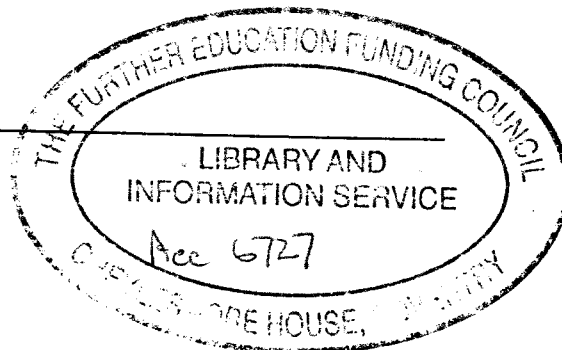


14 May 1993



**THE
FURTHER
EDUCATION
FUNDING
COUNCIL**

CIRCULAR

To

Principals of colleges
Heads of higher education institutions
Chief education officers

Sheriffs Orchard
Greyfriars Road
Coventry CV1 3PJ

Subject

**Recurrent funding
methodology 1994-95**

Summary

Detailed analysis of responses to
Funding Learning; Council decisions
on a new funding methodology;
proposed implementation work plan
and the setting up of the tariff
committee

Reference number: 93/14

Enquiries:

Tony Holloway
Assistant director of finance (funding)
0203 530300

93/14

RECURRENT FUNDING METHODOLOGY 1994-95

INTRODUCTION

1 The Council issued its consultative document on a new recurrent funding methodology, *Funding Learning*, just before Christmas 1992. Responses were requested by 2 April 1993. The Council considered an analysis of the responses at its meeting on 29 April and decided the basis of its approach to funding for 1994-95. This circular gives an analysis of the responses to *Funding Learning*, reports the Council's decisions on the new funding methodology for 1994-95, and consults colleges about the first stages of implementing the new methodology.

RESPONSES TO CONSULTATION

2 Three hundred and eighty responses were received from colleges, associations, other education bodies, training and enterprise councils (TECs) and other organisations. The Council thanks all colleges and other organisations which participated in the consultation for their time in considering the issues and for sharing their views with the Council. The responses provide a wealth of reflections and suggestions which will continue to inform the development of the methodology for some time. The main views expressed on the 'agenda' of items provided on page 10 of *Funding Learning* are summarised in annex A.

3 It is clear from the responses that the document was widely welcomed, both for its treatment of the issues and the opportunity it gave respondents to express their views on a major matter affecting colleges. On the key issues which will affect the overall shape of the new methodology, the responses were:

- nearly unanimous support for the analysis of learning processes into the three elements: entry, on programme, exit
- 94 per cent of respondents wished funding to be based on programme elements rather than enrolments
- 64 per cent supported 'approach 2' for the allocation mechanism: that is, colleges to make proposals for the volume of activity to be funded, the Council to assign the rates of funding

- nearly unanimous support for the core-and-margin approach to securing year-on-year stability
- 93 per cent of responses supported option E based on programme elements (see annex B) including 96 per cent of colleges' responses and the responses of the college associations, the main unions, the Further Education Unit, the Staff College, the National Council for Vocational Qualification and the three main awarding bodies. Support also came from 19 of the 24 TECs which responded.

COUNCIL DECISIONS

4 In the light of the responses the Council has decided that the key elements of the future approach to funding will be:

- **the implementation of option E, based on programme elements**
- **the allocation system to be based on colleges' proposals for volume combined with rates of funding determined by the Council**
- **year-on-year stability to be secured by the core-and-margin approach.**

5 The Council has also decided that:

- the work should be carried forward by a reconvened and strengthened implementation group
- colleges and other providers should be consulted on each significant step of the process
- key decisions should be brought back to the Council for approval at each stage
- the details of the new methodology should be settled by the end of 1993 and allocations for 1994-95 should be announced in March 1994.

6 The Council also noted many colleges' concerns that their current information systems might not be able to support a new funding methodology based on option E. The Council has asked the implementation group to examine the scope for the Council to take an initiative on information systems both to support the new funding methodology and to assist colleges to manage their students' learning.

