Independent Review of
Fees and Co-Funding in
Further Education in England

Co-investment in the skills of the future

A report to Ministers in the
Department for Business,
Innovation and Skills

July 2010

FOREWORD

Co-investment in the skills of the future

I am pleased to introduce the final report and recommendations of an Independent Review of Fees and Co-funding in Further Education in England. In it you will find recommendations for a series of simple but powerful shifts in funding of education for adults in this country.

I have undertaken this Review with representatives of employers, adult learners, colleges, training providers and others with an interest in adult education. I am very grateful to all those involved for their dedication to the task and to the future of the Further Education sector. The recommendations of this Review are the product of extensive discussions and represent an agreed path to an improved future, a path guided by principles we can all share.

In certain cases, individuals and employers are supposed to be contributing alongside Government to the costs of Further Education courses, on account of the benefits they derive from them. In this report, I have called this 'co-investment'. The current system for ensuring this co-investment happens is not fit for purpose. At the very time when we need it to be operating to its greatest potential, it is failing us.

We recommend a number of changes to ensure that individuals and employers are driving the system, that co-investment from individuals and employers is optimised where it is due, that Government funding is used where it is needed most and that quality Further Education provision receives the total level of investment, from all parties, that it deserves.

In the future, we believe that Government funding for co-funded provision should follow and support the choices and contributions of learners and employers, based on a principle of matched funding. We believe the system should be fair and transparent on both price and quality, and that Government should expand and relaunch the system of Professional and Career Development Loans which can provide individual adults with the option to spread the cost of their investment in improving their skills.

This Review is not about putting up the fee level, nor increasing the number of people who have to pay fees in Further Education. This Review is about ensuring there is a system in place to make sure that where individual adults and employers are expected to co-invest in their learning and in their future, this does indeed happen.

I very much hope that Ministers will accept these recommendations for change and encourage colleges and training providers to take a lead role in developing plans for their implementation. In signalling their support, Ministers will initiate an overhaul of the system for co-investment in Further Education that will make it simpler, fairer, more transparent and more responsive to the needs of adults and employers.

Christopher N Banks CBE

RECOMMENDATIONS FOR ACTION IN THE SHORT TERM

1. Funding from BIS and its agencies should follow and support the choices and contributions of individuals and employers. Where appropriate, BIS and its agencies should match co-investment contributions received from individuals and/or employers, up to a published Maximum Contribution.
2. All colleges and training providers in receipt of funding from BIS and its agencies should define and publicise a total price for the course on offer and a clear price of the co-investment contribution individuals and/or employers are required to make.
3. BIS and its agencies should clearly set out which courses they will fund and at what level of Maximum Contribution, and for whom.
4. The individual and employer should be at the centre of what becomes a demand-led system, co-investing in courses of value to them.
5. Individuals and employers should be able choose between courses they value and between approved colleges and training providers and accredited qualifications.
6. BIS/agency funding should be reprioritised to increase the capacity of financial support available to help individual adult learners co-invest. BIS and its agencies should redirect a proportion of its funding into a redefined and re-launched Professional and Career Development Loan programme.
7. Where employers are required to make a contribution to meet the price of a course, only contributions in cash should qualify for matched funding from BIS and its agencies.
8. BIS and its agencies should ensure colleges and training providers have maximum flexibility to respond to the needs and demands of individuals and employers.
9. BIS and its agencies should work with relevant sector organisations to ensure there are processes in place for identifying, sharing and implementing good practice and supporting staff across the Further Education sector.
10. BIS and its agencies, colleges and training providers must all prioritise co-investment, in conjunction with the quality and responsiveness of provision.
11. BIS should ensure that colleges, training providers and all relevant parts of the Government and its agencies support the changes in these recommendations by re-defining the language they use to communicate, particularly with individuals and employers.

RECOMMENDATIONS FOR LONGER TERM DEVELOPMENT

1. BIS and its agencies should give priority (in terms of timescale and funding) to the development of a Learning Account system fully integrated with other online systems.
2. BIS should reconsider the criteria for full funding of learning and training for adults to ensure that Government investment is focused where it is needed most and can achieve most.
3. BIS and its agencies should closely monitor the implementation of these recommended changes and any changes it makes to policy in the area of co-investment, to ensure they are having a positive impact on co-investment and are protecting participation, particularly among vulnerable groups.

EXECUTIVE SUMMARY

Investment in Further Education is fundamental to improving the prospects of adults[1], businesses and the economy as a whole.

Individuals, employers and the Government each invest significantly, both separately and co-operatively, in improving skills, and the providers of Further Education work hard to deliver high quality teaching to meet the needs of individuals and employers.

