

Funding

Arrangements for Planning and Budgeting for Further Education in 2002/03

Summary

This document explains the new planning and budgeting arrangements for further education institutions for 2002/03, building on the new funding arrangements described in Circular 01/13, *Post-16 Funding Arrangements for 2002/03*.

This document describes how the planning and budgeting process has been derived, with particular reference to the consequential changes as a result of the new funding formula.

This is the third in a series of documents that will cover the transition of further education from the Further Education Funding Council methodology to the new formula. This follows the circular *Indicative Funding Rates for Further Education in 2002/03*.

Although primarily for information, this document also seeks comments from the sector on:

the proposal by the DfES to introduce a new condition of grant in relation to fees for students' aged 16–18 years in full-time or part-time education (paragraphs 69–72).

Comments should be forwarded to local Councils by 31st January 2002.

This applies to all institutions providing further education learning funded by the Council. Full guidance on the government's priorities and funds available for 2002/03 will be issued in January/February 2002, following receipt of the Secretary of State's annual guidance letter.



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Further information

For further information, please contact the appropriate Learning and Skills Council local office, or write to:

Planning and Budgeting: Institutions
The Learning and Skills Council
Cheylesmore House
Quinton Road
Coventry CV1 2WT
Telephone 024 7649 3883
Help desk: email marcus.kisiel@lsc.gov.uk

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Key Consultations and Communications

Introduction

1 The following section describes the consultation and communications process involved in the development of the new approach and is reproduced, with minor amendments, from section one of Circular 01/13 *Post-16 Funding Arrangements for 2002/03*.

2 Since the publication of the White Paper, *Learning to Succeed*, in June 1999, ministers have consulted extensively on future funding arrangements for the post-16 education and training sector with the purpose of establishing a coherent and integrated system across the four learning sectors of work based learning (WBL), further education (FE), school sixth forms and adult and community learning (ACL). The various stages of consultation are outlined below; a list of the individual consultation documents are given in Circular 01/13.

3 *School Sixth Form Funding: A Consultation Paper* (June 1999) was published alongside the White Paper, *Learning to Succeed*. The document set out, for the first time, options for the funding of school sixth forms in the context of adopting a coherent approach to the funding of all post-16 provision (excluding higher education).

4 Following the consultation arising from the White Paper, *Learning to Succeed*, the

Learning and Skills Council Prospectus was published in December 1999 setting out the Government's conclusions on the consultation. In particular, it described how the Learning and Skills Council (the Council) would work at national and local level in conjunction with key partners such as the Regional Development Agencies and the University for Industry (Ufi) to achieve national and local priorities.

5 *Post-16 Funding and Allocations: First Technical Consultation Paper* (January 2000) set out the initial thinking on the type of funding arrangements the Council and Employment Service would need. This was followed by more detailed consultation in May 2000 in the *Post-16 Funding: Second Technical Consultation Paper*, which built on the initial proposal in the first technical consultation paper, taking account of the responses to that consultation. The second technical consultation paper provided a description of how formula funding would work and sought further views on specific areas.

6 The *Learning and Skills Council: Funding Flows and Business Processes* (May 2000) consulted on the framework within which the Council should operate, the planning role of the local Councils and their interaction with providers, local education authorities (LEAs) and employers. The introduction of an individualised learner record (ILR) and the establishment of an earlier (1 October) first census date on which to count learners were also included in the consultation.

7 The Secretary of State wrote (*The Learning and Skills Council: Strategic Priorities*) to the Chairman of the Learning and Skills Council on 9 November 2000, setting out his vision for the Learning and Skills Council, its statutory framework and the priorities for its corporate plan ('the remit letter').

8 The then Department for Education and Employment (DfEE) and the Council jointly wrote to all post-16 education and training providers in November 2000 detailing progress in the development of the new arrangements and providing feedback on the second technical consultation paper and the funding flows and business processes consultation paper which were issued in May 2000. The letter announced a number of decisions, which had been made on the overall shape of the funding system. A copy of the letter is available on the Council's website (www.lsc.gov.uk/documents/consultation_papers_and_responses).

9 The November 2000 letter indicated (annex C, paragraph 2) the intention that a common approach to funding will be taken by the end of 2003/04 across all four learning sectors.

10 The intended approach to the funding of achievement in both FE and school sixth forms was also indicated in this letter (annex A, paragraph 4c). The intention that national rates should reflect the expectation that, in FE, 25% of the cost of a learning aim should be met by tuition fees paid by the learner, unless certain exemptions applied, was also confirmed (annex A, paragraph 6i).

11 The November 2000 letter confirmed the outcomes of the May 2000 consultation papers (see above) and noted:-

'There was strong support for the principles and the proposed system design (third paragraph).'

12 *School Sixth Form Funding: technical consultation paper* (December 2000) consulted on technical details of funding for school sixth forms. The responses from schools significantly favoured a differential system for funding sixth form learners, to reflect individual learning programmes with more expensive programmes attracting higher funding.

13 Ministers confirmed in May 2001 that, subject to the real terms guarantee and the affordability of any additional funding above this, differentiated funding for school sixth forms would form part of the coherent funding arrangements for post-16 education and training.

14 The funding arrangements for 2002/03, which are described in Circular 01/13, are based on ministers' decisions following their consultation exercises in 1999, 2000 and 2001 and have been developed by colleagues from the Department for Education and Skills (DfES), with support from Council staff and other stakeholders. The Council will now take forward these arrangements.

Introduction to the Planning and Budgeting Process for FE in 2002/03

15 The guidance in this circular is intended to explain the new planning and budgeting procedures used by the Council to fund learning in further education (FE) institutions for 2002/03. It applies to all institutions providing further education learning funded by the Council. This document should be read in conjunction with Circular 01/13 *Post-16 Funding Arrangements for 2002/03*. Advice on the national further education funding rates will be issued separately in the Council publication *Indicative funding rates for Further Education in 2002/03*. Full guidance on the government's priorities and funds available for 2002/03 will be issued in

January/February 2002, following receipt of the Secretary of State's annual guidance letter.

