| On-programme payment 1 at weighting factor A | 48 |
| On-programme payment 2 at weighting factor A | 48 |
| On-programme payment 3 at weighting factor A | 48 |
| Achievement | 19.64 |
| Area costs | 0 |
| Disadvantage | 0 |
| Fee remission | 76.8 |
| TOTAL | 296.44 |
| Average units per year | = 148.22 |
| Value of unit | = £17.00 |
| FUNDING | = £2,520 each year for two years |

Under the proposed LSC system, the funding would build up in a similar way, with the same outcome, but would be expressed in cash throughout, rather than be converted into units.

B. WORK-BASED TRAINING FOR YOUNG PEOPLE

3.19 Work-based programmes make an invaluable contribution to the education and training of young people. These programmes, whether locally or nationally organised and negotiated, contribute to the lasting enrichment of young people's lives and to the competitiveness of our economy.

3.20 It is a high priority for the Government simultaneously to increase the numbers of young people completing work-based learning and vocational programmes and to enhance the quality of those programmes. We believe that the programmes should be fairly funded on a consistent basis under the new post-16 funding system.

3.21 The LSC will be charged with developing provision which promotes parity of esteem for the learner whether delivered through the workplace or academic routes. The LSC will recognise that workplace and academic routes may offer differing learning experiences, but that they all can provide equivalence of opportunity, quality and value.

3.22 It will need to work closely with NTOs, employers and private and voluntary sector training providers to drive these ideals and to ensure consistently high quality of provision is offered. We believe that fair funding arrangements, covering both large and small volume providers, will underpin this objective.

3.23 The practical objectives of the funding system as applied to work-based learning programmes are to:

- ▶ support and enhance the quality of provision, particularly of Foundation and Modern Apprenticeship schemes;
- ▶ promote simplicity, clarity and transparency to employers and providers over the funding of work-based training for young people;
- ▶ link efficiently with contracting arrangements to give greater stability for providers of quality training.

3.24 The LSC will fund a variety of training programmes and qualifications for young people who choose the work-based route. A key feature of the new funding formula to be applied to work-based learning is that it is to facilitate the achievement of the new enhanced Apprenticeship frameworks.

Modern Apprenticeships

3.25 The Government is also consulting on a new framework for Modern Apprenticeships, following up the announcement by the Secretary of State on 16th February. Its priority is to expand participation and greatly improve levels of retention, attainment and progression by:

- ▶ maintaining improvements in the quality of provision to ensure that all young people undertaking Modern Apprenticeships receive a planned and integrated programme of learning, based in the workplace, which meets their needs and the requirements of the industry as determined by NTOs in consultation with employers and providers;
- ▶ enhancing the design, content and operating regime to ensure that Modern Apprenticeships meet the knowledge and skill needs of industry and of the wider economy, and provide young people in a work-based setting with opportunities of equivalent value to those in full-time education, which will work towards the Government's goal of parity of esteem between academic and vocational routes.

3.26 To achieve these improvements we propose to build on the foundations laid by Modern Apprenticeships and National Traineeships. These will be replaced respectively by Advanced Modern Apprenticeships (AMA) and Foundation Modern Apprenticeships (FMA) which are the new enhanced apprenticeship frameworks. The box sets out the elements of the new Apprenticeships

New Modern Apprenticeship framework

Current elements which will be retained

- ▶ industry frameworks designed by NTOs according to criteria agreed between Government and industry;
- ▶ NVQ2 for Foundation Modern Apprenticeships, NVQ3 for Advanced Modern Apprenticeships;
- ▶ certificated Key Skills - delivery arrangements from September 2000 subject to results of consultation on options for best meeting Key Skills standards in a work-based learning context, taking into account the occupational needs of individual sectors and the skills and qualifications the young person brings to the Apprenticeship;
- ▶ learning delivery based in the workplace with employed status from the outset of training wherever feasible. We would expect as a minimum to retain the current levels of employed status into the LSC era - that is 96% on FMA equivalent and 100% on AMA equivalent;
- ▶ approval of frameworks and advice on policy, promotion and performance by a representative group of national partners (currently MANTRA).

