

Funding Guidance for Further Education in 2005/06

Summary

This guidance sets out the Learning and Skills Council's approach to and the authoritative guidance for the funding of further education (FE) in 2005/06.

The document is to be read as a supplement to *Funding Guidance for Further Education in 2004/05*. It follows the same structure, with each section describing the relevant changes and additions.

The document also contains four annexes, summarising some of the changes to funding rates in the 2005/06 period.

April 2005

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Executive Summary

April 2005

Funding Guidance for Further Education in 2005/06

This guidance sets out the Learning and Skills Council's approach to and the authoritative guidance for the funding of further education (FE) in 2005/06. All colleges and providers, and organisations that receive funding from the Learning and Skills Council (LSC) for the provision of FE are required to comply with the Guidance. It provides the LSC's consolidated funding guidance for FE in 2005/06.

The Chief Executive's letter in January to FE colleges and providers summarised the main features of the LSC's FE planning and funding arrangements for 2005/06. It highlighted the need to consider the combined implications of the Agenda for Change and Sir Andrew Foster's Review of Further Education. It is therefore important to minimise the changes to FE funding in 2005/06. However, Agenda for Change may bring substantial changes for 2006/07.

This Funding Guidance for Further Education in 2005/06 therefore builds upon the Funding Guidance for Further Education in 2004/05. **It takes the 2004/05 Funding Guidance as the definitive source of guidance, except where the additions and changes contained in this document supersede last year's guidance.**

The Funding Guidance for Further Education in 2005/06 uses the same structure as the 2004/05 version. **Each section describes all the changes and additions to the 2004/05 Funding Guidance.** It is anticipated that this will simplify the need to refer to the Funding Guidance for Further Education in 2004/05 as well as to this document. All paragraph references should be read as referring to the 2004/05 Guidance, unless otherwise specified.

The funding rates for most learning aims will rise by 5 per cent between 2004/05 and 2005/06. This is 2.5 per cent for inflation plus 2.5 per cent for standard performance-related funding.

Learning aims that change by other than 5 per cent include:

- GNVQ successor qualifications
- aims where the National Rates Advisory Group has reviewed actual guided learning hours; and
- Ufi **learndirect** rates. Readers are advised to refer to separate **learndirect** guidance for more information on these.

However, to minimise the number of changes made to the 2004/05 Funding Guidance, limited amendments have been made to paragraphs or tables that contain calendar dates or funding rates. Readers will need to add one year to each calendar date, and add 5 per cent to each funding rate that appears in the text of the 2004/05 FE Funding Guidance. To avoid any doubt Annexes A and D summarise some of the changes to the funding rates.

Intended recipients

Principals, chief executives, chief education officers, heads of providers, finance directors and management information officers of providers delivering further education.

Section 1: Introduction and Background

Introduction

- 1 This document (the Guidance) sets out the Learning and Skills Council's funding guidance for further education (FE) in 2005/06. All colleges and providers and organisations that receive funding from the Learning and Skills Council (LSC) for the provision of FE are required to comply with the Guidance.
- 2 The information given in this document provides details of the LSC's approach to funding FE in 2005/06. This Guidance will operate in the wider policy contexts of *Success for All* and *Trust in FE* and the implementation of strategies developing from the Skills Strategy White Paper, the outcomes of the consultation Circular 03/15, *Plan-led Funding for Further Education* and Circular 04/02, *Plan-led Funding for Further Education*, which describes the new arrangements.
- 3 The Guidance forms part of the Council's funding agreements with colleges and all other providers of FE provision.

Funding priorities for 2005/06

- 4 The Government's priorities for FE for 2005/06 were set out in the grant letter of 15 November 2004 from the Secretary of State for Education and Skills (the Secretary of State) to the Chairman of the LSC.
- 5 The Secretary of State expects the LSC, working with key partners, to continue to deliver the Government's long-term reform strategy, including driving forward *Success for All*, the Skills Strategy including Skills for Life, and the 14–19 Strategy:
 - 16–18
 - Level 2 Entitlement
 - Skills for Life.
- 6 The Secretary of State's key targets are set out in Annex A to the grant letter.

Key changes for 2005/06

- 7 The LSC published its Annual Statement of Priorities in December 2004, which identified the following priorities.
 - a Make learning truly demand-led so that it better meets the needs of employers, young people and adults.
 - b Ensure that all 14–19-year-olds have access to high-quality, relevant learning opportunities.
 - c Transform FE so that it attracts and stimulates more business investment in training and skills development.
 - d Strengthen the role of the LSC in economic development so that we provide the skills needed to help all individuals into jobs.
 - e Strengthen the LSC's capacity to work effectively at a regional level – particularly with Regional Development Agencies and Regional Skills Partnerships.

- f Improve the skills of the workers who are delivering public services.
- 8 All providers of FE should ensure that the provision they plan and deliver supports these annual priorities.
- 9 The Annual Statement of Priorities is available on the LSC website at www.lsc.gov.uk.

Section 2: Funding Colleges and Other Providers

- 10 The Chief Executive's January letter describes the numerous factors that will direct the focus of the discussions about the three-year development plans with colleges on their delivery in 2005/06. It adds to, but does not materially change, the context of this section, which will therefore also apply to 2005/06.
- 11 Colleges and other providers are reminded that the funding provided should reflect the directly incurred costs of efficiently delivered provision (with an appropriate contribution to overheads) within the national funding framework and rates. Providers should take full account of the fundamental funding principles set out in paragraphs 41–42 of the Funding Guidance for Further Education in 2004/05.