16 For all institutions the funding process will be a significant change from that in 2001/02. The new process will be based on discussions between institutions and their Local Learning and Skills Councils (local Councils) in advance of the Planning and Budgeting Circular outlining the government's priorities set out in the Secretary of State's annual guidance letter. This process is intended to reflect each institution's role in meeting learner needs in the context of local Councils' draft plans, within a clear national framework and informed by the Secretary of State's guidance.

17 It is anticipated that the government's key priorities for funding learners for 2002/03 will be similar to last year, that is:

- to raise participation and achievement by young people
 - to increase demand for learning by adults and equalise opportunities through better access to learning
 - to raise skill levels for national competitiveness
 - to improve the quality of education and training delivery
 - to improve effectiveness and efficiency.
- the introduction of cash-based rather than unit-based funding
 - baseline data issued to local Councils for each institution using 2000/01 out-turn figures and 2001/2 allocations data
 - the introduction of learner profiles as a measure of volume for planning and monitoring purposes
 - growth funding allocated to local Councils in accordance with Council and government priorities
 - protection (safety net) arrangements to address changes in funding arising from the introduction of the new funding formula for FE
 - end of year reconciliation arrangements
 - the introduction of new conditions of grant
 - that no fees are charged to learners on basic skills provision
 - that institutions should supply information, as required by the Council, on learner health and safety.

18 The dialogue with local Councils will establish institutions' baseline plans for 2002/03 and consider proposals for growth in activity.

Summary of key features of the planning and budgeting process for FE Institutions

19 The key features of the planning and budgeting process for 2002/03 are as follows:

Planning and budgeting arrangements in each Learning Sector

20 The purpose of this section is to provide an overview of the planning and budgeting arrangements for each of the four learning sectors funded by the Council in 2002/03. The arrangements described are in respect of the main participation funds the Council will allocate to providers each year to secure the delivery of provision.

21 The following tables show how different elements of the process are currently or will, by 2002/03, be operating in each learning sector:

Cash based funding

22 The operation of cash based funding in the four learning sectors is described below:

Learning Sector	Process
Work Based Learning	The allocation and payment of funding will be on the basis of national rates, quoted in cash terms, for an individual learning aim. Each learning aim will have a national rate, quoted in cash terms, which will either be a specific listed value or reflect the average length of stay involved in delivering the learning aim. Funding is linked to both learner numbers and the size of each learner's programme.
Further Education	The allocation and payment of funding will be on the basis of national rates, quoted in cash terms, for an individual learning aim. Each learning aim will have a national rate, quoted in cash terms, which will either be a specific listed value or reflect the number of guided learning hours involved in delivering the learning aim. Funding is linked to both learner numbers and the size of each learner's programme.
School Sixth Forms	By December 2001, the Council will calculate two funding levels in cash terms for each school; an adjusted real terms guarantee (RTG) level and a formula funding level. Under the RTG, schools that maintain their sixth form numbers will receive the same funding in real terms as they did in 2000/01. For formula funding the rates applied will reflect not just pupil numbers but will also be adjusted to reflect the different costs of the learning programme for each sixth former. If the formula funding level is lower than adjusted RTG level (adjusted to reflect growth or declining pupil numbers) the school will receive the latter.
Adult and Community Learning	2002/03 is the Adult and Community Learning (ACL) sector's second and final year of a two-year funding guarantee. That means Local Education Authorities (LEAs) will receive a cash allocation for 2002/03 that maintains in real terms what they received in the financial year 2000/01, subject to fulfilling the commitments set out in the Adult Learning Plan.

Baseline funding allocations

23 The operation of baseline funding allocations in the four learning sectors is described below:

Learning Sector	Process
Work Based Learning	In February 2002, local Councils receive an initial allocation for WBL provision. Local Councils determine which providers they contract with, and from May 2002 onwards, final allocations will be agreed. Each learner attracts a monthly payment according to the national scale, paid over an agreed period of time.
Further Education	From January 2002, local Councils will discuss and agree baseline data with institutions. From June 2002 onwards, local Councils will finalise allocations and funding agreements.
School Sixth Forms	LEAs and schools will receive provisional sixth form allocations in late November/early December 2001. Final allocations will be issued in January/February but it is not anticipated that there will be changes to schools' provisional allocations unless it is shown that the data used to construct the provisional allocation was incorrect.
Adult and Community Learning	Provisional allocations for mainstream funding for 2002/03 are planned for issue at the end of November 2001. Final allocations will be confirmed in the last week of March 2002.

Learner profiles

24 The operation of learner profiles in the four learning sectors is described below:

Learning Sector	Process
Work Based Learning	Negotiations prior to contracting define the required type, nature and volume of learners. Each learner attracts a monthly payment according to the national scale, paid over an agreed period of time.
Further Education	A learner profile is to be introduced for 2002/03, which reflects broadly the type and volume of learners. The learner profile will assist cash allocations to be made in association with minimum learner numbers for specific types of learner. The learner profile will be used for planning and monitoring purposes but will not form part of the reconciliation arrangements. Further details are outlined in paragraph 33.
School Sixth Forms	Calculation of both the RTG and formula funding link cash values in terms of delivery of learning programmes with pupil numbers.
Adult and Community Learning	LEAs are required to provide some learner number data via the Common Forward Planning Framework, which forms part of the Adult Learning Plan that LEAs will have produced as a condition of receiving guaranteed funding.

Growth funding

25 The operation of growth funding in the four learning sectors is described below:

Learning Sector	Process
Work Based Learning	National growth targets are agreed with DfES as part of the Secretary of State's remit letter. Locally, individual providers can agree a contract at the beginning of the re-contracting process, which allows them to make year on year growth provided that the local Council has sufficient volumes available and the provision is in line with the local strategic plan. Should a provider require additional volume/budget during the contract year, this can only be accommodated as a result of transferring volumes from another part of the budget allocation.
Further Education	Following the receipt of the Secretary of State's guidance, growth will be allocated to institutions by local Councils in accordance with Council and government priorities. Local Councils will decide how to use their allocations to meet local priorities and demands in their area, within a national framework.
School Sixth Forms	Calculation of the RTG takes into account any growth in pupil numbers between the baseline for 2000/01 and September 2001. That growth is funded at a standard national per capita figure of £2,600 per pupil.
Adult and Community Learning	Additional resources will be available for widening and increasing participation. These will be allocated, wherever possible, via local Councils so that they can fulfil their planning role and work with ACL providers to shape provision in a locality over time.

