

# **The 16–18, Adult Learner- and Employer- responsive Funding Models**

**November 2007**

Of interest to all LSC-funded post-16 providers (FE colleges, school sixth forms and all other providers)

### **Further information**

For further information, please contact the appropriate Learning and Skills Council office. Contact details for each office can be found on the LSC website: **[www.lsc.gov.uk](http://www.lsc.gov.uk)**.

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## **Foreword**

The move to a demand-led funding system in 2008/09 signifies a wholesale step change for the learning and skills sector.

This document is one of a suite of documents that will describe the operation of the new models. The other documents will include the provider allocations framework and the flowcharts showing the end-to-end business process for the three funding models. These documents should be read alongside the LSC's Statement of Priorities (published on November 16), which sets out the priorities for 2008/09 to 2010/11, and the outcomes of the Comprehensive Spending Review.

LSC staff and all post-16 providers (FE colleges, school sixth forms (SSFs) and all other providers) should use this document to prepare for implementation of the new funding arrangements starting in August 2008.

A draft of the detailed funding guidance document will be made available in January, with a final version to be published in March 2008.

Providers will also receive further details on the new funding models in the briefings hosted by their regions this autumn.

## Background and Summary

- 1 On 5 January 2007, the former Department for Education and Skills and the Learning and Skills Council (LSC) published a joint consultation document, *Delivering World-class Skills in a Demand-led System*. It set out the case for change and sought views on proposed reforms to deliver funding principles that placed learners at the centre of the system, gave them greater purchasing power and would enable opportunities for new and existing providers of high-quality provision. The consultation included questions on three demand-led models: 16–18, adult learner responsive and employer responsive, mirroring the three main client groups for publicly funded learning.
- 2 The questions were deliberately phrased so as to be part of a system-wide consultation, rather than being focused solely on funding mechanisms. The document looked to the longer term, to reflect the challenge set by Lord Leitch. It also, pragmatically, asked questions about 2008/09, as the changes will need to start being implemented then, in order to have a fully operational adult demand-led funding system as soon as is practically possible. For young people, it is crucial that a funding system is put in place that supports the 14–19 agenda locally and that incentivises providers to work together to raise participation and meet demand from all the young people in the area. The written consultation was also supported by a number of well-attended consultation events.
- 3 Since the consultation closed, the Government has published its response to Leitch: *World Class Skills: Implementing the Leitch Review of Skills in England*. In the implementation plan, the direction and speed of travel towards a demand-led system was confirmed. The responses to the consultation, which can be found at the following link, have therefore been very important in developing and taking forward these models, which underpin the implementation plan objectives.

<http://readingroom.lsc.gov.uk/lsc/National/nat-0807-demand-led-consultation-response.pdf>.

- 4 This document sets out the details of the new demand-led funding models, which will be implemented on 1 August 2008.
- 5 The new funding arrangements for 2008/09 will include separate funding models for 16–18 provision, adult learner-responsive provision and employer-responsive provision, as well as a new national funding formula.
- 6 The 16–18 model will feature strategic commissioning without reconciliation for all grant-funded providers. 16–18 Apprenticeships will be planned and budgeted through this model, but funding will be calculated using the employer-responsive model for 2008/09.
- 7 The 19+ adult learner-responsive model will feature strategic commissioning with mid-year and year-end reconciliation.
- 8 The employer-responsive model will encompass Train to Gain (Skills for Life, full Levels 2, 3 and above, and employer-based national vocational qualifications (NVQs) currently funded through the further education (FE) funding system) and Apprenticeships. Funding earned by providers will be based on actual delivery, with monthly payment in arrears.
- 9 A number of cross-cutting issues have also been considered, including provision for learners with learning difficulties and/or disabilities, additional learning support (ALS), the Foundation Learning Tier (FLT) and vocational qualification reform. Details of these issues can be found in the cross-cutting themes section of this document.
- 10 The new funding formula will be based on standard learner numbers, a national funding rate, a provider factor and additional learning support. The provider factor will be calculated individually for each school, college and independent provider, and, as well as quality, will reflect the relative costs of delivery. As was indicated in the demand-led consultation, it will include elements for average programme weighting, disadvantage, area costs, programme size and success rates. Details of the new funding formula can be found in the Technical Annex to this document.

# The 16–18 Model

## Introduction

- 11 This section describes how the new approach to provider-level planning, funding and performance monitoring for all 16- to 18-year-olds funded by the LSC will operate in practice. The section outlines the process of planning, procuring and funding provision at the provider or institution level, and the way in which local planning, performance, and employer and learner demand will inform provision to ensure it is of high quality, responsive and demand led.

## Background

- 12 In the further education (FE) White Paper, *Raising Skills, Improving Life Chances*, ministers committed to a common planning and funding system across the post-16 sector, including for FE colleges, school sixth forms (SSFs) and independent providers. The LSC has consulted widely on how this system should operate.
- 13 This new funding system supports and reinforces the aims of reforming education and training for 14- to 19-year-olds described in the 14–19 Education and Skills White Paper – namely, to create a system where more young people are prepared by their education for success in life. Teenagers need a broad but focused education that not only equips them for progression in learning for a particular job today, but that also gives them the right foundation for their adult lives – as individuals, in the family and in the community, as well as at work. The reformed system will encourage broad programmes and will embrace the range of new Diplomas to be available from September 2008.
- 14 The Government continues to invest more to increase the overall numbers of young people participating in learning. Because the total number of young people is declining in many areas, we also expect this investment to help us deliver targeted efforts to reduce the number of young people who are classified as not in education, employment or training (NEET).



## Scope of the model

- 15 From August 2008, the 16–18 model will cover all provision in colleges of further education, independent providers and school sixth forms, for any learner starting a programme who is above the compulsory school leaving age but will not have turned 19 on 31 August of the year in which they begin a specific episode of learning. It covers all learners in that age range:
- in school sixth forms;
  - in colleges and other providers following further education programmes;
  - taking the new Diplomas age 16–18;
  - undertaking a Programme-led Apprenticeship (PLA) where the learner has not been enrolled on a full Apprenticeship framework;
  - participating in Entry to Employment (E2E);
  - undertaking progression pathways within the Foundation Learning Tier (FLT); and
  - undertaking Employed Apprenticeships, for planning and budgeting purposes (see paragraphs 17 to 20 below).
- 16 The model and funding methodology will also be used to inform funding for the new Diplomas and some other off-site provision throughout Key Stage 4. This was outlined in a letter to directors of children's services from the Department for Children, Schools and Families (DCSF) in August 2007 – see [www.dfes.gov.uk/14-19/](http://www.dfes.gov.uk/14-19/).

## The 16–18 model and Apprenticeships

- 17 Apprenticeships, at Levels 2 and 3, for 16- to 18-year-olds form a major part of the 14–19 entitlement for young people. The Secretary of State has made it his priority in the next Comprehensive Spending Review (CSR) that every young person who wants an Apprenticeship and who meets the entry requirements should be entitled to a place. This is reinforced by the Leitch recommendation to increase the number of Apprenticeships in England to 400,000 by 2020.

- 18 Apprenticeships provide opportunities for young people to develop occupational, functional and technical skills in a work environment, complementing school and college-based provision. Planning, budgeting, funding and payment arrangements for Apprenticeships must reflect their particular requirements, while ensuring that they are fully integrated into the wider learning opportunities for young people.
- 19 Apprenticeships and Advanced Apprenticeships, for those who start their apprenticeships before their 19th birthday, are included in the range of post-16 options open to school leavers and, as such, are fully integrated into the local 14–19 planning and prospectus. Therefore Apprenticeships and Advanced Apprenticeships are within the scope of this model for planning and budgeting purposes for 2008/09.
- 20 Apprenticeships are primarily delivered on employer premises, tend to have more emphasis on individual coaching and portfolio-building, and are of a flexible length to suit the needs of the individual apprentice. The costs of delivering an Apprenticeship are closely linked to the amount of on-site coaching and assessment involved, and so do not share the same cost structure as other options for young people, which are primarily delivered in groups. If Apprenticeships were to be funded in the same way as other 16–18 options, that would not encourage growth in this priority programme. So for 2008/09, funding for all Apprenticeships will be allocated and calculated as detailed in the employer-responsive model and paid on actual delivery in arrears (see paragraph 130 onwards).

## **Funding principles**

- 21 The funding principles established by the Government for 16–18 funding are detailed in the FE White Paper, *Raising Skills, Improving Life Chances*, and this model is built on those principles (see [www.dfes.gov.uk/publications/keydocuments.shtml](http://www.dfes.gov.uk/publications/keydocuments.shtml)).

## **Funding characteristics**

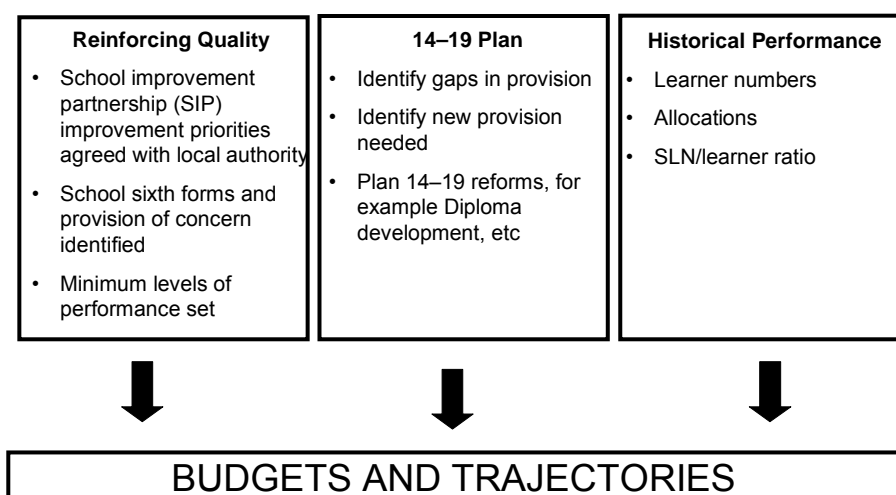
- 22 The key characteristics of the model are that:
- past performance informs, rather than determines, future allocations;

- allocations are calculated by the national demand-led formula from a negotiated standard learner number (SLN), not a mechanical allocations formula;
- payments will be made monthly to an agreed profile;
- allocations and profiles will only be adjusted in-year in exceptional circumstances;
- post-16 providers funded by grant will be subject to monitoring arrangements, but not to reconciliation of payments to actual delivery or adjustments to their allocation for the year;
- independent providers and any other non-grant funded providers will be subject to monitoring and, where necessary, in-year adjustments to profile and their maximum contract value. Past payments will not be subject to reconciliation to actual delivery; and
- year-end and in-year performance informs future SLN negotiations.

## Influences on the model

**Figure 1: Prerequisites of the model**

16–18 allocations:  
where do we start?



## **14–19 reform and planning principles**

- 23 The LSC has a clear statutory duty to co-operate with and support the director of children's services in each local authority area in implementing the 14–19 reforms. This will include drawing up and implementing a 14–19 plan for each area, with the support of a 14–19 strategic partnership that involves all key stakeholders. This model will support the plan by ensuring that allocations are made to fund provision in line with the 14–19 plan and the regional commissioning plan. Provision that does not support the locally agreed plan and local 14–19 objectives will not receive any allocation for growth, and in future, should the provision conflict with local plans and objectives, then funding may be withdrawn. Further guidance on 14–19 reforms can be found in the 14–19 Education and Skills Implementation Plan, available at [www.dfes.gov.uk/14-19](http://www.dfes.gov.uk/14-19).

## **Links between funding and quality**

- 24 From 2008, it is a requirement that the LSC funds only quality provision, and the LSC is fully committed to this principle. For further education and Apprenticeships, the minimum standard the LSC will fund is defined by minimum levels of performance (MLPs). The MLPs for 2008/09 have been published in the LSC's Statement of Priorities. MLPs will rise periodically, and provision must improve ahead of these rises to remain fundable. Exceeding an MLP does not guarantee funding, as the LSC will seek to procure the best possible quality of provision at the best value for money. The Framework for Excellence is being introduced to help providers strive for excellence. Restrictions will also apply whenever inspection reveals provision to be less than satisfactory. Further guidance can be found at <http://ffe.lsc.gov.uk>. FE providers subject to a Notice to Improve (NTI) will not have their allocation confirmed until progress against the measures agreed in the NTI is properly established.
- 25 Ministers have asked the LSC to work jointly with local authorities on a Support and Challenge programme for school sixth forms. This will result in a jointly agreed list of school sixth form priorities for school improvement partners (SIPs) to take forward with the schools they work with. It would not be responsible for the LSC to support growth in any areas quoted as an

improvement priority until the underlying issues have been rectified; therefore the LSC will not allocate any growth for school sixth forms for specific provision quoted as a SIP improvement priority. Further details on the Support and Challenge programme can be obtained from partnership teams.

- 26 The funding allocations formula (which is described fully in the Technical Annex) includes a success rate factor that increases the funding allocation for above-average success rates. This provides an incentive to improve retention and success rates. The additional learning support (ALS) formula recognises that those learners who have below-average GCSE points scores on entry require additional support to achieve their full potential, and it allocates additional funding accordingly.

### **Funding and the national participation targets**

- 27 The Government has an existing aspiration that, by 2010/11, 86 per cent of all young people should be participating in education or training at the age of 17 and it has also announced its intention to legislate to raise the participation age to 18. The 16–18 model includes strong incentives to achieve this by consolidating growth for participation from one year to the next. For example, if a provider exceeds its allocation because it has recruited more learners than planned, any additional participation will automatically be built into the following year's allocation, unless there is evidence to show that this level of participation cannot be maintained or there are exceptional circumstances, and provided there is sufficient funding available. This will mean that funding will increase for those post-16 providers who are successful at increasing participation, including at recruiting young people who are currently not in education or training.

### **The 16–18 budget and virement**

- 28 An integrated 16–18 budget will be introduced in 2008/09. This budget will fund all training and education covered by this model, including SSFs, the FLT, further education and both Programme-led and Employed Apprenticeships. The LSC will be able to move funds between any post-16 option for young people, but cannot reassign them to the 16–18 budget from the adult learner or employer-responsive budget, or from the 16–18

budget to fund any other provision without permission from DCSF and the Department for Innovation, Universities and Skills (DIUS). This will ensure that the budget is flexible and demand led and can follow learners' choices, but cannot be used for purposes other than funding programmes for young people. This means the budget is fully ring-fenced for post-16 provision and no virement will be permitted between youth and adult budgets.