IMPLEMENTATION

7 The implementation group reconvened on 7 May. The membership has been adjusted, mainly by the addition of extra college members, to recognise the more detailed work of preparing proposals for the implementation of the new methodology. The revised membership is presented in annex C.

8 The group has identified four key stages in implementing the new methodology:

- Stage 1: deciding the composition and terms of reference of the tariff committee;
- Stage 2: the determination of the allocation mechanism for volume of activity and rate of funding;
- Stage 3: the identification and definition of the funding categories which are likely to be subject to differential funding including programme elements, programme areas, modes of attendance and the other possibilities discussed in chapter 5 of *Funding Learning*;
- Stage 4: the tariff committee to receive the specification of funding categories agreed by the Council and to determine the relativities between them for funding purposes, researching into any areas it deems necessary.

CONSULTATION

9 To meet the timescale agreed by Council and to ensure that colleges are fully consulted, the group is proposing that the Council should issue a series of consultation circulars corresponding to the four main stages identified above. The timing of the proposed circulars reflects the need for colleges to consider their responses, for the responses to be analysed, and for the Council to take key decisions as the methodology develops. The four circulars and schedules are set out in the box below.

Circular 1:
describing the consultation process and recommending the composition and terms of reference of the tariff committee

consultation circular issued	14 May 93
responses by	28 May 93
Council approval sought on	9 Jun 93
tariff committee appointed	Jul 93

Circular 2:
proposing detailed options for the allocation mechanism for volume of activity and rates of funding

consultation circular issued	4 Jun 93
responses by	30 Jun 93
Council approval sought on	15 Jul 93

Circular 3:
proposing the funding categories which are to be subject to differential funding including the programme elements, programme areas, modes of attendance and other possible categories

consultation circular issued	30 Jun 93
responses by	30 Jul 93
Council approval sought on	21 Sep 93

Circular 4:
proposing the tariff, that is the relativities for funding purposes between the different funding categories agreed by the Council

consultation circular issued	29 Oct 93
responses back by	30 Nov 93
Council approval sought on	14 Dec 93

10 The group recognises that the timetable is tight and therefore proposes that the consultation circulars should include, where appropriate, a list of specific statements which respondents should be asked to indicate whether or not they support. Space should also be provided for respondents to outline alternative proposals. It is intended that this approach will assist respondents to make their responses and enable the Council to analyse the responses precisely and quickly. A list of proposals is provided with this circular at annex D.

TARIFF COMMITTEE

11 *Funding Learning* envisaged that one way of defining different funding categories and establishing the relativities between them would be to set up a committee of practitioners to make proposals. *Funding Learning* dubbed this committee the 'tariff committee'. The tariff committee proposal was supported by 85 per cent of the 47 responses which specifically commented on it. It was also described in *Funding Learning* as an integral part of option E, which received overwhelming support. The Council has therefore agreed that the tariff committee should be established.

Terms of reference of the tariff committee

12 The implementation group proposes that the terms of reference of the tariff committee should be:

- to advise the chief executive of the Council of the categories of provision which should be differentiated for funding purposes in any year or period of years, and to identify the relative weighting for funding purposes of each category so as to avoid unintentional bias in the Council's funding allocations
- to advise the chief executive as to how the weightings might take account of particular Council policies
- to undertake research as necessary to enable it to make properly informed judgements about the need for funding categories and their relative weightings for funding purposes
- to consult all providers to be funded by the Council and other interested parties on its proposals
- to carry out other tasks as the chief executive may from time to time require.

Composition of the tariff committee

13 Given that the committee will have a specific role related to the operations of providers, the group concluded that its membership should be drawn from providers only and not from other bodies which do not have direct experience of such operations. The views of other bodies should be taken into account, however, in the consultation phase of the committee's work.

14 Since this would be primarily a committee of practitioners, it is considered that there would be advantage in asking the principal of a college to chair it. All of the main types of college and the different sectors of institutions, including higher education and local education authority institutions, would need to be adequately represented. The Council would service the committee. It would be desirable to invite one observer each to attend from the Department for Education, the Employment Department and the training and enterprise councils.