Section 3: Planning and Budgeting Arrangements

- 12 This section provides guidance on the planning and budgeting arrangements for 2005/06. The guidance provided in the Funding Guidance for 2004/05 continues to apply to 2005/06 with the following changes.

Key changes for 2005/06

- 13 The changes for 2005/06 are as follows:
 - Following the Government's review of funding and efficiency as part of the Agenda for Change, agreement of the allocation and development plan for 2006/07 and 2007/08 will be delayed until autumn 2005.
 - Following the review by the Learning and Skills Development Agency (LSDA) of the 2004/05 performance-related funding (PRF) it has been decided that the premium rate will be withdrawn for 2005/06.

Timetable for the planning and budgeting process in 2005/06

January–February 2005	Local LSCs discuss performance levels with providers, review the indicative allocation and undertake the annual provider review of the three-year development plan.
May 2005	Local LSCs issue 2005/06 funding allocation to providers and agreement of new development plan for 2005/06.
Autumn 2005	Local LSCs agree indicative allocations and development plans with providers for 2006/07–2007/08.

learndirect hubs

- 14 On 1 August 2004 a new funding arrangement between the LSC and Ufi Ltd was introduced. The funding formula, funding uplifts and eligibility criteria

described in the Funding Guidance for Further Education in 2004/05, as amended by the 2005/06 document, will apply to the funding allocated by the LSC to Ufi. However, the way in which Ufi distributes these funds to hubs has changed. Readers are advised to refer to separate **learnirect** guidance.

Performance-related funding

- 15 There will be significant changes to the operation of PRF in 2005/06, as described below.

The review of performance-related funding policy

- 16 Once the PRF outcomes for 2004/05 were known, the LSC instigated a review of this policy and commissioned the LSDA to conduct initial assessment research with a sample of college principals and finance directors, their local LSCs, and national stakeholder representatives. This research is to be published by LSDA in the report *Performance Related Funding in the FE Sector: An initial assessment*.
- 17 The research demonstrated that there was substantial and widespread concerns about the policy, particularly with regard to the rationale, fairness and effectiveness of premium funding as an incentive for quality improvement across the sector, when the funding system already rewards achievement; it concluded that premium funding was not likely to change behaviour. Furthermore, existing arrangements for Centres of Vocational Excellence, and Learning and Skills Beacons appear to be more readily accepted as means of recognising excellence.
- 18 The LSC shared these findings with its *Success for All* Theme 4 External Advisory Group, which includes several college principals, and other national stakeholder representatives, who concurred with them. Accordingly, following the review, the LSC recommended to the Department for Education and Skills (DfES) that the PRF policy should be revised for 2005/06.

Reformed performance-related funding arrangements for 2005/06

- 19 FE Colleges and other FE providers will receive a 5 per cent (that is, 2.5 per cent above inflation) increase in their FE funding for 2005/06 on the presumption that they will fully agree a challenging Three-Year Development Plan later in 2005. Where a plan is not submitted, or the local LSC assesses that the plan is of unacceptable quality, then the LSC would revert the FE funding to an inflation-only 2.5 per cent increase.
- 20 While the LSC had originally envisaged that the PRF arrangements would apply for a period of two years, given the clear message from the policy review, it has been decided that the premium rate of 3.5 per cent above inflation, which applied in 2004/05, will be withdrawn. (Those who received premium funding in 2004/05 will benefit from the effect of the additional 1 per cent premium rate on their allocation in 2004/05 being consolidated into the calculation of their 2005/06 funding.)
- 21 In its place, in order to create incentives for *all* in FE to improve, the LSC will work with stakeholder groups to develop arrangements that give recognition and reward (outside of the funding formula) to FE colleges and other FE providers that have achieved significant quality improvement or sustained high quality with respect to their position and performance within the sector. Details

of these arrangements will be communicated later in 2005; it is intended that decisions on recognition will be made after local LSCs conduct annual planning reviews with colleges and providers.

- 22 All such reward payments will be outside the funding formula – one-off and not consolidated. There will be a fixed national budget for this purpose so the level of the reward will depend on the overall numbers that are eligible. The level of reward will be scaled to the size of the FE provision. The likely level of reward will be made known once the LSC has been able to model likely outcomes against the finally agreed criteria. However, it is very likely that the reward will be less than the former 1 per cent premium rate in 2004/05. The LSC has to operate the PRF policy within the overall cost incurred in 2004/05; also, in broadening the scope to include significant quality improvement, there are likely to be more FE colleges or other FE providers that become eligible for the award.
- 23 This reform will apply for 2005/06. With the introduction of New Measures of Success and the wider consideration of funding arrangements that will apply from 2006/07 as part of the Agenda for Change in FE, the PRF policy will be kept under review.

Residual issues for 2004/05 premium funding

- (i) The LSC-published list of "excellent" providers who had not yet been inspected
- 24 There was a small number of FE colleges and providers assessed as "excellent" in spring 2004, and shown in the list published by the LSC, that had not yet been inspected.
- 25 Where such providers on the published list have subsequently had inspections during 2004/05, and the inspection grades awarded demonstrate that they have met Criterion 2 for premium funding, they will be eligible for the additional 1 per cent premium-rate allocation where this is supported by the local LSC. This will be paid after April 2005.
- (ii) Higher education institutions with FE provision
- 26 Following representations from this part of the sector, it has been agreed that local LSCs will consider whether any of their higher education institutions with FE provision merit premium-rate funding for 2004/05.
- 27 LSC National Office will inform local LSCs whether their higher education institutions have met either the 2004/05 inspection or premium-funding indicator criteria. The latter will be based on the Higher Education Statistics Agency data provided to the LSC for 2003/04, as earlier data was too incomplete to be useful in many instances. It is expected that the information will be provided to local LSCs in late March 2005.
- 28 Local LSCs will then be in a position to make decisions about whether any of their higher education institutions have met the criteria to receive premium-rate funding for 2004/05, which would be paid after April 2005.
- 29 Annex B describes how performance-related funding will be calculated in 2005/06.

