

# Skills Funding Agency

## A new streamlined funding system for adult skills

This document provides an update to the further education (FE) sector on the Skills Funding Agency's progress with simplifying the adult skills funding system

**October 2011**

Of interest to providers

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## 1. Introduction

1. The Skills Funding Agency is committed to freeing the FE sector from unnecessary controls, regulations and bureaucratic burdens, in order that it can focus its resources and energy on delivering high-quality skills and learning provision. In this way, the sector can maximise its contribution to the economic recovery, deliver sustainable growth and broaden both social inclusion and social mobility.
2. Simplification is critical to enabling an autonomous and responsive system. We want the funding system, for example, to provide far greater flexibility, so that colleges and training organisations can respond to the needs of their learners, employers and their workforce, free from central controls.
3. It is an approach that recognises that colleges and training organisations are in the best place to identify, interpret and then respond to learners' needs within their available resources. This idea is strongly supported in the recent interim report of the Independent Commission on Colleges in their Communities – *a Dynamic Nucleus at the Heart of Local Communities* – and elsewhere.
4. In addition to freeing colleges and training organisations from unnecessary controls, we also want to reduce the amount of work that they have to direct towards satisfying the costs of unnecessary bureaucracy. Freed resources can then be directed to meeting learners' and employers' needs. However, in doing so, any new approach must be fair and transparent. It must also recognise the diverse needs of adults, some of whom face barriers because of disadvantage and disability, and in addition it must safeguard public funds.
5. Simplification will help colleges and training organisations to focus more on employers, their local communities (including those individuals with most need) and businesses in key local sectors, and in using their limited resources more effectively.
6. The Skills Funding Agency is working with the Department for Business, Innovation and Skills (BIS) to extend simplification significantly through a programme which comprises the following four strands:
  - i. reducing bureaucracy for large employers
  - ii. simplifying the funding system
  - iii. simplifying communications with the sector, and
  - iv. taking a 'whole provider view' of bureaucracy, which includes a review of the regulation of the sector using an approach that will quantify the savings that will accrue from further simplification.
7. We have already announced a package of measures which will make it easier for large employers to make more Apprenticeship opportunities available: payments have been simplified, contracts streamlined and a number of data returns and audit requirements have been eliminated. We will set out in 2012 how the outcomes of this work will be taken forward.

8. This document updates the FE sector on our progress on simplifying the funding system following the BIS-led consultation in 2010, *A Simplified Further Education and Skills Funding System and Methodology*, and the response to this consultation set out in *Further Education – New Horizon, Investing in Skills for Sustainable Growth*, November 2010.
9. A significant programme of work has resulted. We have engaged key stakeholders and representatives from across the sector to test, challenge and shape the details of how to implement a simpler, more transparent system.
10. This document describes these changes, explains when we will introduce them and signals our continuing commitment to work closely with the FE sector to realise the further benefits that simplification will bring.
11. A recurring message from respondents to the consultation was that all changes must be clearly communicated and that there must be sufficient time for changes to be fully understood and introduced.
12. We have listened very carefully to this feedback and, therefore, will implement the changes described in this document fully in 2013/14. In 2012/13, we will operate a 'dual running' year. This will mean that colleges and training organisations will continue to be paid in accordance with the current methodologies, but they will have a year to plan for the changes and consider any adjustments in their skills offer to better meet the needs of learners and employers.
13. For the Skills Funding Agency, it will ensure that we can fully test the model, continue to consult with the FE sector on any further adjustments required and help to guarantee that the changes provide the extent of simplification that we have promised. Consideration can now be given to exploring the options available around the nature and pace of the move towards payment by results and outcome-led approaches.
14. This timescale will enable alignment, where appropriate, with the changes in the 16-19 funding methodology that are currently being consulted upon by the Department for Education (DfE). It is also an opportunity to align implementation of the system with the introduction of FE loans in 2013/14.

## 2. The current funding systems

15. Currently, adult skills provision is funded through the Demand Led Funding (DLF) methodology, which was introduced in 2008/09. This distinguishes between classroom and workplace learning (previously referred to as Adult Learner Responsive (ALR) and Employer Responsive (ER) provision), and the two funding models – ALR and ER – reflect this distinction.
16. Currently, Apprenticeships are funded through the ER model, including Apprenticeships for young people aged 16-18.
17. The details of the Skills Funding Agency's current funding methodology are set out in Annex A.

### 3. Proposals for the simplification of the funding system

#### Introduction

18. The consultation on *A Simplified Further Education and Skills Funding System and Methodology* took place from July to October 2010.
19. This far-reaching consultation sought views on simplifying the process of funding for adults and focused on the following:
  - reducing the number of separate budget lines
  - simplifying the funding methodology to increase transparency and reducing the number of different funding rates
  - reducing the number of direct contracts between the Skills Funding Agency and colleges and training organisations
  - reducing data burdens and the number and types of audit
  - streamlining the approach to supporting learners with differing barriers to participation and success in FE and skills training.

A total of 575 responses were received from organisations and individuals across the FE sector.

20. The focus of the Skills Funding Agency has been on simplifying the funding formula, rates, and developing a single earnings methodology to replace the current ALR and ER models. New arrangements for funding Additional Learning Support (ALS) and disadvantage have also been considered, together with options for rationalising learner support funds.
21. In simplifying the system, we have sought to ensure that we do not lose what makes the FE sector strong. The offer that is made to adult learners is rich and diverse. The simplified funding system will enable colleges and training organisations to continue to make a broad offer flexibly available, through an acknowledgement of the differing costs associated with different types of learners and programmes.

#### A single funding system for adult skills provision

22. Respondents to the consultation were both consistent and clear in their call for both a reduction in the number of separate funding systems and rules, and a simplification of the current funding methodologies and formula. Respondents said that the current arrangements were bureaucratic and cumbersome, which often made it difficult for them to respond quickly to changes in demand from learners and employers.
23. Our response is a single simplified funding system, which will operate to the following principles:
  - a single Adult Skills Budget to all colleges and training organisations
  - all provision funded within a single methodology, regardless of the delivery context
  - alignment with 16-19 proposals where it makes sense to do so, particularly for 16-18 Apprenticeships
  - a single set of funding rules

- a single funding formula
  - the introduction of a standard 'rates matrix' to fund all provision, with rates published in pounds (£) rather than Standard Learner Numbers (SLNs)
  - colleges will continue to be paid on profile (except for their 16-18 Apprenticeship delivery<sup>1</sup>), and reconciled to actuals at the end of the funding year
  - funding to training organisations will be based on actual delivery as reported in Individualised Learner Record (ILR) returns, paid monthly in arrears
  - each college and training organisation will have a single method for accessing ALS
  - rationalisation of learner support into a single budget.
24. The benefits of a single funding system and set of rules are significant: it will provide a more open and transparent mechanism for determining funding; it will enable colleges and training organisations to more easily meet the needs of their local communities and businesses in key local sectors; and it will also greatly simplify accountability arrangements through reducing the data-collection burden required by the current funding systems.

### A simplified funding formula

25. In simplifying the funding formula, the FE sector was clear that it did not want to 'over-simplify' in ways which would impact negatively upon the provision for the most vulnerable and disadvantaged learners. There was also a view that there remained a need to recognise the additional costs to colleges and training organisations in responding to different learner groups.
26. For these reasons we intend to retain both the area cost and disadvantage uplifts as part of the simplified funding formula. The system of awarding and funding disadvantage through the disadvantage uplift is a simple process based on the home postcode of the learner. This requires no claims or additional audit activity. Merging this funding into ALS would require colleges and training organisations to retain evidence of costs and spend which would impose additional requirements and offer no benefit in the flexibilities that they already have in using this funding. Further consideration will be given to the small element of disadvantage uplift that is associated with learners' characteristics.
27. The outcome is a much simpler funding formula and one that applies consistently across the entire Adult Skills Budget. The funding system uses actual in-year learning aim-level data to calculate the funding to be paid. The funding formula will be:

$$\text{Funding} = \text{rate } (\pounds) [x \text{ disadvantage uplift} x \text{ area cost uplift}]^2$$

<sup>1</sup> Colleges' 16-18 Apprenticeship delivery will continue to be paid monthly based on actual delivery. This is also subject to the DfE's 16-19 consultation.

<sup>2</sup> Area cost and/or disadvantage uplifts where applicable

The calculation of these elements will also be streamlined as follows:

- the learning aim rate will be taken from a simple rates matrix
- area cost uplift is calculated based on the current approach, an index, and linked to actual in-year delivery
- disadvantage uplift is calculated based on the current approach which uses the Index of Multiple Deprivation, and linked to actual in-year delivery

With:

- programme weightings incorporated as uplifts into the rates matrix
  - short course modifier removed, and the rates for units and awards increased to compensate for this
  - success rate factor replaced by a learning aim achievement element.
28. These changes will result in both a greater transparency of the funding rates and greater financial predictability, with fewer factors needing to be considered.

### A new simple funding rates matrix

29. Respondents to the consultation were of the strong view that there were too many separate rates for learning aims, with different rates paid depending on whether the learning was delivered in the classroom or workplace.
30. A funding system based on contact time requires colleges and training organisations to record guided learning hours (glh) which, in turn, involves additional administration costs. This can be particularly problematic for the growth of e-learning and other technology-based delivery models. It can also constrain college and training organisation innovation in curriculum planning, because the current arrangements can force particular modes of delivery that are neither appropriate nor cost effective.
31. The consultation proposed a number of options for a new banded pricing model, based on size of qualifications and/or learner characteristics. Although there was limited support for pricing based on banding, bands for qualifications were supported, as it would significantly reduce the high number of funding rates that currently exist.
32. The following vision for a simplified rates structure was set out in *Further Education – New Horizon, Investing in Skills for Sustainable Growth*:
- “There is currently in excess of 6,000 different funding rates for post-19 FE and skills provision. Based on feedback from the consultation, we propose to develop a structure that provides a consistent, clear and transparent approach to the rates payable for qualifications across all modes of delivery. This will support the introduction of fee loans in the 2013/14 academic year, and will be based on:*
- *A significant simplification and standardisation of existing rates, with a reduced number of programme weightings, consistent across all adult skills delivery.*

- *Size of qualification being in line with the QCF (reflecting the need to consider qualifications currently outside the QCF such as Skills for Life and Access to HE provision)."*
33. The resulting structure is a single simple funding rates matrix, with a reduced number of uplifts. The rates for learning aims are based on the current ALR rates, weighted by volume of historical enrolments, with the rates for units and awards increased to take account of the higher proportion of upfront costs associated with shorter courses. Non-Qualifications and Credit Framework (QCF) provision has been integrated into the rates matrix using the learning aim's SLN value. Learning aims that currently have an unlisted rate have been assigned an appropriate listed rate.
  34. Where the fully funded rate is not applicable (that is, where either the learner and/or the employer is expected to contribute towards the cost of the learning), then the co-funded rate is paid. Further consideration will be given to whether the contributions are based on the standard or uplifted rate, linked to the introduction of FE loans.
  35. We have incorporated the funding of full Apprenticeship frameworks into the matrix by grouping frameworks according to the current framework rates. This approach aligns with the DfE's proposal of funding 16-19 learning on a 'whole programme' and 'per learner' basis.
  36. The new rates structure, with **illustrative** fully funded rates<sup>3</sup>, unless stated explicitly otherwise, is set out below:

Uplift <sup>4</sup> / learning aim type	Standard	Low	Medium	High	Specialist
Unit	£150	£168	£195	£240	£258
Award	£500	£560	£650	£800	£860
Certificate	£900	£1,008	£1,170	£1,440	£1,548
Diploma	£2,500	£2,800	£3,250	£4,000	£4,300
16-18 fully-funded full Apprenticeship framework	£4,000	£5,600	£7,200	£8,800	£12,000
19+ co-funded full Apprenticeship framework	£2,000	£2,800	£3,600	£4,400	£6,000

37. The rates paid for 'high' and 'specialist' full Apprenticeship frameworks reflect the fact that they are typically delivered over multiple years, ranging between two and four years.

<sup>3</sup> These rates may be further reduced in line with the policy on large employers and 25+ Apprenticeships.

<sup>4</sup> The uplifts applied to Adult Skills Budget learning aims replace the programme weighting factors used currently and are: Standard (1.0), Low (1.12), Medium (1.3), High (1.6), Specialist (1.72). For full Apprenticeship frameworks: Standard (1.0), Low (1.4), Medium (1.8), High (2.2), Specialist (3.0).



38. During 2011/12, we will issue a shadow rates matrix with indicative funding values to allow colleges and training organisations to assess the likely rates that will be paid in the future for learning aims and full Apprenticeship frameworks. In 2012/13 we will 'dual run' the new funding rates alongside the current ones in order that colleges and training organisations can prepare for full implementation of the simplified funding system in 2013/14.
39. There are significant advantages associated with this simplified rates structure. Having significantly fewer rates and a reduced number of uplifts will simplify the system considerably, making it much easier to understand – not only by colleges and training organisations but also learners and employers. This will be particularly important with respect to co-investment and the introduction of FE loans. Using a consistent set of rates across all adult skills provision, regardless of mode of delivery, will free colleges and training organisations to deliver learning in the most appropriate way.
40. Administration costs will be reduced, as there will be no requirement for colleges and training organisations to record glh. There will be a reduction in the associated audit burden as there will be no requirement to evidence them.
41. There may be further opportunities for streamlining through, for example, aligning uplifts with those in the 16-19 sector where it makes sense to do so. We will continue to work with the Young People's Learning Agency (YPLA) and FE sector representatives to explore this further.

### **A single earnings methodology**

42. Respondents to the consultation asked for a reduction in the number of separate funding systems. We have reviewed the two different earnings methodologies that currently exist and have concluded that the system which comprises 'on-programme' instalments together with an element for achievement is the simplest method of calculating the funding earned by a college or training organisation.
43. The 'on-programme' instalments reward learner retention and the achievement element means that colleges and training organisations have the potential to achieve the maximum level of the funding, as opposed to the built-in failure of the historical success factor used in the ALR model.
44. We will therefore use the current ER earnings methodology across the whole of the Adult Skills Budget.
45. We expect payments to colleges and training organisations will continue to follow existing arrangements with a combination of payment of allocation on profile and payment on actuals.
46. The main features of the single earnings methodology are:
  - a qualifying threshold for funding starts
  - all learning aims have a proportion of their value held back and it is earned only on achievement of the aim (the achievement element)

- on-programme instalments are earned over the planned periods for the learning aim
  - if the learner achieves earlier than planned, our principle is that funding proportionate to costs of delivery is paid, including the achievement element. For colleges, this will happen at the year-end reconciliation, and for training organisations as a balancing payment due in the following month after data has been received that records the achievement.
47. A single earnings methodology will significantly reduce the administration costs for colleges and training organisations associated with operating two funding processes and reduce the data burden, because there will be a single set of data requirements.
  48. During 2011/12, we will make available in the Learner Information Suite (LIS) a shadow funding calculation based on these proposals. This shadow funding calculation will use the shadow rates matrix and will start to show colleges and training organisations the impact of the changes to the funding system.
  49. This will be followed in 2012/13 with dual running of both the current and new funding calculation. Payments to colleges and training organisations will be based on the current rates and earnings methodology in 2012/13 but they will be able to see the effect of the new approach and prepare for full implementation in 2013/14.

## Funding of Additional Learning Support

50. A strong message from the consultation was the need to ensure that colleges and training organisations receive a funding premium for learners with additional needs.
51. *Further Education – New Horizon, Investing in Skills for Sustainable Growth* set out an intention to align the different current approaches to ALS into a single system for learners, and also to consider aligning funding for disadvantage (the disadvantage uplift) with learning support.
52. Following the decision to retain the disadvantage uplift in the funding formula, we will align the current ALS and Additional Learning Needs (ALN)/Additional Social Needs (ASN) approaches.
53. A single ALS fund will be available for use by colleges and training organisations to support those learners with additional needs. For colleges, the current ALR approach will apply to all learners, including apprentices and work-based provision. For training organisations, the current ER approach will apply to all forms of provision (including classroom learning), as this remains the simplest and least bureaucratic process.
54. These changes will result in colleges and training organisations being able to access the necessary support for those learners that need help to achieve their learning goals. Importantly, there will be a single allocation process for colleges and training organisations to access their ALS funds, and a simple and less bureaucratic approach for training organisations to claim for ALS funds. The audit procedures will be

simplified in line with the single ALS methodology used by colleges and training organisations.

55. Further work will be required for 16-18 Apprenticeships to reflect the outcome of the DfE's consultation on the future 16-19 funding system.

### **Rationalising Learner Support**

56. There was strong support for a more coherent approach to streamlining the various learner support schemes, including some that are administered by the DfE/YPLA and include 19+ learners. The overall intention is to administer as many of the current schemes within a single learner support umbrella, thus reducing the level of burden on the FE sector. Currently, we are working with BIS as part of the annual policy statement work to look at ways to streamline this.

## **4. Comparing the current and new simplified funding systems**

57. The current DLF and new simplified funding systems are compared in the following table, to show how we are simplifying the process for funding adult skills provision.