- 29 Through the process of regular review, underspends may be identified where Apprenticeship providers or independent or other non-grant funded providers do not recruit to planned levels. These funds will remain within the 16–18 budget and will be used to fund new provision through open and competitive tendering or negotiation to ensure that 16–18 participation and Apprenticeship targets are met. These funds may not be used to fund provision that has been delivered above allocation/targets already agreed with any other provider.

### **Approach to growth**

- 30 The key feature of this new business process is the dialogue around future volumes (including increasing or reducing learner numbers) with post-16 providers, in the context of changing provision and the collaborative delivery of the 14–19 entitlement. The LSC will work with all post-16 providers to gather enough information to take decisions on the allocation of growth. Given the restrictions inherent in the budgets, due to a reducing 16–18 cohort, requests for growth will inevitably exceed the available budget, and this will need careful management and objective decision-making. The LSC will, therefore, use a standard decision-making process. Given that the LSC's priority is to achieve growth in participation, this will be given priority over growth in the breadth of learning programmes. This may lead to restrictions on the breadth of some programmes. There are three categories of growth to be considered.

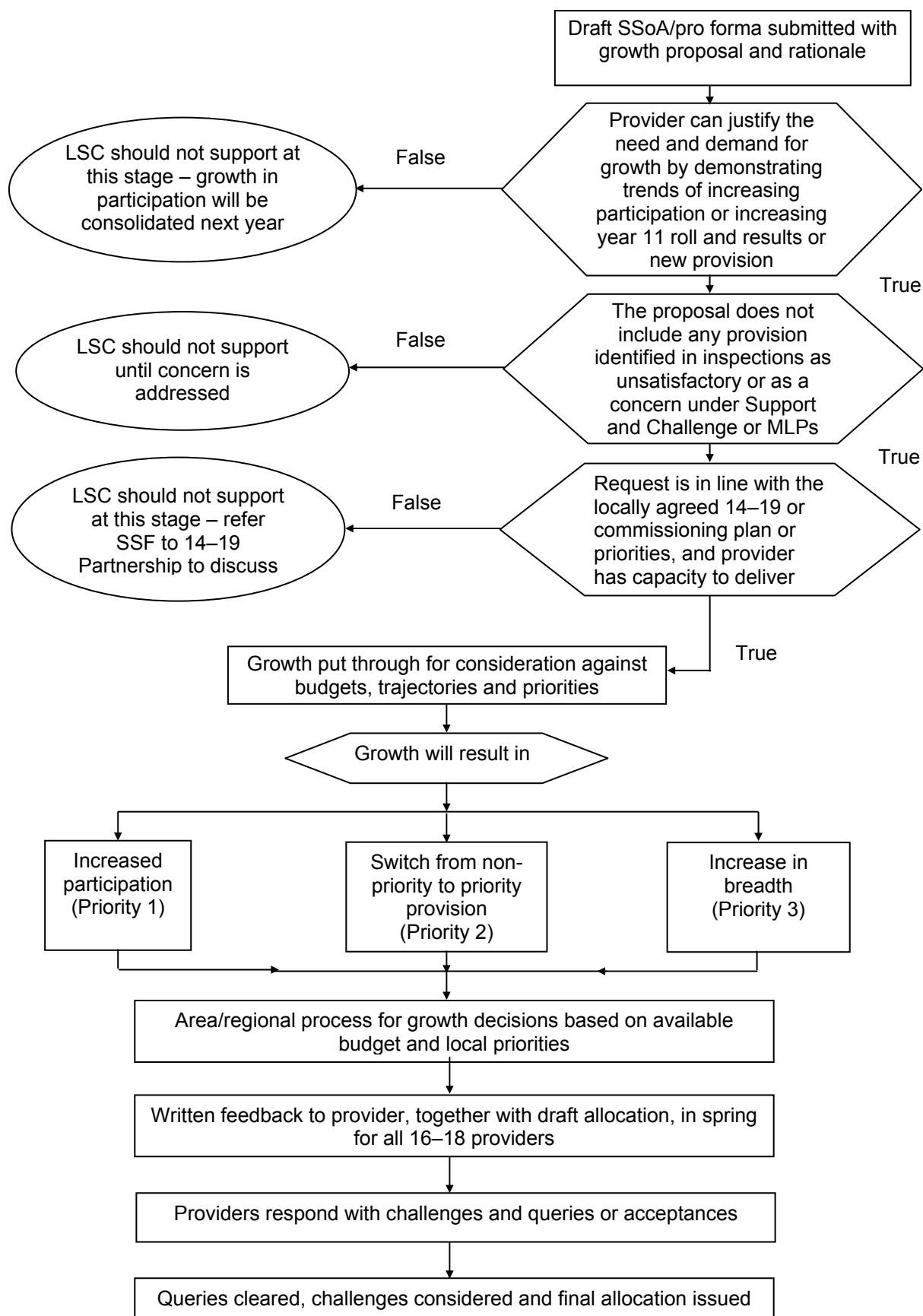
- **Consolidated growth:** this is growth that will be included in the following year's baseline because the post-16 provider has exceeded its allocation for the year by recruiting additional learners; this is the demand-led aspect and will, unless there is evidence that the recruitment cannot be maintained or there are other exceptional

circumstances, be automatically included in the next year's allocation. This is the first priority for growth.

- **Competitive tendering:** this is future growth that the post-16 provider will have to compete for in its own right or as part of a consortium. This could be as part of the 16–18 budget, or be from other funds such as the European Social Fund. This is the second priority for growth, and it includes growth due to successful 16–18 competitions and Diploma Gateway applications.
- **Negotiated growth:** this is growth that is agreed with the post-16 provider following a dialogue, which takes account of in-year recruitment, infrastructure changes – for example, new school sixth forms or capital grants – and the role of the post-16 provider in delivering the 14–19 entitlement.

- 31 Three basic tests will be applied to the allocation of negotiated growth: relevance to the 14–19 plan and priorities; reference to quality requirements (such as Support and Challenge priorities and MLPs); and the extent to which growth in programme size is justified, along with proven trends. The process for agreeing negotiated growth is shown in Figure 2.

**Figure 2: Decision tree – schools, colleges and other 16–18 providers requesting negotiated commissioning**



*Note: Providers = schools, colleges and independent providers*



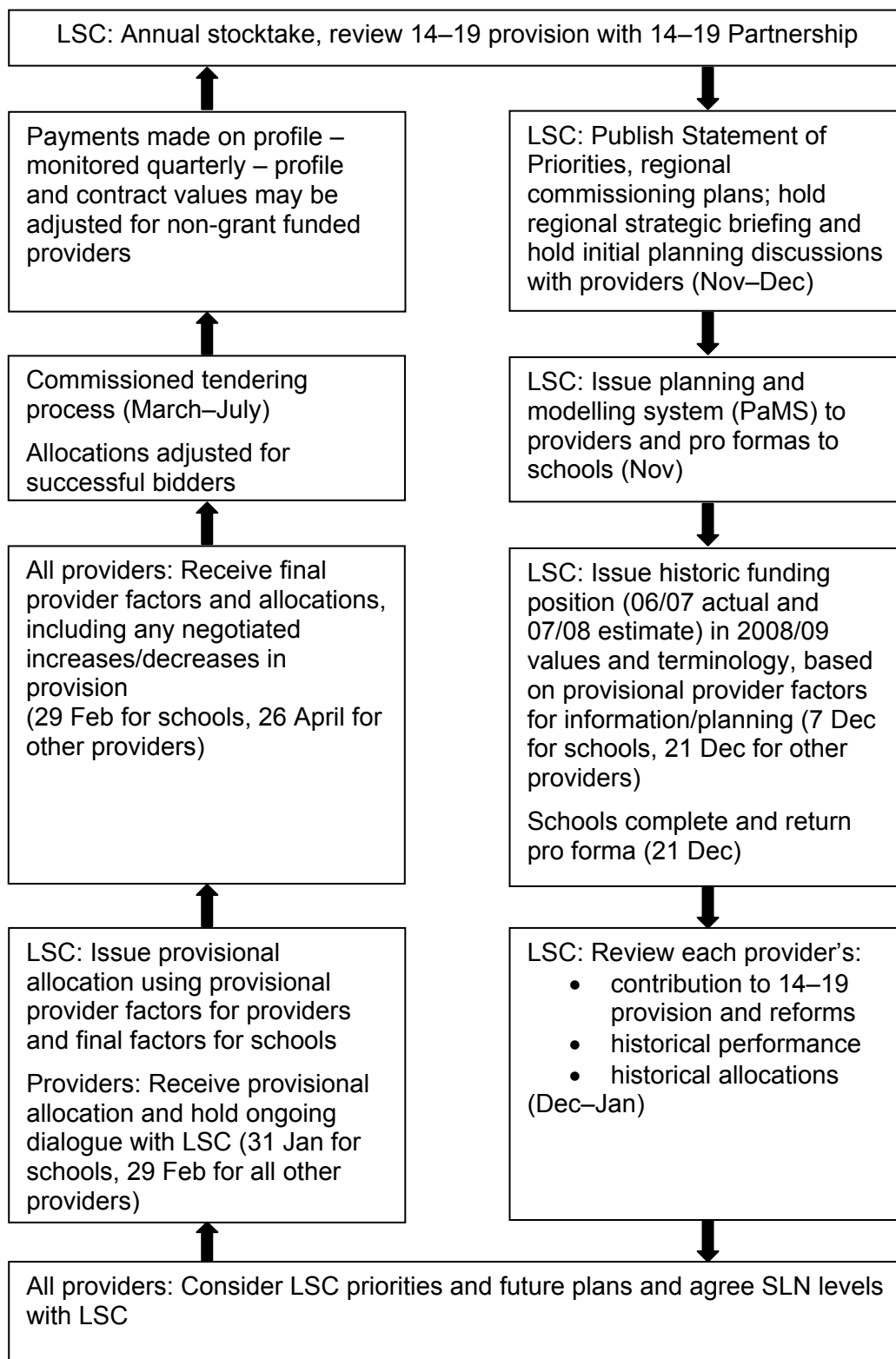
## **Commissioning**

- 32 We expect to secure the bulk of 16–18 provision through negotiation and dialogue with existing providers, but this will not always either be possible or the right thing to do. If the required provision is new, is replacing a gap in the offer locally or replaces poor quality, and if it is of substantial volume, it may be subject to open and competitive tendering (OCT) – for example, where an area is conducting a 16–18 competition for provision for 200 or more learners. Recent examples of OCT are the Gateway process for the new Diplomas and replacement of Apprenticeship provision below the MLP.

## **Operation of the 16–18 model**

- 33 The objective of the model is to agree a summary statement of activity (SSoA) with each school sixth form, college and independent provider, so that, once collated, the provision will meet that required for the area, as determined by local priorities and the 14–19 plan and prospectus, within the allocated budget. The model is one of strategic commissioning based on past performance, a planning dialogue and competitive tendering for major new or changed provision. The allocation is calculated from agreed volumes of participation and the volume of learning to be delivered. Once set, the allocation would not normally change during the year to take account of variations in actual recruitment, but in-year performance will inform future allocations. However, providers who do not receive grant funding will be under contract, and therefore subject to adjustments to profile and maximum contract value at months 3, 6 and 9. The model is illustrated in brief in Figure 3, but the process will vary from provider type to provider type because of different data-capture arrangements.

**Figure 3: The 16–18 allocation process**



- 34 The business process commences with data collection from the previous year; that is, school sixth forms will have returned their post-16 learning aims management system (PLAMs) data (and will in future do so through the schools census), colleges their autumn return (F04 data), and independent providers will most likely continue to submit monthly data. This data will inform the baseline volume calculation and the provider factor.
- 35 In the autumn, following receipt of the grant letter from the Secretary of State, the LSC will issue its annual Statement of Priorities and calculate the rate to be paid for each SLN. Different rates may be applicable for different types of provision. Strategic briefings will be conducted for all delivery partners.
- 36 Before the winter break, the LSC will calculate and issue provider factors and historical data in SLN terminology (with the value increased for any rate changes) to all post-16 providers, based on the previous year's full-year data. For schools, the LSC will also inform the local authority and, in the case of academies, the DCSF. At this stage, the provider factor will be provisional until the final full-year data is available (in the spring).
- 37 The LSC will issue modelling software or worksheets to allow post-16 providers to model their planned provision in SLN terminology and see how this will compare to previous allocations.
- 38 During the autumn period, the LSC will be reviewing the contribution each post-16 provider makes to the 14–19 priorities and reforms, its commissioning plans, historical performance and previous allocations.
- 39 Following the issue of the data and the strategic briefings, a post-16 provider will be required to consider its planned participation and provision volumes for review by the LSC. This will be through a pro forma for school sixth forms or as part of the planning dialogue held between the LSC and providers. All post-16 providers should ensure that they refer to the local 14–19 plan or priorities, the regional commissioning plan, LSC quality criteria and participation targets before requesting growth; agreement should be reached in local consortia (wherever they exist) before the draft

pro forma is submitted or discussions take place. A minimum of four weeks will be allowed for this stage; however it must be completed before the winter break.

- 40 To create an allocation, the LSC will need to agree the following with each post-16 provider:
- the number of learners;
  - the number of SLNs learners will require on average and the total number of SLNs needed; and
  - the level of negotiated additional learning support.
- 41 The LSC will, where necessary, enter into dialogue with post-16 providers and consortia during the process to explore any issues arising and to agree the learner numbers and SLN volumes to be entered onto the SSoA. (For example, post-16 providers may sometimes overstate the growth they can actually deliver to improve their negotiating position and allocation.)
- 42 The LSC will convert the learner volumes and provision to be delivered into SLNs and calculate provisional allocations, including the consolidation of any growth in participation or reduced learner volumes from the previous year. ALS allocations will be calculated using the dedicated formula to reflect the English and maths GCSE points score of the previous year's cohort, and will then be added to the provisional allocation.
- 43 Requests for negotiated commissioning will be collated and considered against affordability and the LSC's target trajectories; this will be done alongside the requirements for any new or substantially changed provision, which will be subject to competitive tendering or youth competitions. The LSC will apply the decision-making tree (Figure 2 above) to ensure that decisions are objective.
- 44 FE providers will be able to submit individualised learner record (ILR) data up to 8 February 2008, to inform their provider factor. Final provider factors will be calculated on the basis of this data and confirmed by the end of February.