Safety net arrangements

26 The operation of safety net arrangements in the four learning sectors is described below:

Learning Sector	Process
Work Based Learning	In moving towards basic national rates, a system of cushioning has been introduced to ensure that providers do not suffer undue financial disadvantage. The strategy that enables the payment of this is through the introduction of damping. The National Rates Advisory Group will consider recommendations for 2002/03, which will include the standard national rate and this will influence the level of cushioning and damping required.
Further Education	The Council will, where relevant, calculate a cash sum, or safety net figure below, which the institution's income will not fall in 2002/03. The minimum figure will be the institution's cash allocation for 2001/02 provided that the volume of provision, commensurate with that allocation, does not decrease.
School Sixth Forms	Under the RTG schools that maintain their sixth form numbers will receive the same funding in real terms as they did in 2000/01. This is a guaranteed minimum level of funding.
Adult and Community Learning	ACL is covered by the Secretary of State's two-year funding guarantee.

End of year reconciliation arrangements

27 The operation of end of year reconciliation arrangements in the four learning sectors is described below:

Learning Sector	Process
Work Based Learning	Reconciliation is an ongoing process throughout the year, leading to re-profiling where necessary, and culminating in a formal end of year agreement of earnings, which may result in re-payment to the LSC being required if there is under delivery.
Further Education	The Council will assess the institution's out-turn learning activity for 2002/03 against the funding agreement and may recover funds associated with any shortfall. The Council may also seek to recover funds in relation to the non-achievement of growth in cash income targets in respect of each growth category.
School Sixth Forms	The formula funding allocations for schools make standard assumptions for all schools about retention and achievement. The Council will develop an approach to reconciliation building on existing LEA and school returns to the Department. Shortfall against planned activity in 2002/03 may be reflected in reduced allocations in subsequent years. However, schools are not required to pay back funds relating to any shortfall in 2002/03.
Adult and Community Learning	The Council, under its funding agreement, may proceed with recovery of funds if the Adult Learning Plan is not delivered satisfactorily.

Fee payment by 16–18 year olds

28 The operation of fee payment for 16–18 year olds in the four learning sectors is described below:

Learning Sector	Process
Work Based Learning	The basic national rate is intended to include registration, enrolment and examination fees for 16–18 year olds. There are no compulsory fees charged.
Further Education	16–18 year old students may not be charged tuition fees. DfES are in discussion with the Council concerning a new condition of grant in relation to fees for students aged 16–18 years – see paragraphs 69 – 72.
School Sixth Forms	There are no compulsory fees charged. Voluntary contributions towards equipment costs, visits etc. may be requested. We envisage no change to existing arrangements.
Adult and Community Learning	ACL is intended primarily for adult learners who are defined as learners aged 19 or over on 31 August in the calendar year they commence their programme of study. Providers may want to reconsider their policy on enrolment, registration and examination fees for 16–18 year olds given that these may no longer be charged in the FE sector.

Applying the changes in Further Education

The change from units to cash rates

29 As stated in the previous publication Circular 01/13, there will be a significant change to the basis of calculating funding of learners in further education for 2002/03. The new approach will involve the allocation and funding on the basis of national rates, quoted in cash terms, for an individual learning aim. Circular 01/13 sets out a planning assumption of a rate of funding at 1.6% higher than 2001/02 rates, which is equivalent to an increase from £17.22 average level of funding to £17.50. Final rates will need to be confirmed when the Secretary of State's grant letter confirming the Council's funding for 2002/03 is made available to the Council at the end of November, 2001.

30 Each learning aim will have a national rate, quoted in cash terms, which will either be a specific listed value or reflect the number of guided learning hours involved in delivering the course.

31 Further details on the national rates will be given in a separate document *Indicative Funding Rates for Further Education in 2002/03*.

Cash baseline data

32 Local Councils and institutions will use information on the funding allocated to an institution in 2001/02, along with information on achievement of target in 2000/01 to calculate a cash baseline for each institution. The cash baseline data will form the basis for discussions between local Councils and institutions so that a new baseline can be agreed for 2002/03. There will then be a national aggregation and moderation process

at the end of which an allocation will be agreed.

Introduction of learner profiles as a measure of volume

33 The vision of the LSC puts learners at the heart of our approach. In this regard, the change from units to cash values has several major implications for the measurement of volume of provision:

- the volume of provision delivered will be measurable in cash values
- cash values for particular learning aims are likely to change from year to year, due to changes in national rates, for example, to reflect inflation. This will mean that it will not be possible for volumes to be compared between years in cash values alone
- the use of learner numbers alongside cash values will be an important aspect of measuring volume of provision. In the past, unit totals have sometimes grown without matching increases in student numbers. This has in part reflected government policy of broadening the curriculum, for example through Curriculum 2000. However, the Council is keen that institutions should help it secure the rise in participation and achievement, reflected in its own targets at both national and local level. It will therefore be important for institutions to agree and deliver minimum learner numbers as part of their funding agreement with the Council

- institutions will have a cash target to earn and will be monitored on learner numbers. To enable the Council to monitor planned learner numbers in key categories of provision it will be necessary to establish a 'learner profile' for each FE institution, which reflects the types of learner the provider has attracted, and the volumes of each of these. The learner profile will be used for planning and monitoring purposes only and will not form part of the funding reconciliation arrangements.

34 Alongside the cash baseline data, therefore, a learner profile of student numbers will be introduced. There will be a "full time equivalent" figure alongside the learner number. The details of the calculation of the FTE figures will be the subject of further guidance in January/February 2002.

35 The learner profile for 2002/03 will be:

		Numbers	FTEs
16–18s	Full time		–
	Part time		
Adults (19+)	Full time		–
	Part time		
Adults (19+)	Basic skills		
	Disadvantage		
	Qualification provision		
Learners receiving additional support			–

36 The learner profile will be based on discussions between the local Council and the institution. The source of information will be indicative learner numbers for 2000/01 taken from ISR20, along with information on growth funded in 2001/02 and planned growth in 2002/03.