Since many adults and employers benefit from the Further Education and skills system, the Government expects that in certain cases, currently the minority, they should share the tuition costs of their course with Government. This independent Review was commissioned by BIS to investigate and make recommendations to improve the system for securing co-investment from individual adults and employers alongside Government in these courses which improve skills and capabilities. Where policy determines that co-investment is required we must ensure there is a system in place so this co-investment does indeed happen.

The current system for ensuring individuals and employers co-invest alongside Government in this range of Further Education provision is failing. It is not securing the level of investment expected and required from those who should contribute, and action is essential to change what is widely regarded as unfair and untenable.

As the system for securing the appropriate co-investment from individual adults and employers in Further Education fails, the total level of investment is sub-optimal, the weight of investment being made is not being shared fairly, Government funding is not being used efficiently where it is needed most and the quality of Further Education provision is at risk.

Implementation of our recommendations will, we believe, lead to a system in which total investment is optimised, the distribution of responsibility is fair, Government funding is used efficiently where it is needed and can achieve most, and a system in which high quality Further Education provision is able to inspire and secure the investment it deserves. It will be fundamental to the successful implementation of any current or future policy regarding funding of Further Education.

[1] This Review is concerned with the provision of Further Education for those aged 19 and above. It will not make recommendations regarding education for 16-18 year olds, nor for Specialist Colleges. The system described here pertains mainly to funding currently provided for Adult Learner Responsive and Employer Responsive provision, and only to areas where co-investment contributions are expected. The Review will not make recommendations regarding the national level of the co-investment contribution, nor the criteria for individuals and employers being required to make a contribution.

These recommendations have been developed through collaboration between many of the key organisations involved in the Further Education and skills system in England, including the Association of Colleges, the Association of Learning Providers, the Confederation of British Industry, the National Institute of Adult Continuing Education, the Skills Funding Agency, the Trades Union Congress and the UK Commission for Employment and Skills[2].

In addition, we have consulted widely across the sector and with a range of interested parties, including individual adults, employers, colleges, private training providers, Local Authorities, voluntary organisations and representatives of other interested organisations. We have held group discussion sessions both structured and less formal, and listened to people individually. We have sought and listened to a wide range of views and amassed and analysed background research. We have developed the resulting recommendations through an interactive process, seeking and securing the agreement of interested parties as we progressed.

What is at stake?

For the 2010-11 financial year, a total investment of £3.5 billion is planned for participation in adult learning[3]. It is predicted that this funding will support 3.4 million people to gain the skills they need[4].

This funding from Government is intended to be complemented by a further £1 billion of investment from individual adults and from employers who should contribute to the costs of their course, given the benefits they derive. This constitutes around 20% of the total combined investment[5].

The evidence, based on historical data, suggests this total of £1 billion will not be realised, not by some considerable margin.

Why doesn't the current system work?

The current system has failed to prioritise, explain and secure the co-investment contributions from those adults and employers who can and should contribute to the costs of learning.

Previous attempts to bring in sufficient investment from individuals and employers have involved reducing the amount of Government funding provided to support co-funded learners, and assuming that colleges and training providers will then go on to collect the remaining funds. Current policies surrounding this

[2] A list of the members of the Review Group is attached as Annex A.
[3] Funding Letter to Skills Funding Agency 2010-11, BIS, June 2010
[4] Skills Investment Strategy 2010-11, BIS, November 2009
[5] The contribution from BIS and its agencies to co-funded Further Education provision for 2010/11 will be over £1 billion. On the basis that BIS should contribute 50% and individuals and employers should contribute 50%, we estimate that individuals and employers should also be contributing around, though not exactly, £1 billion.

approach are complex and the foundations and monitoring of implementation are weak and ineffective. A culture has been generated in which colleges and training providers, individual learners and employers have all come to expect that training will be “free” to them, and fully funded by the Government. Equally, there is inadequate identification of and support for those who cannot afford to pay, despite widespread fee remission.

Many colleges and training providers have tried hard to operate within the current system, and some have had degrees of success, but all the broader issues mentioned above require attention in order for the future of co-investment in the development of adult skills to be secured.

What do we do about it?

We recommend the introduction of a new approach based on a series of simple yet powerful changes to the current system. The approach recommended in this Review has the potential not only to increase levels of co-investment in Further Education and skills, but also to engender far-reaching change in our thinking and in our national systems surrounding funding for adult education.

What will the new system be like?

The key recommendations of this Review will lead to the replacement of the current system with one founded on the following principles:

- **Government funding supporting individual and employer choice,** with the Government contribution to the cost of training following the individual and/or employer contribution where appropriate.
- **Individuals and employers driving the system**, their participation being protected and their involvement central.
- **Transparency** on co-investment contributions and total prices, and on the quality of provision.
- **Government funding increasing the capacity of financial support,** to facilitate individuals co-investing.
- **Flexibility and a fair system** for all colleges and training providers, to promote choice and improve quality and efficiency and responsiveness to the needs of individuals and employers.