RESPONSES

15 Responses to this circular, using the enclosed questionnaire, should be sent to arrive by 28 May 1993 to:

Tony Holloway
Assistant director of finance (funding)
Further Education Funding Council
Sheriffs Orchard
Coventry CV1 3PJ
Telephone: 0203 530300

William Stuss

ANNEX A

FUNDING LEARNING

AN ANALYSIS OF RESPONSES

The Council received 380 responses to the consultative document *Funding Learning* as follows:

Art and design colleges	2
Agricultural and horticultural colleges	14
General FE colleges	134
Tertiary colleges	35
Sixth form colleges	29
Sixth form voluntary aided colleges	6
Sixth form voluntary controlled colleges	5
Specialist designated colleges	10
Associations/other education bodies	19
TECs	24
Special needs groups	16
Other organisations	86
	<hr/>
	380

Not all organisations responded to every proposal and the following is a summary of the responses received.

For ease of reference, the analysis has been set out as per the list on page 10 of *Funding Learning*.

Item	Proposal	Colleges		Associations/ education bodies		Others		Total	
		Agree	Disagree	Agree	Disagree	Agree	Disagree	Agree	Disagree
a	The method of funding should reflect the processes of learning within colleges, that is, classify learning programmes into entry, on programme and exit	153	3	8	0	50	1	211	4
b	Strategic plans should not form the basis of funding, but they should play an important function in informing the Council about colleges' aims and objectives	55	16	6	0	10	1	71	17
c	The recurrent funding mechanism should ensure that it offers the Council the scope, should it wish to take it, to secure changes in the nature and scale of provision by colleges	38	6	5	0	12	1	55	7
f(ii)	The Council should not operate differential funding for different levels of programmes	36	14	3	1	12	3	51	18
f(iv)	Students with learning difficulties and disabilities should be integrated into mainstream provision with other students, with weightings for funding purposes attached to individuals	79	5	5	0	15	1	99	6
f(v)	Differential funding for adult learners should only recognise the costs of part-time provision and the high labour intensive nature of basic education	44	13	5	0	16	3	65	16
f(vi)	The Council should adjust its funding allocations to allow for the different abilities of colleges to earn fee income from low income groups, either on a geographically based indicator of need or by defining groups of people from whom no fee income would be expected	49	6	2	0	15	4	66	10
f(viii)	Differential funding on the basis of type of institution is potentially unfair and might perpetuate inefficient forms of provision	23	17	3	1	10	1	36	19
f(ix)	The Council should encourage colleges to maximise their fee income from students, other than 16 to 18 year olds in full time education, recognising the differing opportunities faced by colleges in different locations	23	5	0	0	7	2	30	7
f(x)	The Council expects colleges to find matching funding from their main allocations in respect of specific grants from government departments and the European Community	23	1	1	0	8	0	32	1

Item	Proposal	Colleges		Associations/ education bodies		Others		Total	
		Agree	Disagree	Agree	Disagree	Agree	Disagree	Agree	Disagree
g	The Council should take account of quality assessments by investing additional funding in colleges, probably for a limited period of one or two years, either to secure specific improvements where weaknesses had been identified or to enhance satisfactory provision	53	12	2	1	9	2	64	15
	Should a tariff committee be established?	36	6	0	1	4	0	40	7
i	Options for basis on which a unit or units could be attached:								
	Student enrolments	10		0		1		11	
	System based on elements of learning programmes	120		7		31		158	
j	Four options for allocating volume of activity and rate of funding:								
	Approach 1 – volume by formula – rate by Council	14		0		2		16	
	Approach 2 – volume by college – rate by Council	86		8		11		105	
	Approach 3 – volume by college – rate by college	28		1		10		39	
	Approach 4 – volume by vouchers – rate by Council	1		0		2		3	
	Combination of 2 and 3	1						1	
k	Two options to secure year-on-year stability in funding:								
	Zero based approach	1		0		0		1	
	Core and margin approach	118		8		22		148	
l	Six options to be used as the basis for a funding methodology								
	Option A	4		0		1		5	
	B	1		0		0		1	
	C	1		0		1		2	
	D	0		0		4		4	
	E	224		15		81		320	
	F	3		2		7		12	
	Combination of E and F (TECs)					4		4	