37 The adult numbers in basic skills, disadvantage and qualification provision are subsets of overall adult numbers. The categories are not exclusive (for example all basic skills students are classified as disadvantaged for funding purposes).

38 The Council will be issuing guidance on typical conversion rates between learner numbers and funding in the Planning and Budgeting Allocations guidance in January/February 2002.

Allocating growth

39 Following the receipt of the Secretary of State's guidance, and depending on the funds available, local Councils will allocate growth in accordance with Council and government priorities. Local Councils will decide how to use their allocations to meet local priorities and demands in their area within a national framework. Institutions will want to make a specific case to the executive director of the local Council where, based on individual circumstances, they believe they can deliver more provision than is funded in their baseline allocation for 2002/03.

Safety netting

40 The changes to funding FE may result in changes to the level of income directly as a result of the implementation of the new funding approach; this effect is referred to as 'turbulence'. A number of small changes to funding arrangements, acting cumulatively, may have a significant impact on overall levels of funding for an individual provider.

41 Throughout the development of the new arrangements, decisions have been informed by modelling the impact of different options to avoid unnecessary turbulence. The modelling shows that a majority of providers previously funded by the Further Education Funding Council (FEFC) are not likely to be significantly adversely affected by the introduction of the new approach. However a small number of providers may experience considerable shifts as a result of the new system, particularly where institutions are delivering a limited range of provision. The impact on large general FE colleges is usually less significant because negative and positive impacts of the new approach tend to balance across a wide range of provision. Sixth form college provision tends to comprise of widely available qualifications, which will be funded at listed national rates that are likely to closely reflect historical levels of funding. In such cases, the impact of the new approach is anticipated to be limited.

42 Even a small degree of change can be problematic for providers; the Council recognises this and proposes to establish safety net arrangements. The aim of these will be to allow providers who lose funding under the new system time to adjust to the new funding approach.

43 The Council will, where relevant, make a calculation of a cash sum, or safety net figure, below which the institution's income will not fall in 2002/03 providing the volume of provision does not decrease. A safety net figure will, where appropriate, be discussed with individual institutions during the planning and budgeting process for 2002/03.

44 The aim of the safety net figure will be to guarantee funding at 2001/02 rates for the volume of provision delivered in 2001/02 so that an institution does not receive less funding in 2002/03 for the same volume and broadly the same type of provision compared

to 2001/02. The purpose of the safety net figure is to ensure cash protection is available for institutions that would otherwise lose income as a result of the new funding approach. The volume of provision to be safety netted will be derived from robust evidence of previous years' volumes.

45 The safety net arrangements are not intended to maintain an institution's funding levels outside the new methodology. Safety net arrangements are intended to be a short-term approach and will be kept under review and subject to affordability. For most institutions one year of safety netting should enable them to adjust to the new formula approach. However, where this approach does not meet the needs of individual institutions, local Councils will work with those who need significant support and if necessary offer additional support as outlined in paragraph 59.

46 Details of the safety net calculation method will be provided in the planning and budgeting guidance in January/February 2002.

Planning and budgeting for FE timetable 2002/03

47 The Council will aim to work to the following planning and budgeting timetable for 2002/03, whilst recognising that the introduction of, and transition to, the new arrangements may make this challenging:

December 2001 onwards	<p>Local Councils will discuss with FE providers their planned volume of activity and financial plans for 2002/03. These discussions will need to take into account the providers' strategic plans, the local Council's proposed draft strategic plan, the latest early monitoring data, likely learner numbers and the outcome of the most recent provider review. Local Councils and providers will want to consider the likely impact of the new funding methodology guided by the outcome of modelling software</p> <p>The Council will consider the Secretary of State's annual guidance letter and confirm availability of funds and priorities</p>
January 2002	<p>Baseline data based on 2000/01 out-turn (ISR20) and 2001/02 allocation data will be issued to local Councils for discussion and agreement with each institution. Growth funding will be allocated to local Councils to distribute to institutions. Detailed guidance on the Planning and Budgeting Allocations process for 2002/03 published January/February</p>
February/March 2002	<p>Local Councils will agree proposed allocations and learner numbers with each provider. Where a local Council considers there will be a significant reduction in an institution's activity, which will impact on their 2002/03 baseline, these will be dealt with on an individual basis</p>
5 April 2002	<p>Target date for responses from local Councils to the national office on proposed allocations</p>
April/May 2002	<p>The national office will aggregate all proposed allocations. Adjustments in funding will be agreed across local Councils by moderation and subject to local and national priorities</p>
June 2002 onwards	<p>Finalised allocations and funding agreements will be issued by local Councils</p>

Effect of performance in 2001/02 on 2002/03 funding

48 The initial assessment of an institution's performance against its funding agreement for 2001/02 will be based on the ISR21 (1 November 2001; 2001/02) return made to the Council.

49 The Council will include with the indicative baseline allocation notification of an all-year estimate of funding units for 2001/02. The all-year estimate will be calculated by applying the units generated for the autumn period from ISR21 (1 Nov 2001; 2001/02) to the profile of units generated in the autumn period for 2000/01 from ISR20 (31 July 2001; 2000/01).

50 Institutions are requested to discuss with local Councils any significant differences between the total funding units allocated and estimated performance in 2001/02. Where the notified all-year estimate is significantly different to institutions' own calculations, institutions are requested to provide details to their local Council of their own all-year estimate and how it has been calculated.

51 Confirmation of the level of growth offered in 2002/03 will result from discussions between the institution and the local Council. Institutions that are expected to be significantly below target against their 2001/02 funding agreement and those that have not returned ISR21 are unlikely to be allocated any growth for 2002/03.

52 Where an institution is not expected to meet its 2001/02 funding agreement, it will be expected either to:

- identify, with supporting evidence, how it intends to generate in 2002/03 at least the learner numbers and earned income in its 2002/03 baseline allocation
- offer cash back to the Council as part of its response to its 2002/03 baseline allocation.