## Comparison between the current and new simplified funding systems

<b>Current Funding Systems</b>	<b>New Simplified Funding System</b>
Two separate funding systems and rules	A single funding system and set of rules
<p data-bbox="225 519 794 564"><b>Funding Formula</b></p> <p data-bbox="225 586 794 667">Nine elements to the formula in the ALR model; six in ER</p> <p data-bbox="225 766 794 891">Elements are based on different data sets – historical for ALR; actual in-year data for ER</p> <p data-bbox="225 922 794 1070">Provider factor is calculated annually for colleges and training organisations delivering provision funded through the ALR model</p>	<p data-bbox="801 586 1366 743">A single element (with a maximum of three where disadvantage and area cost uplifts apply); applies across the adult skills system</p> <p data-bbox="801 766 1366 846">Elements based on actual in-year delivery</p> <p data-bbox="801 922 1366 967">No provider factor</p>
<p data-bbox="225 1111 794 1155"><b>Rates for learning aims</b></p> <p data-bbox="225 1178 794 1294">Different rates for classroom, workplace and Apprenticeship competency learning aims</p> <p data-bbox="225 1326 794 1473">Rates expressed in SLN glh and SLN; need to know national rate per SLN and programme weighting to calculate the rate in pounds (£)</p> <p data-bbox="225 1505 794 1550">Thousands of different rates</p> <p data-bbox="225 1617 794 1662">Listed and unlisted rates</p>	<p data-bbox="801 1178 1366 1258">Single set of rates across all adult skills provision</p> <p data-bbox="801 1326 1366 1370">Rates expressed in pounds (£)</p> <p data-bbox="801 1505 1366 1585">Likely to be around 30 rates for all adult skills provision</p> <p data-bbox="801 1617 1366 1662">All listed rates</p>
<p data-bbox="225 1693 794 1738"><b>Earnings</b></p> <p data-bbox="225 1760 794 1886">Two very different methodologies for colleges and some training organisations</p> <p data-bbox="225 1908 794 1989">Fragmented approach to supporting disadvantaged learners</p>	<p data-bbox="801 1760 1366 1886">A single methodology based on on-programme instalments and an achievement element</p> <p data-bbox="801 1908 1366 1989">A single budget for ALS and streamlined learner support funds</p>

## 5. Next steps

58. We will continue to work with the FE sector on a number of areas of the new simplified funding system, including:
- whether removing the lagged provider factor (currently used in the ALR funding model) delivers simplification
  - assigning rates for learning aims that are unlisted currently, including Adult Basic Skills and Functional Skills
  - where learning aims are co-funded, reviewing whether individual and employer contributions are based on the standard or uplifted rate
  - understanding the impact of moving from an annualised earnings methodology for colleges' classroom delivery to one based on actual in-year delivery
  - reducing the number of data returns for training organisations to explore a move to quarterly reconciliation
  - the proportion of funding that is attributed to the achievement element and how employment and other outcomes will be incorporated into the earnings methodology.
59. The table below outlines the expected overall timetable of the proposed changes:

October 2011 onwards	Further discussion/consultation with the sector through the Association of Colleges, Association of Employment and Learning Providers, other representative bodies, and advisory groups.
November 2011	BIS publishes its annual policy statement.
December 2011	Further details in the Skills Funding Agency's plan to implement the changes.
January 2012	Issue shadow rates matrix and funding calculation.
2012/13	Dual running of current and new simplified funding systems.
2013/14	Implementation of the Skills Funding Agency's simplified funding system for adult skills provision, as well as 16-18 Apprenticeships.  Implementation of the DfE's new funding arrangements for 16-19 providers.

## Annex A

### The current funding methodology

#### The Demand Led Funding formula

60. The current funding formula is complex and comprises a number of components, each with its own set of rules and definitions. The funding formula is as follows:

$$\text{Funding} = (\text{SLN} \times \text{national rate per SLN} \times \text{provider factor}) + \text{ALS}$$

The definition of these components is as follows:

- SLN is a measure of the volume of learning activity delivered. The SLN value for each learning aim in classroom learning is the SLN glh value divided by 450. In workplace learning, activity levels and costs information supplied by colleges and training organisations allow a calculation of the reasonable costs of efficient delivery of the learning aim/Apprenticeship framework, from which the listed SLN value is derived.
- The national rate per SLN is the amount in pounds (£) paid for each SLN. A single national rate per SLN is used across 19+ provision, excluding Apprenticeships. A different national rate per SLN is paid in Apprenticeships, depending on the age when the apprentice starts: 16-18, 19-24 or 25+<sup>5</sup>.
- The provider factor in the ALR model is the provider-level aggregation of the provider factor weightings set out in the next paragraph. It is a single figure that is calculated annually, based on historical data. In the ER model the provider factor is applied at individual learning aim level, based on actual in-year delivery.
- ALS is intended to enable disadvantaged learners to achieve their learning goal by providing funding, on top of programme funds, to help them overcome their barriers to learning. The funding is intended to be flexible and is there to help support learners who have a range of learning difficulties and/or disabilities. Examples of the types of ALS provided for learners include additional teaching, either to reduce class sizes as a result of learner characteristics, or to provide support in or out of the class, such as a specialist teacher of the deaf or teacher of learners with dyslexia.

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<sup>5</sup> The national rates per SLN for 2011/12 are: £2,615 for 19+ adult skills provision (excluding Apprenticeships); £2,862 for 16-18; £2,615 for 19-24; and £2,092 for 25+ Apprenticeships.

In the ER model, ALS includes financial support to address a learner's emotional, behavioural or motivational difficulties. These can include significant problems with communication and interaction as this will impact on their ability to learn.

61. The provider factor is calculated from the following elements (not all elements are included in the ER model):

***programme weighting x disadvantage uplift x area cost uplift x short course modifier x success factor***

The basis of the calculation for these elements is as follows:

- Programme weightings are uplifts that reflect the higher costs of delivering different types of provision (for example Engineering compared to Retail provision). The uplifts range from 1.12 to 1.72 (1.92 for providers with specialist resources) in ALR; and 1.15 to 1.5 in the ER model.
- The disadvantage uplift is based on the Index of Multiple Deprivation (2007) and provides additional funding for learners living in the 27 per cent most deprived lower-layer super output areas (SOAs) of the country – from 1.08 to 1.32. In the ALR model other categories of learner are also eligible to a disadvantage uplift at either 1.12 or 1.14, for example full-time carers.
- The area cost uplift reflects the higher costs of delivering provision in some parts of the country, particularly London and the South East. The amount of the uplift ranges from 1.01 to 1.20.
- The short course modifier provides an uplift to address the relative additional cost of recruiting learners onto short programmes. This only applies in the ALR model and to learners with a total planned glh of less than 225 and an annual SLN of less than 0.5.
- Finally, the success factor reflects learner retention and achievement, and it is calculated as the midpoint between the college's or training organisation's aggregated success rate and 100 per cent. This only applies in the ALR model.

### **Funding rates for Skills Funding Agency funded learning aims**

62. All of the learning aims that are funded by the Skills Funding Agency are assigned a funding rate. There are currently around 1,300 unique funding values listed in the Learning Aim Reference Application (LARA) – the replacement for the Learning Aims Database (LAD). Taking into account the different programme weightings that are used in classroom and workplace learning, this results in tens of thousands of different rates.
63. The rates for classroom learning aims are based on the recommended glh as provided by the awarding organisation, and are reviewed annually

to check that the funding values are still current. These are converted into an SLN by dividing by 450.

64. Some classroom learning aims are unlisted in recognition of the different input requirements of some learners to achieve their learning aim, for example those learners undertaking Skills for Life provision and learners with learning difficulties and/or disabilities. In such cases, colleges and training organisations are funded at the planned glh which are recorded in the ILR for each learner, and which is then subject to checks by auditors.
65. All workplace learning aims have a listed rate. For non-Apprenticeship vocational workplace learning, there is a relatively simple set of rates for competency learning aims based on level (for example Level 2/3). Taking into account the programme weightings that apply, this results in six different rates for vocational learning aims plus two for Adult Basic Skills.
66. For Apprenticeships, the overall framework rate is determined through activity costs information provided to the Agency by sector bodies. Depending on the combination of learning aims undertaken by the apprentice, this can result in different rates being paid for the same framework (to reflect the different pathways).
67. Rates for the knowledge-based learning aim and Key/Functional Skills are based on classroom learning rates. The difference between the sum of the classroom learning rates and the overall framework rate is then attributed to the competency learning aim. This is often more than the rate for the standalone competency learning aim, because the current costs paid for in Apprenticeships are more than its constituent learning aims. For example, activity costs will reflect employer engagement and other associated costs that have previously been deemed necessary to reflect the full Apprenticeship experience.
68. The rates are published on LARA and are expressed in SLN glh for classroom learning (funded through the ALR model) and SLNs for workplace learning and, in 2011/12, for classroom learning delivered by training organisations (funded through the ER model).
69. There is a 25 per cent upfront rate reduction for all 19+ workplace learning provision delivered to and by large employers, that is, those with 1,000 or more employees. It does not apply to classroom learning.
70. All learners eligible for Skills Funding Agency funding are either fully funded or co-funded. Where the learner is co-funded, we pay the co-funded rate and then either the learner or their employer will need to make a contribution towards the costs of learning to add to the state's contribution. In the ALR model the contribution is based on the unweighted rate; in the ER model it is based on the weighted rate.

