

# Circular 00/16

## Funding

### Monitoring Growth 1999–2000

#### Summary

This circular describes how the Council will assess each institution's performance against its funding agreement for 1999-2000. Whilst similar to the Council's approach for 1998-99, the approach for 1999-2000 has a number of variations. The following are explained: the categories of activity to be monitored; plans for recovery of funds; the policy for 2% tolerance for over or underachievement against funding agreement; and baselines for 1999-2000. The Council's anticipated approach for assessing each institution's performance for 2000-01 is also described.

This will be of interest to college principals, chairs of governors, chief education officers, heads of higher education institutions and external institutions in receipt of Council funding and external auditors of those institutions.

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# Monitoring Growth 1999-2000

## Introduction

1 This circular describes how the Council will assess each institution's performance against its funding agreement for 1999–2000. Whilst similar to the Council's approach for 1998–99, the approach for 1999–2000 has some variations; these are highlighted.

2 To assist institutions in their planning, the anticipated approach for the 2000–01 funding year is also described. This is subject to confirmation by autumn 2000.

3 The Council issued an early draft of this circular on its website in April 2000. A note of any significant variations from the early draft is available on the website to accompany the electronic version of this circular. Paragraphs that have changed are sidelined in this document.

## Background

### Approach for 1998–99

4 Circular 99/47, *Monitoring Growth 1998–99*, published in November 1999, described how the Council proposed to assess each institution's performance against its funding agreement for 1998–99. The approach adopted for 1998–99 differed from previous years, as this was the first time the Council had monitored specific growth targets as well as the aggregate units in each institution's funding agreement.

5 For 1998–99, each institution's performance against its funding agreement was monitored against the following categories:

- the total number of units in the funding agreement
- the units allocated for growth between 1997–98 and 1998–99 in 16 to 18 year-old full-time students (monitored in terms of student numbers)
- the units allocated for growth between 1997–98 and 1998–99 in adult and part-time students eligible for a widening participation (WP) uplift (monitored in terms of full-time equivalent (FTE) students).

6 Student number baselines for 1997–98 for the two growth categories were established. These were calculated by using 1997–98 outturn data (ISR13). If an institution generated more funding units than required by its funding agreement in 1997–98, the student number baseline was taken to be the level of the funding agreement. Conversely, if an institution generated fewer funding units in 1997–98 than required by its funding agreement, the baseline was set at the actual student numbers achieved.

### Thresholds within Growth Categories

7 Where any of the categories described in paragraph 5 were not achieved, the institution was liable to recovery of funds. As this was the first year that institutions were expected to deliver specific growth targets, and in view of the inherent difficulties in meeting each of these precisely, the Council allowed some flexibility regarding the achievement of targeted growth. That is, a threshold of 75% of student numbers was allowed before any recovery of funds took place. Although it was stated in Circular 99/47 that achievement falling below this threshold would result in full recovery of funds for any shortfall in units, the Council has since moderated this approach to one where recovery is made for underachievement below the 75% threshold only. For example, if an institution achieved 70% of its 16 to 18 growth target numbers, the Council would recover funds associated with 5% of its target numbers only. The 75% threshold thus offers a measure of protection where an institution may have used some of its growth units in the other growth category. If an institution still underachieves its total number of units the Council will recover funds, subject to the 2% tolerance.

### Tolerance of over or underachievement

8 The Council introduced from 1997–98 a tolerance factor which allows for the carry forward of up to 2% over or underachievement against an institution's total target units. Any underachievement has to be delivered in subsequent years. The 2% tolerance is calculated against the achievement of the total number of units in the institution's funding agreement, after the application of the threshold factor for the two growth categories. This is described in more detail at paragraphs 35 to 41.

9 Student number baselines for 1998–99 (based on 1997–98 outturn data) were issued to institutions in January 2000. At the same time, a spreadsheet was provided on the Council’s website to enable institutions to calculate their likely recovery position for 1998–99. As the Council had not received outturn data for 1998–99 – ISR16 (31 December 1999; 1998–99) – in January 2000, ISR14 data (31 July 1999; 1998–99) was used for illustrative purposes. Institutions were able, however, to input their own more up-to-date data to establish the likely recovery position.