- 45 Post-16 providers will be able to raise queries and challenge the provisional allocations during February, and these issues will be cleared up before allocations are finalised.
- 46 During the autumn, post-16 providers will submit in-year recruitment and provision data; that is, schools will submit the schools census data in November, colleges the F01 in December, and independent providers monthly data. The LSC will process this data and review in-year performance against the allocation, and compare the provisional allocation to the in-year data to identify any variations from the assumptions used for the provisional allocation. At this stage, any unexpected and major increases or reductions in learner numbers and SLNs will be taken into account and the allocation adjusted accordingly. This could lead to greater changes between provisional allocations and final allocations than has been seen in previous years.
- 47 Throughout this process, allocations will be moderated at regional and national levels.
- 48 Final allocations, including any consolidated growth (or reductions) and negotiated commissioning, will be issued to school sixth forms and local authorities by the end of February, and by the end of April to all other providers.
- 49 In the spring, the LSC and/or DCSF will issue invitations to tender (ITTs) for competitive tendering for any new or substantially changed provision, including new Diploma lines and 16–18 competitions. Post-16 providers will need to consider whether to bid as an individual organisation or as part of a consortium. This will be in addition to any consolidated or negotiated commissioning.
- 50 Competitions will provide an opportunity to consider innovative provision, developing and testing new kinds of learning opportunities for young people who are not currently participating in education or training. Innovative programmes will involve a wide range of organisations – including voluntary, community and independent providers – and new forms of partnership. Any bids for competitive commissioning will be submitted by

individual partners and/or consortia. These will be evaluated by the LSC/DCSF and feedback will be provided. Should the tender be successful, the LSC will review the allocation to include the new provision and will re-issue the final allocation.

- 51 A final funding agreement or allocation letter will be issued to confirm the allocation for all post-16 providers.
- 52 Payments will be made on a standard payment profile – unless there is an objective reason to vary it, in which case an alternative profile can be agreed at this stage. Payments to schools will continue to flow from the LSC, through the local authority.
- 53 Data collection will continue throughout the year; that is, school sixth form data will be collected through the school's termly census, colleges will submit ILR data according to the normal timetable, and independent providers will most likely continue to submit ILR data monthly. Performance against allocation will be monitored regularly and, should variations exist between the SSoA and actual delivery, performance issues will be raised during the year.

### **Reconciliation for delivery not subject to regularity and propriety audit**

- 54 Once set, the allocation for organisations funded by grants and therefore subject to regularity and propriety audits will normally remain unchanged for the academic year commencing on 1 August each year. All 16–18 provision – including E2E, FLT, Programme-led Apprenticeships or other FE programmes (but excluding Employed Apprenticeships, which are paid on actual delivery through the employer-responsive model) – with independent providers and any other provider not in receipt of grant funding will be subject to review at months 3, 6 and 9. At this time, any variance in SLN delivery below an agreed tolerance will result in a downward adjustment both to the profile for the remainder of the year and to the maximum contract value. Should the variance exceed the agreed tolerance, then an upward variation may be made to the maximum contract value, subject to affordability and at the absolute discretion of the LSC. Over-delivery in participation will result in consolidated growth in future years.

- 55 In February each year, delivery of the agreed SSoA will be reviewed at the same time as the following year's budget is finalised. Any exceptional circumstances will be identified – such as when a school, college or independent provider departs significantly from its plan – and may lead to an adjustment to allocations. A national moderation process will apply in these exceptional circumstances, in order to ensure that any adjustments are consistent across the country.
- 56 Also at this stage, any changes in learner numbers that have occurred during the year (either as growth or contraction) will be consolidated into the provisional allocation for the following year, provided they can be maintained. Increases in SLN due to increased breadth, as measured by the average number of SLNs per learner, will not automatically be consolidated and will be subject to restrictions.

### **What are the main differences from the current business cycle?**

- 57 The process is similar to the LSC's current plan-led system for FE, but with one major difference. Currently in FE, allocations are mainly based on the last full year's data. The experience of working with school sixth forms has shown that autumn recruitment data can be used to update the allocation before it is confirmed in the spring. This will mean the allocation will be based on an agreed plan, informed by 14–19 priorities and up-to-date, in-year data, resulting in a system that is responsive to learner choice and that ensures the funding follows the learner.
- 58 Negotiating growth as part of a dialogue with the LSC will be a significant change for schools with sixth forms, where allocations are currently determined by numbers recruited in the autumn of the previous year, without the opportunity to discuss anticipated growth (or decline) with the LSC. Building anticipated growth or reductions into allocations will address the concerns expressed by schools, following the withdrawal of in-year adjustment in 2006/07.
- 59 Another key feature of the process is the way it commits to consolidating growth in learner numbers (where it can be maintained and is affordable) into the following year's allocation for institutions that increase participation by recruiting above their plan. This is ensured by consolidating growth into

the baseline for the following year, through the operation of the funding formula. This gives post-16 providers an incentive to improve participation and success.

### **School sixth forms**

60 The model will involve some specific and significant changes for school sixth forms, which were signalled in the schools' version of *Priorities for Success* (October 2005) and through a series of six conferences in autumn 2006. These changes are as follows.

- For the first time, schools will have a dialogue with LSC partnership teams about allocations. The purpose will be to agree the contribution to the local 14–19 plan and local area prospectus. This dialogue will take account of the previous year's delivery and will be informed by the current year's recruitment, as well as the negotiation or tendering for growth, and any changes to the mix and balance of provision because of changing need or quality issues. The results of this discussion will be documented in the SSoA.
- The new funding formula, described in the Technical Annex, will be used to provide a nationally consistent method of calculating allocations to schools, based on the amount of learning delivered (the SLN), a national rate per SLN and a provider factor.
- The formula uses the Index of Multiple Deprivation (IMD) 2004, which measures disadvantage at 'super output' areas using learners' postcodes, replacing the use of free school meals as a measure of disadvantage. The free school meals measure is based on the 11–16 cohort of the school, and so does not reflect the 16–18 cohort. There is also no equivalent measure for other providers, so, in order to have a consistent approach, we need to make use of the IMD.
- Individual school success rates will be calculated at a learning aim level, using the New Measures of Success formula in place of the standard national achievement rate of 87 per cent, which currently has to be used. These will inform the provider factor, which will mean that schools



with success rates higher than the national standard will receive more funding, and those below less.

- ALS is being introduced as an element of the funding calculation for schools. This is based on the GCSE points score of learners when they are recruited (see the Technical Annex). Removing the ALS element from mainstream school sixth form rates and allocating it separately will impact on basic rates and be a significant move towards a single system for all post-16 provision. It will also support those schools that recruit learners with lower GCSE points scores. On the basis of claims from sixth form colleges, we currently estimate that 2 per cent of school sixth form funding would be reclassified as ALS.

## **Advantages of the new process**

61 The new business process will have the following advantages.

- Post-16 providers are incentivised to expand participation, so that they raise their allocations for the next year and strengthen their case in bids for further growth. The allocations formula recognises success rates, and therefore encourages improvements in both retention and achievement.
- Subject to exceptional circumstances, post-16 providers will have stable budgets with no retrospective funding adjustments. This will encourage them to commit their full budget, collaborate freely with other providers, and invest in improved quality through staff training and capital resources.
- The LSC does not need to withhold contingency funds to cope with unplanned growth, and can meet local needs identified by 14–19 Partnerships through agreed plans.
- Audit will be light touch, and proportionate to risk.
- Contestability can be enhanced through open and competitive tendering to fill gaps identified by the 14–19 Partnership; this will be open to all

types of provider and can be targeted to bring new, high-quality providers into the sector.

- Providers who do not receive grant funding will share in the stability of the model and can therefore invest without the fear of retrospective clawback. Meanwhile, the LSC can manage the risk by instigating reporting and changes to profile.

## **Funding rates**

- 62 The minimum funding guarantee (MFG) for schools has been confirmed at 2.1 per cent for 2008/09; this will likewise apply to all other 16–18 provision, except Apprenticeships. In 2009/10 and 2010/11, the MFG will also be 2.1 per cent.
- 63 Funding rates for 16–18 Apprenticeships will increase by 1.6 per cent, as 0.5 per cent has been saved through the drive to reduce bureaucracy in Apprenticeships.

## **Transitional protection**

- 64 We recognise that the new funding arrangements will have a differential impact on schools, colleges and independent providers. We will moderate this effect by limiting the variation in funding per learner (measured through SLNs) to +/-2.1 per cent in real terms. The result of this is that no post-16 provider will have a cash value of funding per learner (SLN) lower than 2007/08; this will be achieved by limiting the maximum increase in funding per learner to 4.2 per cent in cash terms (2.1 per cent above the MFG of 2.1 per cent). The introduction of ALS for school sixth forms will be included within transitional protection, so that the principles of the minimum funding floor are maintained.
- 65 These transitional arrangements are consistent with the minimum funding floor applied to school sixth forms. The protection applies to funding per learner (SLN) only; where learner numbers are planned to increase or decrease, budgets will be adjusted accordingly. We envisage that the transitional approach will bring the great majority of institutions into the normal funding arrangements within three years.

- 66 This system of transitional protection will replace the MFG for school sixth forms and the minimum funding floor.

### **Progression pathways (within the Foundation Learning Tier)**

- 67 Progression pathways will begin to replace Entry to Employment (E2E) and sub-Level 2 learning in colleges, schools and independent providers for young people from August 2008. The 16–18 model will apply for learners under 19 taking progression pathways. Therefore, where these are delivered by grant-funded organisations subject to rules of regularity and propriety, the allocation will be set for the year. Non-grant funded providers will be subject to changes to profiles during the year, as described in paragraph 54 above.
- 68 The funding formula will be applied to progression pathways at the level of the component qualifications and units. These will be recorded on the ILR, and allocations and actual delivery will be calculated based on the SLN value of each qualification and unit undertaken. Programme weighting will be identified from the learning aims being taken, and a success factor will be built into the provider factor in due course.
- 69 More details and an example based on Qualifications and Curriculum Authority (QCA) design principles is shown at paragraph 243.

### **Diplomas**

- 70 The roll-out of the new Diplomas for young people from September 2008 and delivery of the statutory entitlement to all Diploma lines at three levels in each local area by 2013 depend critically on funding arrangements that facilitate collaboration at Key Stage 4 and 16–18. The key principles that should underpin changes to the funding system to support 14–19 reform have already been set out in the FE White Paper, *Raising Skills, Improving Life Chances* ([www.dfes.gov.uk/publications/keydocuments.shtml](http://www.dfes.gov.uk/publications/keydocuments.shtml)).
- 71 The funding system for Diplomas will be introduced for 2008/09. This year will be used as a developmental year, to learn from the introduction of the first five lines. Further requirements may be introduced for 2009/10.
- 72 The principles for funding Diplomas in 2008/09 are as follows.

- The standard funding formula and 16–18 model will apply, and therefore each Diploma will have an SLN value.
- FE programme weightings will apply.
- Funding will be allocated to, and will flow through, the home provider – that is to say, the post-16 provider where the learner is on the provider’s roll for the whole of their programme.
- To receive funding for Diplomas, the post-16 provider should be a member of a Diploma delivery consortium that has been selected through the Gateway process. Learners from schools outside the delivery consortium can also receive an allocation where the arrangements are agreed with the consortium.
- For the purposes of the provider factor, success rates will be calculated for achieving the whole Diploma.
- It has yet to be confirmed, whether funding will be calculated at the level of the whole Diploma or for the constituent parts. For allocations purposes, the provisional SLN values in Table 1 below will apply.
- Data will be collected for full Diplomas and at learning aim level to ensure that the LSC can monitor and evaluate Diplomas.

**Table 1: Provisional Diploma SLN values**

<b>Level</b>	<b>glh</b>	<b>SLN over 1 year</b>	<b>SLN over 2 years</b>
Level 1 (Foundation)	600	1.33	0.66 per year
Level 2 (Higher)	800	1.78	0.89 per year
Level 3 (Advanced)	1080	n/a	1.2 per year

## Entry to Employment

- 73 E2E will continue to be available, and will operate under the 16–18 model. SLN values will be calculated for weeks of learning and bonuses. The rates for planning purposes are currently:
- Weekly rate 0.0445 SLN
  - Average bonus rate 0.07 SLN.
- 74 The positive progression rate for E2E will not influence the provider factor. The rate will, however, continue to be considered at contracting stage, and positive destinations will still be recognised by bonuses. Where the bulk of a provider's provision is not E2E, the overall success factor for 16–18 will be used to calculate the provider factor. Where the bulk of provision is E2E, the provider factor will be based on the average success factor for E2E. The programme weighting will be 1.3, thus ensuring that funding will be comparable to that in previous years.
- 75 In common with other programmes, disadvantage will be additional. However, ALS and the entitlement for 16- to 18-year-olds is included in the E2E weekly SLN rate.

## Additional learning support

- 76 Additional learning support is divided into ALS for lower-level support needs and ALS for higher-level support needs – learner needs requiring lower-cost support (up to £5,500) will, for providers other than schools, be partially (60 per cent in 2008/09 and 75 per cent thereafter) allocated using the formulas described in the Technical Annex for all young people; this is based on the learners' GCSE English and maths points profile from the previous year's cohort. The remaining allocation (40 per cent and 25 per cent) will be based on negotiation, taking account of historical allocations and anticipated needs. The principles for negotiating this element are given at paragraph 196 onwards.
- 77 This method is readily applicable to all provider types. For example, applying this correlation to data from sixth form colleges implies that around 2 per cent of current sixth form funding is spent on ALS, and therefore we

will transfer approximately 2 per cent of the school sixth form budget to ALS and allocate it back to school sixth forms using the formula. However, so that the minimum funding floor is maintained for schools, 100 per cent of ALS will be based on the formula and be included in transitional protection. For FE provision, the existing ALS budget will be redistributed based on the formula. For Apprenticeships, the existing 2007/08 ALS arrangements will continue to apply.