### **How colleges and training organisations earn their funding**

71. The current ALR and ER funding models have different earnings methodologies, including different approaches for the funding of ALS.



72. In the ALR model, the funding earned by a college or training organisation is calculated at an aggregate provider level taking into account the total volume of learning delivered in the funding year (annual SLN), the national rate per SLN and the provider factor. Annual SLNs are based on learner enrolments and are not affected by withdrawals (which are taken into account in the calculation of the provider factor), and are counted once a learner has met the criteria for a start<sup>6</sup>. A funding cap of 1.75 annual SLN per learner applies in the ALR model.
73. In the ER model, the funding earned by a college or training organisation is based on individual learning aim-level data and it is calculated each month of each learner's programme using the applicable SLN instalment. SLN instalments are based on learner enrolments, monthly retention and achievement, and fall into three types<sup>7</sup>: on-programme, achievement and balancing. They start to be counted when a learner has met the criteria for a start<sup>8</sup>.
74. Colleges are paid on profile against their Adult Skills Budget allocation and are reconciled against actual delivery funded through the ALR and ER models at year-end. Training organisations (and colleges for their 16-18 Apprenticeship delivery) are paid for actual delivery, monthly in arrears.
75. Colleges and training organisations also have access to ALS funding. Colleges and training organisations funded through the ALR model are given an allocation to meet the ALS needs for learners in classroom learning, up to £19,000 for each learner each year, which is not subject to end-year reconciliation to costs. ALS costs above £19,000 are funded from a national budget on an individual basis. Colleges and training organisations funded through the ER model can claim for ALS out of their programme funds<sup>9</sup>, but have to manage funds within their allocation or Maximum Contract Value. Exceptional learning support can also be claimed where a monthly payment is inappropriate. For example, for brief period support or where the monthly ALS payment is insufficient to meet the support needs of an individual. This is claimed on the Training Provider Statement.

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<sup>6</sup> In the ALR model a learner is deemed to have started a learning aim once they have remained on that learning aim within the current funding year for: six weeks for learning aim length in-year of 24 or more weeks; two weeks for learning aim length in-year of between two and 24 weeks; and one learning engagement for learning aim length in-year of less than two weeks. For learning aims that span more than one funding year, starts are determined separately for each year, in line with the approach of calculating an annual SLN separately for each year.

<sup>7</sup> Achievement SLN instalment: 25 per cent of the SLN value is held back and paid on achievement of the learning aim (in Apprenticeships this percentage is of the main aim and is paid on achievement of the framework). On-programme SLN instalments are paid over the planned periods for the learning aim. A balancing SLN instalment is paid if the learning aim is achieved before the final planned period.

<sup>8</sup> The same time periods apply as in the ALR model, but in the ER model the criteria are applied to the total learning aim length and need to be satisfied once for each learning aim, regardless of its duration.

<sup>9</sup> Funding can be claimed for both ALN and/or ASN. The 2011/12 rates for 16-18 Apprenticeships are £150 each month for either ALN or ASN, £225 for both; 19+ rates are £122 and £184 each month.

## Annex B

### Abbreviations Glossary

ALN	Additional Learning Need
ALR	Adult Learner Responsive
ALS	Additional Learning Support
ASN	Additional Social Need
BIS	Department for Business, Innovation and Skills
DfE	Department for Education
DLF	Demand Led Funding
glh	guided learning hours
ILR	Individualised Learner Record
LAD	Learning Aims Database
LARA	Learning Aim Reference Application
QCF	Qualifications and Credit Framework
SLN	Standard Learner Number
YPLA	Young People's Learning Agency

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