Subject to the further consultation, the following new features, announced by the Secretary of State, will be introduced from September 2001:

- ▶ a formalisation and increase in the 'taught' element, the underpinning knowledge and understanding needed for the job, through a new range of technical certificates related to NVQs specified by NTOs in training frameworks;
- ▶ requiring a specific period of 'off the job training' as determined by NTOs in consultation with employers and providers. The term 'off the job' training does not mean that this training must be delivered away from the workplace. The requirement is for a form of structured training/learning experience distinct from, and delivered away from, the core main activities of the job by employers, FE providers or private and voluntary sector training providers. The mode of delivery would depend on the needs and circumstances of the learner and could include distance/computer-based learning;
- ▶ the minimum period of such learning will be based on industry needs;
- ▶ clarity on entry requirements for Foundation Modern Apprentices and Advanced Modern Apprentices, as determined by NTOs in consultation with employers and providers, within national eligibility rules.

3.27 The consultation also addresses how the following additional reforms under consideration to further strengthen the work-based route might be best achieved:

- ▶ financial incentives for employers and awards for trainees;
- ▶ guaranteed entitlement to apprenticeship training for 16-18 year olds;
- ▶ better independent monitoring and support;
- ▶ setting clear criteria for what will be required of employers who want to employ MAs and the support, financial and/or otherwise, that will be available to them.

What will be funded

3.28 To achieve the aims and objectives outlined above, the funding and contracting arrangements for Modern Apprenticeships will be consistent with the core funding principles for post-16 learning. They will make clear the respective responsibilities and contributions of employers and the LSC.

3.29 It is therefore proposed that for 16-18 year olds taking up FMAs and AMAs, and for 19-24 year old apprentices, all the following 'learning' elements of the Apprenticeships will be reflected in the funding provided by the LSC:

- ▶ learning and assessment towards completion of the NVQ, including learning activities away from the core main activities of the job as described above as well as relevant on the job training;
- ▶ tuition costs for the technical certificate covering the knowledge underpinning occupational competence as defined in the NVQ, for example a BTEC or a Related Vocational Qualification (RVQ);
- ▶ learning and assessment towards achievement of the Key Skills requirements set out in the Apprenticeship training framework;
- ▶ regular reviews of learning towards completion of the Apprenticeship.

3.30 Employers of Apprentices, acting on their own account or through a training provider, will meet all wage or salary costs and any costs of releasing the young person from the job (for coverage of training allowances, see chapter 6 on learner support). The Apprenticeship will be governed by a contract between LSC and the employer or provider, setting out respective contributions and obligations for ensuring successful completion, including the length of the Apprenticeship.

3.31 While the Government's objective is to encourage the maximum number of young people to take up work-based training through a Foundation or Advanced Modern Apprenticeship, we recognise that this will not meet the needs and circumstances of all young people. The LSC's funding system will also need to cover:

- ▶ those with special training needs covered by endorsed Categories B, L and N;
- ▶ those young people taking up Lifeskills programmes with a work based learning element within the Learning Gateway;
- ▶ young people exercising their right to time off for study or training unable to access a FMA/AMA; and
- ▶ young people undertaking work based learning provision currently funded by FEFC, either within an FE provider or contracted through FE with an employer and/or third party provider.

Applying the funding formula

3.32 The current different methodologies and arrangements can lead to very different total payments for providers, as illustrated in the box below.

Current funding differences

Even assuming a standard length of programme, in four different TECs, we have evidence that a young employed trainee with no additional learning support requirements undertaking a National Traineeship in IT could attract total payment ranging from £2,822 to £3,610 depending on the individual TEC. The outcome payments in those four TECs as a percentage of the overall payments vary between 33% and 43%. There are more extreme examples.

Variations between trainees on the same type of programme in the same occupational area will disappear under the new system. But there will remain quite legitimate variations across different occupational areas. So, for example, in one TEC we found that an MA in Engineering attracted typical funding of £7,600 whereas an MA in Business Administration attracted £4,000. It will be part of the Rates Advisory Group's work to determine appropriate variations in future.