10 A number of institutions that were predicted to deliver growth above their funding agreement received additional funding during 1998–99. Circular 99/47 indicated that the additional funding would be treated separately to the funding allocation as laid out in the funding agreement and would not be subject to the 2% tolerance policy; therefore, funds would be recovered in full for any shortfall in additional units associated with the additional funding. The Council has reviewed this position and has revised its treatment of the additional funding as follows:

- where an institution has underachieved the unit target in its funding agreement (that is, before any additional funding), the additional funding will not be subject to the 2% tolerance and will, therefore, be recovered in full
- where an institution has achieved the unit target in its funding agreement, and at least 75% of the units for the additional funding, the 2% tolerance will be applied to the institution’s funding agreement **plus** the units associated with the additional funding allocated.

11 The Council intends to issue institutions with a statement of their final recovery position for 1998–99 in July 2000 with a view to recovering funds in August 2000. Institutions that are concerned about the likely level of recovery are asked to make early contact with their regional office.

12 As indicated in *Council News* No. 57, issued in December 1999, the Council intends to reallocate any of the additional funds which are eligible for recovery, to colleges that have exceeded their funding agreement but did not originally receive a share of the additional funds.

It is anticipated that this will take place in September 2000. The calculation will be on the

gross figure (i.e. not abated for any carryforward of underachievement).

## Approach for 1999-2000

13 The Council recognises that the late publication of Circular 99/47 and notification of institutions’ 1998–99 student number baselines has been problematic for institutions’ planning cycles. The Council did, however, wish to be as flexible as possible in its approach to monitoring growth which led to delays in finalising the guidance.

14 The earlier publication of guidance on monitoring growth for 1999–2000 and 2000–01 is intended to provide institutions with the information required to plan delivery for the remainder of 1999–2000 and for the 2000–01 funding year. In planning delivery for the remainder of 1999–2000, institutions will wish to refer to Circular 00/11, *Funding: New Arrangements for Adult Learners*, which provides details of further short course provision to be eligible for Council funding from 2000–01, some of which is also eligible from May 2000 onwards.

## Categories of Activity to be Monitored

15 The Council intends to monitor each institution’s performance against the following three categories:

- the total number of units in the funding agreement
- the units allocated for growth between 1998–99 and 1999–2000 in 16 to 18 year-old full-time students (monitored in terms of student numbers)
- the units allocated for growth between 1998–99 and 1999–2000 in adult and part-time students eligible for a WP uplift (monitored in terms of student numbers).

16 The significant variation in approaches between 1998–99 and 1999–2000 is that the Council wishes to monitor all growth in student numbers (as opposed to FTEs for adults). This reflects the secretary of state’s key target of increasing student numbers in further education by 700,000 by 2002.

### Definition of a full-time 16 to 18 year-old student

17 Up until 1999–2000, the Council’s definition of a full-time 16 to 18 year-old student, for the purposes of making allocations to institutions and

monitoring performance against target, is as follows:

- a full-time student pursues a programme of study of at least 450 guided learning hours in the current academic year
- a student's age is calculated at 31 August in the **current academic year**, and a student must be aged between 16 and 18.

18 To calculate the fee remission status of students, to ensure that a student starting a learning programme when under the age of 19 is still eligible for fee remission if over 19 on the same learning programme, the following definition applies:

- a full-time student pursues a programme of study of at least 450 guided learning hours in the current academic year
- a student is eligible for fee remission if under 19 on 31 August in the calendar year when the student **begins a programme of study**.

19 Institutions are reminded that, for the purposes of monitoring growth, the definition described in paragraph 17 applies. The Council will, however, consider cases where an institution puts forward a robust case indicating that it is disadvantaged significantly under this definition (that is, that it will be liable to recovery of funds for a shortfall against its 16–18 growth target) and that it has recruited above target where students fall within the definition described in paragraph 18.

20 The definition of a full-time 16 to 18 year-old student does not include full-time part-year students, that is, students following learning programmes of less than 450 guided learning hours in the funding year. The Council will, however, consider individual cases where it can be demonstrated that the student is following a learning programme of at least 450 guided learning hours but this is split between two funding years (for example, where the student began a full-time programme in January).

## Baselines for 1999-2000

21 To enable institutions to assess their own performance against target for 1999–2000, the Council will, concurrently with the publication of this circular, issue details of baselines to each institution, based on its outturn data for 1998–99. The information to be provided for each institution is as follows:

- baseline student numbers for 16 to 18 year-old full-time growth
- baseline student numbers for adult and part-time WP students
- growth units and student numbers for 16 to 18 year-old full-time growth
- growth units and student numbers for adult and part-time WP students
- the institution's unit allocation for 1999–2000.