- 78 Learners on progression pathways will generally attract ALS using this formula. Therefore there is no additional funding for learners on progression pathways, other than programme funding and ALS.
- 79 Higher-level support will, for 2008/09, continue to operate as it has for 2007/08, with claims of between £5,500 and £19,000 being accommodated within allocations, and claims of over £19,000 being considered on an individual basis (see further details in the Technical Annex and the cross-cutting themes section).

## **Data and payments**

- 80 All providers will continue to use existing data-collection methods for the immediate future, depending on their historical arrangements.
- 81 In order to facilitate reconciliation, non-grant funded providers will be required to agree a profile of SLNs and funding at months 3, 6 and 9.
- 82 Payments will be made on a standard profile, unless an alternative profile is agreed on account of exceptional circumstances.

## **Audit implications**

- 83 Colleges currently in plan-led funding are subject to external audit of their financial statements by their own appointed auditors, regularity audit (carried out by the financial statement auditors) and Learner Eligibility and Existence (LEE) audit performed by LSC-appointed auditors. As the 16–18 model does not involve reconciliation of planned activity to actual activity, with retrospective funding adjustment for over-performance or under-performance, the existing audit arrangements for colleges should largely still apply. The role of audit for schools and independent providers has yet to be determined.

# **The Adult Learner-responsive Model**

## **Scope of the model**

- 84 The scope of the adult learner-responsive model is the current provision (2007/08) that is branded as further education (FE) adult provision, apart from those employer-based national vocational qualifications (NVQs) that are currently delivered within FE mainstream provision. This employer-based provision, which is out of scope of this model, is included within the employer-responsive model.
- 85 The model covers those learners on eligible provision who are aged 19 or over on 31 August of the funding year in which they start a specific episode of learning. This reflects the definition of age used for the 16–18 model.
- 86 This model will exclude adult safeguarded learning (including that personal and community development learning currently delivered by FE colleges). It is also likely to exclude learndirect provision in 2008/09.

## **Funding principles**

- 87 The funding system for this model will be the same as that developed for 16–18 provision, but with the addition of funding reconciliation for over-performance on specified high-priority provision, and for general under-performance.
- 88 The funding calculation uses a mixture of the data relating to the size of a learner's programme, measured using standard learner numbers (SLN), plus the application of detailed funding calculations through a provider factor, calculated using the data from every learner in the previous year and a national funding rate. The exact funding calculation is a combination of this data and is set out in more detail in the Technical Annex.
- 89 For adult learners, there will be two funding rates per SLN for each provider – a fully funded rate and a co-funded rate. The fully funded rate will apply to provision that attracts fee remission, such as in the case of learners on income-based benefits and those on first full Level 2 programmes. The co-funded rate will apply to those learners who are expected to pay tuition fees, and will vary for each provider, based on its provider factor, as shown in the Technical Annex.

- 90 The allocation will be paid to providers using a monthly profile (similar to 16–18 provision), but with a mid-year and a final reconciliation payment adjustment, based on a comparison between delivered and profile activity.
- 91 In order to feature within the SLN count, learners will need to remain on programme for specified minimum periods of their learning aim (six weeks for full-year learning aims and equivalent shorter periods for aims of a shorter duration). After learners have met these qualifying periods, no further adjustments will be made to funding during the year in respect of retention or achievement.
- 92 Instead, the impact of retention and achievement on funding will be recognised through the provider's success factor, which forms part of the overall provider factor. A detailed description of the provider factor is given in the Technical Annex.
- 93 In the current approach, the funding rates include an element for the cost of initial advice and guidance, recruitment and enrolment administration. This element is not specifically identified, but is part of the activities that all providers are required to offer their learners. The element is proportionally higher for short courses, in order to reflect the higher costs incurred. Under the new funding formula, this will be calculated using the short-programme modifier, which is described in the Technical Annex.
- 94 Learners may follow an individual learning aim or combinations of learning aims that have been confirmed as fundable under the guidance issued by the LSC. This will usually exclude any provision funded under the other funding models introduced from 2008/09.

## **Characteristics**

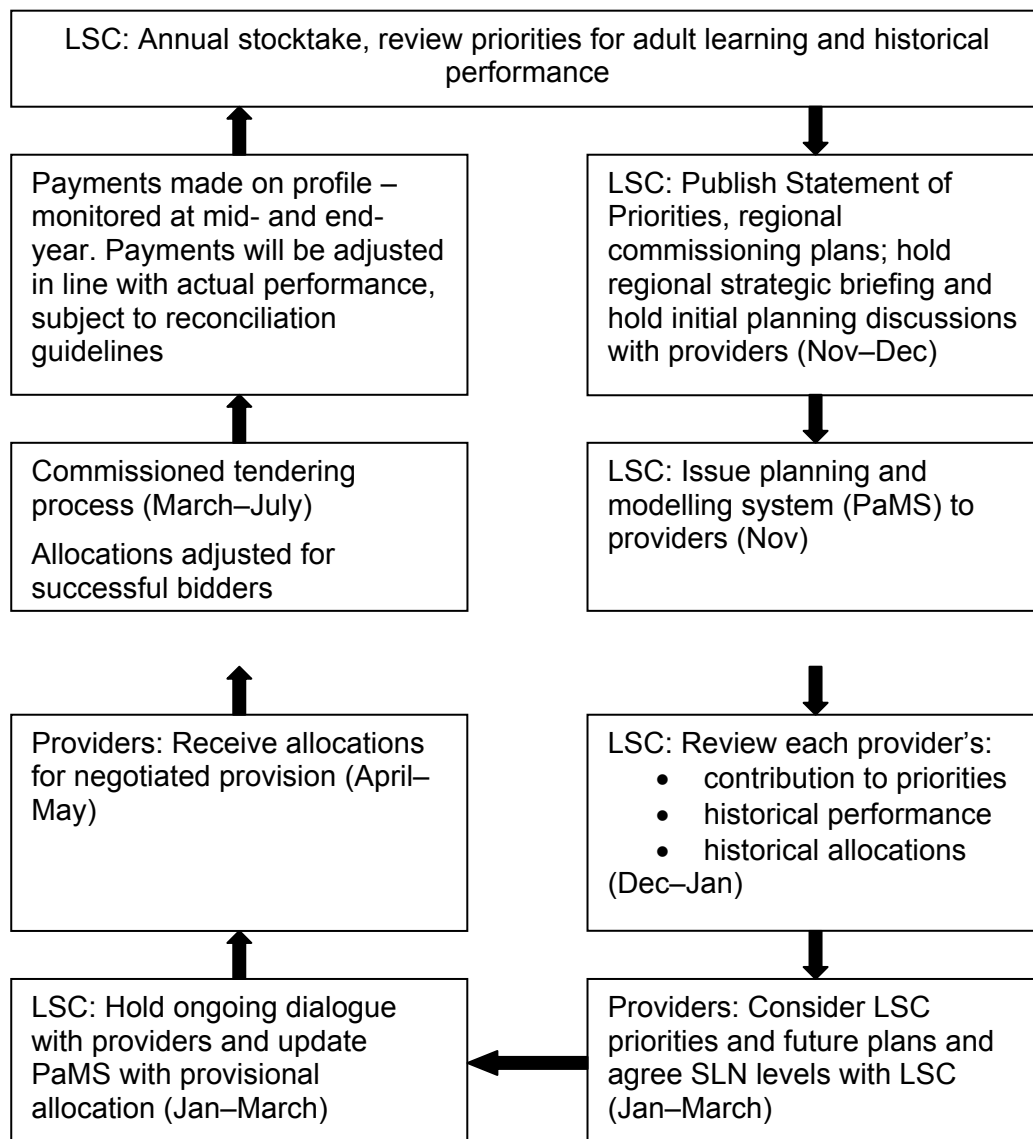
- 95 The model is based on the development of the current FE adult funding system and incorporates a demand-led approach. It embraces the key principles of building on existing excellent provision, contestability, learner choice and demand-led funding. The model reflects the principle that learner demand and choice should directly affect the amount of funding earned by providers.



- 96 The model recognises LSC and government strategy to improve the skills of the population and contribute to the targets set out in our Statement of Priorities.
- 97 Excellent or good current provision will be allowed to grow through negotiation, where demand is proven; new provision will be open to competition through competitive tendering. Following any tendering exercise, the LSC will agree with each successful provider its contribution to meeting learner needs. Minimum levels of performance (MLP) will apply to adult learner-responsive provision, as they do to 16–18 provision, and the levels of these for 2008/09 are set out in our Statement of Priorities.
- 98 Approved providers will agree an allocation value with the LSC prior to the start of the year. However, it will be made clear that this is not a guarantee of funding – the provider’s actual budget will depend on learner demand, as the reconciliation arrangements will recover funding from those providers that fail to deliver their agreed allocations.
- 99 Providers will earn money based on actual delivery. Providers’ ‘earned’ value will be compared at the mid-year and year-end stages, and performance outside agreed tolerance limits will result in adjustments to provider payments and profiles. Each of the reviews will be based on the individualised learner record (ILR) data and funding returns submitted by the provider.
- 100 The amount of funding available for redistribution will depend on the amount recovered – it is expected that the growth payments will be limited to defined LSC priorities and capped at a maximum value of 5 per cent of the provider’s priority adult allocation once the tolerance of 5 per cent has been exceeded.
- 101 An annual review process will be necessary to take account of all the available information on performance and quality of provision, in order to determine the following year’s allocation.

## Operation of the adult learner-responsive model

**Figure 4: The adult learner-responsive allocation process**



- 102 The business process commences with data collection from the previous year – the F04 ILR data. This data will inform the baseline calculation of SLN and the provider factor.
- 103 The LSC will calculate and issue provider factors for all delivery partners, based on the previous year's full-year data. At this stage, the provider

factor will be provisional until such time as final full-year data is available (in the spring).

- 104 In the autumn, following receipt of the grant letter from the Secretary of State, the LSC will issue its Statement of Priorities, calculate the rate to be paid for each SLN, and conduct strategic briefings for all delivery partners.
- 105 The LSC will also provide data and modelling software or worksheets to allow modelling of the previous year's data, conversion of planned provision into SLNs and comparison of allocations.
- 106 Following the strategic briefings, all providers will be required to agree planned participation and provision volumes for review with the LSC. The figures agreed will be in the format of the summary statement of activity (SSoA), which forms part of the planning and modelling system (PaMS). The LSC will, where necessary, enter into dialogue with providers during the process to explore any issues arising and to agree the learner numbers and SLN volumes to be entered onto the SSoA.
- 107 Additional learning support (ALS) allocations will be calculated using a combination of a new formula that reflects the level of study of the previous year's learners (see Technical Annex), plus a negotiated element, and will be added to the allocation.
- 108 During the autumn, providers will return in-year recruitment and provision data – the F01 return for colleges. The LSC will process this data for use in agreeing allocations in the spring.
- 109 FE providers will be able to submit final 2006/07 ILR F05 data up to **8 February 2008**, to inform their provider factor. **Final** provider factors will be calculated on the basis of this data.
- 110 The LSC will convert the agreed learner volumes and provision to be delivered into SLNs and calculate a provisional allocation, using the agreed formula detailed in the Technical Annex. The provisional allocation will be based on an assessment of the provider's plan against LSC priorities, as well as its current and historic performance.

- 111 In the spring, the LSC will issue invitations to tender (ITTs) for competitive tendering for any new or substantially changed provision. This will be in addition to any negotiated provision.
- 112 Payments will be made on a standard payment profile – unless there is an objective reason to vary it, in which case an alternative profile can be agreed at this stage.
- 113 Data collection will take place throughout the year, and there will be a mid-year and year-end review of actual performance against profile. Funding payments for providers that have delivered outside the specified tolerance levels will then be adjusted, as described below in paragraphs 117 to 124.
- 114 Overall, the allocations process is similar to the LSC's current plan-led system for FE used in 2007/08, but with the addition of mid-year and year-end reconciliation in some circumstances. This should retain the benefits of the plan-led system for providers who deliver broadly on profile, but with the potential for funding to move from providers who significantly under-achieve to those who over-achieve, reflecting the need for the system to be more demand led.

### **Transitional protection**

- 115 The introduction of a new funding formula inevitably leads to variations in the level of funding per learner for institutions. We will be carefully assessing the impact of any changes on providers, and have put in place transitional protection to ensure that the changes to the funding formula do not destabilise institutions. In this case, the transitional protection will work by limiting the increase or decrease in the funding per SLN that can take place in 2008/09 to +/-2.1 per cent in real terms – that is, the same range as for the 16–18 model.
- 116 Any transitional arrangements would only impact on the funding per SLN. Where numbers fall through learner choice or allocations, then funding will drop, as is already the case.

### **Reconciliation**

- 117 There will be a reconciliation process in the adult learner-responsive model to make a direct link between the number of learners recruited and the

funding received. Reconciliation will take place at two points – in the middle of the year and at the end – and will be based on the principles set out in the following paragraphs.

- 118 A **tolerance** will be used for both under- and over-performance. The tolerance levels will be different at the mid-year and the year-end points. At mid-year, the tolerance will be 5 per cent for both under- and over-performance. At the end of the year, the tolerance for under-performance will be 3 per cent, while for over-performance it will remain at 5 per cent.
- 119 A **cap** will be applied for over-performance to ensure affordability. This will be 8 per cent at mid-year, and is currently expected to increase to 10 per cent at the end of the year. The final figure for the cap applied at the end of the year will be dependent on affordability and will be confirmed during 2008/09.
- 120 Under-performance will be assessed on total provision; additional funding for over-performance will be paid only if this relates to high-priority provision – in this specific context, high-priority provision for 2008/09 is defined as full Level 2, full Level 3 and Skills for Life provision only.
- 121 Growth between the tolerance and the cap will be funded at the full funding rate for the provider.
- 122 Mid-year performance will be based on the total SLN and the related funding generated in the first six months of the year. This will be compared to a profile for that same period contained in the allocation agreed for the year.

### Example 1

A college has a target of 1,000 SLN for adult provision and a related allocation of £2,500,000 for the year. The college delivers a total of 950 SLN at the end of the year, which in this case is equivalent to £2,375,000 funding. The college is, therefore, at 95 per cent of its target, and the LSC would reclaim 2 per cent of the funding (5 per cent under-performance minus the 3 per cent tolerance) – which is £50,000.

## Example 2

The same college has 600 SLN and £1,500,000 of its allocation relating to high-priority provision. The college delivers a total of 1,100 SLN (£2,750,000) overall at the end of the year, of which 648 SLN (£1,620,000) are for high-priority provision – so it is 8 per cent over its target for high-priority provision. The college is, therefore, over target in terms both of its total allocation and of high-priority provision, and it receives an additional 3 per cent of its funding for high-priority provision (8 per cent over-performance minus the 5 per cent tolerance) – which is £45,000.

- 123 In practice, the application of reconciliation will also take account of the balance between fully funded and co-funded provision, the cap on over-performance and the mid-year profile, and so individual cases will tend to be more complex than these examples. A more detailed set of examples is available on the LSC website at [www.lsc.gov.uk/providers/funding-policy/strategic-overview/](http://www.lsc.gov.uk/providers/funding-policy/strategic-overview/).
- 124 A key principle underlying the approach is that a provider that reaches a specific position at the end of the year will always receive the same total amount of funding, irrespective of its mid-year position.

### Additional learning support

- 125 Additional learning support is divided into ALS for lower-level support needs and ALS for higher-level support needs. Learners requiring lower-cost support (up to £5,500) will be partially funded (60 per cent of the overall budget) using the formulas described in the Technical Annex for adults – that is, based on the level of the learner's programme. The remaining allocation (40 per cent of the overall budget) will be based on negotiation, taking account of historical allocations and anticipated needs. The principles for negotiating the 40 per cent ALS are given in paragraphs 198 to 200.
- 126 Higher-level support will, in 2008/09, continue to operate as it has in 2007/08, with claims of between £5,500 and £19,000 being accommodated

within allocations, and claims of over £19,000 being considered on an individual basis (see further details in the Technical Annex).

## **Data and payments**

- 127 Providers will be paid using a monthly profile, as now. The difference is that they will be subject to reconciliation, which will include recovery of funding for under-performance and additional funding for over-delivery in specified priority areas.
- 128 Providers will be required to return their adult learner-responsive data with their 16–18 data, in accordance with the published ILR data return timetable. The timetable for returns in 2008/09 will be confirmed by the Information Authority, but it is important to note that this may involve the F02 return in February 2009 becoming mandatory, in order to allow mid-year reconciliation to take place.

## **Audit implications**

- 129 The new approach requires reconciliation of actual delivery to planned delivery, with consequent funding adjustment to correct for over-performance or under-performance. Linking payment direct to delivery volumes means that audit work will be needed to validate returns made to the LSC. The preferred option, which has been discussed in principle with the National Audit Office, is a risk-based approach. In practice, this means risk-assessing providers and carrying out funding-audit visits to those that are identified as higher risk. Low-risk institutions would receive a light touch, with less frequent audit visits.

# **The Employer-responsive Model**

## **Scope of the model**

- 130 The scope of the employer-responsive model is the provision that, in 2007/08, is being delivered as Apprenticeships, Train to Gain and the national vocational qualifications (NVQs) delivered wholly or partially in the workplace within mainstream further education (FE).
- 131 Apprenticeships include all ages of Apprenticeships, Advanced Apprenticeships, Higher-level Apprenticeships and Apprenticeships for Adults. This also includes Apprentices who are non-employed learners following a full Apprenticeship framework and who were previously funded through Work-based Learning (WBL) in 2007/08. It does not include learners on Programme-led Apprenticeships (PLAs) who were funded through FE in 2007/08 and who will be funded by the respective 16–18 or adult learner-responsive models in 2008/09.
- 132 Train to Gain includes all employer-based provision, including all NVQs and Skills for Life delivered on employer premises.
- 133 FE provision includes all employer-based delivered NVQs at Levels 1 to 4. Some of the FE provision may, in 2007/08, have been branded as Train to Gain ‘type A’; however the defining factor is whether it is delivered to employees either wholly or partially on employer premises. NVQs delivered in the workplace to learners aged 16–18 will remain funded using the 16–18 model. FE NVQ provision delivered wholly on provider premises will be funded by the 16–18 or adult learner-responsive models, as appropriate.
- 134 The 16–18 Apprenticeship provision will have a separate budget within the employer-responsive model. For 2008/09, the provision will be planned and managed using the 16–18 model, but funding will be calculated and paid using the employer-responsive model.

## **Funding principles**

- 135 Payments will be made to providers monthly in arrears, and will be based on actual delivery. Learner funding uses the funding formula detailed in the



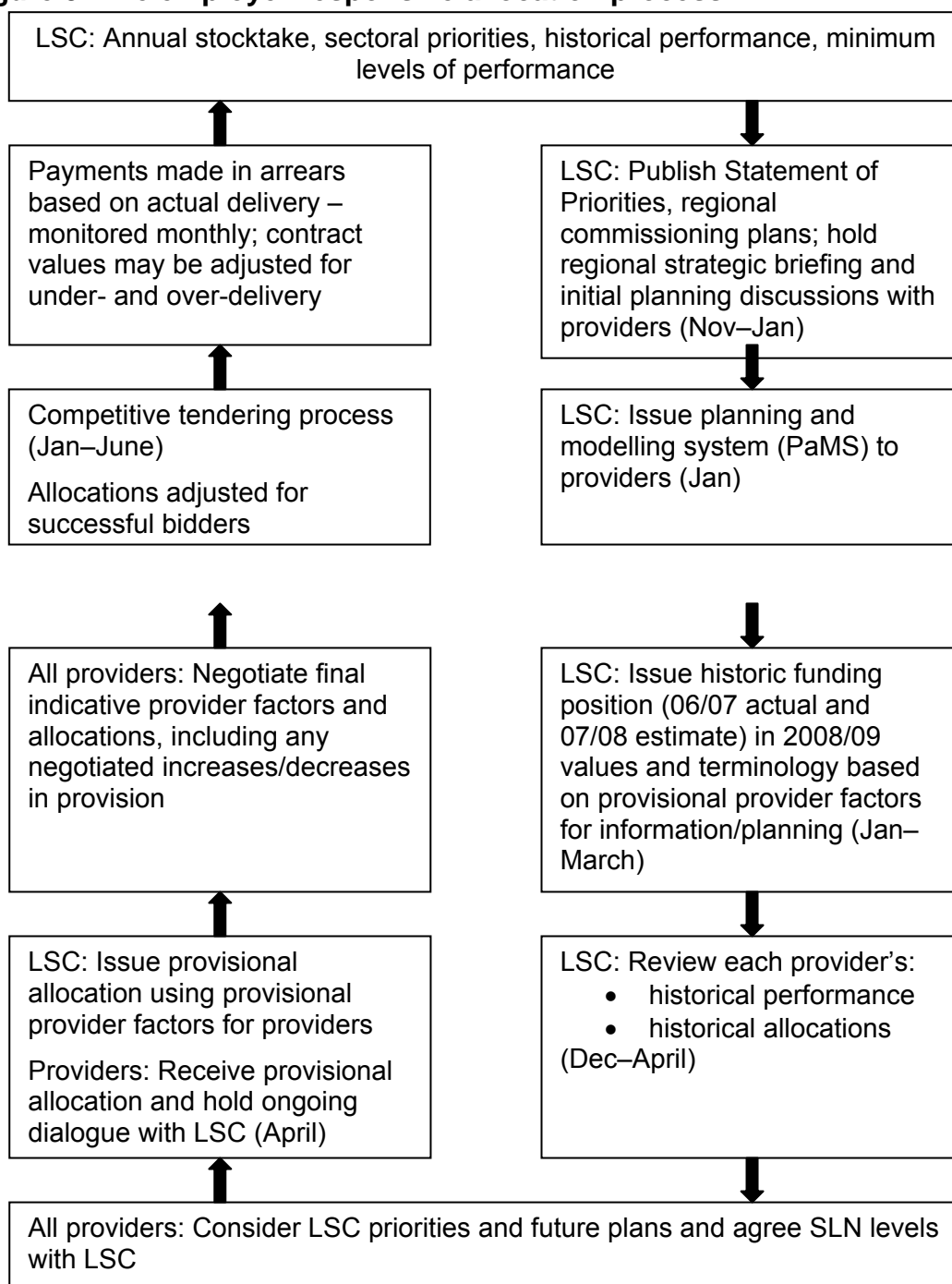
Technical Annex. It will be paid in instalments over the expected length of time that a learner is engaged in achieving that aim.

- 136 An achievement element of 25 per cent of the value of each aim is held back and is only paid to providers on achievement by the learner.
- 137 As regards an Apprenticeship, the achievement element will be paid based on achievement of the full Apprenticeship framework. Further details will be made available in the detailed funding guidance to be issued in January 2008.
- 138 In Train to Gain, the achievement element for each aim is paid as each aim is achieved.
- 139 It is expected that, wherever possible, most learning will take place on employer premises. However this does not preclude appropriate aims – such as technical certificates, key skills and Skills for Life qualifications – being delivered at a provider location.
- 140 Area uplift will be based on the location of learning and skills delivery. Further guidance will be issued in 2008.
- 141 Disadvantage uplift is based on the learner's home postcode and will only be applicable for learners who are following an Apprenticeship framework. The special arrangements for Ministry of Defence (MoD) learners will continue – that is, the postcode of the base where they are stationed is treated as the learner's home postcode.
- 142 A learner who is expected to be in learning for more than 24 weeks, but who leaves without having completed six full weeks in learning, counted from the start date, will not be funded. Any funds paid to a provider in respect of these learners will be reclaimed from future payments. If a learner is expected to be in learning for less than 24 full weeks, the qualifying period for payment is two full weeks. It is not expected that a learner on the employer-responsive model will have a learning programme of less than two weeks.
- 143 Funding for Train to Gain will be based on the level of activity required in order for the learner to achieve their qualification. Further information on

the flexibility of the Train to Gain offer will be given in the *Train to Gain Plan for Growth* and detailed funding guidance, which will be issued at a later date.

- 144 A learner following Train to Gain will have their learning fully funded if they are completing their first Level 2 qualification or Skills for Life qualification, excluding English for speakers of other languages (ESOL). Other qualifications, such as a second Level 2 or Level 3, will be subject to eligibility and some level of employer contribution. Further guidance will be issued on eligibility for funding and employer contributions.

**Figure 5: The employer-responsive allocation process**



## Characteristics

145 The employer-responsive model has been developed to support a demand-led skills service that builds on the success and history of Apprenticeships and Train to Gain. It embraces the key principles of building on existing excellent provision, contestability, employer choice and demand-led funding. The model reflects the principle that employer demand and choice should directly affect the amount of funding earned by providers.

- 146 The model recognises the LSC and government strategy of increasing participation in education and of ensuring an improvement in the skills of the population, as a step towards ensuring a world-class skills base by 2020. In addition, it acknowledges that the Government's preferred option for employed vocational learners in the 16–25 age group is the Apprenticeship route. The model supports the delivery and achievement of the Level 2, Level 3 and Skills for Life targets.
- 147 Regional commissioning plans will identify the skills and sectoral priorities for a region. While aggregate employer demand is broadly predictable as a result of sector skills agreements, a regionally determined response fund will meet unanticipated employer demand. Arrangements will be put in place to ensure that responsive funding is not limited by a region's budget where there is available capacity nationally.
- 148 Excellent or good current provision will be encouraged to expand through negotiation, where demand is proven and subject to financial assessment processes; new provision will be open to competition through competitive tendering. Following the tendering exercise, the LSC will agree with each successful provider its contribution to meeting employer needs.
- 149 Prior to the start of the year, approved providers will agree an indicative maximum contract value with the LSC. However, it will be made clear that this is not a guarantee of funding – the provider's actual budget will depend on employer demand, sectoral priorities and choice of the provision.
- 150 Providers earn money based on actual delivery. Twice a year, a provider's 'earned' value is formally compared with the provisional forecast profile and indicative maximum contract value; in addition, more frequent reviews can be undertaken if necessary. There will be a year-end review of performance against contract.
- 151 Each of the reviews will be based on the monthly data submitted by the provider. Providers experiencing more demand can request funds from the regional response fund; providers seeing less demand will have their maximum contract value lowered. Funds released will be used to expand

existing provision through negotiation with current providers or put to open and competitive tender.

- 152 Delivery identified from priority sectors will receive preference for funding.
- 153 The review at the half-year point will provide a firm baseline for any negotiations or tendering exercises regarding the following year's funding.
- 154 In looking at performance, the annual review process will take account of a variety of information. This could include employer and learner satisfaction, success rates, hard-to-reach penetration, employer and qualifications mix, and work undertaken with national skills academies.

### **Links between funding and quality**

- 155 Last year, to support the elimination of poor-quality provision by 2008, we introduced an analysis of success rates against minimum levels of performance (MLPs). These, together with Ofsted inspection assessments, mean that we are fully informed when we reach decisions regarding allocations. For Apprenticeships, the minimum standard the LSC will fund is defined by these MLPs. Apprenticeship provision that fails to meet the minimum level will be subject to competition.
- 156 MLPs will rise annually, and provision must improve ahead of these rises to remain fundable. Just meeting the MLP does not guarantee funding, as the LSC will seek to procure the best possible quality of provision.
- 157 The Framework for Excellence is being introduced to help providers strive for excellence. Restrictions will also apply whenever inspection reveals provision to be less than satisfactory. Further guidance can be found at <http://ffe.lsc.gov.uk>.
- 158 The employer-responsive model supports the commitment to improving provision across the whole of the FE system. For 2008/09, we have set an 'indicative' minimum level of performance for Train to Gain. This will enable us to have robust discussions with providers about their performance, but for this year will not result in the removal of funding. This reflects the fact that Train to Gain has yet to complete a full year of operation and, as such, there is not a full data set at the time of publication. While the minimum level of performance will be set at 65 per cent for Train to Gain, we believe

that it is important to send clear signals to employers and to the FE system about our commitment to ensuring high-quality provision across this service.