53 If, after discussion with the local Council, there is some doubt that an institution can earn the income in its 2002/03 baseline allocation the Council may offer only the cash equivalent to the number of units the institution is predicted to generate in 2001/02. Each institution will have a minimum funding allocation in 2002/03 of 90% of its 2001/02 cash allocation. This will be subject to any adjustment described in paragraph 57.

54 A final audited claim for units for the teaching year 2001/02 will be required after the year-end in February 2003 from each institution. Should the out-turn achieved by an institution be significantly less than that set out in its 2001/02 funding agreement, the Council may review in-year the institution's 2002/03 funding allocation. The Council will also consider the data from the first ILR return for 2002/03 as an indication of likely achievement in 2002/03, and may monitor achievement of student numbers through an early monitoring return and discussion with the institution.

55 Learner Profiles will be used in 2002/03 for planning and monitoring purposes only and will not form part of the reconciliation process.

56 Local Councils will discuss differences between planned enrolments and outcomes with institutions and may agree a different balance or volume of provision for the subsequent year so that learner number expectations more closely match the funding allocated to the institution.

57 An institution will be protected at 90% of its cash allocation each year. It is intended that, as has happened previously, where an institution has failed to achieve 90% of its 1999/00 allocation in 2000/01, and is

expected to fail to achieve 90% of its 2000/01 allocation in 2001/02, the Council will adjust the allocation for 2002/03 and cash funding to reflect more accurately the institution's performance.

58 This adjustment would be reviewed in the light of the institution's audited final claim for 2001/02. If the institution generated more income than originally used in calculating the allocation for 2002/03, all additional provision achieved, up to 90% of the institution's 2001/02 allocations, will be added back into the 2002/03 allocations.

Support for colleges in financial difficulty

59 The FEFC's approach to dealing with colleges in financial difficulty included the option of rebasing some institutions. The process of rebasing was described in paragraphs 6 and 7 of annex B to FEFC Circular 99/09 *Franchising, Fees and Related Matters*. The cash-based approach means that rebasing is no longer appropriate. All institutions will receive the agreed allocation of funding for the relevant volume of learners. Where it is deemed necessary to provide additional funding to ensure adequate provision of learning in a locality, the Council may offer additional support on specified conditions, set out within an agreed Recovery Plan.

Local planning

60 Local Councils face a variety of different needs, and their strategic plans will need to reflect this whilst, at the same time, showing how each local Council will contribute to the achievement of the LSC's national targets. Local Councils will want to consult with providers to establish target levels and address the specific needs of their localities whilst working within the context of the Council's national vision, mission and key objectives.

61 Institutions' Learner Profiles will be agreed as part of the local strategic planning process and learner numbers should relate to local Councils' plans and priorities.

62 The Council recognises that some employer groups have preferred to make national arrangements via the Council. These are dealt with via the National Contracting Service. Institutions involved will be informed of the arrangements for data collection and target allocation relevant to this provision. It is not intended that approved national projects will trigger additional audit scrutiny.

Outstanding audit certificates

63 A number of institutions have audit certificates relating to the use of funds or funding claims outstanding. The Council will consider, on an individual basis, appropriate action, which could result in a reduced allocation for 2002/03 pending the receipt of a final claim.

Additional support

64 The Council will consider increasing or decreasing the funding received by an institution where there are changes in the number of students requiring additional support. This would apply in the following circumstances:

- where the number of students requiring additional support for 2002/03 is expected to be significantly above or below that in previous years
- where the institution's projected profile of additional support students for 2002/03 is expected to be significantly different to that of previous years.

Funding agreements and monitoring

Existing conditions of funding

65 The Council will attach conditions to its funding of institutions. Conditions (a) to (c) are required by the Secretary of State for education and skills:

- a. tuition fees shall not be charged to students aged 16–18 in full-time or part-time education. For the purposes of the funding agreement, '18', means 'under 19 on 31 August in the calendar year when the student commences a programme of study'; it is intended that such a student should continue to receive free tuition in any consecutive subsequent year of study of the same programme;
- b. colleges in the further education sector shall provide the data required by the secretary of state to permit the publication of comparative performance tables on student achievement and other matters in the light of consultation. In particular, each college shall:
 - provide to the Department for Education and Skills in a form and at a time to be specified: summary data relating to student achievements in vocational qualifications;
 - subsequently publish, alongside its information published by the college under section 50 of the *Further and Higher Education Act 1992*, national summary data relating to all qualifications;
- c. colleges in the further education sector shall have a college charter as envisaged in the *Charter for Further Education*;
- d. as required by the Council, colleges shall publish a disability statement;
- e. institutions should supply other information as required by the Council in order to enable it to report to the secretary of state on equality issues;
- f. where the appropriate inspectorate has assessed a curriculum or subject area as weak, the institution shall not increase the number of students taken on to the first year of programmes in the curriculum area or areas in question until the inspectorate is satisfied that the deficiencies have been remedied and the curriculum area has been re-graded. Where institutions which were inspected previously by the FEFC still have outstanding grades 4 or 5 for a curriculum area, the Council will apply the same conditions;
- g. If the FEFC inspectorate assessed the leadership and management as inadequate, the institution may not enter into new, or extend existing, Council-funded franchise arrangements, until the inspectorate is satisfied that the deficiencies have been remedied. The institution shall not increase the student numbers for franchise arrangements above the numbers at the date on which the college was notified by the inspectorate of the gradings for its leadership and management. Where institutions that were previously inspected by the FEFC still have outstanding grades 4 or 5 for quality assurance, governance or management, the Council will apply the same conditions;
- h. the institution shall endeavour to provide for at least the same number of students with learning difficulties and/or disabilities as it did in 2001/02 and at least to maintain the proportion of such students in its overall enrolment total.

66 In certain circumstances, the Council may not wish its funds to be used by an institution for a particular purpose, for example, to develop provision outside its local recruitment area where such provision is already made. It may also wish specialist provision to be maintained. In such cases, following discussions with the institution, the Council may include a specific condition of funding in that institution's funding agreement.

New conditions of funding

67 Fees shall not be charged to learners on basic skills provision. Further guidance on the funding of basic skills provision is detailed in the Council publication *Indicative funding rates for Further Education in 2002/03*.