In each case, the baselines will be calculated as the lower of the target or actual achievement.

22 Baselines have been adjusted to take account of the transfer of responsibility for funding HNC/HND provision to the Higher Education Funding Council for England.

23 Student numbers associated with 16-18 full-time growth have been calculated by using a unit to student ratio of 150:1 for all institutions except agricultural colleges, where the ratio is 200:1.

24 Student numbers associated with adult WP growth have been calculated by using a unit to student ratio of 30:1 for all institutions except agricultural colleges, where the ratio is 40:1.

25 The Council will consider exceptional cases where the unit to student ratio for an institution is significantly different from either of those described in paragraphs 22 and 23. There may be a case, for example, where an institution receives a high level of additional support units for students.

26 A spreadsheet will be provided on the Council's website to enable institutions to calculate their likely recovery position for 1999–2000 based on their most up-to-date data. It is intended that this will be available during July.

### Additional funding for growth in 16 to 18 year-olds

27 A number of institutions received additional funding for growth in 16 to 18 year-old student numbers in 1999-2000, based on each institution's ISR15 (1 November 1999: 1999–2000). Institutions were notified of this in their provisional allocations for 2000-01, issued on 29 February 2000. The Council intends to monitor this additional allocation in broadly the same manner as for the additional funding in 1998–99 (described at paragraph 10), that is:

- where an institution has underachieved the unit target in its funding agreement (that is, before any additional funding), the additional funding will not be subject to the 2% tolerance and will, therefore, be recovered in full
- where an institution has achieved the unit target in its funding agreement, and at least 85% of the units for this additional funding, the 2% tolerance will be applied to the institution's funding agreement **plus** the units associated with the additional funding allocated.

#### Method of assessing performance

28 An example of how the Council will assess each institution's performance will be provided on the Council's website during July 2000, together with detailed explanatory notes for each step of the process.

### Recovery of Funds

29 The Council intends to recover funds associated with any underachievement against the two following categories:

- the total number of units in the funding agreement
- the units allocated for growth between 1998–99 and 1999–2000 in 16 to 18 year-old full-time students.

30 For the 16 to 18 year-old growth target, a threshold of 85% of student numbers before recovery takes place will be used. The threshold has been revised from 75% for 1998–99 as institutions will now be familiar with the necessity to deliver against growth targets as well as against their funding agreements as a whole. The Council expects that institutions will plan to over-deliver in student numbers in order to meet their targets. Recovery will be made for underachievement below the 85% threshold only and any recovery will be moderated by the Council's 2% tolerance for overall underachievement.

31 Whilst the Council will monitor the achievement of the adult WP growth target, it does not intend to recover funds separately for underachievement in this category. This is in recognition of the difficulty of achieving growth accurately in both categories and, in particular, reflects the secretary of state's priority for increasing

16 to 18 year-old student numbers. The Council will, however, take into account the achievement of adult WP growth in calculating allocations for the Learning and Skills Council (LSC) to make to institutions for the 2001–02 funding year.

32 The adult growth allocated in 1999–2000 consisted of a single unit figure, which was made up of two components. These were a standard figure of 1.65% for all institutions and a variable amount linked to the institution's WP factor. This second percentage ranged from zero for an institution with a 1998–99 WP factor of 1.000 to 5% for an institution with a 1998–99 WP factor of 1.03 or more. The number of students in the adult WP growth category will be calculated from this second percentage only.

33 As set out in Circular 99/07, *Funding Guidance 1999–2000*, (paragraph 113), the Council will not recover funds where they total a value of less than the lower of £5,000 or 5% of an institution's main allocation.

34 As indicated in Circular 99/36, *Payment of Funds 1999–2000*, (paragraph 17), and in view of the life of the Council, institutions should plan for any recovery of funds for underachievement against the 1999–2000 funding agreement to take place in March 2001. Funds will be recovered taking account of the Council's tolerance policy described below.

### Tolerance of Over or Underachievement Against Funding Agreement

35 Each institution can carry forward up to 2% over or underachievement against its total target units in each year. This circular seeks to provide a simplified explanation of the policy which was first described in Circular 99/07, *Funding Guidance 1999–2000*.