ANNEX B

EXTRACT FROM FUNDING LEARNING CHAPTER 9

OPTION E – FUNDING BASED ON UNITS OF PROVISION

A principal difficulty with each of the options A to D is that the more categories of programmes, modes, elements and other factors there are, the more cumbersome the allocation process becomes to operate. A way of coping with this would be to keep the number of separate funding categories to a minimum, thereby adopting a 'broad brush' approach. This might be satisfactory for the larger, general colleges, but it could create difficulties for smaller or more specialised colleges. An alternative way of avoiding these problems would be a method in which the funding categories are kept separate from the allocation process. Option E shows how this could be done.

The volume of activity at a college would be expressed in terms of a single standard unit of provision. Instead of allocating student numbers in different funding categories as in options A to D, the method would simply allocate a number of units to each college. A college's allocation would be £x million for y units of activity.

Colleges' provision would be converted into the standard units by a tariff which listed all of the separate categories of provision which the Council and sector agreed should be differentiated for funding purposes, including the programme elements. Each separate funding category would be assigned a value expressed in units. By means of the tariff, each college would be able to express its total provision as a total number of units.

Using a standard unit or common currency to represent activity would enable the Council to reflect the different types of costs of learning programmes in its funding method without dividing the method as in option D into parts. In particular, one-off payments such as were proposed in chapter 3 for the entry and exit elements of learning programmes could be combined with the time-variable payment for the on programme element. The conventional weighted FTE approach cannot easily do this.

The allocation process each year would be very simple. Colleges would be guaranteed core funding related to a baseline number of units in a similar way to options A to D. The remaining margin of funding and additional units could be allocated either by a simple formula based on growth rates, average funding per unit of activity, or any other aspect of performance; or by a 'proposals mechanism' in which, for example, colleges could bid for additional units and propose their own price per unit. Because programme areas, modes and other factors would be kept out of the process at this stage, the allocation mechanism would be easy to administer by both colleges and the Council. In a bidding system, for example, the Council would be responding to a single bid from each college stating the number of additional units sought and the price per unit offered.

Allocations of funds and a target number of units would be made to colleges in the expectation that they would deliver provision broadly in line with their strategic plans. In monitoring performance, the Council would assess first whether the total provision made by a college added up to the target number of units allocated to it. If not, some adjustment of funding could be made. The Council would also check whether the delivery was consistent with the plan and if not, as set out in chapter 4, would consider the appropriate response.

One way of setting the tariff would be to establish a 'tariff committee' consisting mainly of members of colleges. It would be the function of the committee to agree the list of items in the tariff and to recommend the number of units to be assigned to each item on the basis of relative costs to colleges of providing them.

The Council would have the power to vary the committee's recommendations but it would do so explicitly, identifying the adjustments it was making both by item and the degree of adjustment. This would give the Council a clear mechanism for providing policy steers to the sector and expressing them in a quantitative way.

In order to increase stability in the system, it might be desirable for the tariff to be agreed and then reviewed, say, every three years in line with the strategic planning cycle. This would stabilise a substantial proportion of the funding methodology for three-year periods and would help to minimise the administrative burden of the funding system.

A similar approach could be adopted for options A to D as the means for agreeing weightings for subject categories, modes of attendance and the other factors.

Option E would be very flexible because it could be extended and developed with the minimum of disruption. The mechanism for allocating units to colleges could be changed without disturbing the tariff, and the tariff could be developed without changing the allocation mechanism. In particular, the tariff could be constructed initially so as to be broadly equivalent in its effect to current enrolment-based systems by assigning most of the units ascribed to a programme to the on-programme element. The entry and exit elements could be given small or zero values to begin with. Subsequently, once confidence in the system had been built up and the necessary information systems established, the value of units assigned to each element could be adjusted gradually in line with the Council's objectives. The option is illustrated in the figure on the following page.