Section 4: Definitions and Terminology

30 The following changes are made to this section.

16–18-year-old learner

31 Paragraph 88 is amended to add:

The LSC would not normally fund 16-year-old school leavers until after they have left school. The official school leaving date is the last Friday in June of the academic year, and 16-year-old learners (as defined in paragraph 88) would only be eligible for LSC funding after that date. Colleges and providers may seek to develop innovative introductory courses, which strategically target key LSC priority learners, who may not otherwise stay in education and learning after school. These learners may start in July, but must plan to continue their courses beyond 1 August of that year. Providers have successfully piloted this type of provision across Cumbria since 2002/03. However, colleges and providers should not be seen to artificially extend the duration of their current curriculum offer.

Full-time equivalents

32 The following is added to paragraph 107, to clarify the FTE calculation.

Providers are reminded that the FTE calculation is derived from the sum of the planned glh recorded within field A32 of the ILR against each respective learning aim from the learner's programme of study.

Learner fees or remission

Assumed fee income

33 In response to the consultation on fees resulting from the Skills Strategy, paragraph 117 has been adjusted to reflect the increase in the fee assumption from 25 per cent of the base unit of funding to 27.5 per cent for learners outside the nationally prescribed groups.

34 Further increases to the fee assumption in 2006/07 will be considered when the LSC has assessed the initial introduction of the 2.5 per cent change in 2005/06, and the budget position for 2006/07.

Fee income measures

35 The LSC will introduce an income measure in 2005/06 in line with the commitment in the Skills Strategy White Paper. The purpose of the measure will be to act as a mechanism for colleges and the LSC to work together in changing the culture and expectations around learner and employer contributions, and to increase the total income for the sector.

36 Local LSCs will agree income measures with all providers in receipt of FE funding. The fee income measure will be in respect of tuition fee income from individuals and employers engaged with LSC-funded programmes only; other sources of income will not be included.

37 The measure will be agreed on an individual basis for each institution. In agreeing an appropriate measure a number of factors will be taken into account, which are:

- the current position of each institution with regard to the fees it currently collects

- the theoretical fees that could be collected if the 27.5 per cent fee assumption was applied
- the mission of the college and its own local fee remission policy
- the socio-economic profile of the locality the institution serves
- benchmarking data with similar institutions
- regional and local skills priorities.

38 Agreeing the fee income measures, and assessing performance against them, will be discussed and assessed as part of the annual review of providers' development plans.

Programme funding

39 As a consequence of the change in the assumed fee income percentage, paragraph 130 has been changed to reflect that the programme funding will now represent 62.5 per cent of the national base rate before programme weighting or disadvantage of area uplift has been applied.

Section 5: Calculating Funding and Associated Rates

40 The funding formula in 2005/06 continues to reflect the detail described in Section 5 of the Funding Guidance for Further Education in 2004/05, with only a few changes.

41 The increase in the assumed fee income percentage from 25 per cent to 27.5 per cent, and the consequent reduced percentage value for programme funding to 62.5 per cent, affects the national base rate column in Figure 1, paragraph 148 on page 26 of the 2004/05 document.

42 It also affects the examples provided in paragraph 150 to illustrate how the proportions vary. The tables below replace these examples, based on an assumed fee income of 27.5 per cent.

Example 1: GCE AS level or A2 studied during the day (except for General Studies) with a programme weight of A

Rate paid: £804

Fee income or remission	Programme funding	Achievement
£221	£502	£80
(27.5% of rate paid: 27.5% of national base rate)	(62.5%)	(10%)

Example 2: Loadbanded provision of 55 guided learning hours with a programme weight of B

Rate paid: £344

Fee income or remission	Programme funding	Achievement
£84	£225	£34
(24.6% of rate paid: 27.5% of national base rate)	(65.4%)	(10%)

Example 3: Edexcel National Award with a programme weight of D

Rate paid: £4,022

Fee income or remission	Programme funding	Achievement
£691	£2,929	£402
(17.2% of rate paid: 27.5% of national base rate)	(72.8%)	(10%)

The second bullet point of part (a) of paragraph 151 also needs changing to 27.5 per cent.

Loadbands and independent living skills

43 Paragraph 170, page 29, has been rewritten as follows.

Where a learner completes multiple learning aims in independent living skills such that the total glh is 450–719, the LIS calculates separately the individual learning aims. A manual adjustment to the ILR will be needed to claim the full amount of eligible funding as stated in paragraph 169.

Fee remission

44 Paragraph 175 of the Funding Guidance for Further Education in 2004/05 described in detail the categories of learners who are entitled to fee remission. This list should also include some learners in receipt of Working Tax Credit and Pensions Credits. Annex D of the 2004/05 document provides a detailed description of which learners may be eligible for fee remission through each of these credits.

45 Paragraph 176 is changed to reflect the amendment to the assumed fee income element of 27.5 per cent of the national base rate, which is deducted before any other weightings or uplifts.

Tuition fees

46 The following is added to paragraph 177 to clarify when the level of tuition fees charged triggers the threshold for full cost delivery. This also appears in the *Further Education ILR Funding Compliance Advice 2004 to 2006*.

In view of the increased fee assumption, the LSC now expects providers to see their provision as full cost–recovery provision where the tuition fee charged to the learner (employer) approaches 100 per cent of the programme-weighted national rate available for the learning aim studied. In line with reducing bureaucracy, this limit is being raised from the previous 75 per cent figure to take account of any future changes in the assumed fee income part of the national rate.

47 The LSC will continue to consider exceptional cases (including application of other weightings) and will waive the definition if it is convinced by the particular circumstances an institution puts forward.

Achievement

48 For 2005/06, achievement funding will continue to be based on the ratio of achievement funding to programme funding from the most recent complete data for the institution. To enable an achievement factor to be based on the 2004/05 ILRF05, providers must return their final ILR return by not later than Friday 10 February 2006.

Level 2 Entitlement phase 2 roll-out

- 49 In 2005/06 an additional category of learner will also be entitled to fee remission, namely those learners who enrol on their first full Level 2 qualification.
- 50 The introduction of the Level 2 Entitlement during 2004/05 has been trialled in the North-east and South-east regions. For 2005/06 the availability of first full Level 2 qualifications will be extended to all eligible adults in all regions for FE-funded provision. Further details will be available in the near future.
- 51 For 2006/07 onwards, the LSC will consider how the Level 2 Entitlement can be developed further, as part of the overall implementation of the Skills Strategy, including the National Employer Training Programme.

Performance-related funding factor

- 52 As described in Section 3 of this document, the premium rate of 3.5 per cent above inflation that applied in 2004/05 will be withdrawn for 2005/06. However, the funding formula will continue to include a performance-related funding factor to adjust downwards the funding for colleges and providers that do not submit development plans, or where the local LSC assesses that the plan is of unacceptable quality.
- 53 Annex B describes how the performance-related funding will be calculated in 2005/06.

Section 6: A–Z of Rates Consideration

- 54 There are no significant changes to this section, but further clarification is needed in the following areas.

Access to HE

- 55 There is additional clarification of paragraphs 241–243, as follows.
- 56 The LSC recognises the importance of Access to HE provision as an alternative progression route into HE for adult learners. In particular, Access to HE provision plays a key role in providing progression to undergraduate education for adults from non-traditional backgrounds and under-represented groups. The LSC considers that Access to HE provision has significant potential for its work with the Higher Education Funding Council for England in relation to the Joint Progression Strategy and in the development of Lifelong Learning Networks. As most Access to HE programmes are credit-based, they are also important in the context of the commitment to the development of a credit framework for adults. The LSC therefore considers it important to ensure that, through appropriate planning, sufficient funding is made available to prevent a decline in this provision and support the range of opportunities that it offers. This may include support for new Access to HE programmes to meet identified need, and/or to replace programmes that have outlived their usefulness. The Access to HE Certificate was recognised as a full Level 3 qualification in the Labour Force Survey in autumn 2004.
- 57 The Quality Assurance Agency for Higher Education (QAA) regulates the framework for the recognition and quality assurance of Access to HE programmes through the approved processes of authorised validating agencies, in accordance with the structures and mechanisms described in the *QAA Recognition Scheme for Access to Higher Education in England, Wales*

and Northern Ireland (available on the QAA website at www.qaa.ac.uk/access/recognition/recog_intro.asp). The Recognition Scheme is currently under re-development, following QAA's 2004 report on Access (www.qaa.ac.uk/access/developmentproject/Default.asp) and the subsequent request from the DfES that QAA should work with the LSC in taking forward QAA's recommendations concerning the development of a common credit framework for Access to HE. A consultation on proposals for the credit framework and consistency in the specification for the national Access to HE award will be undertaken in summer 2005.

Modern foreign languages

58 Paragraph 269, page 42, has been rewritten to say:

In December 2002, the DfES published *Languages for Life*, which sets out the aims and objectives of the National Languages Strategy, a key objective of which is:

To increase the number of people studying languages in further and higher education and in work-based training by stimulating demand for language learning, developing Virtual Language Communities and encouraging employers to play their part in supporting language learning.

The LSC is a key partner in taking implementation of the National Languages Strategy forward and has produced an outline policy position paper to support the development of local LSC action plans for Modern Foreign Languages. A copy of the policy position paper is available from your local LSC.

National vocational qualifications

59 The national base rate values included in Table 6, Framework of NVQ delivery methods, page 43 of the 2004/05 document, refer to one year. Where a listed national vocational qualification (NVQ) is recorded in the learning aims database as a two-year NVQ, and is subsequently delivered over two years, the funding associated with the national base rate would apply in both of the two years in which the NVQ was delivered.

60 Paragraph 276 of the funding guidance for 2004/05 stated that the National Rates Advisory Group (NRAG) had commissioned research during 2004 to review the different ways in which NVQs may be funded by the LSC. The recommendations of this research have been deferred to allow time to consider the implications of the Agenda for Change.

Vocational certificates of education

61 From September 2005, Applied GCEs will be introduced to replace the advanced vocational certificate of education (AVCE). The new qualifications will have an AS- and A2-level structure comparable to existing GCEs.

62 The funding rates for the new Applied GCEs will be equivalent to the rates paid for AVCEs, as the new Applied GCEs are the same size of programme.

GNVQ successor qualifications

63 The NRAG reviewed the funding rates for general national vocational qualification (GNVQ) successor qualifications. The LSC was recommended to

review the funding of GNVQ successors to be consistent with the guided learning hours that are recommended by QCA or based on evidence of actual guided learning hours. For 2005/06, on an interim basis, some of these qualifications will be funded through the loadbands. These rates may be reviewed again within Agenda for Change.