68 The Council's duties under the *Learning and Skills Act 2000* are to secure proper facilities for learners aged 16–19 and reasonable facilities for learners over 19 years. In performing these duties, the Council has to take account of the places where facilities are provided, the character of facilities and the way they are equipped. Whilst the responsibility and the primary duty of care for learner health and safety clearly rests with the institutions, they may be required to provide information to the Council for the purpose of implementing the Council's strategy for learner health and safety.

Proposed new condition of funding

69 DfES has indicated to the Council that they wish to introduce a new condition of grant that no compulsory enrolment, registration or examination fees be charged to students' aged 16–18 in full-time or part-time education. The Department wishes to ensure there is a common approach to charging policy between schools and FE institutions. Compulsory charges may be a barrier to participation; particularly where a sixth form or tertiary college is the sole

provider in an area. The intention is that institutions will, however, be able to seek voluntary contributions from students or their sponsors.

70 Institutions would also apply reasonable conditions, for example, attendance, in order to qualify for free examination entry, similar to conditions applied in schools.

71 This condition of funding would not apply to other charges, for example relating to equipment and materials for vocational courses.

72 The Council, however, is discussing this proposal with the Department and is seeking views regarding the implication this proposal will have for institutions and students if it is implemented. Your views are welcomed and should be directed to your local Council Office by 31 January 2002.

Funding agreement

73 As in previous years under the FEFC, the Council will enter into a funding agreement with each institution. The funding agreement will set out the funds for the provision of further education that the Council has agreed to pay to the institution and the education and training programmes, which the institution has agreed to provide in return. Specifically, the institution will be expected to provide the education and training programmes contained in its strategic plan, or the equivalent, subject to responding to unforeseen circumstances and to:

- generate at least the total number of learner numbers and cash earned included in the institution's funding agreement with the Council
- increase the number of students broadly in each growth category in line with their growth allocation

- maintain the number of students in other categories where the institution's level of funding is maintained
- notify the local Council at the earliest opportunity of any likely significant shortfall.

74 Whilst it is recognised that sometimes institutions will wish to modify their planned students numbers in-year to meet shifts in demand, the Council has limited powers to vary between 16–18 and 19+ funds. Any resulting variation of student numbers, therefore, will need to receive the prior approval of the Council. The Council will need to be satisfied that local learning needs are met and particularly that 16–18 year olds' entitlement to a learning opportunity is respected.

75 Institutions are free to enrol additional students, without funding, as they consider appropriate. The Council cannot guarantee to fund such additional recruitment beyond target in 2002/03, but strong college growth performance, reflecting a local Council's strategic plan, will be a persuasive argument for increased allocation for 2003/04.

Tolerance of performance against funding agreement

76 FEFC introduced a 2% tolerance for over-performance or under-performance against funding agreement from 1997-98 and the Council agreed to maintain this 2% tolerance for 2001/2. We confirm that as stated in Circular 01/11 *Monitoring Growth 2000-01* the present system of tolerance will end in July 2002 and any underachievement outstanding at 31 July 2002 will be recovered.

77 The Council may consider introducing a new system of tolerance for 2002/03 onwards details of which will be published in January/February 2002.

Monitoring growth

78 The Council will monitor each institution's performance against its funding agreement each year. The Council will ask each institution to provide in the end of year return for 2002/03 a summary of the total activity in terms of cash earned by the institution against its 2002/03 funding agreement. For 2002/03 external auditors will carry out an audit of the ILR underpinning the cash earned for each institution, as directed by the Council.

79 Subject to discussion with local Councils, funds may be recovered at an appropriate level in relation to the non-achievement of growth in cash income targets, in respect of each growth category. Where there is a shortfall of income against the 2002/03 funding agreement, the Council will deduct funds from the institution's payments at the rate at which it was funded subject to:

- each institution being guaranteed 90% of its 2001/02 allocation even if its actual performance would imply a lower level of funding, unless the performance in 2000/01 was also less than 90% of the previous year's allocation
- a provision that no reduction with a value of less than £5,000 of its main allocation will be made.

80 Any institution not delivering the growth agreed will be subject to special attention at provider performance review.

Institutions not previously funded by the Council

81 For 2002/03 the Council may fund institutions that have not previously received funding through the FEFC. A full guidance manual the *Initial Assessment of New Provision* provides a framework for assessing and approving new providers. This document, which replaces previous procedures by predecessor organisations, provides guidance on:

- the Council's approach to handling applications from providers seeking funding for the first time as a new post-16 supplier or to supply types of provision for which they have not previously been funded. This covers any provider wishing to access Council funds, including organisations wishing to deliver different or additional occupational areas or programmes, or in a new LLSC or NCS area
- the assessment criteria for a provider to become eligible for funding.

82 The local Councils, as part of the annual planning and budgeting round, will carry out a strategic assessment in terms of adequacy and quality of its provision to determine areas that need to be strengthened or where there are gaps in provision. Local Councils may also wish to undertake this process during the course of the year as determined by local circumstances.

83 Local Councils will decide whether there is a need to seek applications from providers to deliver provision that cannot be met by existing institutions.

84 Initial assessment of new providers will determine whether they meet the minimum requirements for contracting with the Council. Once a potential new provider has been assessed and judged to be a suitable supplier of post-16 learning provision, it may be able to receive Council funds.

85 Initial assessment only applies to those new providers that wish to receive direct funding, including organisations currently sub-contracted to a college. It does not apply to existing Council suppliers that were previously funded by the FEFC or TECs. If, however, a supplier wishes to extend provision into areas where it has not been previously funded, additional assessment may be required.

86 Providers that are current franchise partners of colleges may seek and obtain approval as new institutions eligible to receive funding directly from the Council. However, this would not imply that the provider has a right to receive direct funding for the franchised provision it makes in partnership with the college. For franchise provision to be lawful it must be under the full control of the college, and so it forms part of the college's provision. If a provider wishes to terminate a partnership with a college, the funding for the provision that forms part of the college's baseline would not transfer to the provider unless the college and the local Council agree. The provider may, however, seek new funding if the local Council has invited applications to deliver provision that cannot be met by existing institutions. Colleges and local Councils will wish to discuss the implications of any significant proposed change in franchised activity at the earliest opportunity.