FIGURE: OPTION E – FUNDING BASED ON UNITS OF PROVISION

Units	Programme elements
Volume	Any of options A, B or C
Rate	
Stability	Core and margin

1 Expressing Provision in Standard Units

Illustrative Tariff

Programme:			
Programme elements - units per student			
Modes	Entry	Programme	Exit
Full-time full year	8	40	8
Part-time non-released	8	15	8
etc	etc	etc	etc

Calculation of Total Units: Construction, Full-time Full year

Activity	Number of students	Units per student	Total units
Assessment and placement	1000	8	8000
Completed scheduled programme	900	40	36000
Achieved qualification aim	800	8	6400
Achieved other satisfactory outcome	50	8	400
Achieved half of the credits towards qualification aim	100	4	400
Total units for programme and mode			51200

2 Allocating Funds and Units to Colleges

Options A, B or C
 £x for y units

Allocation process only involves standard units of provision. Each college receives an allocation of funds in return for a given number of units.

Colleges would be expected to deliver at least their given numbers of units in a way that was consistent with their strategic plans.

ANNEX C

FUNDING LEARNING IMPLEMENTATION GROUP

LIST OF MEMBERS

Roger McClure	Chairman of the group, director of finance FEFC
Don Cardy	Vice principal, Colchester Institute
Alan Clifford	Principal, Kirby College
Richard Gorringe	Principal, Norton Radstock College
Richard Holtom	Principal, Staffordshire College of Agriculture
Gordon Hopkins	Principal, Dudley College
Dr Bill King	Vice principal, Monkwearmouth College
Phil Knight	Vice principal, Newcastle College
Nick Lewis	Principal, Broxtowe College
Ann Limb	Principal, Milton Keynes College
Ian Macwhinnie	Principal, College of North East London
Geoff Mason	Vice principal, Esher College
Stephen Sheedy	Vice principal, Priestley College
Michael Snell	Principal, Brockenhurst College
Denise Whitworth	Vice principal, The Ridge College
Michael Barrett	TEED (East Midlands)
Dick Corbridge	Head of AE Manchester
Paul Ellis	Research and Development Manager NVQ
Matthew Farrow	CBI – Training policy advisor
Don Gratton	Pro-rector, The London Institute
Richard Hart	FEFC Division (Welsh Funding Council)
John Henderson	Scottish Office
Margaret Jack	BTEC
Alan Moody	Chief executive (CEWTEC)
Rob Read	DFE
Jenny Burnette	FEFC
Geoff Daniels	FEFC
Tony Holloway	FEFC
Michael Stock	FEFC

ANNEX D

RESPONSES TO CIRCULAR 93/14 RE: FUNDING LEARNING

Please photocopy and return by 28 May 1993

**THE
FURTHER
EDUCATION
FUNDING
COUNCIL**

Sheriffs Orchard
Greyfriars Road
Coventry CV1 3PJ
Telephone 0203 530300
Fax 0203 530130

Proposal	Support	Do not support	Comments/alternative proposals
	<i>(please tick appropriate box)</i>		
1 Institutions should be consulted on the development of the methodology as set out in paragraphs 9 and 10 of the circular	<input type="checkbox"/>	<input type="checkbox"/>	
2 The membership of the tariff committee should:			
• consist entirely of staff from institutions funded by the Council	<input type="checkbox"/>	<input type="checkbox"/>	
• reflect the range of different institutions funded by the Council	<input type="checkbox"/>	<input type="checkbox"/>	
• be chaired by a principal from an institution funded by the Council	<input type="checkbox"/>	<input type="checkbox"/>	
3 The terms of reference of the tariff committee should be as set out in paragraph 12 of the circular	<input type="checkbox"/>	<input type="checkbox"/>	

College:

Name:

Contact:

Signature

Telephone number: