

Diploma Costs and Funding at Key Stage 4 Study

HEDRA



**Research Report No
DCSF-RR076**

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1 Executive Summary

1.1 Project Objectives and Methodology

In July 2008, the DCSF's 14-19 Funding and Finance Division commissioned Hedra to undertake a study into the Costs and Funding of Diplomas at Key Stage 4. The key objective of the research was to develop a more detailed understanding of costs, funding sources and potential savings, based upon evidence from delivery consortia.

The research was also intended to assist the DCSF in coming to a view on the funding requirement for Diplomas in 2009-10, whilst recognising that local authorities are at a very early stage of Diploma implementation, and that funding requirements and practices will continue to evolve. In particular, the research investigated:

- Which models have been applied by authorities for the management of Diploma funds?
- What bases and which mechanisms have been used to calculate and distribute funding to providers within consortia?
- Whether work has taken place to cost the provision of Diplomas?
- In which circumstances and to what extent might efficiency savings begin to make a contribution to the funding requirement for Diplomas?
- Whether there were any particular examples of good practice in relation to the management and distribution of Diploma funding?

The research primarily involved structured face-to-face interviews with local authorities (usually 14-19 or Children's Services Finance leads) and school / college partnership representatives, in addition to wider external stakeholders. In total, 32 local authorities contributed to the findings of this report, although the research did not seek to be statistically representative, but rather, to investigate the range of practice currently in operation.

1.2 Conclusions

In summary, the key conclusions from the research were as follows:

- For 2008, the significant majority of participants involved in the research indicated that funding levels were such that Diploma take-up was not affected by financial considerations, and it is clearly important that this continues to be the case when the DCSF makes decisions on 2009 funding levels.
- There is a wide variety of Diploma funding models that have been adopted by authorities, ranging from fully devolved to fully centralised models. This reflects the specific history / culture of partnership working within individual authority areas.
- Given the extent of these differences in practice, there is therefore potential for funding flows to be complex in nature, particularly where more devolved models of funding are in operation, with the volume and complexity of such funding flows due to increase as Diploma learner numbers grow in 2009-2013.
- In terms of the key direct sources of Diploma funding (other than schools mainstream funding through the Average Weighted Pupil Unit (AWPU), in just over 50% of cases Practical Learning Opportunities funding was allocated directly to schools. Around 25%

of authorities held Practical Learning Opportunities funding centrally, with around 15% retaining a proportion centrally, with the remainder being devolved. A further 10% of authorities allocated Practical Learning Opportunities funding to consortia. Diploma Formula Grant was allocated directly to schools in around 30% of authorities, allocated to consortia in around 20% of authorities (but far more commonly within counties) and managed centrally by 50% of authorities (although this almost exclusively took place for non-county authorities).

- Around 40% of the authorities participating in the review felt that Practical Learning Opportunities funding had already been committed to other forms of practical learning, and / or had taken a decision not to request this from schools as a contribution towards Diplomas.
- Diploma Formula Grant was generally allocated on the basis of DCSF weightings for individual lines/levels, although two authorities had used an average weighting (£1,000 per pupil) for all lines / levels, for reasons of simplicity.
- Diploma Formula Grant was specifically identified as having been top-sliced in six authorities to cover costs, including: partnership team/infrastructure; Diploma visits; transport; 'capacity building' to support lines with smaller learner numbers; and the potential requirement for efficiencies in future funding rounds.
- A contribution towards Diplomas from AWPU had been requested from schools in around 40% of authorities, with a specific percentage contribution being requested in two authorities, and in the remaining cases, the contribution from AWPU effectively represented the 'balancing item' between provider charges and direct Diploma funding from Diploma Formula Grant / Practical Learning Opportunities funding.
- Different approaches have been taken to funding Diploma providers, including: a fully market-led rate; guidance from the partnership on factors to take into account when setting a rate; and a standard rate being set and agreed across the whole authority.
- Rates were determined using a number of methods, including: use of the LSC funding rate; use of Diploma Formula Grant weightings; 'bottom-up' costings of actual costs of Diploma delivery; and a negotiated rate between the partnership and providers.
- The key Diploma funding issues raised by participants included:
 - The need for the continuation / stability of Diploma Formula Grant in the medium term;
 - Clarity over the use of Practical Learning Opportunities funding for Diplomas, with this funding becoming 'stretched', given the number of different practical learning programmes that it now supports;
 - The need for long term sustainable funding of significant longer term infrastructure costs incurred in relation to partnership working;
 - Transport time involved for learners, and significant transport costs where routes are not currently in existence;
 - The inability of schools to achieve efficiencies to contribute towards the funding requirements, given the relatively low Diploma learner numbers and absence of a critical mass of Diploma provision at this stage;

- The differing methodologies for funding pre- and post-16 learners, whereas the costs of provision could be the same;
- Smaller group sizes e.g. as low as five pupils, increasing costs in 2008, with funding often being required in the early stages to make courses viable.
- A number of areas of good practice were identified, which could potentially be considered by authorities more widely, including:
 - The development of spreadsheet templates for allocating funds to providers, taking account of the extent of delivery of individual elements of the Diploma by each provider and the number of pupils for whom provision takes place;
 - Future modelling of Diploma numbers to inform forward planning, including scenario analysis and work with external organisations to develop Diploma models;
 - Bottom-up costing of Diploma provision, taking account of individual cost elements of Diplomas, including the completion and collation of costing templates by providers;
 - The development of Service Level Agreements, setting out key principles and arrangements for Diploma funding, and dissemination to stakeholders to provide greater transparency and to assist in clarifying funding arrangements.

1.3 Recommendations

Based upon the findings of the research, a number of key recommendations have been identified:

- DCSF and authorities should consider whether existing funding models will remain fit for purpose, as full Diploma entitlement is advanced, particularly where these models are more devolved in nature. Authorities should therefore review existing funding models in the expectation of increasing Diploma numbers, taking into account the extent to which they are able to achieve:
 - Efficient and effective management of provider payments, including minimising the number of funding flows between schools and providers where possible;
 - Economies of scale and value for money; which could be achieved, for example, through bulk purchase of Diploma places from providers;
 - Consistency of provision/treatment of costs, particularly where a number of consortia are in place within a single authority.
- Authorities should ensure that they have sufficient capacity for strategic management and funding of authority-wide costs in relation to Diplomas e.g. transport, smaller class sizes for certain Diploma lines in the initial stages.
- Authorities should consider the specific areas identified in relation to good practice, in particular, undertaking further costing and forecasting work, to obtain as clear a view as possible of the local resource implications of Diplomas.

- Given the importance of ensuring effective participation in Diplomas for 2009, it is suggested that DCSF should continue to allocate Diploma Formula Grant funding to authorities at similar levels to those for 2008.
- Whilst efficiencies were not identified as being achievable by schools for 2009, it is suggested that DCSF should further investigate the circumstances under which efficiencies could potentially be achievable in future, through undertaking in-depth modelling work with a small number of authorities where Diplomas are being delivered to higher learner numbers.
- Given that a number of authorities are now starting to undertake further Diploma costing work and modelling of future Diploma numbers, it is suggested that DCSF should monitor the progress of such work, in order to identify whether there are any common funding issues arising which could be disseminated more widely.

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2 Introduction

2.1 Background

From September 2008, the first five Diplomas in Engineering; Construction and the Built Environment; Information Technology; Society, Health and Development and Creative and Media are being delivered through local consortia, made up of authorities, schools and providers. Providers, in this context refers to all institutions involved in delivering elements of the Diploma i.e. schools, colleges, work-based organisations.

An additional five, four and three further lines of learning will be made available from 2009, 2010 and 2011 respectively, with Diplomas becoming available as a national entitlement from 2013 in the total of seventeen lines of learning, at levels 1, 2 and 3, covering all sectors of the economy.

Based upon local authority (LA) returns as at September 2008, DCSF's latest expectation of pre-16 Diploma learner numbers is shown in Appendix A, by level and line of learning. Of the total number of 12,072 Diploma places in 2008, 8,568 relate to pre-16 learners, with pre-16 Diplomas being delivered across 100 authorities nationally.

2.2 Project Objectives

In July 2008, the DCSF's 14-19 Funding and Finance Division commissioned Hedra to undertake a Study into the Costs and Funding of Diplomas at Key Stage 4. The key objective of the research was to develop a more detailed understanding of costs, funding sources and potential savings, based upon evidence from delivery consortia.

The research was also intended to assist the DCSF in coming to a view on the funding requirement for Diplomas in 2009-10, whilst recognising that authorities are at a very early stage of Diploma implementation and funding requirements and practices will continue to evolve.

In particular, the research investigated:

- What models have been applied by authorities for the management of Diploma funds?
- What bases and which mechanisms have been used to calculate and distribute funding to providers within consortia?
- Whether work has taken place to cost the provision of Diplomas?
- In what circumstances and to what extent might efficiency savings begin to make a contribution to the funding requirement for Diplomas?
- Whether there were any particular examples of good practice in relation to the management and distribution of Diploma funding?

2.3 Methodology

DCSF and Hedra initially agreed a sample of local authorities to contact as part of the research, ensuring a spread of types of authorities (London borough, unitary, county, metropolitan district); geographical nature e.g. urban, rural; structure of partnership e.g. authority-wide, number of consortia; and nature of Diploma provision e.g. a mix of delivery through schools, colleges and/or work-based providers.

In total, 32 local authorities contributed to the findings of this report, although the research did not seek to be statistically representative, but rather, to investigate the range of practice currently in operation.

In addition, wider stakeholders were also asked to take part in the research, including the Association for Colleges; Learning and Skills Council and Local Education Authority Curriculum Advisers Network (LEACAN).

The initial point of contact was usually the 14-19 lead or Children's Services Finance representative from within the local authority. Hedra wrote to these contacts, informing them of the purposes of the research and requesting that a face-to-face meeting took place to discuss key funding issues in relation to Diploma provision, focusing upon funding models; Diploma costing; potential efficiencies; and good practice, as identified in the project objectives above. Wider attendance at the meeting was also requested, where possible, from consortia representatives e.g. schools and colleges.

As the research developed, further authorities were added to the sample, based upon suggestions from LAs initially contacted, or to include authorities with higher actual Diploma learner numbers, as returns provided to DCSF in September 2008 highlighted these LAs.

An initial set of questions was provided in advance to participants, with structured discussion taking place at meetings. In addition, examples of Diploma costing / funding work that had been undertaken by participants were requested, with Hedra exploring such analysis in further detail. Telephone discussions also took place with a smaller number of participants; in particular, to discuss costing/funding work, where available.

A full list of organisations contributing to the research is shown in Appendix 2.

This report provides a summary of the key issues identified from the research, which are discussed under the following headings:

- Diploma funding models;
- Case studies;
- Key funding issues identified;
- Good practice; and
- Conclusions and recommendations.

2.4 Funding for Diplomas

In addition to the overall level of funding provided within the Dedicated Schools Grant (DSG) to schools (largely through the Age Weighted Pupil Unit or AWPU), direct Diploma delivery for pre-16 learners is funded from the following key sources:

Diploma Formula Grant. DCSF has also provided a specific formula grant (based on a range of cost assumptions as further detailed in section 2) to local authorities towards the additional Diploma delivery costs for learners that cannot be met through schools' use of the existing DSG funding. For the 2008-09 academic year, £25m was initially allocated nationally through Diploma Formula Grant. This was based on an estimate of the potential

maximum number of pre-16 places (25,000) indicated by the outcome of the Gateway process for the first 5 Diploma lines, amounting to an average rate of £1,000 per place¹.

A further £3m was allocated to provide a degree of headroom to allow LAs with flexibility to address particular local cost issues, and fund any additional places identified by LAs.²

Where LAs under-recruit in 2008-09, they will keep the funding for the pupils they have not recruited and use it for the funding of pupils in 2009-10. The 2009-10 allocation will then be reduced by the amount of grant received by the LA in 2008-09 for pupils they have not recruited.³

Practical Learning Opportunities. An element of the DSG earmarked for 14-16 Practical Learning Opportunities (a total of £114m nationally in 2008-09) has been identified by the DCSF as being available to contribute towards Diploma costs.⁴ This funding is intended to enable schools to secure a broader range of practical learning at KS4. Provision could be delivered by the school directly or purchased from other schools, colleges or private providers. Funding was intended to cover the additional core costs of delivery, including teaching; curriculum planning; resources and equipment; and relevant fees.

In addition to these sources of funding for direct Diploma provision, funding has been provided for infrastructure and set-up costs in relation to Diploma delivery, as follows:

Workforce development. £56.1m of funding nationally, provided to prepare the workforce for the delivery of Diploma and functional skills.

Gateway 1 funding. For every consortium in its area that will be delivering one or more Diploma lines in 2008, LAs initially received £30,000 per Diploma line. In addition, for every consortium in its area that will not deliver any Diploma lines in 2008, LAs received £18,000 per consortium. This funding was announced in June 2007⁵ and was intended to help all consortia that applied to the Gateway for Diploma teaching to build their capacity to deliver Diplomas and functional skills. In January 2008, further funding of £14,000 per consortium and an additional £7,000 per line was announced⁶.

Gateway 2 funding. For every Diploma line a consortium has approved for first teaching from September 2009, the consortium's LA will receive £30,000 to help the consortium build capacity to deliver Diplomas and functional skills⁷.

Transport and Access co-ordinators funding. Funding provided to support the post of Transport and Access co-ordinator in each of the 40 most rural local areas (£75,000 per authority)⁸.

¹ Guidance to Local Authorities and 14-19 Partnerships on Diploma Formula Grant: 2008-09.

² Guidance to Local Authorities and 14-19 Partnerships on Diploma Formula Grant: 2008-09.

³ Guidance to Local Authorities and 14-19 Partnerships on Diploma Formula Grant: 2008-09.

⁴ DCSF website, 14-19 funding, Frequently Asked Questions.

⁵ Additional Funding For Diploma Consortia: Letter to Directors of Children's Services or Chief Education Officers from Jim Knight MP, June 2007

⁶ Additional Funding For 2008 Diploma Consortia: Letter to Directors of Children's Services from Dominic Herrington, January 2008

⁷ Diploma Gateway Application: Letter from Jim Knight MP, 19 March 2008

⁸ Announcement of 14-19 funding Letter to Directors of Children's Services from Jim Knight MP, July 2008

Revenue for rural pairing scheme funding. Funding to support the 14-19 Strategy Manager to engage in a rural pairing scheme, to allow the sharing of good practice and ideas with other local authorities with similar characteristics. This funding is provided to each of the 40 most rural local areas (£2,000 per authority).⁹

Specific capital funding for Diplomas is available from the following key sources:

Diploma exemplar facilities. £55m will be available for exemplar projects, up to a maximum of £5m per project, with funding being provided from 2009-10.¹⁰

Authorities with all 10 diploma lines. The five authorities delivering all of the 10 Diploma lines from 2009-10 will receive additional capital funding of £1m each to develop Diplomas.¹¹

Rural areas. Capital funding of £1m each will be provided to the 20 most rural authorities in 2008-09.¹²

Wider sources of 14-19 funding, which could potentially be applied to Diploma delivery, have also been listed in Appendix 3 for completeness.

⁹ Announcement of 14-19 funding, DCSF website 14-19 Funding section.

¹⁰ DCSF website, News Centre Archives

¹¹ DCSF website, News Centre Archives

¹² DCSF website, News Centre Archives

3 Diploma Funding Models

3.1 National Diploma Funding Allocations

Before considering a sample of individual authority approaches in greater detail under section 4 of this report, further context and details of the way in which LAs receive funding from the DCSF for the direct delivery of Diplomas (in addition to general DSG funding) are set out below.

Diploma Formula Grant. The design principles for the Diploma Formula Grant were set out in the 'Schools, Early Years and 14-16' consultation document and announced in June 2007¹³. The detailed methodology for allocations based on these principles was developed in consultation with stakeholders through the 14-19 technical sub-group of the School Funding Implementation Group (SFIG). The methodology was agreed as needing to take account of: the number of places by Diploma line and level; the cost of provision in high cost areas (area cost adjustment); and the additional costs in sparsely populated areas (to reflect the costs of travel to institutions delivering elements of the Diploma away from the school).

The costing of the Diploma line and level elements uses the LSC funding methodology, introduced for 16-19 providers from 2008-09, with the funding per Diploma place being weighted according to the line and level of learning being undertaken, consistent with those used to fund 16-18 year olds undertaking Diplomas. The weightings used in the Diploma Formula Grant for 2008/09 allocation are shown in Table 1 below.

The DCSF has calculated that, "on average, the amount of learning requiring additional funding equates to about 150 guided learning hours per annum as defined in the LSC methodology"¹⁴. This is the basis upon which the average additional funding per learner per year of £1,000, allocated through Diploma Formula Grant, has been derived.

Table 1 - Diploma Formula Grant line and level weightings for 2008/09

Diploma line	Level	Amount per place excluding ACA
Engineering	Level 1	£957.21
	Level 2	£1,277.95
Health and Social Care	Level 1	£824.74
	Level 2	£1,101.07
Construction	Level 1	£957.21
	Level 2	£1,277.95
IT	Level 1	£824.74
	Level 2	£1,101.07
Creative and Media	Level 1	£736.30
	Level 2	£957.21

¹³ Teachernet website, School, early years and 14-19 funding arrangements 2008-11: announcement of key decisions, 25 June 2007.

¹⁴ DCSF website, 14-19 funding, Frequently Asked Questions.

3.2 Delivery of Diploma Components

The DCSF has also provided details of the component learning aims for each Diploma, based upon the LSC's standard demand-led funding methodology. This can be potentially be used by LAs / consortia as a basis for allocating Diploma funding to individual providers.

This means that each component of the Diploma will be allocated a Standard Learner Number (SLN). This is based on guided learning hours (glh) and represents the size of the learning aim and therefore the amount of funding available for that aim.

The DCSF has stated that, "pre-16, we would expect the calculation of funding to be paid per Diploma student to be determined as follows:

- How much of the Diploma programme can (i) be delivered through mainstream funding in the home school i.e. through the Age Weighted Pupil Unit (AWPU), and (ii) how much requires additional resource, to be delivered in the home school or elsewhere.
- The level of funding for the latter should be calculated using the elements of the LSC funding formula that relate to the relevant Diploma programme i.e. guided learning hours and programme weighting.
- Use of the other elements of the formula which are specific to the local situation, e.g. institution success rates, additional learner support, are for local determination and can be dispensed with if not required."¹⁵

Table 2 below gives a breakdown of the SLN values and glh for each component of the Diploma for levels 1 and 2 in 2008/09.

Table 2 - Standard Learner Numbers and Guided Learning Hours 2008/09

Learning Aim	Level 1		Level 2	
	GLH	SLN	GLH	SLN
Principal Learning	240	0.533	420	0.933
Functional Skills	120	0.266	80	0.177
Project	60	0.133	60	0.133
Additional/Specialist Learning	120	0.266	180	0.4
Personal Learning and Thinking Skills (PLTS)	60	0.133	60	0.133
Costs of collaboration	30	0.066	40	0.088
Total	630	1.4	840	1.866

¹⁵ DCSF website, 14-19 funding, Frequently Asked Questions

3.3 Local Authority Approaches to Allocating Diploma Formula Grant Funding

Although the DCSF recommended that, “14-19 partnerships should consider pooling funds at KS4, both for Diploma grant and, if necessary, contributions from earmarked DSG, at partnership level”¹⁶, it has not prescribed any one basis of allocation, but has instead left this to local discretion.

As might be expected, therefore, as part of the research, a range of LA approaches were identified in relation to the allocation of Diploma Formula Grant funding, with there being three main approaches followed by the authorities participating in the research. These approaches had generally been widely consulted upon within the wider 14-19 partnership / approved by the Schools Forum and have been summarised below:

Devolvement to school / college. This approach was used by around 30% of authorities, with allocations being provided directly to the Diploma learner’s home school, with the school needing to meet the cost of provision at another school or provider from this allocation. In one case, it was specifically identified that funding was provided to the lead provider (an FE college) initially, with this funding subsequently being shared out between the college and school, according to relative elements of Diploma delivery.

This did not, however, preclude the partnership from managing / reducing funding flows e.g. by identifying single ‘net’ contributions required, in order that schools did not need to make ‘gross’ payments to one another. One county council also identified that, as Diploma numbers were relatively small for 2008, agreement had been reached that no school to school charging would take place, even though schools would otherwise have been net contributors or gainers.

Allocation to consortia. This involves the Diploma Formula Grant being directly allocated to the Diploma delivery consortia (on the basis of Diploma learner numbers within the consortia), for them to decide upon the use of / manage at a local level (which could include subsequent direct allocation to the home institution or direct funding of providers). This approach was used by around 20% of authorities taking part in the research. However, given that consortia arrangements are often more prevalent in larger areas, and are linked to travel to learn areas, this approach was more common amongst county councils, with half of counties taking part in the research allocating Diploma Formula Grant to consortia.

Centralised. This approach was generally combined with the centralisation of Practical Learning Opportunities funding, in order that all sources of direct funding for Diplomas were managed centrally, at 14-19 partnership level. Around 50% of authorities taking part in the research used this approach, although it should be noted that central management was found almost exclusively among non-county authorities.

In addition, six authorities specifically identified that a proportion of Diploma Formula Grant funding was top-sliced (this approach could be combined with devolvement to school/college or allocation to consortia). The key reasons for such top-slicing included:

- A contribution towards funding the partnership team/infrastructure
- Providing for ‘additionality’ in relation to Diploma learning e.g. visits
- Retaining a separate fund for transport related costs

¹⁶ DCSF website, 14-19 funding, Frequently Asked Questions.

- Providing a 'capacity building' fund; for example, to fund the costs of certain Diploma lines in the initial stages, to get these 'up and running', on the assumption that learner numbers would increase in future years
- One unitary council had top-sliced 10% of the Diploma Formula Grant on the basis that the DCSF may require efficiencies of this order of magnitude to be delivered in future years. One county council took the decision to separate out the sparsity element of the Diploma Formula Grant, and to allocate this only to consortia where learners would need to cover greater distance to access provision.
- Another unitary council used a similar approach, separating out the Area Cost Adjustment and sparsity elements of the Diploma Formula Grant, using this to fund transport costs in the early stage of Diplomas.

Allocation basis. The most common basis of allocating Diploma Formula Grant, used by nearly all the authorities with whom this was explored, was the use of DCSF weightings for individual lines / levels, as in Table 1 above. Only two authorities specifically identified that they used the same average weighting (£1,000) for all lines and levels (potentially meaning that cross-subsidisation would take place between lines/levels).

3.4 Other Sources of Diploma Funding

Practical Learning Opportunities funding. This is provided through the Dedicated Schools Grant (DSG) baseline as a non-ring-fenced allocation, based upon 11-16 pupil numbers. The DCSF's view on this element of funding is that, "local authorities will need to decide with their Schools Forums, how they can best distribute their allocation of these funds to schools through their local formulae. We do not expect authorities to attempt to replicate the Dedicated Schools Grant distribution methodology in their own formulae: they will need to consider the relative needs of all their schools, and direct funding in response to those needs."¹⁷

As with Diploma Formula Grant, authorities have used different bases for the allocation of Practical Learning Opportunities funding, and these have been summarised in Appendix 4. In the majority of cases (just over 50%), Practical Learning Opportunities funding was allocated directly to schools. Around 25% of authorities held Practical Learning Opportunities funding centrally, with around 15% retaining a proportion centrally, with the remainder being devolved. A further 10% of authorities allocated Practical Learning Opportunities funding to consortia.

It is also important to note that around 40% of the LAs participating in the review felt that Practical Learning Opportunities funding was already committed to other forms of practical learning, or did not specifically request this from schools as a contribution towards Diplomas, with the extent to which this source of funding was perceived to be available for funding Diplomas therefore varying between authorities.

Overall AWPU. In addition to the Diploma Formula Grant and Practical Learning Opportunities funding, around 40% of authorities also identified that the overall AWPU had been used to support Diploma provision. There were only two cases where this was explicit e.g. a specific percentage of AWPU was identified as being required from schools for

¹⁷ Setting School Budgets for 2008-09 to 2010-11: Guidance Note for Local Authorities and Schools Forums, December 2007.

Diploma learning. In all remaining cases, the contribution effectively represented the 'balancing item' between the amount charged by providers and the specific Diploma funding allocated to schools.

One London borough took the view that, based upon one day a week Diploma learning, a fifth of the overall school AWP (less 10% of this amount to cover home school core costs), was effectively 'released' for Diplomas, effectively assuming a like-for-like replacement between traditional provision and Diploma provision, although this view had not been taken more widely by LAs.

One county council identified that, with agreement from the Schools Forum, it had top-sliced funding from the overall DSG allocation to support the provision of Diplomas. This therefore meant that all schools (including primary and special) were contributing towards the cost of Diplomas, as this top-slicing took place prior to the allocation through the local schools' formula.

3.5 Funding Flows

As identified in Table 2 above, in many cases, there will be a number of providers delivering different components of the Diploma, including the home school itself. A decision therefore needs to be taken by individual LAs on how funds will flow to each provider, in addition to the rate at which the Diploma will be funded, with the specific approach adopted by authorities as described in 3.3 and 3.4 above determining the method of funds flow.

As part of discussions that took place during the research, it was identified that Dudley MBC and LEACAN (The National 14-19 Network) have developed pictorial representations to show how such funds flow could operate in practice (based upon a single authority-wide partnership). These models have been adapted as part of this research and are considered overleaf.

Fully centralised funds flow. This was described by the DCSF in its, “Guidance to Local Authorities and 14-19 Partnerships on Diploma Formula Grant: 2008-09”, as Option 1 and is illustrated pictorially in Figure 1 below¹⁸.

Figure 1 - Fully Centralised Approach

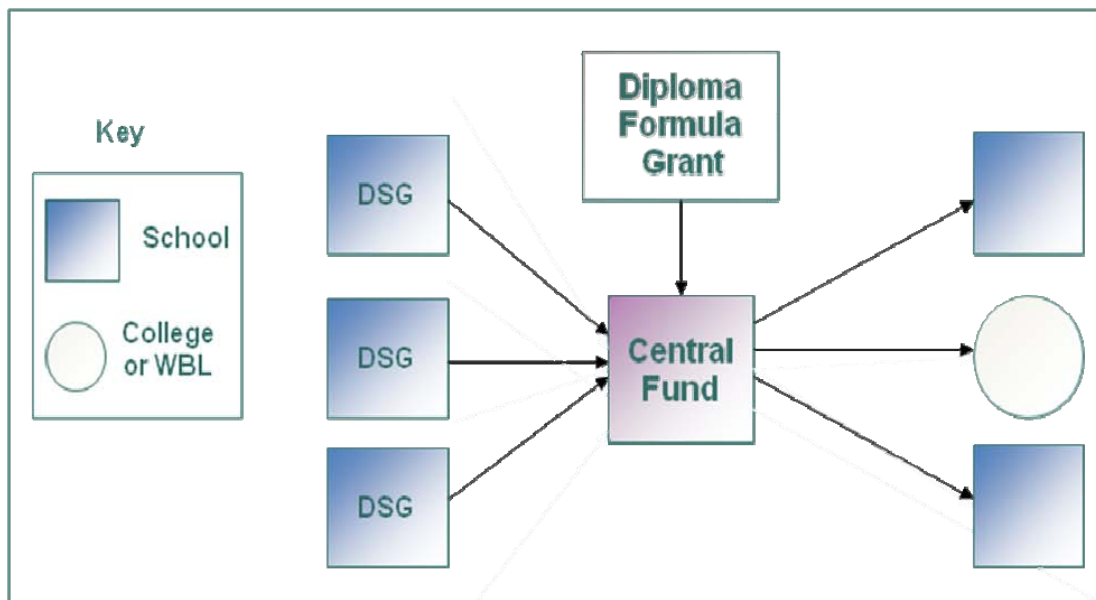


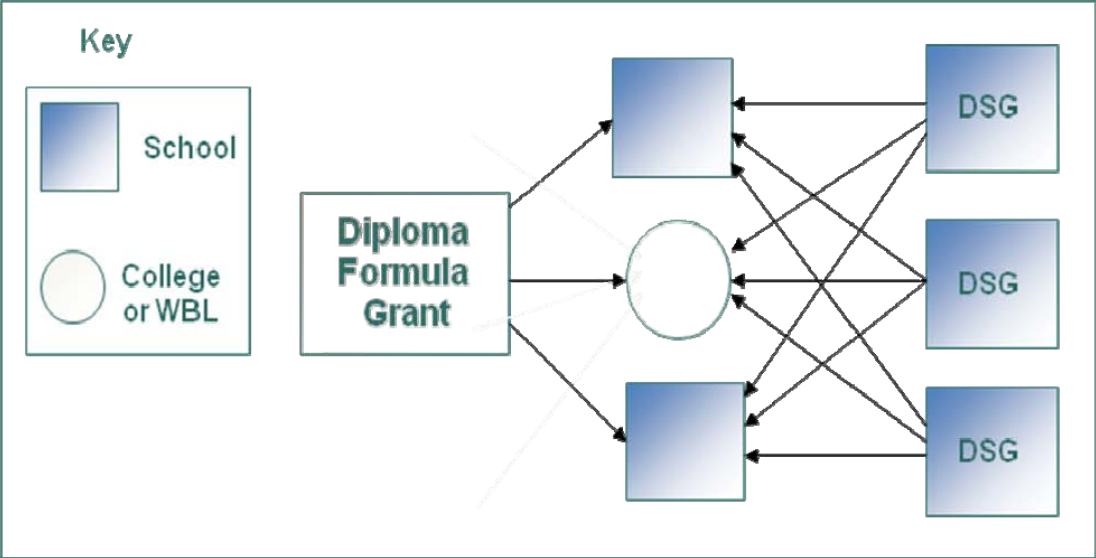
Figure 1 shows that, if a fully centralised model is adopted, then both Diploma Formula Grant and DSG funding (contributions from DSG for Diplomas would need to be agreed in advance), are managed through a central fund, administered by the LA. The LA pays agreed amounts over to institutions providing individual components of the Diploma directly (based upon the relative proportions of the Diploma delivered). Providers therefore only receive payment from a single source via the central fund, simplifying funding flows.

At its simplest, this could be a single payment, but with sufficient detailed information behind this showing how the payment has been derived, representing the net position in terms of funding due to the provider.

¹⁸ Source: Adapted from Dudley MBC/LEACAN

Part-centralised, part-devolved funds flow. If a part-centralised, part-devolved approach was adopted, the partnership could be responsible for paying over the Diploma Formula Grant to individual providers, whilst individual schools paid over contributions from their DSG. This was described as option 2 in the DCSF's guidance and is shown in Figure 2 below¹⁹:

Figure 2 - Part-Centralised, Part-devolved Approach

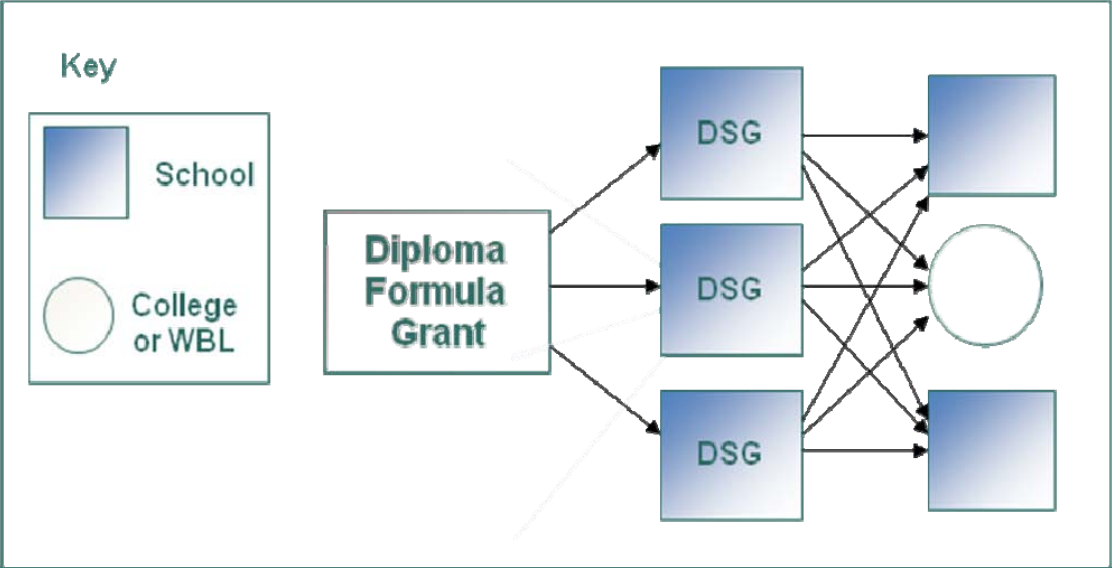


It can be seen that funding flows increase in complexity compared to the centralised model, with there being a larger number of flows for schools' DSG contributions to providers (including other schools themselves). Providers receive funding from two sources - centrally and schools; however, they may receive many numbers of payments from individual schools.

¹⁹ Source: Adapted from Dudley MBC/LEACAN

Fully devolved funds flow. If a fully devolved approach was adopted, then all Diploma funds would be delegated to schools, with each school therefore needing to reimburse individual providers. This was described as option 3 in DCSF’s guidance and is illustrated in Figure 3 below²⁰:

Figure 3 - Fully devolved approach



Under this approach, both Diploma Formula Grant and DSG allocations are initially allocated to schools, with schools paying over funding relating to Diploma delivery to providers directly. Again, there are larger numbers of flows compared to a centralised model, due to the number of payments from individual schools, although providers would only receive funding from a single source i.e. schools.

Clearly, the above options represent specific illustrations of funding flow models, with there being further variants upon these. For example, the above models show the effect for an authority-wide partnership; whereas, if an authority had a number of consortia in place, this would add a further layer of complexity to flows, with funds potentially being allocated from the LA to consortia and then to individual providers.

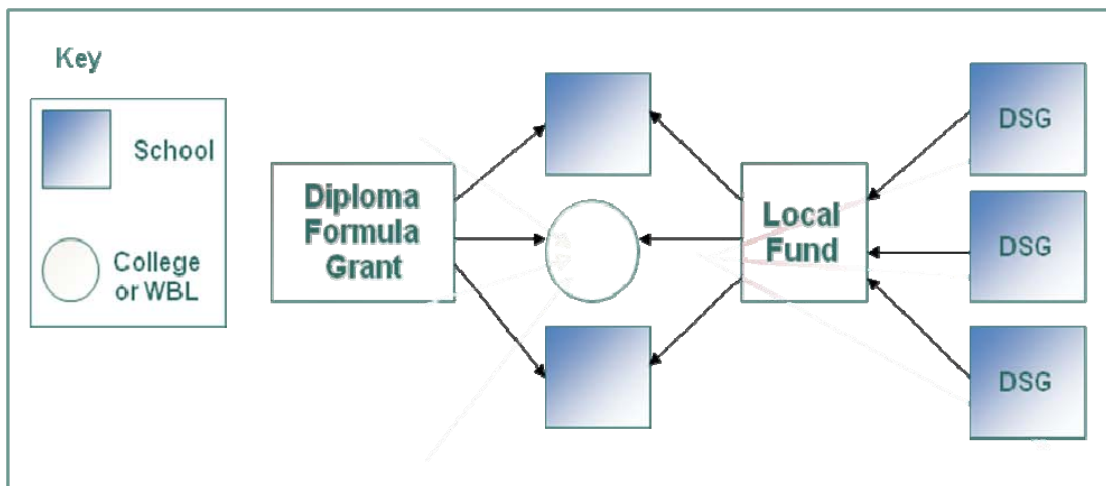
Similarly, alternative arrangements could be put in place to try and simplify flows. For example, as described previously, funding flows could be ‘netted off’ where schools undertake Diploma provision for one another. In addition, as Diploma numbers increase, there could be potential for the introduction of a ‘Local Fund’, under options 2 or 3, whereby any contribution from schools’ DSG would be pooled into a Local Fund, meaning that funds would flow from a single Local Fund to providers, rather than from many individual schools.

This was not an approach that was specifically identified as being in place at any of the authorities taking part in the research, but rather, was a theoretical approach that had been considered by one metropolitan authority. This is illustrated in Figures 4 and 5²¹.

²⁰ Source: Adapted from Dudley MBC/LEACAN

²¹ Source: Adapted from Dudley MBC/LEACAN

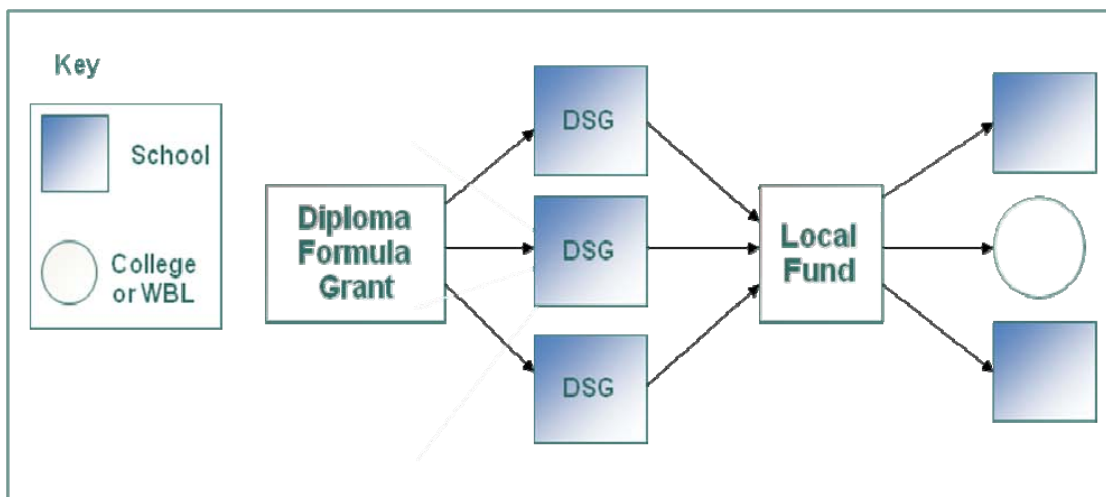
Figure 4 - Use of a Local Fund with a part-devolved, part-centralised approach



Under this approach, although schools are initially directly allocated DSG, an agreed amount in relation to Diploma funding is subsequently transferred by schools to the Local Fund (which could potentially be managed by the authority or by a nominated school). If the Local Fund is managed by the LA, providers would only receive payments for Diploma provision from a single source and if it were to be managed by another organisation e.g. a school, providers would receive payments from two sources.

A key benefit would again be the ability to make single net payments to the provider from the Local Fund, although clearly, there would need to be a funding flow from schools to the Local Fund in the first instance, in relation to their DSG contribution.

Figure 5 - Use of a Local Fund with a fully devolved approach



This approach operates in a similar manner, with the only difference being that schools are initially allocated both Diploma Formula Grant and DSG directly. Again, an agreed amount in relation to Diploma funding is subsequently transferred by schools to the Local Fund (which could be managed by the authority or a nominated school), with providers only receiving funding from a single source.

3.6 Funding Basis

The research also specifically considered the basis upon which providers were being funded, with the range of funding methodologies that were used in practice being identified below:

Authority-wide rate. This involved agreement being reached between the partnership and providers in an authority as to a standard rate which would be charged for certain types of Diploma provision (i.e. this could vary according to the line / level being undertaken). This would mean that all providers were being paid the same amount across the authority for the same level of provision. In addition, if the rate were to be negotiated centrally, this could potentially lead to economies of scale, particularly as Diploma learner numbers increase.

Market-led rate. A fully market-led rate would mean that providers could charge whatever amounts they believed were acceptable to schools for Diploma provision. Although, in theory, this could potentially lead to lower rates being achieved if sufficient competition existed, where provision is restricted e.g. due to a low number of specialist providers or limited geographical access to other providers, this would limit the extent to which this could take place in practice. In addition, this could also lead to schools in different consortia or different parts of the authority paying different amounts for the same type of provision.

Guidance on rate. Under this approach, the LA / partnership would issue guidance on how a potential rate could be determined, with providers having a degree of flexibility within this guidance. This guidance would usually be issued by the LA itself, following consultation with other 14-19 partnership members, or alternatively, this guidance could be developed by the partnership's funding sub-group, which has specific responsibility for Diploma funding issues. For example, this could include guidance on factors such as the hourly cost of direct teaching, hourly cost of technical support, costs of equipment / materials, etc. Guidance could also be issued in relation to maximum rates, for example, that the LSC rates should not be exceeded.

In terms of the way in which this rate was determined, four key methods were employed by LAs:

LSC Funding Rate. This funds the provider based upon the LSC post-16 methodology, at the national rate for schools per SLN (£2,945 for 2008/09), multiplied by the number of SLN delivered. Less than 10% of authorities specifically identified that they had used this approach.

Use of Diploma Formula Grant weightings. As identified in Table 1 above, the DCSF based its 2008/09 weightings upon LSC weightings within the Diploma Formula Grant, depending on the line and level being undertaken. Many authorities used these specific DCSF weightings as a basis for funding providers, with only two authorities deciding, in 2008, to use average weightings for simplicity (£1,000), regardless of the line or level of the course.

'Bottom-up' costings. Under this scenario, the partnership and providers worked together to identify the actual costs of Diploma delivery e.g. taking into account the factors described above, such as the costs of direct teaching, technical support, equipment / materials etc. This cost could then be used to fund providers for all Diploma lines, on an average basis, or costs could be varied according to the individual Diploma line being provided e.g. if group sizes were smaller or equipment costs were higher. Around 40% of authorities identified that they had undertaken some form of costing work for individual elements of the Diploma.

Negotiated amount. This would involve discussion between the partnership and providers, often including bottom-up costing work being undertaken. However, the agreed funding for

providers was then negotiated; for example, striking a balance between available funding and/or what schools were prepared to pay and the rate initially identified as the cost of provision. It should also be recognised that some providers, may be willing to offer lower prices in the initial stages of Diploma provision, as a 'loss leader', with full costs not being charged, based upon the expectation of learner numbers increasing in future, with class sizes (and income) then becoming viable.

Under all of the above approaches, a number of different bases could be applied in terms of the funding rate for providers. These included, for example, an annual amount per pupil; an amount per pupil per day; an hourly rate per pupil; or an amount per class. The most common approach was to allocate funding to providers on a per pupil basis (an amount per class was only used by less than 5% of authorities), with funding following the learner, but with scope to 'top-up' provider funding, if lower than expected pupil numbers would have made the class unviable in financial terms.

4 Case Studies

4.1 Introduction

In order to illustrate how these funding models operate, a number of case studies have been provided in Appendix 5 for selected authorities taking part in the study, demonstrating the variety of approaches that are used in practice.

4.2 Summary of Approaches

Table 3 below summarises the key features of selected case study authority funding models. The list is not intended to be exhaustive, nor to cover all regions, but rather to illustrate the relative level of centralisation and devolvement of LA Diploma funding models and approaches used to funding providers.

Table 3 - Summary of Case Study Authority Approaches

Authority	Partnership Structure		Diploma Formula Grant			Practical Learning Opportunities			
	Authority-wide	No. of areas	To schools	To consortia	Central	To schools	To consortia	Central	% devolved % central
Plymouth	✓		✓			✓			
Sheffield	✓				✓				✓
Reading	✓				✓				✓
Hackney	✓				✓			✓	
North Somerset	✓				✓			✓	
Newham	✓				✓			✓	
Stoke-on Trent	✓				✓	✓			
Worcestershire	✓				✓	✓			
Surrey		✓		✓		✓			
East Sussex		✓		✓		✓			
Birmingham		✓		✓					✓
Hertfordshire		✓	✓				✓		
Lincolnshire		✓	✓				✓		

4.3 Key Issues Arising

Section 5 of this report draws out the key issues surrounding the use of different funding models. The key issues emerging from the case studies were:

- A wide range of approaches were used by authorities to distribute Diploma funding, for both Diploma Formula Grant and Practical Learning Opportunities funding, varying in the level of their complexity
- The degree of local authority direct management of funding arrangements also varies, for example, with more autonomous arrangements generally being in place where a number of consortia are in place within an authority area
- The extent to which contributions were requested from schools towards Diplomas (and the level of contributions, where requested) was again variable between authorities
- Authorities were concerned that Diploma funding was sustainable in future, in order to ensure that participation levels are maximised
- The need for longer term funding in relation to partnership infrastructure costs was raised as a key concern
- There was consensus from participants that, given the relatively low numbers of Diploma learners in 2008/09 and expected numbers in 2009/10, efficiencies at school level were unlikely to be achievable for 2009/10
- A number of areas of good practice were identified, where authorities and partnerships had sought to undertake work locally to explore Diploma costs and model future demand

5 Key Funding Issues Identified

5.1 Introduction

As identified in Sections 3 and 4, there is clearly a diverse range of potential approaches for distributing Diploma funds. The relative success of different arrangements will, to an extent, be dependent upon local factors; for example, the previous extent of partnership working; variations between LA consortia / areas in terms of geography or type of provision; role of the LA in terms of funds management and administration; tendency towards devolved or centralised arrangements etc.

Notwithstanding these local factors, as part of the research, consideration was given to specific issues which LAs may wish to consider when determining their funding model and rate at which providers are funded. This is particularly important in the context of the LA's responsibility for the overall 14-19 strategy, including commissioning arrangements, and ensuring that an appropriate level of provision is in place authority-wide.

In addition, although to date, Diploma learner numbers have been relatively low, given the expectation of significantly increased Diploma learner numbers from 2009 onwards until the full 2013 entitlement, authorities will therefore need to consider whether funding models currently in place will remain fit for purpose as the complexity of provision increases.

5.2 Potential Funding Model Characteristics

The following characteristics were identified from the research as those which were most likely to assist in ensuring that the funding model and method by which providers are funded was as robust as possible, in particular, highlighting the management role of the LA:

- (i) **LA management of payments.** As illustrated in Figures 1-3 in Section 2, there is potential for there to be considerable differences in the number of funding flows between individual schools and providers. Clearly, the simplest approach is a centrally managed model, whereby all relevant Diploma funding is held at partnership level, with the LA identifying and paying over the appropriate amount of funding to each provider, taking into account their level of provision to schools.

Where more devolved approaches have been used e.g. direct payment from schools to providers, whilst this may be manageable at a local level where Diploma numbers are relatively low for 2008, increasing numbers of school to provider (including school to school) payments are likely to increase the level of administration time required as Diploma learner numbers grow. In addition, although cross-boundary flow of learners was not raised as a major issue for 2008, the existence of more centralised management arrangements could also assist in coordinating more complex flows between, as well as within, authorities in future.

- (ii) **Economies of scale.** Where provision is managed centrally, authorities may be able to negotiate better local rates from providers through economies of scale for larger Diploma learner numbers, rather than schools (or consortia) individually agreeing rates. For example, this would enable lower rates to be negotiated by the authority once it was known that class sizes would exceed a viable class size with a provider, whereas this may not necessarily be known if each school was arranging for a small number of learners to attend a provider's course. There may also potentially be economies of scale arising from the streamlining of certain consortia (if appropriate) once learner numbers increase.

- (iii) **'Local Fund'**. If a part-centralised / part devolved or fully devolved model is chosen, there is still potential to simplify funding flows; for example, potentially through the use of a means such as a 'Local Fund', as shown in Figures 4 and 5, whereby providers receive funding through a single source, rather than from many individual schools.
- (iv) **Capacity building**. Around 20% of authorities specifically identified that they employed some form of 'capacity building' element within their model to enable a certain level of funding to be set-aside, rather than allocating all funding out to schools. This allowed scope for more strategic decisions to be taken; for example, in relation to funding transport costs centrally; funding courses which would otherwise be unviable due to lower initial learner numbers; or moving funds between individual Diploma lines, if some lines are identified as being 'under-funded' and others 'over-funded'.
- (v) **Guidance on rates**. As identified in section 3, there are a range of approaches which could potentially be adopted in relation to the local rate at which providers are funded for Diplomas. Authorities therefore have a role in ensuring that sufficient information is provided to schools and providers to enable a decision to be reached as to whether prices charged are reasonable and comparable, for example, by showing an illustrative range for various elements of cost e.g. teaching costs per hour.
- (vi) **Consistency of provision / treatment**. Where authorities have a number of consortia in place, there can be scope for very different costs to arise (and therefore very different prices being charged), based upon the means of provision. This may be entirely appropriate in certain cases, for example, depending upon whether provision takes place at a school, college or work-based learning provider. However, in other cases, costs such as management overheads or equipment / course materials may be considerably different, with the authority therefore potentially having a role in taking an overview on such costs, identifying where costs are out of line and where there may be scope for better value for money to be achieved. Similarly, the authority could again have a role in considering consistency of treatment between providers e.g. whether or not exam fees / registration is included within provider prices.

5.3 Funding Issues Raised by Participants

A key focus of the research was to seek views from authority and consortia representatives on particular funding issues which they believed impacted upon Diploma delivery. The specific issues raised in discussion have been summarised below.

- (i) **Diploma Formula Grant**. As might be expected, one of the main issues raised by all participants related to the need for sustainability of funding in relation to Diplomas. Diploma Formula Grant is currently announced on an annual basis, with authorities and consortia expressing the view that a longer term announcement from DCSF over how long Diploma Formula Grant will continue for and the level of funding available would assist them in their financial planning. This also links to point (v) below in relation to DCSF clearly identifying whether or not school-level efficiencies will be assumed for the purposes of 2009 Diploma funding.

There was a general expectation by LAs that Diploma Formula Grant would continue in the medium term; although two authorities identified that they had assumed a reduction in the level of funding over time. One of the key messages from participants was that they did not want Diploma take-up to be jeopardised by 'excessive' contributions being required from schools, with decisions about vocational provision potentially being influenced by cost, rather than curriculum considerations, and cheaper practical provision therefore being chosen over Diplomas.

For 2008, the significant majority of participants involved in the research indicated that funding levels were such that Diploma take-up was not affected by financial considerations, and it is clearly important that this continues to be the case when the DCSF makes decisions on 2009 funding levels.

- (ii) **Practical Learning Opportunities funding.** The need for greater clarity over the link between Practical Learning Opportunities funding and its potential use in relation to Diploma provision was raised by a small number of participants. In addition, concerns were raised that the vocational provision which the Practical Learning Opportunities 'pot' is now being intended to cover is becoming increasingly stretched e.g. Diplomas; Young Apprenticeships; Increased Flexibility; BTECs. More widely, the variety of different funding sources in relation to Diplomas was identified by a small number of authorities as increasing complexity, with there being potential to have a single source of funding for Diploma provision.
- (iii) **Flexible funding pot.** National funding of £14.5m in 2008-09, to support 14-19 partnership working, is now allocated through the non-ring-fenced Area Based Grant (ABG). Around half the participants specifically expressed concern that this funding could potentially become 'lost' within the overall authority allocation for ABG and not necessarily be allocated for 14-19 partnership working. Clearly, however, this needs to be balanced against the Government's general intention to reduce the level of ring-fenced funding provided to authorities, with a greater proportion of funding being allocated on a non-ring-fenced basis. Authorities themselves, along with Local Strategic Partnership stakeholders, can now take a corporate decision on the allocation of ABG funding, which could mean that the same, less or more funding is allocated for 14-19 working, depending upon local priorities.
- (iv) **One-off funding / infrastructure costs.** Whilst authorities and consortia welcomed the lump sum allocations per consortium and line for Gateways 1 and 2, the main issue raised here by all authorities was the one-off nature of the funding, with longer term infrastructure arrangements needing to be put in place to ensure the successful delivery of Diplomas, whilst funding was not provided on an ongoing basis.

Infrastructure costs were one of the overriding issues raised by all participants, with these often identified as being 'hidden', with authorities / consortia contributing considerable time to ensuring that Diplomas are a success, but with this input often not being fully costed. Key costs identified included:

- Preparation and planning activity
- Employer engagement activities
- Line of learning leads, domain and lead assessors
- Accompanying and supervising learners off-site
- Arrangements for ensuring that all learners leave the school premises on time to attend Diploma learning and are 'greeted' once they reach the site
- Administration, data management/IT, registration and learner tracking
- Verification and quality assurance, to ensure consistency of provision across the authority

- Staff training / CPD
- Marketing and communication of Diplomas

Whilst some efficiencies may be achieved as Diploma learner numbers increase e.g. grouping line of learning leads, at this stage, the above costs were seen to be highly significant, with particular concerns being raised over the affordability of domain and lead assessors.

In addition, a small number of authority-wide consortia and London boroughs specifically expressed the view that that they could potentially be financially disadvantaged by lump sum funding per consortia, where they had set up a single consortium for the authority or a joint consortia between a number of London boroughs (where their single consortium could potentially be larger than a number of consortia in another authority but would receive less funding).

- (v) **Efficiencies.** The DCSF has previously stated that, “Our modelling of costs for Diploma delivery at KS4 for the CSR years assumed that savings could be made when more than 20 students in a given school were taking Diplomas on the basis that at this point it was theoretically possible that an existing class would not be needed, leading to a saving in staff time. However a strong theme emerging from the consultation was that it will not be possible for schools to realise efficiency savings from Diplomas until whole classes are actually being displaced. We recognise that this is unlikely to happen in 08/09 given the relatively small numbers taking Diplomas, and their uneven spread across schools and Diploma lines and levels. For 08/09 therefore the calculation of Diploma grant does not assume a contribution from savings”.²² The DCSF has further stated that, “... we do expect as numbers increase over time there will be savings from provision displaced by Diplomas. We do plan to commission further work on these circumstances as they arise.”²³

The achievement of efficiencies in relation to Diploma provision can be considered in two main contexts - potential savings from larger numbers of learners being off-site and replacement of existing ‘traditional’ provision.

These areas were both investigated in discussions, with there being an overriding view that, at this stage, Diploma learner numbers were too small to assume that efficiencies could be delivered in 2009. This is particularly the case in the light of 2008 actual Diploma numbers being below initial Gateway 1 projections and the fact that the second cohort numbers for 2009 will roll on from 2008, even assuming that no drop out of learners takes place. A small number of participants also questioned the assumption of significant amounts of Diploma provision taking place off-site, with the home school often providing a significant proportion of the Diploma or other arrangements, such as peripatetic staffing or mobile centres being used.

It was generally felt that, at this early stage of Diplomas, ‘additionality’ of provision, rather than ‘replacement’ provision, was taking place. Some examples were identified where like-for-like replacement could take place, e.g. ‘shifting’ a teacher onto a Diploma course from existing provision for a line such as IT. More widely, however, it was not yet clear what traditional subjects would potentially be replaced by lines such as Engineering, for example, with there also being uncertainty surrounding the future of BTEC provision, and therefore the potential ‘switching’ between BTEC and Diploma courses.

²² Guidance to Local Authorities and 14-19 Partnerships on Diploma Formula Grant: 2008-09.

²³ DCSF website, 14-19 funding, Frequently Asked Questions.

In the longer term, as a greater proportion of the cohort undertakes Diploma learning, there is clearly greater scope for efficiencies; however, this will require a 'critical mass' of Diploma provision compared to traditional subjects. This critical mass will need to be in place at individual levels and lines i.e. by 2013 there will be 51 potential variants in total. For such efficiencies to be fully realised, this will require collaboration between schools, in terms of common timetabling and decisions about subjects which may currently be provided at a number of schools, but where, in future, individual schools may need to 'specialise' in specific subjects, removing duplication of provision.

(vi) Transport. As identified previously, a number of authorities have 'top-sliced' elements of Diploma funding to enable transport to be considered on an authority-wide basis or have allocated the sparsity element of Diploma Formula Grant to specific consortia who will experience the highest transport costs. Transport is therefore a particular example of an area where there is potential for economies of scale to be achieved / capacity to be maximised through a more 'centralised' approach being taken. Transport-related issues were raised from two main perspectives - travel time and the costs of travel arrangements themselves.

In terms of travel time, whilst greater distances are clearly likely to be travelled by learners in more rural authorities, urban authorities also identified that, although distances travelled could be relatively small, due to congestion, particularly where learners needed to cross through the city centre, this could have a disproportionate impact upon the time taken up by travel. This can also have cost implications e.g. if teacher time is taken up / needs to be backfilled where learners are accompanied.

For rural authorities, the required public transport links may not actually be in existence, meaning that an authority may therefore need to create these, rather than simply fund them. For authorities in holiday / tourist destinations, travel times can also lengthen at certain times of the year, as the main transport routes become more congested.

Where public transport provision does not exist, some authorities have invested in vehicles e.g. minibuses, to transport learners between sites, although it may not necessarily be cost effective for learners to attend the school site first, with home to provider transport taking place; and if this involves taxi provision, this can clearly be an expensive option.

Authorities where pupils will need to travel larger distances also raised concerns that, once full entitlement is available in 2013, this could have a significant impact upon costs. For example, a learner may wish to attend provision in an area of the authority which could potentially involve, say, an hour and a half of travel time each way. However, the authority may not be able to determine that this would make the course unviable, as this would impact upon the learner's entitlement.

Considering how best to fund transport costs was therefore identified as a key issue by a number of authorities, particularly counties. This is also an issue where consortia have different characteristics and it may not therefore be appropriate to provide funding on a per pupil basis, as this would result in over- and under-funding between consortia. In one unitary authority, free travel had been arranged e.g. with the local bus company, although clearly this assumes that these links are already in place, which may not necessarily be the case in more rural authorities.

(vii) Pre- and post-16 funding. As identified previously, less than 10% of authorities had used the LSC post-16 methodology to fund providers, using the national rate for schools per SLN (£2,945), multiplied by the number of SLN delivered. These authorities identified that they had concerns over the use of different funding mechanisms for pre- (Diploma Formula Grant) and post-16 (LSC methodology) Diploma learners, as there were no differences in terms of the costs of teaching pre- and post-16 learners, who could be receiving teaching in the same class.

DCSF has identified that, although the basic principles are the same, in practice, there are important differences in the way in which funding works pre- and post-16. Although the pre-16 rates are based on the post-16 rates and programme weightings, they are only intended to provide for the additional costs of Diplomas that cannot be met from school mainstream budgets i.e. the pre-16 rate is based upon a per pupil 'add-on', whereas the post-16 rate includes the totality of the learner programme.

(viii) Group sizes. Participants identified that there were additional teaching costs associated with Diplomas from smaller group sizes, in comparison with GCSEs (which would be even more pronounced for special schools). In addition, given the initially lower Diploma learner numbers e.g. some classes had been run with around 5 learners, this has also increased the costs of provision in 2008, although around 20% of authorities identified that they had developed 'capacity building / cushioning' arrangements, which could be used to fund such courses, which would otherwise have been unviable. In around 5% of authorities, funding has been allocated to providers per class, rather than per pupil. As numbers increase, however, there would be an expectation that class sizes increase and courses become more financially viable.

(ix) Capital funding. Capital funding concerns were not generally raised by LAs in discussion, however, there is clearly a need for authorities to consider the specific facilities required for Diploma delivery e.g. refurbishment of school sites, mobile units, Diploma delivery centres etc., in conjunction with their overall secondary school capital strategy, including BSF and Academies. In addition, the link with potential transport requirements will need to be made, depending upon the location of facilities. As Diploma learner numbers increase, existing capacity to deliver Diplomas may become more of an issue, which LAs will need to closely monitor.

6 Good Practice

6.1 Introduction

As can be seen from Appendix 1, there is a wide variation in the numbers of learners undertaking Diplomas across authorities, with some authorities being further ahead in their consideration of Diploma funding issues. The research therefore sought to identify areas of good practice in relation to funding which could potentially be applicable to / considered by authorities more widely. Key issues identified are set out below:

- (i) **Allocation of funds to providers.** A number of authorities had developed spreadsheet templates to assist in identifying amounts payable to each provider. These vary to a degree, but the general principles are that the individual components of the Diploma are identified, with the funding payable per learner being weighted according to the proportion of SLN delivered, and this then being multiplied by the total number of learners, to derive the total payable per provider.
- (ii) **Future modelling of Diploma learner numbers.** Given that authorities are currently in the early stages of Diploma provision, focus has, to date, largely been upon 2008 (and, to a lesser extent, planning for 2009) delivery. One metropolitan district council had, however, undertaken scenario analysis, using DCSF expectations of national percentage increases in Diploma numbers to 2013 as a base, with the base then being adjusted for more optimistic and pessimistic scenarios, applying this to their own actual Diploma learner numbers. This information was used to inform overall Diploma forward planning, including the most cost effective means of provision.

It was also identified that seven Inner London boroughs had commissioned a 14-19 consultancy company to develop a model to forecast Diploma demand, particularly in the context of Diploma lines likely to involve smaller learner numbers. The model allows boroughs to input their assumptions about demand for the different lines of learning, with this being mapped to the number of teaching groups required. This enables boroughs to identify at which levels which Diploma lines become more viable if delivered collaboratively.

- (iii) **Diploma costing.** The extent to which Diploma costing had been undertaken was variable, with some authorities considering a range of delivery costs for each line and level, on a 'bottom-up' basis, to derive the actual cost of delivery (around 40% of authorities had undertaken some form of such costing work), whereas other authorities had effectively assumed that the funding received represented the cost of delivery. The level of funding compared against costs also varied, depending upon authorities' assumptions about the extent to which Practical Learning Opportunities funding was available to support Diplomas, or the level of AWPU contribution required from schools, for example.

Costs also had the potential to vary significantly between authorities depending upon the model of Diploma delivery chosen e.g. single- vs. multi-centre and assumptions about the level of provision e.g. 1, 1.5 or 2 days per week

This is an area where authorities are beginning to undertake further work; for example, with costing templates being sent out to providers, requesting details of each aspect of delivery e.g. teaching; technical support; materials; overheads; transport; collaboration; administration; exam fees, for both the provider and home school. This is also a discipline which is perhaps more likely to be familiar to colleges than to schools, with schools tending to consider costs on a whole-school basis, rather than costing individual elements of the curriculum.

One unitary council had developed a costing model on behalf of an educational consultancy business to determine the cost of Diplomas in schools compared with traditional classes, with the model building upon a number of variables over all Diploma lines and for a three-year period. This enabled the additional costs and the likely funding required in order to deliver Diplomas to be calculated, taking into account both Practical Learning Opportunities funding within the DSG and the Diploma Formula Grant.

In general, the collection and analysis of such costing data clearly has the scope to inform funding allocations, assist in ensuring that these are as 'fair' as possible and identify contributions potentially required from schools.

6.2 Service Level Agreements

Service Level Agreements. Two authorities specifically identified that they had developed Service Level Agreements, setting out key principles in relation to funding Diploma provision. For example, these could document: the delivery model chosen; guidance on costings; basis of funding providers; notification of learner numbers; timing of payments; maximum and minimum group sizes; arrangements for dealing with learners who withdraw etc. These agreements have been disseminated to stakeholders to provide greater transparency and to assist in clarifying funding arrangements.

7 Conclusions and Recommendations

7.1 Conclusions

In summary, the key conclusions from the Study into Diploma Costs and Funding at Key Stage 4 are as follows:

- For 2008, the significant majority of participants involved in the research indicated that funding levels were such that Diploma take-up was not affected by financial considerations, and it is clearly important that this continues to be the case when the DCSF makes decisions on 2009 funding levels.
- There is a wide variety of Diploma funding models that have been adopted by authorities, ranging from fully devolved to fully centralised models. This reflects the specific history / culture of partnership working within individual authority areas.
- Given the extent of these differences in practice, there is therefore potential for funding flows to be complex in nature, particularly where more devolved models of funding are in operation, with the volume and complexity of such funding flows likely to increase as Diploma lines and learner numbers increase in 2009-2013.
- In terms of the key direct sources of Diploma funding (other than the AWPU):
 - In the majority of cases (just over 50%), Practical Learning Opportunities funding was allocated directly to schools. Around 25% of authorities held Practical Learning Opportunities funding centrally, with around 15% retaining a proportion centrally, with the remainder being devolved. A further 10% of authorities allocated Practical Learning Opportunities funding to consortia;
 - Diploma Formula Grant was allocated directly to schools in around 30% of authorities, allocated to consortia in around 20% of authorities (but far more commonly within counties) and managed centrally by 50% of authorities (although this almost exclusively took place for non-county authorities).
- Around 40% of the authorities participating in the review felt that Practical Learning Opportunities funding had already been committed to other forms of practical learning, and/or had taken a decision not to request this from schools as a contribution towards Diplomas.
- Diploma Formula Grant was generally allocated on the basis of DCSF weightings for individual lines / levels, although two authorities had used an average weighting (£1,000 per pupil) for all lines / levels, for reasons of simplicity.
- Diploma Formula Grant was specifically identified as having been top-sliced in six authorities to cover costs, including: partnership team / infrastructure; Diploma visits; transport; 'capacity building' to support lines with smaller learner numbers; and the potential requirement for efficiencies in future funding rounds.
- A contribution towards Diplomas from AWPU had been requested from schools in around 40% of authorities, with a specific percentage contribution being requested in two authorities, and in the remaining cases, the contribution from AWPU effectively represented the 'balancing item' between provider charges and direct Diploma funding from Diploma Formula Grant / Practical Learning Opportunities funding.

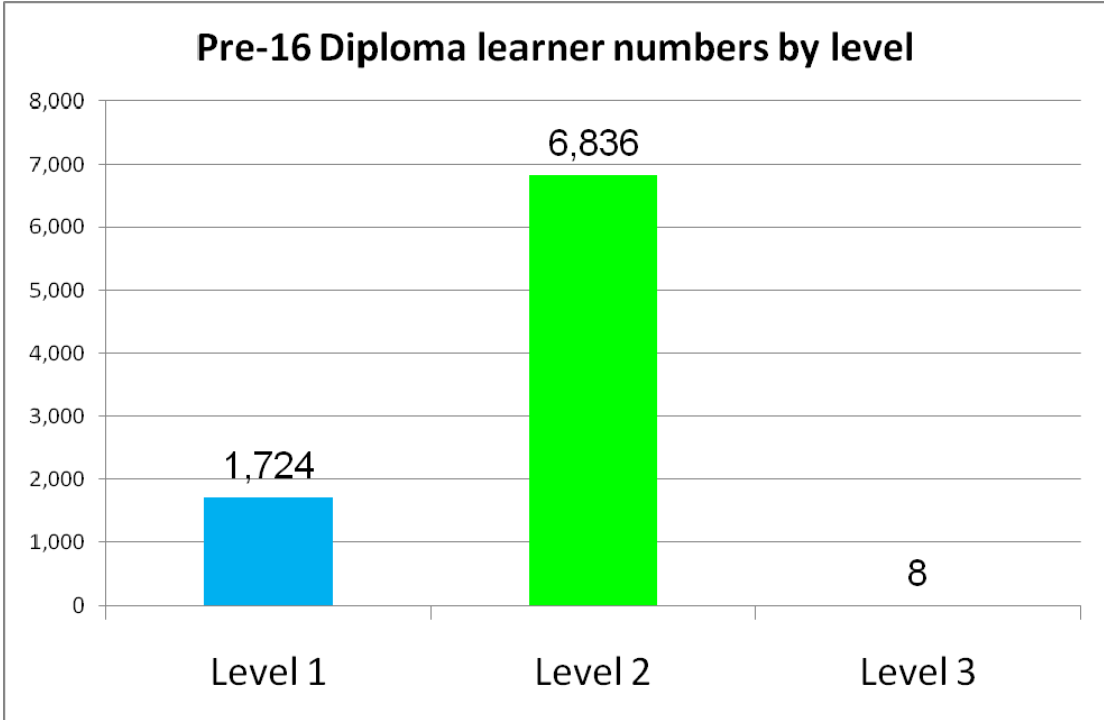
- Different approaches have been taken to funding Diploma providers, including: a fully market-led rate; guidance from the partnership on factors to take into account when setting a rate; and a standard rate being set and agreed across the whole authority.
- Rates were determined using a number of methods, including: use of the LSC funding rate; use of Diploma Formula Grant weightings; 'bottom-up' costings of actual costs of Diploma delivery; and a negotiated rate between the partnership and providers.
- The key Diploma funding issues raised by participants included:
 - The need for the continuation/stability of Diploma Formula Grant in the medium term;
 - Clarity over the use of Practical Learning Opportunities funding for Diplomas, with this funding becoming 'stretched', given the number of different practical learning programmes that it now supports;
 - The need for long term sustainable funding of significant longer term infrastructure costs incurred in relation to partnership working, compared to current year by year approach adopted by the DCSF;
 - Transport time involved for learners, and significant transport costs where routes are not currently in existence;
 - The inability of schools to achieve efficiencies to contribute towards the funding requirements, given the lower Diploma learner numbers that have been achieved to date, and the absence of a critical mass of Diploma provision at this stage;
 - The differing methodologies for funding pre- and post-16 learners, whereas the costs of provision could be the same;
 - Smaller group sizes e.g. as low as five pupils, increasing costs in 2008, with funding often being required in the early stages to make courses viable.
- A number of areas of good practice were identified, which could potentially be considered by authorities more widely, including:
 - The development of spreadsheet templates for allocating funds to providers, taking account of the extent of delivery of individual elements of the Diploma by each provider and the number of pupils for whom provision takes place;
 - Future modelling of Diploma numbers to inform forward planning, including scenario analysis and work with external organisations to develop Diploma models;
 - Bottom-up costing of Diploma provision, taking account of individual cost elements of Diplomas, including the completion and collation of costing templates by providers;
 - The development of Service Level Agreements, setting out key principles and arrangements for Diploma funding, and dissemination to stakeholders to provide greater transparency and to assist in clarifying funding arrangements.

7.2 Recommendations

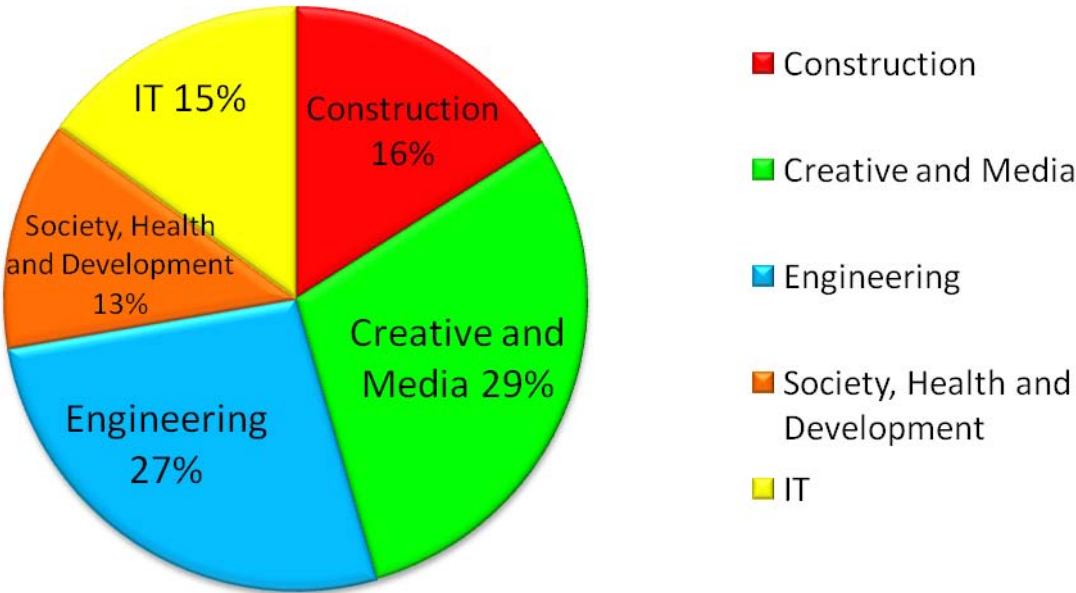
Based upon the research, we have identified the following recommendations:

- DCSF and authorities should consider whether existing funding models will remain fit for purpose in the context of the full entitlement for Diplomas, particularly where these models are more devolved in nature. Authorities should therefore review existing funding models in the expectation of increasing Diploma lines and numbers, taking into account the extent to which they are able to achieve:
 - Efficient and effective management of provider payments, including minimising the number of funding flows between schools and providers where possible;
 - Economies of scale and value for money; which could be achieved, for example, through bulk purchase of Diploma places from providers;
 - Consistency of provision/treatment of costs, particularly where a number of consortia are in place within a single authority.
- Authorities should ensure that they have sufficient capacity for strategic management and funding of authority-wide costs in relation to Diplomas e.g. transport, smaller class sizes for certain Diploma lines in the initial stages.
- Authorities should consider the specific areas identified in relation to good practice, in particular, undertaking further costing and forecasting work, to obtain as clear a view as possible of the local resource implications of Diplomas.
- Given the importance of ensuring effective participation in Diplomas for 2009, it is suggested that DCSF should continue to allocate Diploma Formula Grant funding to authorities at similar levels to those for 2008.
- Whilst efficiencies were not identified as being achievable by schools for 2009, it is suggested that DCSF should further investigate the circumstances under which efficiencies could potentially be achievable in future, through undertaking in-depth modelling work with a small number of authorities where Diplomas are being delivered to higher learner numbers, and where the potential for efficiency savings is therefore most evident.
- Given that a number of authorities are now starting to undertake further Diploma costing work and modelling of future Diploma numbers, it is suggested that DCSF should monitor the progress of such work, in order to identify whether there are any common funding issues arising which could be disseminated more widely.

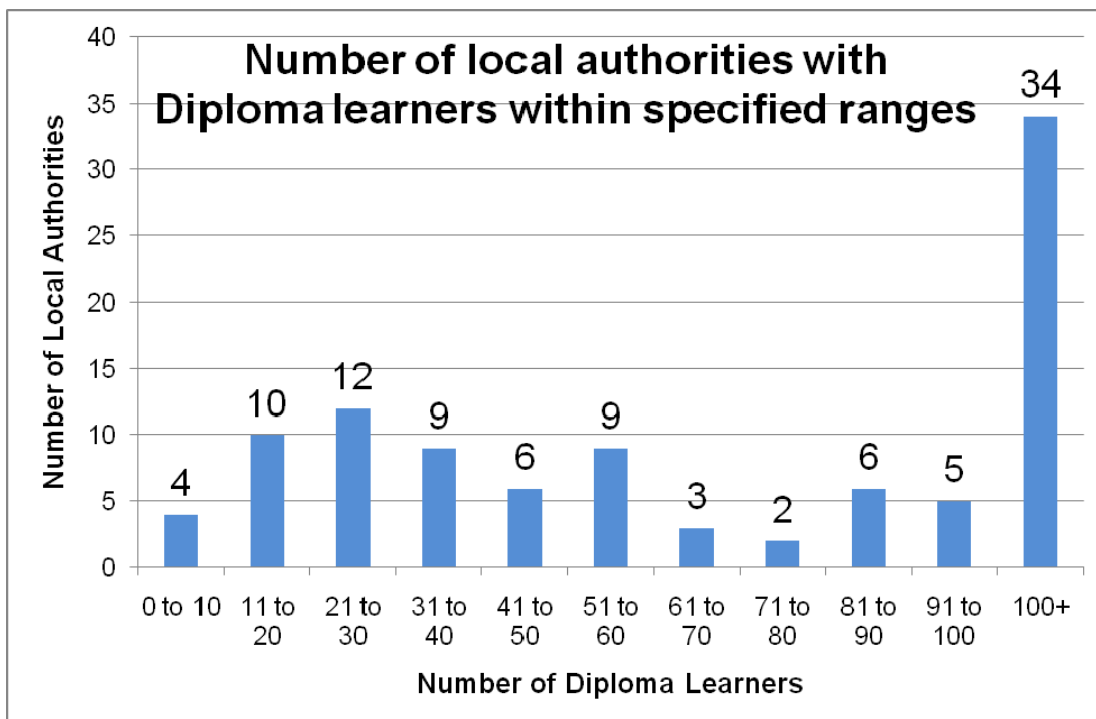
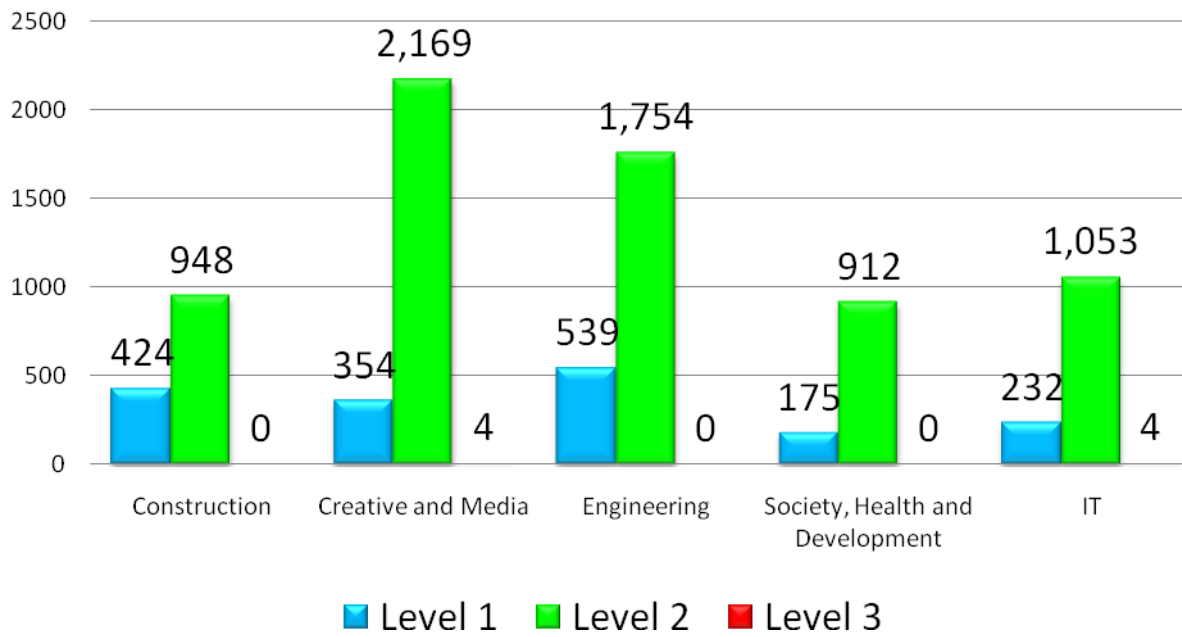
**Appendix 1 - Pre-16 Diploma Learner Numbers
(based upon September 2008 returns)**



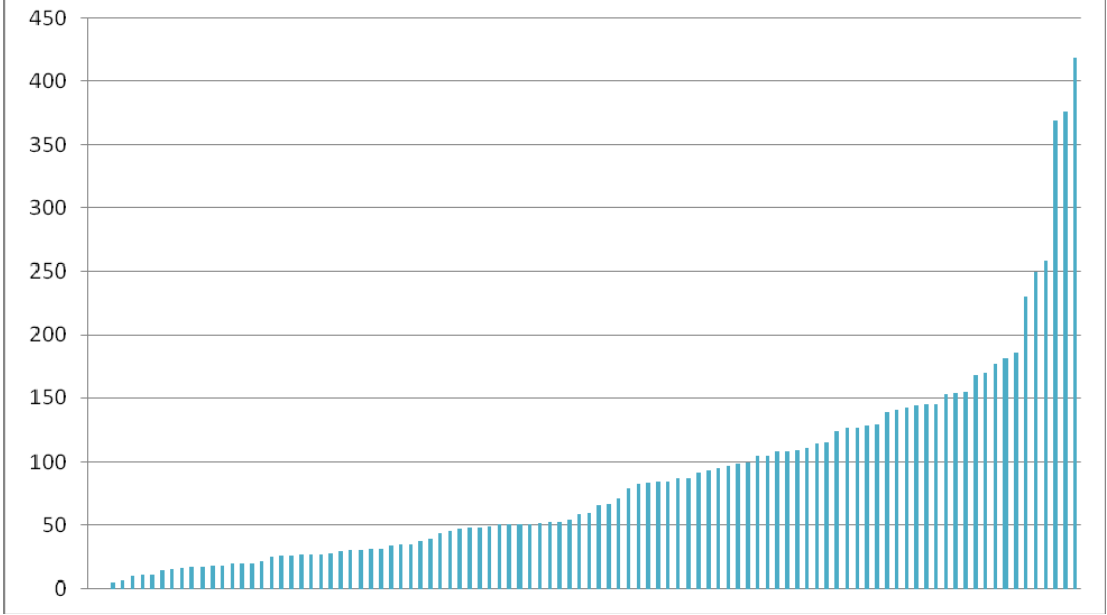
Pre-16 Diploma learner numbers by line



Pre-16 Diploma learner numbers by line and level



Numbers of Diploma learners across all 100 authorities delivering pre-16 provision



Appendix 2 - Contributing Organisations

Local Authorities

Barnsley Metropolitan Borough Council
Birmingham City Council
Dorset County Council
Dudley Metropolitan Borough Council
Durham County Council
East Sussex County Council
London Borough of Greenwich
London Borough of Hackney
Halton Borough Council
Hartlepool Borough Council
Hertfordshire County Council
London Borough of Hillingdon
Royal Borough of Kensington and Chelsea
Knowsley Council
London Borough of Lambeth
Lancashire County Council
Lincolnshire County Council
Manchester City Council
London Borough of Newham
North Somerset Council
Nottingham City Council
Plymouth City Council
Reading Borough Council
Sheffield City Council
South Gloucestershire Council
Stoke-on-Trent City Council
Suffolk County Council
Sunderland City Council
Surrey County Council
Walsall Metropolitan Borough Council
West Sussex County Council
Worcestershire County Council

Additional Stakeholders

Association for Colleges
Black Country LSC
LEACAN (The National 14-19 Network)
National LSC Funding Team

Appendix 3 - Wider sources of 14-19 funding

Revenue:

Flexible funding pot. In 2008-09, £14.5m²⁴ was allocated nationally to support 14-19 partnership working, with this funding now being allocated through the non-ring-fenced Area Based Grant. This is intended to help ensure that the necessary structures and systems are in place to support local collaboration. This includes partnership management and co-ordination, delivering area prospectuses and developing common timetables in each local area.

Gender Equality funding. This relates to funding for a small pilot scheme on Gender Equality at six authorities, ranging from £8,000 to £12,000 per authority.²⁵

Capital:

Building Schools for the Future (BSF) programme of £9.3bn over 2008-09 to 2010-11, with BSF plans addressing how the 14-19 entitlement will be delivered in each area. All schools in a LA BSF programme (up to waves 6) would be considered as having funding to develop Diplomas in the new schools.²⁶

Devolved formula capital programme of £990m in 2008-09 nationally; which could include investing in facilities or equipment to deliver Diplomas.²⁷

Modernisation funding of £512m in 2008-09 to upgrade and build new buildings and facilities in line with priorities in the local asset management plan.²⁸

Targeted Capital Fund, £152m is available through the Targeted Capital Fund in 2009-10 and £456m in 2010-11, spread over the 76 local authorities yet to be involved with BSF. All LAs in later BSF waves will receive capital funding in 2009-10 (£2m per LA) and 2010-11 (£6m per LA) for SEN and the development of Diplomas.²⁹

²⁴ Communities and Local Government website, Area Based Grant

²⁵ Announcement of 14-19 funding, DCSF website 14-19 funding section

²⁶ Teachernet website: Building schools for the future

²⁷ Teachernet website: Devolved formula capital programme

²⁸ Teachernet website: Building schools for the future

²⁹ Teachernet website: Building schools for the future

Appendix 4 - Approaches to Allocating Practical Learning Opportunities Funding

Devolved to schools within AWPU. This represents the fullest level of devolvement, whereby a LA would include Practical Learning Opportunities funding within the overall level of funding allocated through their local schools' formula. This would mean that this funding would effectively form part of the Age Weighted Pupil Unit (AWPU) and would not be readily identifiable by schools as a distinct allocation. One London borough had, however, initially devolved this funding out to schools within the AWPU and then requested that a contribution from this allocation is provided by schools towards partnership infrastructure costs.

Earmarked allocation to schools. In this case, devolvement to schools would take place; however, this would not be included within the overall AWPU, but would be identified as a separate 'earmarked' allocation to schools.

Allocation to consortia level. Under this approach, funding would not be allocated directly to individual schools, but would instead be allocated by the LA to consortia, with individual consortia subsequently deciding how to allocate this funding between their schools (variable allocation bases could often be used by individual consortia within the same authority).

Part devolved, part centralised. This involves holding a proportion of the Practical Learning Opportunities funding centrally for Diploma provision, with the remainder being devolved to schools. This approach would allow schools to fund existing practical learning provision directly, with funding for Diplomas being separately pooled.

Centralised. This approach was usually adopted where a single, authority-wide partnership was in place, with Practical Learning Opportunities funding not being allocated to schools, but instead all being held at partnership level and managed centrally.

In terms of the variety of approaches identified above, in the majority of cases (just over 50%), Practical Learning Opportunities funding was allocated directly to schools. Around 25% of authorities held Practical Learning Opportunities funding centrally, with around 15% retaining a proportion centrally, with the remainder being devolved. A further 10% of authorities allocated Practical Learning Opportunities funding to consortia.

Allocation basis. In terms of the allocation methodology itself, this varied between authorities, with allocation bases including: local schools' formula; pupils aged 11-16; pupils aged 14-16; flat rate per school; numbers of practical learners (or a combination of these methods). One county council also identified that some schools had 'given up' Practical Learning Opportunities funding initially allocated to them by their consortium on the basis of 11-16 pupil numbers, as they did not have any practical learners, and had instead chosen to redistribute this funding to other schools within the consortium who did have practical learners.

Appendix 5 - Case Studies

Case study 1: Plymouth City Council

Partnership structure: Single city-wide

Funding model: Diploma Formula Grant and Practical Learning Opportunities funding devolved directly to schools

Funding to providers: Allocated on the basis of comparable course costs, on an amount per pupil per hour, with schools paying contributions over to providers directly

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Construction	0	11	11
Engineering	10	44	54
SH & D	5	45	50
Total by level	15	100	115

Plymouth fully devolves the Diploma Formula Grant to home institution schools, with the total payment for Diploma provision being made directly to providers by the home school. The Practical Learning Opportunities funding equates to £36.50 per pupil for 2008-09 and was also allocated to schools on an earmarked basis, using total pupil numbers. No contribution has been requested from Practical Learning Opportunities funding towards Diplomas, as this would only be the case if a student currently undertaking other practical learning switched to a Diploma.

A single City of Plymouth partnership is in place and Plymouth has well established partnership working arrangements between schools and colleges through the Tamar Valley Consortium (which has been operating for around 19 years). This has allowed Plymouth to work out an hourly cost of provision for individual Diploma lines based upon similar courses on offer from the Tamar Valley Consortium.

Based upon these comparative course costs, Plymouth decided that a single hourly rate of £6.50 would cover the cost of Diploma provision. However, the view was taken that, although provider direct costs should be fully covered; only a proportion (50%) of provider overheads should be funded.

This gave a revised hourly rate of £4.80, which was further refined by taking the average of the programme weightings for the three lines that Plymouth provides.

The hourly rates upon which providers are funded are therefore £5.04 per hour for Construction/Engineering (£4.80 x 1.05) and £4.32 per hour for SH & D (£4.80 x 0.90).

Plymouth has used a 'small group protection factor' to help support Diploma lines where numbers would otherwise be unviable in the early stages. If a class has less than 5 learners, it would not be run, but class sizes of 5-9 learners would receive additional funding so that the provider is funded for a minimum of 10 learners. This is paid for from a top-slice (equating to £67 per learner for 2008-09) from all schools with Diploma learners.

Case study 2: Sheffield City Council

Partnership structure: Single city-wide

Funding model: Diploma Formula Grant and 75% of Practical Opportunities funding held centrally and 25% of Practical Learning Opportunities funding allocated directly to schools

Funding to providers: Allocated centrally, based upon standard cost per pupil per day for off-site provision

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	0	36	36
Construction	0	30	30
Engineering	0	35	35
IT	0	43	43
Total by level	0	144	144

Sheffield operates a highly centralised approach in a commissioning arrangement with schools and other providers. It has a Service Level Agreement (SLA) with each school for the purchase of courses and contracts with providers to deliver the courses. There is one consortium for Sheffield and one partnership responsible for the coordination of all vocational provision, including Diplomas, Young Apprenticeships and Foundation Learning Tier.

The way in which the funding from the Diploma Formula Grant is allocated is shown below, with the funds flow all being managed centrally by the partnership.

Diploma Line	Funding of 14-19 Team (LA)	School	Provider	Enhancement Fund
Construction	10%	0%	80%	10%
Creative & Media	10%	40%	0%	50%
Creative & Media - joint delivery by 2 Schools	10%	60%	0%	30%
Engineering	10%	25%	40%	25%
IT	10%	60%	0%	30%

As the table shows, 10% of Diploma Formula Grant funding is top-sliced for the funding of the 14-19 team, with the LA also contributing £200k to the cost of the team, with top-slicing also taking place for an 'enhancement fund'. The main purpose of the enhancement fund is to support work experience and employer engagement.

In addition, 75% of the Practical Learning Opportunities funding within the DSG has been retained centrally to fund enhancements to provision, lead practitioners for each diploma line, administration of the partnership/consortia and off-site provision, with the remaining 25% being delegated to schools.

Each school is charged £18 per pupil per day for off-site provision for vocational courses generally, which now include Diplomas. The providers are paid £31 per pupil per day (colleges prefer an hourly rate), with the difference of £13 per pupil per day being met from funds retained centrally by the partnership. For 2008-09, there is no school to school provision, although when this happens, Sheffield will need to reconsider its delivery methods. For 2009-10, it is expected that schools will have to make a greater level of contribution (increasing potentially from £18 to £21 per pupil per day).

Schools are believed to favour this system as it is simple and administration does not rest with them. Providers again find the system simple and they deal with one contact point. The partnership can also bulk purchase and obtain economies of scale in operating this system.

The LA will commission suppliers from the whole of the city provider framework where it is agreed that expertise does not rest in local schools. In some cases, part delivery is with school and part with another provider e.g. Engineering. The LA will look outside of the local provider network where work cannot be sourced in Sheffield e.g. Land Based Diploma.

Case study 3: Reading Borough Council

Partnership structure: Single borough-wide

Funding model: Diploma Formula Grant is retained centrally, with 70% of Practical Learning Opportunities funding being retained centrally for Diplomas and 30% being devolved to schools

Funding to providers: Distributed directly to providers from the partnership, based upon costs per class

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Engineering	0	16	16
Creative & Media	8	11	19
IT	0	7	7
SH & D	0	7	7
Total by level	8	41	49

Reading undertakes 2 days per week in relation to Diploma delivery, as the LA's view is that this level of provision is required in order to embed personal learning and thinking skills and to avoid losing time through travel.

A proportion of Practical Opportunities Learning funding is pooled centrally (£140k for diplomas), with the remaining £60k being allocated to schools - e.g. for BTECs, vocational related qualifications. Allocations to schools are made on the basis of weightings which take account of pupil:teacher ratios for individual vocational courses. Diploma Formula Grant is held centrally.

In 2008, a calculation was carried out to determine the cost of a Diploma in school and also at Thames Valley University (who are delivering 2 lines). Costings differed markedly between school and TVU, so a negotiated cost has now been agreed broadly in line with the costs identified by schools (£26,000 for 2008-09). The authority believed that, as the same outputs were being delivered, costs should not vary between providers. Costings were broadly calculated based upon the cost of a teacher, plus 15% for materials, technical support etc.

For 2008/09, Reading has directly funded providers on the basis of a fixed cost per class, with funding therefore being independent of group size, given that groups are smaller for 2008, in the initial stages of Diploma provision. For 2009/10, however, Reading will be moving to a funding model which is based on an amount per pupil rather than an amount per class, as providing funding per class will be unsustainable in the longer term.

Although a contribution from schools has not been requested for 2008/09, this will be required from 2009/10. It is estimated that, broadly, 50% of the 'shortfall' in Diploma costs will be met through a school contribution and 50% will be met from pooled Practical Learning Opportunities funding.

Case study 4: London Borough of Hackney

Partnership structure: Single borough-wide

Funding model: Diploma Formula Grant and Practical Learning Opportunities funding is retained centrally and schools' DSG is used to fund the direct costs of Diploma delivery

Funding to providers: Negotiated centrally, based upon an amount per pupil per day, but paid over to providers directly from schools

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Construction	0	31	31
Creative & Media	0	37	37
SH & D	23	6	29
Total by level	23	74	97

Both Diploma Formula Grant and Practical Learning Opportunities funding is retained centrally and used for partnership staffing; capacity building e.g. where learner numbers would otherwise initially be unviable; and 'additionality' linked to Diplomas e.g. events, visits.

Hackney assume that, where a Diploma is being undertaken, 90% of the school's AWPU is available for 1 day a week for funding the Diploma (the remaining 10% is 'retained' by the home school to cover school administration).

The LA has negotiated rates with providers and, although there is some scope for variation to take account of specific local factors, in general, prices charged equate to £30 per pupil per day. Lower rates are negotiated centrally with providers once a class size of 15 learners is reached, to take account of economies of scale.

Schools fund this cost themselves from their overall AWPU, with a broadly like for like replacement between traditional courses and Diplomas therefore effectively being assumed. Hackney's view is that the largest cost of provision (around 80%) relates to teaching, and as the same teacher can be used, there is limited additional cost involved.

Case study 5: North Somerset Council

Partnership structure: Single council-wide

Funding model: Diploma Formula Grant and Practical Learning Opportunities funding is retained centrally

Funding to providers: Distributed directly to providers from the partnership, based upon costs as calculated by a Diploma costing model

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	0	74	74
IT	0	37	37
Total by level	0	111	111

North Somerset has a single consortium in place, which mirrors the 14-19 partnership. The 14-19 partnership does not have any administrative staff, so uses the local authority's finance, information research and school improvement staff to support the partnership.

All funding is pooled by the partnership in a virtual partnership budget for the next three years - Diploma Formula Grant, Practical Learning Opportunities funding, LSC funding and Area Based Grant. The funding is managed by the partnership, with regular reports being provided to the Schools Forum on its use and is distributed by the partnership directly to providers.

The college has not shared its costs with the partnership but has accepted the funding / charging rates for off-site provision, which is perceived to be higher than their current funding by the LSC.

North Somerset has developed a funding / costing model on behalf of an educational consultancy business that compares funding in the authority's funding formula with the funding required to meet the cost of the Diplomas and includes a calculation of potential savings. The model does not compare the current cost of traditional provision with the cost of Diplomas, as it assumes that schools fund at the formula level. The model covers three years and the authority is therefore able to determine the overall cost of Diplomas and potential savings, compared to the local formula over three years.

The model differentiates between each Diploma line, with the main cost drivers being class sizes and taught hours, together with some minor recognition of extra 'capitation' costs for some Diploma lines.

There is no distinction in funding between level 1 or 2 at Key Stage 4, as it is currently expected that most learners will start at level 2. This is not likely to continue in the future, so there may have to be exceptions with individual funding for learners at level 1.

The partnership has agreed that it will fund at full cost for the first cohort (i.e. when learners are in year 10 and year 11) for each new Diploma line offered in North Somerset. For all subsequent cohorts of that Diploma line, reduced funding will be received to reflect no start-up costs and savings elsewhere within the curriculum, with it being expected that schools, on average, will then contribute up to a third of the cost of Diploma provision.

Case study 6: London Borough of Newham

Partnership structure: Single borough-wide

Funding model: Diploma Formula Grant and Practical Learning Opportunities funding is retained centrally

Funding to providers: Funding is provided in return for the delivery of principal learning at the following agreed rates: post-16 providers £19,500 per group one-day a week for 39 weeks; school providers £15,000

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Construction	13	33	46
Creative & Media	24	39	63
Engineering	25	54	79
IT	7	21	28
SH & D	14	28	42
Total by level	83	175	258

The cost of Diplomas equals the cost of delivery (post-16 providers £19,500 per group one-day a week for 39 weeks; school providers £15,000), minus the Diploma Formula Grant attached to each learner - leaving a 'gap' funded from Practical Learning Opportunities funding.

All Diploma funding is retained centrally by the Partnership and managed by the LA on behalf of the partnership, with the LA reporting back to the Partnership Board.

Schools have also contributed £315k from their own budgets in 2008/09. This contribution will pay for an element of the costs of school/college staff being released to co-ordinate Diplomas; advisory support for each Diploma; and to give each Diploma Delivery Group a resource budget (given that the DCSF £30k was one-off funding). The Partnership is reviewing how much to increase this contribution by for 2009/10.

Functional Skills and, for the moment, most Additional/Specialist Learning are provided within each home institution. The above charges are therefore only for Principal Learning. The Partnership agreed to use the same costs for all 5 lines for simplicity. Newham's model involves 1.5 days of principal learning, for both Level 2 and Level 1 learners.

Newham will be reviewing the equal funding of all Diploma lines, although the Partnership is conscious of the need for providers to be willing to engage in all Diploma lines, rather than just those that bring in the most funding.

Case study 7: Stoke-on-Trent City Council

Partnership structure: Single city-wide

Funding model: Diploma Formula Grant is retained centrally, Practical Learning Opportunities funding is devolved to schools and a contribution is required from schools' AWPU for Diplomas

Funding to providers: Distributed directly to providers from the partnership, with the authority managing allocations centrally, so that each provider receives the exact amount of funding to cover its expenditure

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Construction	25	13	38
Engineering	20	25	45
IT	0	41	41
SH & D	7	39	46
Total by level	52	118	170

Stoke-on-Trent's model has been developed with all partners across the LA, including schools and both FE colleges, with the development of the model having been led by the Sixth Form College. In terms of funding, Stoke-on-Trent have not used Practical Learning Opportunities funding for Diplomas, as this has been allocated to schools, but have, however, requested an AWPU contribution of 16% for level 1 and 24% for level 2 towards Diplomas. Diploma Formula Grant is held centrally by the partnership.

Stoke-on-Trent has also identified the expenditure associated with Diploma provision as:

- (i) Teaching staff cost (£40 per hour)
- (ii) Technical support cost (£10 per hour)
- (iii) Overhead costs e.g. heating, lighting, consumables and other administration costs.

These have been calculated on a cost per week basis and multiplied by 39 weeks to give an annual cost. However, overheads are not always fully costed on a 'bottom up' basis e.g. in some cases, it was felt that this would result in overheads being set at too high a level and therefore significantly exceeding available income. Hence, the full costs of provision may not always be reflected.

Stoke-on-Trent believed that the DCSF may require 10% efficiency savings from year 2 and so has taken out this amount from the initial Diploma Formula Grant allocation and allocated this to a central pot. In addition, the authority then allocated a further 7% to the central pot for capacity building i.e. to provide headroom for funding specific Diploma lines, if required.

Taking Diploma Formula Grant together with the top-sliced AWPU funding, the total income available per pupil is multiplied by the cohort size to give the total income amount. Expenditure levels are calculated based upon the above assumptions for teaching staff, technical support and overheads. As the authority manages allocations centrally, it is able to ensure that each provider receives the exact amount of funding to cover its expenditure.

Any positive balance and the 7% collaborative pot will be used to develop capacity, in particular, workforce development, after any offsetting of a deficit due to student numbers; for example, with it being identified that smaller Foundation groups are not currently cost effective.

Diploma Formula Grant weightings reflect the traditional delivery costs of a higher level for Construction and Engineering and a lower level for SH & D, IT and Creative & Media. The consortium has, however, found that planning for SH & D and Creative & Media requires the same higher level of funding, in order to give students the opportunities and experiences they need as for Construction and Engineering.