36 The intention is to enable institutions to carry forward each year, of the years 1997–98 to 2000–01, any over or underachievement, to a maximum of 2% of that year's target units (NB not the previous year's target as described in Circular 99/07). This means that institutions are able to offset underachievement up to 2% in any of these years by any overachievement up to 2% in any of these years. Where the net underachievement in any one year is greater than 2% of that year's target, the excess will be recovered by the Council. The

institution will then carry forward the remaining underachievement (equating to 2% of that year's target). At the end of the 1997–98 to 2000–01 period, any net underachievement will be recovered by the Council.

37 The annex provides a number of examples to illustrate how the policy works in practice.

38 It was not the intention of the original guidance in Circular 99/07 to allow institutions that underachieved against their funding agreement a 2% 'credit' that would never be subject to recovery; the policy has, however, been interpreted in this way by a number of institutions. In the light of the transfer of responsibility for funding further education provision to the LSC, institutions must plan for any negative balance remaining at 31 July 2001 to be recovered by LSC. It is envisaged that the LSC will wish to consider whether to establish a similar carry forward policy.

39 The Council intends to recommend to the LSC that any recovery of funds as at 31 July 2001 should be calculated by applying the institution's average level of funding for 2000–01. An example using this approach is provided in the annex.

40 The Council has recently recovered funds from those institutions underachieving in 1997–98. This took into account the 2% tolerance (recovery therefore being made only for any underachievement beyond 2% underachievement) but was calculated on the basis of 2% of the previous year's target, not the current year's target. The Council will recalculate institutions' recovery positions, basing the 2% carry forward on the 1997–98 target. Institutions will be notified of any changes to their recovery positions in July 2000.

41 The Council will consider exceptional cases from institutions which justify a higher tolerance in a particular year. This will typically be for such cases as where an institution has received a more favourable European Social Fund allocation than expected, which results in the institution delivering the same level of provision as predicted but for fewer units.

## Approach for 2000–01

42 The Council anticipates that a similar approach will be adopted in assessing each institution's performance against its funding agreement for

2000–01. However the baseline will be the target agreed for 1999–2000 (not the actual achievement).

43 The Council intends to incorporate institutions' baselines for 2000–01 within their operational allocations for 2000–01, due to be issued in the week beginning 26 June 2000. These baselines may need to be revisited in the light of any additional consolidated funds which the Council allocates to institutions during the course of 2000–01.

44 One significant variation to the approach for 1999–2000 is the inclusion of additional units for the implementation of curriculum 2000. Where significant numbers of additional units per 16 to 18 year-old full-time student have been allocated to institutions to deliver curriculum 2000, the Council will wish to monitor institutions' delivery of these programmes. It is intended that an initial review is undertaken in autumn 2000. Further guidance will be provided in due course.

45 The unit to student ratio for 16 to 18 year-old full-time students is likely to increase significantly from that used for 1999–2000 (as described in paragraph 23) following the introduction of curriculum 2000.

46 A further significant variation relates to the thresholds for the growth categories in 2000–01. In line with ministers' views that institutions should be delivering the growth in student numbers as set out in their funding agreements, a threshold of 90% (compared to 75% in 1998–99 and 85% in 1999–2000) achievement of student numbers before recovery takes place will be adopted.

47 For 2000–01 the Council will be allocating funds for adult growth associated with University for Industry(Ufi)/learndirect provision. The Council (and Ufi) will wish to monitor this element of the adult growth allocation separately. Further guidance will be provided in due course.



# Tolerance of Over or Underachievement Against Funding Agreement

## Example 1. Overall underachievement between 1997-98 and 2000-01

	1	2	3	4
	1997-98 (units)	1998-99 (units)	1999-2000 (units)	2000-01 (units)
<b>A Balance carried forward</b>	0	0	-1,900	-900
B Target units	92,000	95,000	94,000	97,000
C Actual units (audited outturn)	92,000	93,000	95,000	96,000
D Over/underachievement	0	-2,000	1,000	-1,000
E Balance after over/underachievement taken into account	0	0 - 2,000 = -2,000	-1,900 + 1,000 = -900	-900 - 1,000 = -1,900
F Max. tolerance available (2% of current year's target)	1,840	1,900	1,880	nil (as last year of Council)
G Recovery for year	0	-100	0	-1,900
<b>H Balance</b>	<b>0</b>	<b>-1,900</b>	<b>-900</b>	<b>0</b>