64 A list of the qualifications involved is available from:

www.lsc.gov.uk/National/Documents/SubjectListing/FundingLearning/FurtherEducation/FundingBriefing-GNVQ.htm

Section 7: Eligibility Arrangements for 2005/06

65 A number of additional paragraphs have been added to this section, and in some cases alternative descriptions have been used to provide greater clarity.

66 The following paragraph should be inserted after paragraph 306, page 48, of the 2004/05 document.

No recourse to public funds

Someone who has “no recourse to public funds” included in their passport stamp would not be in breach of their immigration conditions if they had access to education in the UK. “Public funds” are defined in the Immigration Rules, and the benefits and services listed do not include education or any education funding.

67 Point i. under the first bullet point of paragraph 307 has been rewritten to say:

- i those with the European Community – United Kingdom of Great Britain and Northern Ireland Passports

68 The third bullet point in paragraph 309 has been rewritten to say:

- persons with humanitarian protection (HP) or discretionary leave (DL) or exceptional leave to enter or remain (ELE/ELR), their spouses and children.

69 The second bullet point in paragraph 310 has been rewritten to say:

- 16–18-year-olds who are accompanying parents who have the Right to Abode or leave to enter or remain in the UK, or 16–18-year-olds who are children of diplomats.

70 The following paragraph should be inserted after paragraph 315, page 50:

Those with British national (overseas) passports or similar and Hong Kong nationals are ineligible for LSC funding until they have been resident in the UK for three years.

71 Paragraph 321, page 51, has been replaced by the following.

Learners of other nationalities serving as members of the British Armed Forces should be considered eligible for funding throughout their period of service on the same basis as their British national counterparts. This includes the funding eligibility provided under the conditions described in paragraph 319 and extends to their spouses and dependents on accompanied postings. This does not apply to spouses and families who do not join members of the armed forces and instead remain in their own country.

Unforeseen events and special cases

72 The following paragraph has been added.

Parents to be

Learners who are expecting to be unavoidably absent from learning for a period of time, such as for maternity or paternity leave, should not be discouraged from entering into a learning agreement. Providers should ensure that the planned start and end dates for the learner's programme, as **agreed at the commencement** of the programme, reflect the overall planned duration of study.

Funding of provision

73 This is a clarification to paragraph 364.

74 A key focus of the planning dialogue with providers is the volume, mix and quality of provision. The LSC will want to ensure that the balance and mix of provision is aligned with LSC priorities and targets at the same time as protecting broadly the same volume of provision in 2005/06.

Other provision

75 This is a clarification to paragraph 372.

76 The LSC has the power under Section 5(d) of the Learning and Skills Act 2000 to fund courses falling within paragraph 1(g) or (h) of Schedule 6 to the Education Reform Act 1988. These include approved qualifications under Sections 96 and 97 of the Learning and Skills Act 2000 at Level 4 and above as well as other higher-level learning aims (externally or internally certificated).

77 While the LSC has no specific participation target at Level 4 or above, it has signalled in the Annual Statement of Priorities a clear commitment to work closely with the Higher Education Funding Council and key stakeholders in viewing vocational orientation of further education as significant for widening participation in HE and for contributing to up-skilling the workforce. In addition, Sector Skills agreements are expected to have some impact on demand for higher-level learning activity in order to meet the full range of skills training required by employers.

Principles of franchising, sub-contracting and partnership work

78 Paragraph 16 of the 2004/05 Funding Guidance emphasises the need to adopt a rigorous approach towards franchising, sub-contracting and partnership arrangements. In October 2004 the LSC issued further clarification on its guidance relating to this area. To avoid any doubts, extracts are included below.

79 The principles suggested here should apply to all types of providers, but are designed mainly with further education in mind. The term "partnerships" also refers to franchises and other sub-contracted work.

80 The aim of partnerships is to provide good-quality learning that meets local and national priorities. It can extend the range of learning in areas that LSC providers are unable to offer. The steer of 5 per cent maximum should be a less important issue than partners' abilities to provide good-quality provision that contributes to the targets.

- 81 Partnerships will be built into FE providers' three-year development plans where the aim is to develop long-term stable relationships between the provider and the partner. The provider has a duty to build capacity within its partners by supporting professional and organisational development with them.
- 82 In addition to the normal data on partnership provision that providers already record within the ILR and the partner register, from 2005/06 it will be a requirement in the further education funding agreement that providers provide an annual self-declaration of the partners with whom they are or will be working. This will include:
- details of who the partners are
 - details of what provision the partners are providing, and how it fits its priorities
 - details of out-of-area provision to include learning aims delivered, number of learners and the amount of funding, and confirmation of agreement from the LSCs involved
 - details of the levels of top-slicing the providers are retaining.
- 83 The LSC expects the amount of funding retained by providers to be proportionate to the costs they incur in the delivery of the provision and to take account of the actual costs incurred by their partner providers in delivering any programmes to learners.
- 84 To keep bureaucracy at a minimum, the previous Table 7, page 61, on types of funding is now deleted. The determination of the partnership definition and application of the franchise discount factor should now be addressed as part of the provider's planning dialogue with their local LSC. This should also take into account the fundamental funding principles as set out in paragraphs 41–42. Further guidance on partnership providers is further developed in Section 3 of the *Further Education ILR Funding Compliance and Advice for 2004 to 2006*.