- 159 It is recognised that, as well as the LSC, 'the market' will drive quality, as employers choose excellent and good-quality provision and reject whatever is inadequate or poor. The regional response funds and the tendering process will support this, by enabling the LSC to increase funding to existing excellent providers and to seek out new excellent provision. The LSC will identify and put into practice ways in which new entrants to the market can be brought into delivery quicker to enable funding to more responsive to meet employer needs.
- 160 In Train to Gain, the move to a monthly payment rather than a starts fee should drive attendance and therefore completions. The monthly payment will mirror the ongoing costs to a provider in providing support.

### **Funding and the national participation targets**

- 161 To meet the Leitch ambitions for adults in England, 95 per cent of adults will need to achieve basic skills levels in literacy and numeracy. Some 90 per cent of adults will need at least a Level 2, and an additional 1.3 million additional Level 3s will be required. Train to Gain, rolled out nationally from summer 2006, is achieving its targets for employer engagements through skills brokers, reaching a high proportion of hard-to-reach employers and gaining high satisfaction ratings. Train to Gain needs to meet the expanding needs of employers and learners, and to ensure that it offers rewarding opportunities for those colleges and training providers that want to work closely with employers.
- 162 Delivering the required expansion of Train to Gain means strengthening the role of skills brokerage, sector skills councils (SSCs) and providers, in order to raise demand, help employers make informed decisions, and ensure that relevant provision is available at a time and place that meets employers' needs.
- 163 While the service is employer led, it is anticipated that there will be a major increase in learners gaining their first full Level 2 qualification.

- 164 Train to Gain is required to deliver the first full Level 2 qualifications of 83,000 people in 2006/07, 146,000 in 2007/08 and, once full service capacity is reached, 174,000 in 2008/09. The intention is that over 580,000 learners will have gained their first full Level 2 qualification by 2010 via the Train to Gain service.
- 165 Further guidance as to Apprenticeship participation and achievement targets will be issued after the completion and publication of the joint review of Apprenticeships being undertaken by the Department for Children, Schools and Families (DCSF) and the Department for Innovation, Universities and Skills (DIUS).

### **Budgets and funding**

- 166 The budget for the employer-responsive model will be formed from the Apprenticeship employer-responsive (16–18) budget and the employer-responsive (19+) budget.
- 167 A learner will be funded from the budget at a rate that depends on their age at the start of the academic year. A learner will continue to attract that rate until the end of their programme of learning. However, in the academic year following the learner's 19th birthday (that is, they are already 19 years of age **at the start of the academic year**), they will be funded from the 19+ budget and will not continue to be funded from the 16–18 budget. This method is consistent across all demand-led models used to fund learners.

### **Ministry of Defence employers**

- 168 The practice of adjusting the rates paid to the MoD, or to providers working with the MoD, for Apprentices and Train to Gain will continue. This takes into account the fact that the MoD receives direct government funding for training.

### **Transitional protection**

- 169 The introduction of a new funding formula inevitably leads to variations in the level of funding per learner for institutions. We will be carefully assessing the impact of any changes on providers, and have put in place transitional protection to ensure that the changes to the funding formula do not destabilise institutions – in this case by limiting the increase or

decrease in the funding per SLN that can take place in 2008/09 to +/-2.1 per cent in real terms.

- 170 Any transitional arrangements would only impact on the funding per SLN. Where numbers fall through learner choice or allocations, then funding will drop, as is already the case.
- 171 Transitional arrangements will apply to Apprenticeship and FE NVQ provision, but not to Train to Gain.

### **Additional learning support**

- 172 Additional learning support (ALS) will be made available to support learning as applicable.
- 173 In 2008/09, the two-tier system of additional learning need and additional social need that was used in Apprenticeship funding in 2007/08 will again be used as the means of delivering additional learning support within the employer-responsive model.
- 174 Detailed guidance on ALS will be published in 2008.
- 175 During 2008, the LSC will be conducting research on the way in which ALS is funded and how it is used. The outcome of this research will inform decisions that will be made about the future of ALS across all ages of learners. The aim is to look at a consistent approach across funding models either by age, by mode of delivery, or both. The research will inform future development of ALS in 2009/10.
- 176 A maximum value of £5,500 per learner is available using the method listed in paragraphs 172 to 175 and is referred to as 'low-cost' ALS. Above this limit, up to £19,000, it is termed 'high-cost' ALS, and the LSC will consider support on a case-by-case basis.

### **Age and eligibility**

- 177 Train to Gain is available to all learners aged 19 years or older .
- 178 Apprenticeships are open to learners of any age, so long as they have left full-time education.



## **Audit implications**

- 179 The new approach requires payment of actual delivery, with consequent funding adjustment to correct for over-performance or under-performance. Linking payment direct to delivery volumes means that audit work will be needed to validate returns made to the LSC. The preferred option, which has been discussed in principle with the National Audit Office, is a risk-based approach. In practice, this means risk-assessing providers and carrying out funding-audit visits to those that are identified as higher risk. Low-risk institutions would receive a light touch, with less frequent audit visits.

## **Data and payments**

- 180 Payment to providers will be based on the valid submitted data and data already held by the LSC at the end of the fourth working day of each month, commencing in September of each academic year. Payment will be made on the basis of actual earnings in the year to date at the end of the previous month, less payments already made for the year. The difference will be paid to a provider, or else reclaimed if a negative figure is produced. Negative balances will be reclaimed from any payment due to the provider from the LSC (see example below).
- 181 Providers will submit monthly individualised learner record (ILR) data within a set timescale. They will be required to send data to the LSC by the end of the fourth working day after the end of each month. It is essential that providers submit timely data about starts, leavers and achievements so that payments for activity can be accurately made.
- 182 Providers will receive any payment due on the tenth working day following the end of the month. This represents the value earned to date, subject to a maximum contract value.
- 183 Detailed guidance on the completion of the ILR and the data submission process will be published by the LSC in 2008.

### **Example of employer-responsive funding**

A provider submits data during August. A 'snapshot' taken on the fourth working day of September shows the amount actually earned in August as £30,000. Since the provider has not been previously paid in 2008/09, the payment in September will be £30,000. The provider continues to send data to the LSC. On the fourth working day of October, the amount actually earned in 2008/09 for activity during August and September shows as £54,000. Since the provider has already been paid £30,000, the payment it receives is £24,000.

## **Cross-cutting Themes**

### **Additional learning support and provision for special educational needs, learning difficulties and/or disabilities**

184 The following sections outline the principles of the new approach to funding additional learning support (ALS) and the changes that will be made to the funding of provision for learners with learning difficulties and/or disabilities and learners with a statement of special educational needs (SEN).

### **Additional learning support**

#### **Introduction**

185 This section outlines the principles of the new approach to funding additional learning support (ALS) across the further education (FE) sector.

186 ALS forms part of the funding formula and has two levels, low cost and high cost. The changes will be implemented in two phases – in 2008/09 and then in 2009/10.

#### **Changes being introduced for 2008/09**

187 The changes outlined in paragraphs 189 to 200 apply to ALS in the 16–18 and adult learner-responsive models. Further changes to ALS in the employer-responsive model can be found at paragraph 172.

#### **Cost of learning provision**

188 The cost of learning provision for learners aged 16–18 will be calculated using the technical funding formula based on the 16–18 funding model. The adult learner-responsive model will be used for learners over the age of 19.

#### **Low-cost high-incidence claims (below £5,500)**

189 The threshold for the low-cost ALS is defined as £5,500; that is, any claim within this limit and the first £5,500 of any ALS claim is to be funded using the low-cost ALS allocation, and any amount above that is to be funded using the high-cost system.

190 For learners aged 16–18, low-cost claims – that is, those under £5,500 – will be allocated using the formula described in the Technical Annex for the 16–18 funding model (based on English and maths GCSE points score).

- 191 For learners over the age of 19, low-cost claims – that is, those under £5,500 – will be allocated using the formula described in the Technical Annex for the adult learner-responsive model (based on the level of qualification being studied).
- 192 To allow for transitional arrangements for ALS, in 2008/09 60 per cent of the low-cost ALS will be distributed using the formula, and the remaining 40 per cent will be distributed to LSC regions on the basis of their proportion of the budget, to cover such needs as sensory impairment or physical disability, and specific learning needs such as dyslexia. The intention is to move to a 75/25 split in 2009/10.
- 193 The 60 per cent formula element will be calculated at provider level, and entered automatically into the relevant box on the summary statement of activity (SSoA), separately for young people and adults.
- 194 The second box on the SSoA, which contains the 40 per cent negotiated element of ALS (as well as the £5,500 to £19,000 element), will allow regions to make adjustments following provider dialogue. This will enable the funding to be redistributed from or into the regional budget, where necessary.
- 195 This system permits regional flexibility, allowing informed adjustments to be made on an exceptional basis.

### **Principles for distributing the negotiated element of the allocation**

- 196 LSC regions will particularly consider the fact that ALS is **one** of the resources available to support the LSC in meeting its obligations under the disability equality duty. This should be considered in relation to the overall direction of ALS and its principles for use.
- 197 The principles that should be used when distributing the negotiated amount of low-cost ALS are outlined in paragraphs 198 to 200.
- 198 Some providers will experience a negative/positive shift in funds as an effect of the formulaic approach to allocating ALS. While the negotiated element of the allocation should not be used to prop up historical allocations, the LSC will consider the effect of the negative/positive shift of funds. Consideration will be given to what this may mean in relation to

provision or targeted support for priority groups of learners, such as learners with learning difficulties and/or disabilities or learners who are at risk of falling into the group of people who are classified as not in education, employment or training (NEET), as well as how providers are able to manage/spend large positive shifts in funding.

- 199 The negotiated element of the allocation should recognise and respond to learner need. It should support providers that have a higher proportion of learners with learning difficulties and/or disabilities who fall within the 16–18 model but who have good GCSE maths and English, or who fall within the adult learner-responsive model and are studying at a higher level and so do not necessarily attract high levels of formula funding. For example, there may be a need to support high levels of small group sizes, learners with high mobility needs, learners with Asperger's syndrome who require high levels of support, or learners with specific learning difficulties such as dyslexia. Where it exists, the LSC will use historical analysis of providers who may be affected in this way to inform the distribution of the negotiated element of the allocation.
- 200 Discussions and planning talks with providers on the provision they deliver for learners with learning difficulties and/or disabilities should be considered when distributing the negotiated element of the allocation. Particular consideration should be given to the overarching principles of *Learning for Living and Work* and to developing more localised provision for learners with learning difficulties and/or disabilities.

#### **Low-incidence high-cost claims (above £5,500)**

- 201 In 2008/09, all high-cost ALS – that is, between £5,500 and £19,000 – will be distributed to LSC regions for allocation using historical calculations.
- 202 All high-cost ALS claims over £19,000 will follow the process in place for 2007/08, and will be claimed on an individual basis by the appropriate regional LSC and paid for out of the regional budget for learners with learning difficulties and/or disabilities.
- 203 Agreeing the detail behind the methodology for the high-cost ALS claims for 2009/10 will continue to be a priority in the coming months.

## **Provision for special educational needs, learning difficulties and/or disabilities**

- 204 This section outlines the principles of the new approach to funding for learners with learning difficulties and/or disabilities and learners with a statement of SEN funded by the LSC across the FE sector.

### **Background**

- 205 In *Learning for Living and Work*, our strategy for improving education and training opportunities for people with learning difficulties and/or disabilities, we commit to developing a fit-for-purpose funding system that is learner focused, equitable across **all** areas of the FE sector, including school sixth forms, independent specialist providers and Apprenticeships, and that provides appropriate levels of support for learning. This funding system is further illustrated in the consultation document *Delivering World-class Skills in a Demand-led System*.
- 206 During 2006/07, we commissioned a research project through the Learning and Skills Network (LSN) to review the funding for learners with learning difficulties and/or disabilities and learners with a statement of SEN in line with these demand-led funding approaches.
- 207 The findings of the research demonstrate that ALS is successful in increasing achievement and retention rates in FE. The report also suggests further recommendations for the LSC to consider in relation to demand-led funding for learners with learning difficulties and/or disabilities.
- 208 We will therefore be implementing our proposals for the new funding system in two phases, with the first changes being implemented in 2008/09 and the remainder of the changes being implemented in 2009/10.
- 209 This will then ensure that our vision for a funding system that is equitable across all areas of the FE sector for learners with learning difficulties and/or disabilities and learners with a statement of SEN will be achieved.

### **Scope of the proposals**

- 210 The new funding system will apply to the whole of the FE sector.
- 211 It applies to learners with learning difficulties and/or disabilities and learners with a statement of SEN:

- in maintained special school sixth forms;
- in maintained school sixth forms;
- in non-maintained schools where provision is secured through the local authority statementing process;
- in independent specialist providers for learners with learning difficulties and/or disabilities funded by the LSC;
- in general colleges of FE and sixth form colleges;
- in independent providers delivering FE;
- in all Apprenticeship provision; and
- where learners are receiving learning at home.

**Principles of the funding model for learners with learning difficulties and/or disabilities or special educational needs**

212 The principles of this funding system are that funding will be paid for three defined areas:

- firstly, the cost of learning provision applied through the demand-led funding formula within the funding models;
- then, secondly, the low-cost support needs; and
- thirdly, the high-cost support needs in relation to ALS.

**Proposed changes to be made for 2008/09**

213 The proposed changes to the funding system for 2008/09 in relation to learners with learning difficulties and/or disabilities and learners with a statement of SEN are the same as for ALS, and these changes are highlighted in paragraphs 187 to 200 of this document.

214 These changes will be implemented across FE colleges, sixth form colleges and school sixth forms. Changes to ALS for the employer-responsive model are highlighted in paragraph 172.