## Calculation of recovery of the 1,900 units which remain outstanding at 31 July 2001

	1998-99	1999-2000	2000-01	Total funds recovered
Over/underachievement	-2,000 units	1,000 units	-1,000 units	
Average level of funding	£16.80	£16.90	£17.00	
Recovery calculation				1,900 x £17.00 £32,300

**Example 2. Overall overachievement between 1997-98 and 2000-01**

	1	2	3	4
	1997-98 (units)	1998-99 (units)	1999-2000 (units)	2000-01 (units)
<b>A Balance carried forward</b>	<b>0</b>	<b>1,840</b>	<b>-160</b>	<b>840</b>
B Target units	92,000	95,000	94,000	97,000
C Actual units (audited outturn)	94,000	93,000	95,000	99,000
D Over/underachievement	2,000	-2,000	1,000	2,000
E Balance after over/underachievement taken into account	2,000	1,840 - 2,000 = -160	-160 + 1,000 = 840	840 + 2,000 = 2,840
F Max. tolerance available (2% of current year's target)	1,840	1,900	1,880	nil
G Recovery for year	0	0	0	0
<b>H Balance</b>	<b>1,840</b>	<b>-160</b>	<b>840</b>	<b>0</b>

*Note: The college will not receive additional funding for the overachievement of 2,840 units as at 31 July 2001.*

# Explanatory Notes

## Example 1

### 1997–98

- The institution begins with a balance of zero as the 2% tolerance takes effect from 1997–98 (box A1)
- A tolerance of up to 1,840 units is allowed for underperformance (2% of 1997–98 target) (box F1)
- The institution achieves target exactly and, therefore, does not need to use the 2% tolerance
- As it has not overachieved either, the institution does not carry forward any units to 1998–99 (box H1)

### 1998–99

- The institution does not carry forward any over or underachievement from 1997–98 (box A2)
- The institution underachieves by 2,000 units which is translated into a balance of -2,000 units (box E2)
- The institution has a tolerance for underperformance of up to 1,900 units (box F2)
- The tolerance is used in full and 100 units (2,000 – 1,900 units) are recovered from the institution (box G2)
- The institution carries forward a balance of -1,900 units to 1999–2000 (box H2)

### 1999–2000

- The institution carries forward a balance of -1,900 units from 1998–99 (box A3)
- The institution overachieves by 1,000 units. The balance now stands at -900 units (box E3)
- The institution has a tolerance for underperformance of up to 1,880 units (box F3)
- The tolerance is offset against the -900 units. No funds are recovered (box G3)
- The institution carries forward a balance of -900 units to 2000-01

### 2000–01

- The institution carries forward a balance of -900 units from 1999–2000 (box A4)
- The institution underachieves by 1,000 units. The balance now stands at -1,900 units (box E4)
- The institution has no tolerance for underperformance this year as recovery must be made in 2000–01 (box F4)
- The balance of -1,900 units is recovered from the institution (boxes G4 and H4).

## Example 2

### 1997–98

- The institution begins with a balance of zero as the 2% tolerance takes effect from 1997-98 (box A1)
- A tolerance of up to 1,840 units is allowed for underperformance (2% of 1997–98 target) (box F1)
- The institution overachieves by 2,000 units and, therefore, is affected by the 2% tolerance limit
- The institution carries forward a balance of 1,840 units (maximum of 2% of target) to 1998–99 (box H1)

### 1998–99

- The institution carries forward a balance of 1,840 units from 1997–98 (box A2)
- The institution underachieves by 2,000 units which is translated into a balance of -160 units as this underachievement is offset by the 1,840 units carried forward (box E2)
- The institution has a tolerance for underperformance of up to 1,900 units (box F2)
- The tolerance is offset against the -160 units. No funds are recovered (box G2)
- The institution carries forward a balance of -160 units to 1999–2000 (box H2)

### 1999–2000

- The institution carries forward a balance of -160 units from 1998–99 (box A3)
- The institution overachieves by 1,000 units. The balance now stands at 840 units (box E3)

- The institution has a tolerance for underperformance of up to 1,880 units (box F3)
- The institution carries forward a balance of 840 units to 2000–01

2000–01

- The institution carries forward a balance of 840 units from 1999–2000 (box A4)
- The institution overachieves by 2,000 units. The balance now stands at 2,840 units (box E4)
- The institution has no tolerance for underperformance this year as recovery must be made in 2000–01. In this case, the tolerance is not required in any case (box F4)
- No recovery of funds from the institution is made (boxes G4 and H4).

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