Section 8: Basic Skills, Key Skills and Entitlement Funding

- 85 A number of additional paragraphs and further clarification have also been included in this section.
- 86 A number of references to ESOL in the 2004/05 Funding Guidance need updating as follows.
- Paragraph 417 and Table 8: "ESOL qualifications" should read "ESOL Skills for Life qualifications".
 - Paragraph 422: "Language (ESOL)" should read "ESOL Skills for Life".
 - Paragraph 435 should read: "Certificates in Adult Literacy, Numeracy and ESOL Skills for Life".
 - Paragraph 483, point ii should read: "the addition of a literacy, numeracy and language (ESOL) learning aim to a learner's main programme of study".
- 87 Three new paragraphs are added after paragraph 420, page 68, as follows.

There was an extended period of transition for ESOL qualifications, up to 31 July 2004, during which all learners who achieved ESOL qualifications externally certificated by a national awarding body recognised by QCA potentially counted towards the target.

The new Certificates in ESOL Skills for Life became available on 1 August 2004. From 1 January 2005 these are the only nationally approved ESOL qualifications available for new learners that are eligible for basic skills funding and which potentially count towards the target.

Further information on the new ESOL qualifications can be found in *Fact Sheet 4 – Changes to English for Speakers of Other Languages (ESOL) provision: new certificates in ESOL Skills for Life and funding arrangements from 1 August 2004*.

Approved qualifications – a key priority in 2005/06

88 Paragraph 423, page 69, has been modified so the final sentence should read:

In 2005/06 colleges and providers are expected to consider the mix and balance of their provision in line with the Council's priorities and targets.

89 Further clarification is added to paragraph 426 as follows.

In addition to *Fact sheet 1 – Recording adult literacy, language and numeracy provision (basic skills)*, further information and guidance on the correct recording of the new certificates in ESOL Skills for Life can be found in *Fact Sheet 6 – Recording and Coding the Certificates in English for Speakers of Other Languages (ESOL) Skills for Life*.

Basic skills learners and the disadvantaged uplift

90 Paragraphs 432 and 433 are replaced by:

The LSC considered whether the basic skills disadvantage uplift could be incorporated into the programme-weighting factor for basic skills learning aims, and intended to undertake further modelling in 2004/05 on the impact of adding the disadvantage uplift to the programme weighting, with the intention of introducing any change in 2005/06. In light of the FE review and LSC's Agenda for Change, it was decided not to progress with this work, pending the outcomes of these reviews.

Developing embedded basic skills provision

91 Paragraph 434 is replaced by:

In 2003/04, the LSC and the Adult Basic Skills Strategy Unit (ABSSU, now the Skills for Life Strategy Unit) in the DfES, co-funded an action research programme to look at a range of issues relating to embedded basic skills. Following this, the LSC issued guidance on how to record the delivery of embedded literacy, numeracy or ESOL provision and this can be found at the website:

www.lsc.gov.uk/National/Documents/SubjectListing/FundingLearning/BasicSkills/embed_skills_brief.htm.

The project report will be available on the LSC website later this year.

External candidates taking adult literacy, numeracy and language (ESOL) qualifications

92 Paragraph 436 has been amended to include this additional bullet point:

- No additional achievement funding will be available for external candidates because they will not have undertaken the associated learning programme with the provider.

93 Paragraph 437 is replaced by the following.

If the external candidate has no formal (that is, externally accredited) qualification at the level and subject area (that is, literacy, numeracy or ESOL) for which he or she is entering, then a successful outcome in the qualification will count towards the national Skills for Life target.

Because the candidate is not recorded on the ILR, their achievement will not be captured and included in the provider's basic skills achievement target. However, it will be captured through awarding body data and, in this way, contribute towards the national target.

Please refer to guidance in the ILR specification and *Circular 05/01:FE ILR Funding Estimate/Claim 2004/05*, Annex H manual adjustment 2005-19 for further information on recording external candidates taking approved basic skills qualifications.

Learners for whom basic skills qualifications are more appropriate than key skills

94 Paragraphs 461, 462 and 463 are replaced by the following.

In 2004/05 the LSC stated it would continue to explore the effectiveness of the arrangements for funding basic skills within the entitlement as additional learning aims. Guidance on this was published in the *Circular 05/01:FE ILR Funding Estimate/Claim 2004/05*, Annex H manual adjustment 2005-18 and continues to apply in 2005/06.

Where learners have identified basic skills needs at Entry level (and in exceptional cases at Level 1 or Level 2) and diagnostic assessment indicates that it is more appropriate for them to register for approved qualification alternatives to key skills – that is, the Certificate in Adult Literacy or Adult Numeracy at Entry Level (or in exceptional circumstances at Level 1 or Level 2) – these qualifications may be funded.

However, where such learners are following basic skills learning aims instead of key skills, the Learner Information Suite (LIS) will not be able to calculate the entitlement funding correctly. In these situations the LIS funds the key skills element of entitlement funding as well as the basic skills alternative. This could lead to an overstatement of the entitlement funding and would warrant a manual adjustment.

Where the basic skills learning aim is the same size as the key skills component of entitlement funding, providers should adjust their claim downwards so that it does not include any funding for the key skills that are being replaced by basic skills.

Where the basic skills learning aim is larger than the key skills component of entitlement funding, providers should further adjust their claim so that it includes funding for the additional hours delivered on the basic skills learning aim. It is assumed that the key skills component of the entitlement is approximately 108 guided learning hours (glh), or 36glh per key skill. Therefore, depending on the size of the basic skills programme that replaces the key skills within the entitlement, only those hours above 36glh, 72glh or 108glh delivered on the basic skills alternative should be counted as “additional”. These additional hours would attract the basic skills uplift and be funded through the loadbands.