Case study 8: Worcestershire County Council

Partnership structure: 5 consortia areas, but central management by the LA

Funding model: Diploma Formula Grant is retained by the authority and Practical Learning Opportunities funding is devolved to schools

Funding to providers: The LSC methodology has been used to allocate funding to providers, with the LA coordinating payment between schools and providers

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	0	25	25
Construction	23	15	38
Engineering	12	13	25
IT	0	7	7
Total by level	35	60	95

Worcestershire has used the LSC methodology to allocate funding to providers i.e. the national rate of £2,945, multiplied by the number of SLN delivered and the relevant programme weighting. The LSC methodology is used as the LA believes that there is no cost differential in teaching a pre-16 learner compared to a post-16 learner studying towards the same qualification, who can be attending the same class.

A further benefit of operating the LSC funding model is also seen by the LA to be that local variations are evened out e.g. colleges charging more for add-ons, such as additional hours, administration, accreditation, whereas the LA believes that these costs should all be inclusive, as they are for a post-16 learner, rather than colleges charging a different amount for a pre-16 learner with add-ons subsequently being charged.

Three colleges have shared their funding model with the LA, but these are quite different individually. In the longer term, the authority is looking to a national funding formula for 14-19, with a 14 year old learner being funded at the same rate as a 16 year old learner.

For courses with low student numbers, the LA has kept back funding centrally to enable the core costs of a course to be funded, through top-slicing Diploma Development Grant. Worcestershire wishes to ensure that courses are successful, whether there are 5 or 20 learners, and, whilst colleges are more used to investing in courses initially, with the expectation of additional numbers later (although this investment can only be limited), schools are not used to this model.

Practical Learning Opportunities funding has been allocated directly to schools and is largely used for forms of vocational learning other than Diplomas, however, the LA has separately identified how much each school has received for Practical Learning Opportunities through the DSG / AWPU, in order that this is transparent.

Diploma Formula Grant has been assumed to be an average of £700 for level 1 and £1,000 for year 2 per annum i.e. £1,400 and £2,000 respectively over 2 years and has been allocated directly to schools.

The AWPU for Year 10 (£3,000) and Year 11 (£3,100) has been averaged out to give £3,050 per annum i.e. £6,100 in total.

The LA manages funding flows by aggregating the costs for each institution based upon the places they take up elsewhere (outgoings) and the places taken up by learners at the institution (income). The Diploma Formula Grant and income are set against outgoings for each school or college. This creates a net sum that is either paid to, or recovered from, the providers and reduces the number of bills to a manageable figure, rather than many bills being provided to individual institutions.

The total level of funding to providers as calculated through the LSC funding mechanism is therefore paid over from Diploma Formula Grant and AWPU, with Practical Learning Opportunities funding representing the 'balancing item'. This balancing amount has been identified as £470 for level 1 and £1,000 for level 2 for a two year Diploma course (this can be compared with the average level of Practical Learning Opportunities funding per pupil of £100 for a Worcestershire school).

For Construction and IT, a higher level of costs is funded locally, as funding is not believed to cover costs; this is, however, likely to be unaffordable in the longer term as student numbers increase.

Case study 9: Surrey County Council

Partnership structure: 12 networks

Funding model: Diploma Formula Grant allocated to networks and Practical Learning Opportunities funding devolved to schools

Funding to providers: Negotiated with and paid to providers by individual networks, with top-sliced contribution from all schools' overall DSG

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	14	32	46
Construction	0	15	15
Engineering	19	44	63
IT	0	12	12
SH & D	0	9	9
Total by level	33	112	145

Surrey has 12 networks, based upon travel to learn areas. Diploma Formula Grant is provided directly to networks (on the DCSF allocation basis in terms of weightings). Schools have received direct Practical Opportunities funding on a number of bases: a 30% AWPU uplift, a £10k flat rate per school and a per pupil amount for development. Networks have received £1.2m in DSG directly to allow continued funding of "Increased Flexibility" courses, which are seen as a high priority locally.

The county aimed to avoid charging schools for the cost of Diplomas when they are currently small and unproven. Therefore, the Schools Forum has allocated headroom (around £100k), top-sliced from overall DSG, to fund the costs not met by grant. This covers approximately 73% of the 'excess' costs (based upon affordability) and schools / networks will have to find the remainder from existing funding. Subsidy from headroom will continue into 2009/10 (with around £500k identified as being required), but beyond that, a schools contribution will be necessary.

Surrey has agreed to fund smaller group sizes e.g. due to lower than expected take-up, but not low teacher:pupil ratios or 'excessive' management costs within individual networks.

Networks negotiate charges with providers, which is likely to have led to a wide variety of funding rates. In general, colleges have used their own calculations to calculate their rates, with agreement being reached on these rates, rather than the actual grant levels that schools receive. Schools and the authority are aware of significant variations in charges by colleges

Ideally, there ought to be a presumption that college charges do not exceed the corresponding LSC glh rates (although this does not appear to be true for some at present). Schools should be charging marginal costs because their fixed costs are already funded (e.g. floor area, rent and rates). However, funding needs to recognise that increased accommodation still represents a cost to the authority, through the normal workings of the funding formula.

The county would like to see both schools and colleges moving to more consistent costings over time, possibly based on national benchmarking.

Case study 10: East Sussex County Council

Partnership structure: 5 Local Area Partnership Boards

Funding model: Diploma Formula Grant is allocated to LAPBs and Practical Opportunities funding is allocated directly to schools

Funding to providers: Funding is allocated on the basis of actual costs of Diploma provision, although the market determines the rate; Diploma Formula Grant payment is made to providers from the LAPBs, with schools meeting the difference between total costs and the amount paid by LAPBs

Based upon the September 2008 return, pre-16 diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	0	42	42
Construction	27	27	54
Engineering	0	41	41
IT	60	53	113
Total by level	87	163	250

Delivery takes place through five LAPBs (Local Area Partnership Boards), with the LAPB commissioning provision for the area and paying over Diploma Formula Grant directly to providers (all aspects of the Diploma are accounted for using GLH), with the £13k sparsity element of the allocation being separately 'top-sliced' and split across East Sussex's three most rural areas of provision.

Practical Learning Opportunities funding has been allocated to schools and is separately identifiable within their budgets, with this primarily being used to meet staff costs falling under the criteria.

Although there is no 'price fixing' among providers for the delivery of Diplomas, as market forces are intended to operate to determine realistic costs, an agreed range of provision costs is proposed and operated, with market forces determining take-up from learners. Provision covers the following areas, with the authority having developed a template to capture these costs:

Staffing / group costs - teaching costs - practical; teaching costs- theory; technician support for practical lessons; other group cost items

Individual student costs - training material costs per student; exam fees; other individual student cost items

Costs charged to schools are based upon calculated costs of provision divided by the minimum number of learners. In order to ensure that no provider is unduly penalised financially should a learner drop out of a Diploma before the end of the course, each LAPB will decide on an additional 'cushioning fee' to be added to the cost per learner per year.

This is to be held by the LAPB to help support the cost of delivery for learners who withdraw from a programme and should typically be up to a maximum of 15% of the cost of delivery per learner. This will be distributed back to home institutions if class sizes are at or above the minimum required level.

The level of provider costs per pupil less the Diploma Formula Grant available per pupil (allocated using DCSF weightings) effectively represents the shortfall requested from schools' budgets. For example, if the costs of the level 2 Construction diploma have been calculated as £26,000 per annum, this equates to £2,600 per pupil, based upon a class size of 10.

As the Diploma Formula Grant for this level/line is £1,277.95, the level of school contribution requested would therefore be £1,322.05 per annum per learner, excluding the additional cushioning fee described above. This is paid directly from the home institution to the provider.

Case study 11: Birmingham City Council

Partnership structure: 6 local networks, with a lead school managing funds for each network (except for one network, where the Titan partnership undertakes this activity)

Funding model: Diploma Formula Grant is allocated to networks and Practical Learning Opportunities funding is devolved one-third to all secondary schools and devolved two-thirds to the 6 networks to manage

Funding to providers: Funding to providers is separately negotiated by individual networks, with there likely to be different arrangements in place between networks; payment is made to providers from the networks directly

Based upon the September 2008 return, pre-16 diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	0	84	84
Construction	0	12	12
Engineering	5	52	57
Total by level	5	148	153

Birmingham has kept the devolvement of Practical Learning Opportunities funding to schools at the same level as the original 2006-07 allocation, with any amounts being received additional to this now being devolved to networks, based upon KS4 pupil numbers.

Diploma Formula Grant is allocated to networks, with DCSF funding weights being used. Networks are free to determine their own allocation bases to providers, however. This could therefore mean that individual providers are being funded at different amounts across the city.

In terms of the allocations to networks, the level of Diploma Formula Grant for individual lines / levels is first identified e.g. for Construction level 2, this is £1,278 (excluding area cost adjustment). This is then multiplied by the total number of learners to derive overall income. In this example, 22 learners equates to £28,458.

The programme weighting is then identified (this is 1.3) and is applied to the Principal Learning component of the diploma. The total Standard Learner Numbers (SLN) is therefore 2.208 for Construction level 2.

The funding allocated to each of the 6 networks is calculated by multiplying the LSC national funding rate for schools per SLN (£2,945) by the SLN (2.208), to give £6,502.

The cost per hour allocated to networks is calculated as £6,502 divided by the number of Guided Learning Hours (868 hours), to give £7.49 per hour. One Birmingham college has also identified the cost of provision for Diplomas at £6.50 per pupil per hour.

In order that this can be directly compared with the Diploma Formula Grant amount, this is multiplied by 150 hours, to give a cost of £1,124 for the additional element of diplomas.

The funding allocated to networks can then be compared against the level of Diploma Formula Grant to identify the surplus/deficit (which can vary between individual lines and levels). This does not, however, take into account additional costs e.g. transport costs, costs of collaboration.

For the first year, individual schools have not had to make any compulsory contributions to Diploma delivery, with the networks being responsible for budget management. Although those schools that are involved in service provision may have used some of their school budget share to facilitate this delivery, this would be to ensure early success for the Diplomas and is not sustainable in the long term.

Case study 12: Hertfordshire County Council

Partnership structure: 7 Strategic Area Partnership Groups

Funding model: Diploma Formula Grant is devolved to schools and Practical Learning Opportunities funding is allocated to SAPGs

Funding to providers: Funding is allocated on the basis of actual costs of Diploma provision, with guidance being produced on these amounts, payment to providers for central costs comes from the SAPG, with schools meeting the difference

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	4	65	69
Construction	10	47	57
Engineering	46	80	126
IT	6	59	65
SH & D	9	51	60
Total by level	75	302	377

Practical Learning Opportunities funding is allocated to Strategic Area Partnership Groups (SAPGs), (primarily on the basis of 14-16 pupil numbers). Diploma Formula Grant is allocated directly to the home school on the basis of the DCSF weightings.

Diploma provision has been costed on a per pupil per annum basis for the individual elements of direct Diploma delivery: employer engagement and work experience; registration fee; visits and use of university / college facilities; teaching costs (calculated on different bases according to whether these are classroom or workshop based); small group supplement; and transport.

Direct teaching costs involved in Diploma provision operate on the principle of costing the number of glh delivered (based upon a cost of £55 per hour for classroom provision and £95 per hour for workshop provision), dividing this by the group size to give a per pupil cost.

Central costs, such as transport and materials / equipment are met from the SAPG allocation. In addition, Hertfordshire has also costed individual elements of institutional and consortium infrastructure on a per pupil per annum basis, which were identified as being significant financially

Class sizes vary from 5 to 23 and Diplomas are being pump-primed from the overall SAPG budget (which also includes Flexible Funding, Increased Flexibility and a county contribution), where class sizes are initially unviable.

The payment mechanism therefore involves providers receiving an amount for central costs from the SAPG, with the balance required to fund the Diploma being met by schools directly from a combination of Diploma Formula Grant and a contribution from AWPU. The county is intending to review its processes on an ongoing basis, in order to ensure that these continue to remain appropriate as Diplomas develop.

Case study 13: Lincolnshire County Council

Partnership structure: 9 14-19 local partnerships

Funding model: Diploma Formula Grant is devolved to schools and Practical Learning Opportunities funding is allocated to partnerships

Funding to providers: Funding is allocated on the basis of actual costs of Diploma provision, which is negotiated by individual partnerships with providers. A model for allocation of the Diploma Formula grant, post 16 funding and pre 16 funding based on AWPU has been provided for partnerships.

Based upon the September 2008 return, pre-16 Diploma learner numbers were as follows:

Line	Level 1	Level 2	Total by line
Creative & Media	0	83	83
Engineering	21	113	134
IT	18	102	120
SH & D	4	29	33
Total by level	43	327	370

Practical Learning Opportunities funding has initially been allocated to the 9 partnerships on the basis of pupils aged 11-16 i.e. using the DCSF allocation basis. Allocations to schools from within partnerships are for local discretion e.g. approaches include a lump sum allocation for collaborative working/capacity building; a fixed allocation per school; an amount per vocational year 10 and 11 learner; and one network has provided the local FE college with a fixed £5,000 allocation.

A highly participative approach is in place within partnerships, with there being examples of schools giving up funding initially allocated to them where they do not have any practical learners and providing this for redistribution to other schools within their network that have such practical learners.

DCSF weightings based upon the individual line and level are used to fully pass on Diploma Formula Grant to home schools

One college has undertaken work to cost out Diploma provision, identifying:

- £40 per hour teaching costs
- £50 per learner average costs for Creative & Media, Engineering and IT Diploma lines
- £150 per learner administration costs
- £65 per learner exam fees and registrations

The way in which the costs of provision are calculated is by costing an average cohort size (15) undertaking 150 hours of learning e.g. using the above costs, this equates to (£40 x 150) + (£265 x 15) = £9,975 per annum, which would equate to £1,330 per learner (based on 15 learners) for two years.

Lincolnshire's AWPU for 14-16 year olds is £3,385 for 2008/09. Using 618 glh at level 1 based on 64 weeks teaching over 2 years, means that Diploma provision represents 0.38625 of the glh per week of the overall AWPU i.e. £1,307.

Schools make payments to the college directly, based upon actual costs. However, no transfer has taken place in relation to school to school provision, as numbers were seen to be too low for year 1 and this was therefore identified as being overly complex for 2008.

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