87 The DfES consultation document *Funding Flows and Business Processes* (May 2000) indicated that franchising would continue to be supported where it added value, and that the local Council would have the duty to monitor the quality and assess the value added. Where a local Council considers that the arrangements between a college and a partner do not secure adequate quality or add value, it will ask the college to review those arrangements. This review may include the balance between the funding transferred to the

franchise partner and that retained by the college.

Ufi funding

88 In 2001/02 £135 million was set-aside for students enrolled on Ufi provision. Most of this funding was allocated through 55 recipient colleges, but 11 hubs have been funded directly.

89 For 2002/03 there will be separate ring-fenced Ufi funding, with payments based on the national rates. Finalised funds for Ufi provision will be allocated separately for 2002-03.

90 The Council is currently discussing with Ufi the planning and budgeting process for learndirect activity in the 2002/03 academic year and further information will be issued in the planning and budgeting guidance in January/February 2002.

ESF funding

Co-financing arrangements

91 The DfES/DWP have introduced a policy of ESF Co-financing, which is applicable to all ESF delivery within Objective 1, 2 and 3 programmes across England. The process brings together ESF and Council funds within a Co-financer (for example, the Council) and makes them available as a single stream of funding, and reporting, to providers.

92 The processes of managing Co-financed ESF are drawn from the DfEE (as was) Co-financing Framework. The Council has also developed a considerable body of knowledge and guidance for the management of Co-financed ESF, as reflected in the LSC Operations Guide (Section 12, etc.). This guidance seeks to provide college specific information in addition to this broader guidance. It should be referred to as appropriate.

93 The Learning and Skills Council has applied for ESF Co-financing status through all of its local Councils. All local Councils will have achieved this status by the planning period 2002/03.

94 As such local Councils will be the vehicle for the management and delivery of ESF activity within the sector, as they will for Co-financed provision that relates to Work Based Learning (WBL), Education Business Links (EBL), Information Advice and Guidance (IAG) and the Local Initiatives Fund (LIF) and other provision funded by the Council and within the Council's remit.

95 The local Councils will be tasked with the development, management and delivery of their own Co-Financing Plans. Each will develop and consult on their plan, as a part of their wider strategic consultation. This will include opportunities for institutions to contribute to the development of the Plan. The Plan will highlight local priorities within the regional/sub-regional ESF Programme and be the basis for the application for funds from the Government Office (GO).

96 The local Councils are then responsible for the management of the selection of providers, an open and competitive process, and the subsequent contracting with successful bidders. The bidding process is much simplified from that used to apply for ESF direct.

97 The Co-financing framework requires the local Council to contract provision. At present this would require an overt LSC contract (as is the case for institutions delivering WBL). This will specify the activities, learners and outcomes expected of the institution as a result of such funding, noting that a proportion may already form part of a Funding Agreement held by an institution (that is, LSC resources being used as match funding). This will require a degree of specification of the value

and type of activity that is included within the Co-financed package.

98 The core management information requirements of ESF have been included within the ISR, which has meant some additional data capture until such time as the new ILR is introduced for August 2002. The additional data is the minimum required and will need to be submitted for all Co-financed learners (that is, matched and additional ESF learners).

99 As match funding and ESF are brought together at the level of the LSC as opposed to project within an institution, the process of 'abatement' is no longer valid for Co-financed delivery. ISR Guidance has been changed to reflect this.

100 Given the requirement for the local Council to report ESF Co-financed activity to the GO on a quarterly basis additional ISR returns have been required to ensure the local Councils are able to effectively report activity at the level of the Co-financing Organisation Plan. Clearly institutions will no longer have to capture ESF beneficiary data off line, or be responsible for such reporting to the GO.

101 In addition the Council has agreed nationally that the 'abatement' process should cease to be applied to those 'traditional' ESF projects that continue to be delivered. In both cases institutions will receive the full 'payment' for the beneficiaries concerned, through a combination of ESF and Council funding, that is, full payment for the LSC match funded learners and full ESF support for the additional delivery that is ESF funded.

102 Some institutions will have previously approved 'traditional' ESF projects that run on while Co-financing develops. Such projects must be notified to the local Council; this is required by the ESF Division to authorise the use of LSC Public Match Funding and will assist local Councils in the wider management of

Co-financed funds, where core college funding is used as Co-financed match funding.

103 There are also some circumstances where direct bids are still allowed to the Government Office. Whilst the Council would wish to emphasise its willingness to discuss, with providers, their envisaged match funding needs, it is important to stress that institutions will require specific approval from their local Council to bid for ESF directly to the Government Office to confirm the use of LSC Public Match Funding. Such direct bidding is only likely where a local Council is yet to take on the full range of ESF Measures available to it or in relation to European programmes which utilise ESF, but have, as yet, not adopted a co-financed approach to that ESF. (An institution does not need Council approval for their use of non Council funds as match funding, for example, Regeneration funds.)

104 Local Councils will need to agree and confirm with institutions 'packages' of delivery which will form the match funding for Co-financed activity and for which additional ISR data will be required. This should at least identify the group(s) of students concerned and their intended learning aims (and thus the cash they will 'earn' for the college). Such students will need to be identified at the point of entry to Co-financed provision to ensure effective and comprehensive data capture both through the ISR and project based reports to the local Council. This process of defining the learner group/activity will be more readily achieved under the application of the Formula (on a cash and volume basis) from August 2002.

105 Many institutions will already have approved ESF funding as a result of funding bids made before the advent of Co-financing. In some cases it will be advantageous for such 'traditional' ESF projects to be novated to the LSC and operated under the Co-financing

regime. In addition to the agreement of both the college and local Council approval for such a novation will be required by the GO. Further guidance will be provided to address such 'transfers'. There is no requirement on Local Councils to take on such projects. In the absence of such a 'transfer' institutions will remain the accountable body for such ESF, with the LSC as the Public Match Funder.