In both of these cases, it is not intended that full-time learners who study basic skills as an alternative to key skills within the entitlement should be counted as basic skills learners. This would apply even if the basic skills alternative were 80glh or more. Therefore the disadvantage uplift for basic skills learners should not apply in those situations. Providers should ensure they make a manual adjustment where the LIS allocates the basic skills disadvantage uplift to the whole of the learner’s learning programme.

Entitlement curriculum

95 Paragraph 455 has been amended as follows.

The LSC expects that the entitlement will include regular tutorials, relevant key skills and enrichment activities, which will be delivered in an appropriate number of glh that are additional to the other learning aims within the learner’s programme. The glh for both the tutorial and key skills delivery should be included within the learner’s ILR.

Section 9: Additional Learning Support Funding Arrangements

96 The Funding Guidance for Further Education in 2004/05 introduced new arrangements for funding additional learning support (ALS). The Guidance therefore is written to refer to the differences between the “current” methods of 2003/04 and the “new” methods introduced for 2004/05. In continuing to apply the 2004/05 Funding Guidance to 2005/06, it is recognised that some of this language is no longer pertinent. However, to minimise the number of changes made to last year’s document, only the following significant amendment is introduced.

97 Paragraphs 486 to 491 on page 78 are deleted and replaced by the following.

Funding arrangements for 2005/06

The funding arrangements for additional learning support in 2005/06 remain unchanged from those introduced in 2004/05. These arrangements were introduced following extensive consultation with the sector and were confirmed in a policy statement published in April 2004.

Further details on the background to the revised arrangements can be found in the ALS section of the LSC’s website at:

www.lsc.gov.uk/National/Documents/SubjectListing/FundingLearning/AdditionalLearningSupport/default.htm

- 98 The revised ALS funding arrangements form a key element of the plan-led funding approach implemented in 2004/05. The revised arrangements, described at paragraphs 493 to 498 of the 2004/05 document, apply to those colleges and providers that are within plan-led funding. For the small minority of colleges and providers not within plan-led funding, the previous ALS funding arrangements apply and these are described at paragraphs 504 to 519 of the 2004/05 Funding Guidance.
- 99 There are no changes to the cost thresholds described in paragraphs 492 to the end of the section. The cut-off value where the LSC requires colleges and providers to complete the revised ALS cost form continues to be £4,500. The threshold where any additional costs may be met from a separate budget held nationally continues to be £19,000. There are no changes to the way in which colleges and providers should record ALS in the ILR.
- 100 Annexes J, K and L from the 2004/05 Funding Guidance continue to apply in 2005/06.

Section 10: Distributed and Electronic Learning

- 101 In October 2004, the LSC issued detailed clarification on how the costing data form should be completed. It confirmed that any agreed base rate resulting from the data collection or costings form can be used to claim funding. Providers no longer need to locate the nearest national base rate.
- 102 No further amendments or additions are made to this section.

Section 11: European Social Fund

- 103 Further clarification has been added to paragraph 589, which now reads:
The use of this mechanism should be discussed with the local LSC, although colleges and providers are not required to obtain approval before applying this mechanism. They are, however, required in the Financial Memorandum to obtain consent in writing to use LSC funds to draw down any European source of funding on their own behalf.

Annex A: Further Education Listed and Loadbanded Rates for 2005/06

(Replaces Annex A from 2004/05 Guidance)

Annex B: Calculation of Performance-related Funding in 2005/06

(Replaces Annex C from 2004/05 Guidance)

The policy context

- 104 Performance-related funding (PRF) was introduced in 2003/04 within the context of *Success for All* and was intended to recognise and reward excellence in colleges and other providers of further education.

- 105 In 2003/04, funding was increased by 2 per cent above inflation based on three-year development plans being agreed with local LSCs. This additional funding would be consolidated into future years' allocations for all eligible providers.
- 106 In 2004/05, the premium rate represented a 3.5 per cent increase in real terms compared with the standard real-terms funding increase of 2.5 per cent. Funding provided in 2004/05 would again be consolidated into the future year's allocations.
- 107 In 2005/06, the arrangements will be changed in line with Mark Haysom's letter of 20 January 2005. The rationale and the changes are set out below.

The review of performance-related funding arrangements

- 108 Once the PRF outcomes for 2004/05 were known, the Learning and Skills Council (LSC) commissioned the Learning and Skills Development Agency (LSDA) to conduct an initial evaluation of the arrangements with a sample of college principals and finance directors, their local LSCs, and national stakeholder representatives. This research is published by LSDA in their research report *Performance Related Funding in the FE Sector: An Initial Assessment*.
- 109 The research demonstrated that there was substantial and widespread concerns about the arrangements, particularly with regard to the rationale, fairness and effectiveness of premium-rate funding as an incentive for quality improvement across the sector. It also concluded that, because the funding system already rewards achievement, premium funding was unlikely to change behaviour. Furthermore, existing arrangements for Centres of Vocational Excellence, and Learning and Skills Beacons appear to be more readily accepted as means of recognising excellence.
- 110 The LSC shared these findings with its *Success for All* Theme 4 External Advisory Group, which includes several college principals, and other national stakeholder representatives, who concurred with them. Accordingly, following the review, the LSC recommended to the Department for Education and Skills (DfES) that the PRF arrangements should be revised for 2005/06. These are set out below.