The length of time spent on programmes can also vary greatly depending on occupational area. For example, in one TEC the expectation of typical programme length for an MA in Engineering was 3 years whereas in Business Administration it was 2 years.

3.33 The initial task of harmonisation and coherence is to draw together these different structures and payment levels. This harmonisation has been warmly welcomed in the consultation. We have started modelling work and data analysis to achieve this harmonisation and to ensure affordability within the LSC's budget, taking account of factors such as disadvantage. Mapping and modelling work is also being carried out to inform the LSC and its advisory group on the length of stay and progression of learners undertaking work-based learning programmes in different sectors. We are of course involving providers in that process.

3.34 The key to harmonisation is to apply the common funding formula set out in chapter 2, which we consider represents the right balance of simplicity and sensitivity to the relevant cost factors for the work-based route.

Programme core costs

- 3.35** The LSC would fund programmes on the basis of a core element, which would cover key skills, and the programme weightings to reflect the size of the individual trainee's programme and cost variables according to the sector or occupational band.
- 3.36** The total programme funding would also need to take account of evidence of the varying length of time needed successfully to complete programmes.

Programme weightings

- 3.37** The programme weighting would reflect the size of the programme, based on four broad categories: Advanced Modern Apprenticeship; Foundation Modern Apprenticeship; other programmes; and Life Skills.
- 3.38** The weightings would need to reflect the relative costs of the programme, we anticipate by using occupational or sectoral bands as recommended by the NTOs in consultation with employers and providers.

Achievement

- 3.39** The LSC would pay the provider 20% of the total amount for achievement - measured by the learner attaining the relevant qualification. This percentage could be varied, for example for young people with special training needs or for those on Life Skills programmes.

Disadvantage and area costs

- 3.40** The disadvantage and area costs elements would also be applied.

Transitional arrangements

- 3.41** For work-based training for young people, providers will have a phased transition over three years, ie all these providers would be on steady state national rates for the funding year 2003/04.
- 3.42** The principal objectives of the transitional arrangements are to:
- ▶ work towards harmonising the range of current TEC systems;
 - ▶ simplify the processes of contracting and administration;
 - ▶ take the first steps towards the full implementation of the new rates;
 - ▶ give greater security to providers over the change process;
 - ▶ support the LSC and providers in fine tuning and testing important funding principles in the new system;
 - ▶ honour implied commitments to individual learners continuing from this year into 2001-02.

- 3.43** In cooperation with providers, TECs, and the Government Office Task Groups we are working on a substantial data collection exercise to map the current position of providers. That should give us the data the LSC would need to assess the relative difference between what individual providers could expect if the current arrangements were to continue and what they would receive under the new rates.
- 3.44** A key issue for the transition is how the cushioning arrangements should apply. Under one possible method, it could be applied in relation to the total TEC funding received by a provider in 2000-01. But this could be somewhat arbitrary in its effect, if it took no account of different volumes offered by a provider in one year as against the next. Another method would involve calculating the average per capita funding received by a provider in 2000-01, and applying the cushioning to this. But for some providers working across a range of different occupations funded at different unit rates this might be unsuitable. We would welcome views.
- 3.45** We are planning for the LSC to use a new national contract with standard terms and conditions with effect from April 2001. The contracts with providers will need to be drawn up and agreed by early 2001. The LSC could use its first national contract with providers to cover the 16-month period until July 2002, so as to mesh in with the LSC's new annual funding cycle.
- 3.46** Unlike for FE providers, the introduction of national rates is a new concept for the providers of work-based learning. In introducing the new funding system for providers from April 2001, we recognise that if we were simultaneously to introduce national rates as well as using new national contracts that may cause some providers some difficulty. The transitional arrangements ensure we avoid that double change in a single year.
- 3.47** We also believe that the new, enhanced Modern Apprenticeships, together with new contractual and funding arrangements, will serve to improve the quality and participation of work-based training and give much needed longer-term stability to providers of quality training.