Summary of benefits for institutions

106 Management of ESF through Co-financing removes the whole ESF administration and audit burden from institutions. Institutions will no longer have to demonstrate added value of projects, the beneficiary data and cost data that makes up an ESF Claim, they report Co-financed activity in much the same way as they report other Council funded activity, that is, evidence the achievement and the individual. As a result institutions will gain the following benefits:

- added value of ESF Co-financed activity will be demonstrated (and audited) at the level of the Council. Institutions will no longer be subject to detailed cost based audit by the LSC, DfES, GOs or the European Commission
- institutions will only have to make one data return. ESF data collection has been integrated into the national data collection system (ISR/ILR). Presently two data sets are required, the ISR return and a separate one for Government Offices to report ESF activity as ESF requires considerable additional data to that recorded in the ISR

- managing ESF and match funding at the level of the Council means that institutions will be fully funded for the delivery they wish to offer, as opposed to having core units 'abated' against ESF funds. The removal of abatement also helps support the added value case made by the Council
- currently institutions are open to audit from a number of agencies. Recent DfEE/Commission audits have resulted in the return of significant amounts of ESF by institutions. This type of risk will no longer apply, as ESF audits will no longer seek to prove added value or cost evidence at the level of the institution. Clearly other more traditional audit to confirm beneficiaries and achievements will still occur, as it would for any Council funded provision
- the Council manages the payments of Co-financed funds. This and the requirement to ensure providers are not penalised by the retained final claim payment (of 20% of ESF) will improve institutions' cash flow
- institutions will have to have capacity to bid for additional Co-financed resources, but the bidding requirement and process will be more transparent and less onerous than that required for direct ESF bidding, which may save staffing and other resource.



John Harwood, Chief Executive

Glossary

16–18 learner	<p>For statistical and monitoring purposes, a learner is counted as 16–18 if aged between 16 and 18 on 31 August in the current academic year</p> <p>For funding eligibility purposes (that is, for calculating eligibility for fee remission), learners are counted as 16–18 if they are under 19 on 31 August in the calendar year in which the learner commences the programme of study</p>
Adult learner	Any learner over compulsory school age who does not fall within the definition of a 16–18 learner (see above)
ALF (average level of funding)	Under the FEFC funding formula, which is in operation for 2001/02, allocations to providers have been calculated by multiplying the number of funding units a provider is to be funded for by the provider's ALF (adjusted where appropriate by London weighting, specialist uplift factor and the provider's widening participation factor). Convergence of funding has led to a standard ALF of £17.22 in 2001/02 for all providers. As a result of exceptional circumstances, some providers may have an ALF above £17.22
Additional support	Activity that provides direct support for learning to individual learners, over and above that which is normally provided in a standard learning programme which leads to their primary learning goal. The additional support is required to help learners gain access to, progress towards and successfully achieve their learning goals. The need for additional support may arise from a learning difficulty or disability, or from literacy, numeracy or language support requirements
Baseline allocation 2002/03	Starting point for calculation of 2002/03 funding allocation, based on data for 2000/01 and 2001/02
Convergence	The FEFC policy to converge all providers to a common average level of funding (ALF) by 2001/02
Council	Learning and Skills Council
Cushioning	Where providers were being paid an amount in excess of the new national rate, it may be necessary to 'cushion' their fall in order to move them from the higher rate to the national rate

Damping	Payments are reduced where providers stand to gain a considerable amount through the move to the national rate
DfES	Department for Education and Skills (formerly the Department for Education and Employment)
DWP	Department for Work and Pensions
Disadvantage uplift	An enhancement to funding intended to promote wider participation in learning by individuals experiencing disadvantage. A percentage uplift is applied to formula funding, based on the postcodes of individual learners or based on specific categories of learners
EBL	Education Business Links
ESF	European Social Fund
Final funding claim	A provider's audited out-turn achieved in a funding year. This is prepared after the end of the year and includes all claims relating to achievement activity
Financial health category C	The Council's categorisation of a financially weak provider
Funding agreement	The agreement entered into by each FE provider with the Council each year when the final funding allocation is issued. The funding agreement attaches a number of standard conditions of funding. For individual providers, further specific conditions of funding may be included in the funding agreement
Funding unit	The FEFC's currency for determining a provider's funding allocation. A provider earned units for each enrolled learner. The number of units for a learner varied depending on a number of factors, including the entry, on-programme and achievement elements, tuition fee remission, additional support and widening participation
Guided learning hour	All the time when a member of staff is present to give specific guidance towards the course being studied on a programme. This includes lectures, tutorials, and supervised studying, 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 time spent by staff in the day-to-day marking of assignments or homework where the learner is not present. It does not include hours where supervision or assistance is of a general nature and is not specific to the study of the learners
GO	Government Office

IAG	Information, Advice and Guidance
ISR (individualised student record)	The FEFC's data collection system used by Council-funded providers to record comprehensive data about learners and to make regular data returns. This data was used to establish whether providers' funding targets have been met. It is intended that the ISR will be replaced by the Individual Learner Record (ILR) for 2002/03
Learner profile	Reflects the types of learner and the volumes of each of these. The learner profile will enable cash allocations to be made in association with minimum learner numbers for specific types of learner. The learner profile will be used for planning and monitoring purposes only and will not form part of the reconciliation arrangements
Learning hour range	The value of core programme funding, where a course is not individually listed, may be determined by assigning the course in question to a learning hour range based on the expected learning hours for the course
LIF	Local Initiatives Fund
Local Council	Local Learning and Skills Council (consistency in Indicative Funding use – LLSC)
LSC	Learning and Skills Council
National base rate	Represents the basic costs of delivering a programme, excluding the programme weighting element and any uplift for disadvantage or area costs
NCS	National Contracting Service
Safety net	The Council will, where relevant, make a calculation of a cash sum, or safety net figure, below which the provider's income will not fall providing the volume of provision does not decrease. The aim of safety netting arrangements is to allow providers who lose funding under the new system time to adjust to the new funding approach
Turbulence	Changes to the level of funding generated for the same provision, which result from a change in the funding approach.
Ufi	Ufi Limited – Learndirect is the brand name for provision delivered by Ufi learning centres

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