## **Proposed changes to be made for 2009/10**

- 215 These changes to the funding system will be implemented across the whole of the FE sector, including independent specialist providers and special schools.
- 216 For 2009/10, we aim to have in place a standard system that covers all learners with learning difficulties and/or disabilities and learners with a statement of SEN based on the three levels – cost of provision, low-cost ALS claims and high-cost ALS claims.
- 217 As outlined in paragraph 206, we commissioned a research report to review funding for learners with learning difficulties and/or disabilities and learners with a statement of SEN, in line with these demand-led funding approaches.
- 218 This report highlighted several recommendations for us to consider in light of the demand-led funding arrangements for learners with learning difficulties and/or disabilities and learners with a statement of SEN.
- 219 We consider the five recommendations listed below to be the most relevant, in line with the demand-led funding approaches.
- Take part in further dialogue around developing an entitlement to education and training for learners with learning difficulties and/or disabilities and what this would look like for learners aged 16–18, 19–25 and 25+. This would need to consider the wide spectrum of needs and support requirements associated with learners with learning difficulties and/or disabilities and learners with a statement of SEN.
  - Investigate the feasibility of having an independent assessment or moderation of assessments of learners with learning difficulties and/or disabilities. This should incorporate the roles of local authorities, 14–19 Partnerships and Connexions.
  - Decide on whether we should develop a definition of what we mean by ‘discrete provision’ for learners with learning difficulties and/or disabilities and learners with a statement of SEN.



- Develop further guidance/criteria for the use of ALS funds to be added to the funding guidance.
- Develop the requirements for claiming high-cost ALS and look further into the relationship between funding and staff hours.

220 We have used these recommendations as a basis for internal consultation and discussion with representatives from the Department for Innovation, Universities and Skills (DIUS) and the Department for Children, Schools and Families (DCSF).

221 These discussions took place throughout September 2007, and the overall consensus was positive in terms of our direction in creating a common funding approach for learners with learning difficulties and/or disabilities and learners with a statement of SEN. The discussions have raised further points that we are now pursuing.

222 In addition to the recommendations from the LSN report, the main points that have been raised are:

- developing a common definition for learners with learning difficulties and/or disabilities and learners with a statement of SEN, paying particular attention to age, entitlement and departmental ownership;
- developing a clear policy definition in relation to the statementing and Section 140 process for learners with a statement of SEN and learners with learning difficulties and/or disabilities; and
- how this ties in with the raising of the compulsory participation age.

223 We will be taking forward the recommendations from the LSN report and the points and issues raised during our meetings for further clarification and discussion this autumn with DCSF, DIUS and colleagues within the LSC. We will then use this information, along with the research, to finalise details of the changes to be made to the 2009/10 funding arrangements for learners with learning difficulties and/or disabilities and learners with a statement of SEN.

224 The next stage will be to consult on the details of this approach, in order to ensure that the demand-led funding approach for learners with learning difficulties and/or disabilities and learners with a statement of SEN works for providers and supports wider policy and legislation, including *Learning for Living and Work* and the interdepartmental publication, *Progression through Partnership*.

### **Independent specialist providers**

225 In 2007/08, we launched the revised matrix approach for funding independent specialist providers, as published in the LSC's *Funding Guidance: Placement for Learners with Learning Difficulties and/or Disabilities at Specialist Providers 2007/08*.

226 As agreed, we are currently evaluating how providers have adopted this process. The outcome of this evaluation will feed into development of a common funding approach for all learners with learning difficulties and/or disabilities and learners with a statement of SEN for 2009/10.

227 As part of this work, changes have been made to include fields for autism and autistic spectrum disorder on the individualised learner record (ILR) for 2007/08. In addition to this, we are currently leading on work to incorporate independent specialist providers in collecting ILR data and to identify what changes need to be made to the ILR to enable this to happen. This will not be implemented in 2008/09.

## Timescales

Timescale	Milestone
October 2007	Refine project plan for developing a common funding system for learners with learning difficulties and/or disabilities and learners with a statement of SEN across the FE sector.
Autumn 2007	Discussion with government departments and LSC colleagues regarding the recommendations highlighted in the LSN report.
Autumn 2007	Outline proposals for 2009/10 changes and establish criteria for external advisory group.
January 2008	Feed into machinery of government consultation.
Spring 2008	Consultation on proposals for learners with learning difficulties and/or disabilities and learners with a statement of SEN.
Spring 2008	Further development of funding policy for learners with learning difficulties and/or disabilities and learners with a statement of SEN.
May 2008	Funding policy sign-off.
Academic year 2008/09	Dry running of funding formulas to include independent specialist providers.
Academic year 2009/10	Implementation of funding formulas starts for learners with learning difficulties and/or disabilities and learners with a statement of SEN across the FE sector.

## **Foundation Learning Tier**

### **Introduction**

228 The LSC and the Qualifications and Curriculum Authority (QCA) are working together to reform provision below Level 2. By 2010, a revised set of credit-based units and qualifications will be in place, along with clear progression routes through entry and Level 1 to Level 2 of the Qualifications and Credit Framework (QCF), in order to raise participation and achievement among learners and help them to progress through work and life. This programme of work is known as the Foundation Learning Tier (FLT).

### **Background**

229 The FLT is being developed because there is a significant amount of provision at entry and Level 1 that fails to lead to any progression and that tends to trap learners in a revolving door of engagement and recurring achievement.

230 The FLT is also being developed in response to the concern that the 'gap' from entry level to Level 2 is often too large and too complex in terms of qualification structure, or simply too inaccessible to adults and young people alike.

### **Progression pathways**

231 The main organising structures and progression routes within the FLT will be progression pathways. These are frameworks for learning that are built up of qualifications drawn from entry level and Level 1 of the QCF. Progression pathways will incorporate the three curriculum areas: knowledge, skills and understanding; functional skills; and personal and social development learning (which is distinct from personal and community development learning). They will end with achievement at Level 1 and progression opportunities to Level 2 and beyond, or to other meaningful destinations for those learners unable to achieve at Level 2.

232 The destinations of the first four progression pathways identified for early development and phased implementation from September 2008 are:

- a first full Level 2 – initially for adults and anticipated to support achievement and progression to Level 2 for adults;
- a Level 2 Apprenticeship framework – a ‘pre-Apprenticeship’, developed as both a progression pathway within the context of the FLT and as part of the Apprenticeship family, to form part of the Apprenticeship entitlement; so initially focused on 16- to 18-year-olds, but potentially, in time, extending to 19- to 25-year-olds;
- independent living or supported employment – targeted at learners with learning difficulties and/or disabilities and appropriate for both 16- to 18-year-olds and 19- to 25-year-old learners; and
- an offer at entry level, specifically targeted at 14- to 16-year-old learners, to support progression to Level 1 Diplomas.

233 It is intended that progression pathways will replace current arrangements in terms of Entry to Employment, Foundation Learning in Further Education and First Steps learning. Provision for learners with learning difficulties and/or disabilities is within the scope of the work, and the work incorporates achievements currently known as ‘pre-entry’. Adult safeguarded learning, which includes personal and community development learning, family literacy, language and numeracy, and neighbourhood learning in deprived communities, is out of scope of the FLT programme of work.

234 Progression pathways will be planned, allocated and calculated using the new funding methodology described in the Technical Annex. There will be two complementary operating models – the 16–18 model (see paragraphs 11 to 83) and the adult learner-responsive model (see paragraphs 84 to 129). Progression pathways will be available (but not compulsory) within the employer-responsive model (see paragraphs 130 to 183). Providers will be calling on separate budgets – for 16- to 18-year-olds and for adults; there will not be a separate FLT budget or funding stream for progression pathways. This has the benefit of ensuring that providers target the client group for which the money has been allocated.

235 The LSC will decide in 2008/09 how much standalone provision at entry level and Level 1 within the QCF but outside progression pathways it will fund for adult learners.

### **Funding characteristics**

236 Full consideration has been given to three different dedicated funding methods, and three others were raised and considered at the FLT conference. Experience of Entry to Employment (E2E) and feedback on the options has demonstrated that all of these methods could impact significantly on provider behaviour, introduce unwanted incentives into the system and detract from the learner-centred approach of progression pathways. Given that the steer from the sector is for a qualification and unit-based system – and given that this approach fits completely with the formula proposed above without additional complexity or bureaucracy – the LSC does not propose to introduce a dedicated funding system for progression pathways. This approach will require customisation of some of the elements of the formula, as detailed in bold below.

237 **Standard start definitions will apply to progression pathways at the learning aim level.**

- For programmes of 24 weeks or more in an academic year, learners must remain on a programme for at least six weeks from the date of their first attendance.
- For programmes of at least two weeks and up to 24 weeks, learners must remain on the programme for at least two weeks.
- For programmes of less than two weeks, learners must take part in at least one learning engagement.
- For learning aims that span more than one academic year, starts are determined separately for each year.

238 This may introduce an incentive to deliver 23-week courses, in order to maximise the number of learners that will be funded. However, if this does happen, then each learner will count towards the success rate, and if the

learners do not achieve the qualifications or units on which they enrol, the provider's success rates will be depressed. The risk is thus minimised.

**239 Standard learner number (SLN) values will be allocated for each unit or qualification on which the learner enrolls.**

- It is intended that there will be a full suite of progression pathways in place by 2010. At this stage, all learning within progression pathways will be accredited through units or full qualifications on the QCF. Each of these units or qualifications will be sized in SLN terms on the learning aims database (LAD), and funding can be calculated based on the SLN value of each unit or qualification recorded on the learner's ILR. This method is simple and familiar to providers and is standard across all other learning programmes.

**240 The provider factor will include the factors listed below. Also shown is how progression pathways will impact on the provider factor.**

- Disadvantage uplift: many learners on a progression pathway will attract disadvantage uplift through the proposed formula, and this will increase the provider factor.
- Area uplift: this is neutral as far as progression pathways are concerned.
- Programme weighting: the programme weighting will be that associated with the learning aims being taken.
- Success factor: all qualifications achieved will be recognised in the success factor, and therefore this aspect is neutral for progression pathways. However, units are not currently recognised in the success factor. This is a whole-sector issue and is being considered as part of the introduction of the QCF. As it stands, this will encourage the achievement of full qualifications within progression pathways. It is not proposed that a different approach should be introduced for progression pathways. Provider success in achieving positive destinations for learners will not be recognised within the formula at this stage

- Short-programme modifier: this is neutral as far as progression pathways are concerned.

**241 The LSC will use its new ALS funding methodology for progression pathways.**

- The vast majority of learners on progression pathways will attract ALS through the 16–18 formula (because they are likely to have low prior attainment indicated by low GCSE points scores) or through the adult formula (because their units and qualifications will be at Level 1 or below). Therefore the formula will recognise providers with a large cohort of learners following progression pathways.
- In addition to ALS allocated by formula, LSC partnership teams will have a discretionary ALS budget, to be allocated on a negotiated basis. This fund can be used to target providers where support costs are unusually high.
- Learners on progression pathways will qualify for high-cost ALS claims above the agreed threshold; therefore low-incidence high-cost provision will be funded through this facility and not through the youth and adult allocations.

**242 The LSC will fund the entitlement for young people on progression pathways, in recognition of the fact that the curriculum will cover the breadth intended of the entitlement.**

- Learners in FE and school sixth forms aged 16–18 currently attract an entitlement if they study full time, whereas learners in E2E do not. Learners following progression pathways will attract entitlement funding. The rates assigned to QCF units and qualifications and Level 1 Diplomas will need to reflect this. This will be cost neutral, as rates will be adjusted to allow for the entitlement.

**243 Based on the current design principles, a pre-Apprenticeship progression pathway could look as follows.**



**Table 2: Example of pre-Apprenticeship progression pathway funding (16–18)**

<b>Element</b>	<b>Learning Aim</b>	<b>SLN</b>
Vocational	Level 1 qualification in construction	0.84
Basic/functional skills	Literacy Level 1	0.09
	Numeracy Level 1	0.09
	ICT Level 1	0.11
Personal development	Working with others	0.09
	Managing social relationships	0.04
	Managing money	0.04
Entitlement	Entitlement	0.25
Additional learning support	None	
<b>Total</b>		<b>1.55</b>

244 Funding would be based on 1.55 SLN, plus the value of additional learning support.

### **Moving forward**

245 FLT will be new for 2008/09. Therefore it will be kept under review and, as robust success measures and further experience of the trials emerge, then the methodology will evolve.

## Timescales

Timescale	Milestone
Academic year 2007/08	Development and modelling of the first elements of 'validated' progression pathways, including exploration of the relationship between Skills for Jobs and Skills for Life by identified providers.
Academic year 2008/09	Delivery of the first progression pathways on a developmental basis by those providers involved in the modelling and development in 2007/08.
Academic year 2009/10	Expansion of the number of progression pathways and the number of providers delivering them, alongside a substantial reduction in existing provision such as Entry to Employment, First Steps, and Foundation Learning in FE.
Academic year 2010/11	Full implementation of the complete set of progression pathways, with all legacy provision such as Entry to Employment, First Steps, and Foundation Learning in FE fully replaced by progression pathways.

## Vocational qualification reform

246 The LSC is a key partner in the programme of vocational qualification reform currently being taken forward across England, Northern Ireland, Scotland and Wales. As part of the reform programme, the LSC is leading work on the planning, funding and delivery of provision for learners, focusing on aligning funding with anticipated changes to the qualifications system, particularly sector qualification reform, and the development of the Qualifications and Credit Framework (QCF).

247 The LSC has given a clear commitment to supporting reform, through *Delivering World-class Skills in a Demand-led System* (January 2007), the Leitch implementation plan (*World Class Skills: Implementing the Leitch Review of Skills in England* (July 2007)) and the LSC's Statement of Priorities *Better Skills, Better Jobs, Better Lives* (November 2007).

- 248 There are no technical barriers in the demand-led funding system that would prevent either sector qualification reform or implementation of the QCF; however, in order to ensure that the application of the funding approach is consistent with the design features of the new qualification system, further work is required, so that the QCF is fully operational from 2010.
- 249 From October 2007 to March 2008, the LSC will undertake a range of work to consider costs and wider funding, eligibility and performance issues arising from implementation of vocational qualification reform. In particular, we will focus on:
- examining the benefits, risks and issues of supporting flexible patterns of achievement in the QCF through working trials of unit funding (and the possibility of ceasing funding of units outside the QCF from 2008/09 in order to support the shift towards implementing the reform programme);
  - modelling the process for aligning public funding with priority qualifications identified by sector skills councils (SSCs) and accredited into the QCF (initially working with ten SSCs) and switching funding from non-priority qualifications;
  - continuing to scope and confirm a funding approach for the development of a full Level 2 within the context of the QCF;
  - continuing to scope and confirm a funding approach for framework provision such as progression pathways at entry and Level 1;
  - piloting a credit success rate that could be used alongside the existing qualification success rate; and
  - undertaking modelling work with regard to SLNs, learning time and credit value (in the interim the LSC will continue to use guided learning hours, where applicable, as a metric for delivery costs, but will keep this under review in the light of the QCF).