Reformed performance-related funding arrangements for 2005/06

- 111 The LSC had originally envisaged that the PRF arrangements published in Circular 03/16 would apply for a period of two years. However, given the clear messages from the policy review with stakeholder representatives, the LSC has held discussions with DfES officials and agreed changes for 2005/06.
- 112 The policy for 2005/06 will be as follows.
- All further-education (FE) colleges and other FE providers that agree new challenging development plans with their local LSC will receive an increase in their FE funding for 2005/06 at 2.5 per cent above inflation. This 5 per cent increase in rates will be applied to the institution's funding rates resulting from PRF in 2004/05 – so colleges that received premium funding in 2004/05 continue to benefit from the uplift in 2005/06.

- Where a plan is not submitted, or the local LSC assesses that the plan is of unacceptable quality, then the increase at 2.5 per cent above inflation will not apply.
- The premium rate will be withdrawn and replaced with new discretionary arrangements to recognise and reward (outside the funding formula) colleges and other FE providers that have achieved significant quality improvement or sustained high quality with respect to their position in the range of performance within the sector. The decisions on recognition will be made when local LSCs conduct Annual Planning Reviews with colleges and providers in January or February 2006, and payment of awards made from April 2006. The arrangements for discretionary awards will be developed with stakeholder representatives and communicated to the sector later in 2005.
- There is currently no commitment to continuation of PRF beyond 2005/06, and the LSC will evaluate these revised arrangements.

Operation of performance-related funding

113 The principles for the application of performance-related funding were discussed through the National Rates Advisory Group (NRAG). Based on the expectation that the majority of providers would receive funding at the standard rate (2.5 per cent in 2005/06), the NRAG recommended that its FE funding formula is used to operate performance-related funding.

- For 2004/05 and 2005/06, the national base rates are increased by 5 per cent (this is 2.5 per cent inflation plus 2.5 per cent standard-rate funding).
- Provider Success for All factors are introduced into the funding formula. These values are used to calculate the funding rates for each college and other provider, which are based as the cumulative factor from 2003/04, 2004/05 and 2005/06.
- (For 2003/04, 2 per cent was incorporated into the funding rates for those colleges and other providers where development plans had been agreed.)

Success for All Factors in 2005/06

114 To account for the consolidated nature of performance-related funding, Success for All factors are calculated using the formula:

Success for All Factor = factor in 2003/04 x factor in 2004/05 x factor in 2005/06

115 Where the factor in 2003/04 was dependent on whether a development plan was agreed, which gave 2 per cent extra funding, this was incorporated into the funding rates for that year. Where no development plan was agreed a 2 per cent reduction was applied, as shown in Table 1.

Table 1

2003/04 factors	Factor	How factor is calculated
Development Plan agreed	1.0000	1.00 / 1.00
Development Plan not agreed	0.9804	1.00 / 1.02

116 The factor in 2004/05 is based on Table 2. It shows that standard funding received an increase of 5 per cent, premium funding an increase of 6 per cent and inflation-only funding an increase of 2.5 per cent.

Table 2

2004/05 factors	Factor	How factor is calculated
Standard funding (5%)	1.0000	1.05 / 1.05
Premium funding (6%)	1.0095	1.06 / 1.05
Inflation-only funding (2.5%)	0.9762	1.025 / 1.05

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actor in 2005/06 is based on Table 3. It shows that standard funding will receive an increase of 5 per cent and inflation-only funding an increase of 2.5 per cent. There will be no premium rate.

Table 3

2005/06 factors	Factor	How factor is calculated
Standard funding (5%)	1.0000	1.05 / 1.05
Inflation-only funding (2.5%)	0.9762	1.025 / 1.05

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example, a college that agreed its development plan in 2003/04, received premium funding in 2004/05 and has standard funding in 2005/06 would work out its Success for All factor as follows.

Success for All Factor = 1.00 x 1.0095 x 1.0000 = 1.0095

2003/04 factor	Development plan agreed	1.00
2004/05 factor	Premium funding	1.0095
2005/06 factor	Standard funding	1.000
Success for All factor		1.0095

Annex C: Other Changes to Funding Rates for 2005/06

(New Annex for 2005/06)

Issue	References in 2004/05 Guidance		Funding value for 2005/06
	Paragraph number	Funding value	
Loadbands and independent living skills	169	£2,765	£2,903
Operation of the taper	233	<ul style="list-style-type: none"> National base rates up to and including £1,276 per tri-annual period (TAP) not subject to taper. Base rates above £1,276 per TAP will be subject to a discount rate of 50 per cent. Maximum base rate per TAP will 	<p>£1,340</p> <p>£1,340</p> <p>£1,474</p>

		be £1,404.	
International Baccalaureate	264	£6,890	£7,235
Mathematics AS Level	265	£171	This no longer applies as the autumn examination will not be available from November 2005
National Vocational Qualifications (NVQs)	272 and Table 6	£2,767 £1,098 £734	£2,905 £1,153 £771
NVQs and full-time employment	276	£1,378	£1,447
Religious Education	277	£118	£124
External candidates taking adult literacy, numeracy and language (ESOL) qualifications	436	£54	£57

Annex D: Jobseekers' Allowance, Tax Credits and Pension Credits

(Updates Annex D paragraph 6 from 2004/05 Guidance)

The last sentence of paragraph 6 is amended as follows:

Only those learners in receipt of WTC, or their partner, and with a household income of less than £15,050 will be eligible for full fee remission.

This figure is based on indicative advice received from the "Prescription Pricing Authority" and if a higher figure is eventually confirmed to the LSC in writing this will be confirmed to providers by their local LSC.

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