250 In spring 2008, we will announce the outcomes arising from this and wider work, in order to inform the funding guidance for 2008/09.

# Technical Annex – The New Funding Formula

## Background and introduction

- 1 The funding formula that underpins the new demand-led funding methodology has been developed over the last three years with the support of an external advisory group comprising the representatives of providers from all sections of post-16 learning.
- 2 The same funding formula will be used separately for the 16–18 and adult learner-responsive approaches. It will use different values for some elements of the formula, such as national funding rates and the provider factor.
- 3 The employer-responsive model will include some, but not all, of the elements of the formula.
- 4 The funding formula at the highest level is quite simple:

$$\text{Funding} = \text{SLN} \times \text{Rate per SLN} \times \text{Provider Factor} + \text{ALS}$$

- 5 This technical annex will describe how standard learner numbers (SLN), the provider factor and additional learning support (ALS) are calculated.
- 6 The aim of this annex is to describe the funding formula in some detail, and in a logical order. However, while it gives a technical description of the funding formula, it is not a full technical specification, and should not be used as such.
- 7 Where this annex refers to the individualised learner record (ILR), the references are to the 2007/08 ILR specification. The final funding guidance for 2008/09 will cross-refer to the 2008/09 ILR specification, which will be published in early 2008.
- 8 School sixth forms do not use the ILR. Where equivalent fields exist in the schools' census, these will be used by the funding calculation.

## Standard learner numbers

- 9 Standard learner numbers (SLN) are based on learner enrolments and are not affected by withdrawals (which are taken into account in the calculation of the provider factor). They are calculated separately for each academic year

of study on each learner's programme. Hence, when a learner is on a two-year programme, an SLN value will be calculated separately for each year.

### **Definition of a start**

- 10 SLN will be counted when a learner is deemed to have started.
- 11 A learner is deemed to have started a learning aim once they have remained on that learning aim for the period of time defined in the table below.

<b>Learning aim length</b>	<b>Start period</b>
>= 24 weeks	6 weeks
2 to 24 weeks	2 weeks
<2 weeks	1 learning engagement

- 12 For learning aims that span more than one academic year, starts are determined separately for each year, in line with the approach of calculating an SLN value separately for each year.

## **The 16–18 and adult learner-responsive model – calculation of SLN**

### **Guided learning hours**

- 13 SLNs in the 16–18 and adult learner-responsive models are based on guided learning hours (glh).
- 14 The glh for a learning aim is set using the following logic.
  - If a learning aim has a listed glh value in the learning aims database (LAD), this listed glh value is used. This is always the case for school sixth forms.
  - If there is no listed glh value, but the individualised learner record (ILR) has a value in field A52 (Distance learning funding), then the value in A52 is converted from £ into SLN and used.
  - If there is neither a listed glh value nor a value in A52, then the learning aim is 'unlisted', and the glh is set to the value in ILR field A32 (Planned guided learning hours).
- 15 There are some exceptions to this method.

- Evening GCE/GCSEs, as identified by the learning aim type from the LAD and ILR field A17 (Delivery mode), are assigned the second listed rate from the LAD.
  - Access to higher education (HE), as identified by the funding type from the LAD, is assigned the listed rate from the LAD if A32  $\geq$  450 glh. If A32 < 450 then the glh used is the value in A32.
  - National vocational qualifications (NVQs), as identified by the learning aim type from the LAD, get one of three listed rates, depending on the value in ILR field A18 (Main delivery method) – 14, 15 or 16, respectively. In addition, if A18 = 14 and A32 < 450, then the glh used is the value in A32. These delivery method codes will be reviewed in 2008/09 as part of the transfer of employer-based NVQs to the employer-responsive model.
  - If an NVQ does not have a value of 14, 15 or 16 in A18, the glh is set to the value in A32.
  - If a learning aim is coded as a resit to improve a grade, the glh is set to 0.
  - If a learning aim is coded as a retake, the glh is based on the value in A32.
  - If a learning aim is coded as transferred off – ILR field A34 (Completion status) = 4 – the glh is set to 0.
- 16 The age band of each learner is calculated using the standard definition used in further education and schools – age at 31 August.
- 17 In addition, for all learners with the 16–18 funding entitlement, as coded in ILR field L28 (Eligibility for enhanced funding), a learning aim is added to their record for the entitlement, which has a listed rate.

### **Annualisation**

- 18 The proportion of the learning aim delivered in the current academic year is calculated based on the number of days in the current academic year. For learning aims achieved early – that is, where ILR field A35 (Learning outcome) = 1 and the actual end date is earlier than the planned date, the

actual end date is used to calculate the number of days in the current academic year, thus producing a 'balancing payment'.

- 19 In-year glh is calculated by multiplying the previously determined glh by the proportion of the learning aim delivered in the current year.

### **Conversion to standard learner numbers**

- 20 The uncapped SLN for each learning aim is the in-year glh/450.
- 21 The SLN value is then capped by aggregating the values for the individual learning aims to learner level and capping at a maximum of 1.75 SLN per learner per academic year.

### **Fully funded/co-funded**

- 22 The fully funded/co-funded status of the learning aim is determined by ILR fields A13 (Tuition fee received for the year) and A14 (Reason for partial or full non-payment of tuition fees). All 16- to 18-year-olds are automatically treated as fully funded.
- 23 The co-funded rate for the adult learner-responsive model will vary in line with the provider factor, as the LSC's policy is to have the same fee element irrespective of other factors, such as area costs or programme weighting. It is calculated using the following method:

$$\text{Fee element} = \frac{(\text{fully funded rate} \times \text{fee percentage})}{\text{provider factor}}$$

$$\text{Co-funded rate} = \text{fully funded rate} - \text{fee element}$$

## **Employer-responsive model – calculation of SLN**

### **Activity costs**

- 24 The basis of SLN in the employer-responsive model is activity.
- 25 Activity takes two broad forms: one-to-one contact and group-based hours. Group-based hours are broadly equivalent to glh, but are not identical.
- 26 Currently, Apprenticeship rates are determined by reviewing the activity associated with each framework. There is also an activity review taking place around NVQ-only delivery in Train to Gain, which will inform the 2008/09 rates.



- 27 The learning aims database holds listed SLN values for all employer-responsive provision.

### **Annualisation**

- 28 As for the learner-responsive model, the proportion of the learning aim delivered in the current academic year is calculated based on the number of days in the current academic year. For learning aims achieved early – that is, where ILR field A35 (Learning outcome) = 1 and the actual end date is earlier than the planned date – the actual end date is used to calculate the number of days in the current academic year, thus producing a ‘balancing payment’.
- 29 In-year SLN is calculated by multiplying the listed SLN by the proportion of the learning aim delivered in the current year.

### **Capping**

- 30 The SLN value is then capped by aggregating the values for the individual learning aims to learner level and capping at a maximum of 1.75 SLN per learner per academic year.

### **Fully funded/co-funded**

- 31 The fully funded/co-funded status of the learning aim is determined by A14. All Apprenticeships for 16- to 18-year-olds are automatically treated as fully funded. All 19+ Apprenticeships are automatically treated as co-funded. The co-funded rate is calculated using the following method:

Fee element = fully funded rate x contribution percentage

Co-funded rate = fully funded rate – fee element

### **Provider factor**

- 32 A factor will be calculated annually in advance for each provider to reflect the relative funding levels that they will receive. It is largely based on historical data and will simplify the calculation of each provider’s funding allocation and/or maximum contract value.
- 33 The provider factor will be calculated and applied to the formula in the 16–18 and adult learner-responsive models, both to determine the provider’s allocation and to calculate the funding generated in-year.
- 34 The provider factor will be calculated for the employer-responsive model, and used to generate a maximum contract value. However, the employer-

responsive model will then calculate funding based on actual values in-year for each element of the provider factor at learning aim level.

35 The provider factor will include the following elements, which are multiplied together to give the overall factor.

- Success factor (retention and achievement factor for the employer-responsive model)
- Area costs
- Programme weighting
- Disadvantage
- Short-programme modifier.

36 Note that the new funding formula has no equivalent of the 10 per cent specialist college factor within the current FE funding formula. The LSC is working with those colleges that currently receive a specialist college factor to identify more precise ways of targeting funding for specialist provision. The final details will be confirmed in the funding guidance for 2008/09.

### **Success factor**

37 Success includes retention and achievement, which will no longer be separately used for funding purposes in the 16–18 and adult learner-responsive models.

38 An average success rate for each provider will be found by averaging their published success rates for long, short and very short courses, weighted by the number of starts and the provider's average SLN for learning aims in each of these three categories.

39 The success factor is then the mid-point between the success rate and 100 per cent. This is found from the formula:

$$\text{Success factor} = 50\% + \frac{\text{success rate}}{2}$$

40 The employer-responsive model funds actual activity on a 25 per cent achievement element and monthly retention. Therefore the provider factor

used in the contracting process for that model includes a retention and achievement factor, rather than a success factor.

- 41 The retention and achievement factor is calculated from the proportion of funding actually earned. That is, 100 per cent of the funding for a learner who achieves, and 75 per cent multiplied by the proportion of planned month ends crossed for a learner who does not achieve.

### **Area costs**

- 42 The existing index of area cost factors will be used. For the 16–18 and adult learner-responsive models, the provider-level area cost uplift will be determined by the geographical location of the provider's headquarters. In the employer-responsive model, area cost uplift will be determined by delivery location – that is, employer premises.

### **Programme weighting, disadvantage and short-programme modifier**

- 43 In order to ensure that the provider factor has exactly the same effect on a provider's funding as applying the various weightings at learning aim level, the calculation of some provider factor elements must be carried out at learning aim level and then aggregated up, before being disaggregated into component parts.
- 44 The elements of the provider factor that must be calculated in this way are those elements that operate at learner or learning aim level. That is, the programme weighting, disadvantage and short-programme modifier. In aggregating each of these up to provider level, the values for individual learning aims are weighted by the SLN values of those learning aims.
- 45 **Programme weightings** for all learning aims are taken from the learning aims database.
- 46 The **disadvantage** uplift factor is currently held in the ILR in field L33 for the 16–18 and adult learner-responsive models. For the employer-responsive model, currently an average factor is held at provider level. In 2008/09, the element of the disadvantage factor based on the learner postcode will be updated to use the Index of Multiple Deprivation 2004 (until 2007/08 the Index of Multiple Deprivation 2000 was used).

- 47 The **short-programme modifier** is calculated from the learner level annual glh. It only applies to learners with an annual glh of less than 225. The formula is as follows:

$$\text{Short programme modifier} = 1 + \left( 0.3 \times \frac{225 - \text{glh}}{225} \right)$$

### **Additional learning support**

- 48 Additional learning support (ALS) is split into three parts under demand-led funding.

- The first £5,500 of any claim is funded based on the low-cost ALS formulas described below, although this may involve some discussion with the LSC, as indicated by the model descriptions.
- The next £13,500 (that is, up to £19,000 total claim) is funded from an allocation made based on historical allocation and claim data and discussion with the LSC.
- Amounts above £19,000 are funded from a regional budget on an individual basis.

- 49 For low-cost ALS in the 16–18 and adult learner-responsive models, 60 per cent of the overall budget is allocated using a formula and 40 per cent is negotiated.

- For the 16–18 model, the formula is based on GCSE points score in English and maths for each learner:

$$\text{ALS} = (a \times \text{GCSEPoints}^2 - b \times \text{GCSEPoints} + c) \times \text{SLN}$$

- For the adult learner-responsive model, the formula is based on level of study:

$$\text{ALS} = d \times \text{L1} + e \times \text{L2} + f \times \text{L3} + g \times \text{L4}$$

where L1 to L4 are the numbers of SLN at each level of study.

L1 includes entry level learners, and L4 includes all learner levels above Level 4.

The coefficients a, b, c, d, e, f and g will be published in the detailed funding guidance.

- 50 For the employer-responsive model, the low-cost ALS budget is based on negotiation between the LSC and providers. ALS payments are then based on assessed need, in line with the previous Apprenticeships approach. This approach covers two areas – additional learning needs and additional social needs.
- 51 Additional learning needs (ALN) funding is a monthly payment that providers can draw down if a learner is assessed as having Skills for Life needs below Level 1.
- 52 Additional social needs (ASN) funding is a monthly payment that providers can draw down if the learner falls into one of several categories. These categories are similar to the 'disadvantage' categories in the learner-responsive models.

## Annex – Abbreviations and Acronyms

ACL	adult and community learning
ALN	additional learning needs
ALS	additional learning support
ASN	additional social needs
CSR	Comprehensive Spending Review
DCSF	Department for Children, Schools and Families
DIUS	Department for Innovation, Universities and Skills
E2E	Entry to Employment
ESOL	English for speakers of other languages
FE	further education
FLT	Foundation Learning Tier
glh	guided learning hours
HE	higher education
ILR	individualised learner record
IMD	Index of Multiple Deprivation
ISP	independent specialist provider
ItT	invitation to tender
LA	local authority
LAD	learning aims database
LEE	Learner Eligibility and Existence
LSC	Learning and Skills Council
LSN	Learning and Skills Network
MFG	minimum funding guarantee
MLP	minimum level of performance
MoD	Ministry of Defence
NEET	not in education, employment or training
NTI	Notice to Improve
NVQ	national vocational qualification
OCT	open and competitive tendering
PaMS	planning and modelling system
PLA	Programme-led Apprenticeship
PLAMS	post-16 learning aims management system
QCA	Qualifications and Curriculum Authority
QCF	Qualifications and Credit Framework
SEN	special educational needs
SIP	school improvement partner
SLN	standard learner number
SSC	sector skills council
SSF	school sixth form
SSoA	summary statement of activity

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© LSC November 2007  
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Publication reference: LSC-P-NAT-070209