This Review proposes a system in which the learner, whether accessing learning independently or as an employee, and the employer, are at the centre. Colleges and training providers must be responsive to the needs of individuals and employers, in order to maintain volumes of training. Individual and employer investment is matched by Government investment where appropriate, ensuring public funding truly helps people to achieve what they want to achieve. Individuals, employers and the Government can make their money work harder by working together, and all parties, and society as a whole, share in the long term benefits of an increasingly skilled and educated adult population.

This Review recommends changes that Government, working with the sector, can make to improve the system. The recommendations are largely and necessarily directed towards Government and its role, but we recognise that the role of Government and its agencies should be to provide structures and support for a system which individual adults and employers are not only able to navigate, but to drive.

We understand the prime importance of access to Further Education, and recommend not only careful monitoring, using existing systems, to ensure that no-one is deterred from accessing the skills they need by a lack of ability to pay, but also an active financial empowerment of learners through prioritising funding for loans. The system we describe here has the power to increase the influence of individuals and employers and thereby enhance the quality, responsiveness and relevance of Further Education provision. Ultimately this will act to increase willingness to participate in it.

A system for supporting investment in Further Education cannot be considered in isolation from Higher Education. The boundaries between Further and Higher Education are blurred, and there is considerable overlap in addition to progression between the two. Further work will be required by BIS when taking forward the recommendations of this Review, to ensure that implementation is complementary to and combined with implementation of any changes recommended by the Independent Review of Higher Education Funding and Student Finance[6].

Taking opportunities

The time is right for change.

We need to make sure we have the skills we need to drive an economic upturn and thrive in an increasingly competitive global economy.

The Government must ensure that every pound it spends is focused efficiently to where it can deliver most effectively. As we move forward into a new Spending Review period, it is vital that the system for securing co-investment in Further Education is functioning properly.

The Further Education and skills sector needs, now more than ever, clarity and consistency. Change should come positively and from within, not reactively and in response to financial pressure, and must produce a long-lasting solution to support the training that will power individuals, businesses and the economy forwards.

[6] Also known as the Browne Review, due to publish in Autumn 2010.

Further Education is all about opportunities to improve.

There is an opportunity, in the present situation, to make a fundamental improvement to the system of investment in adult learning and training that can help resolve the historical issues, promote co-investment as a central feature of the future and introduce positive change and co-operation across the Further Education sector.

RECOMMENDATIONS IN DETAIL

The recommendations set out below vary in their scope, audience and in the potential timescales of their implementation. They must be considered in the context of changes in the systems in which some of them are grounded, for instance the development of a Learning Accounts system, and in the context of the coming Spending Review period.

In order to be implemented successfully, a new co-investment policy must be prioritised as a central part of a coherent Further Education funding policy.

Recommendations for action in the short term

1. **Funding from BIS and its agencies should follow and support the choices and contributions of individuals and employers, where appropriate.**

   Where policy defines a course as involving co-investment between the individual and/or employer and Government, **BIS and its agencies should match contributions received from individuals and/or employers, up to a published Maximum Contribution**, within a defined total volume of co-funded provision.

   This Maximum Contribution will be based on a proportion of the national funding rate, usually 50%. When the co-investment contribution from the individual and/or employer has been secured by the college or training provider, they will be able to regard the matched-up-to-maximum BIS/agency funding for that learner as committed.

2. **All colleges and training providers in receipt of funding from BIS and its agencies should define and publicise a total price for the course on offer and a clear price of the co-investment contribution individuals or employers are required to make.**

   Such information should be available publicly through college and training provider materials and the Learning Account online system integrated into Directgov.

   Colleges and training providers could set their co-investment contribution price to individuals or employers at the level of the Maximum Contribution, for which they would then be matched (50-50 private-public); if they set their co-investment contribution price below the Maximum Contribution they would be matched at that level (eg 40-40 private-public); if they set their co-investment contribution price above the Maximum Contribution, they would receive the Government contribution at the maximum level (eg 60-50 private-public).

3. **BIS should clearly set out which courses it will fund and at what level of Maximum Contribution.**

   The fundamentals of the system will allow for local flexibility and rapid responses to any changes in demand. Where there is market failure or where BIS and its agencies seek to incentivise delivery in particular sectors or for employees of small businesses, they may wish to moderate the level of public funding beyond the matched level (eg 30-70 private-public).

   While the level of funding from BIS and its agencies may be increased, this should not violate the principle of public funding only being accessed following private funding.

   We recommend that BIS and its agencies supplement transparency on funding eligibility with clear definition of areas of particular interest where proportions are changed. Such changes should be advertised as finite, but perhaps with a lifespan of around three years in order to provide stability. For larger businesses examination of the process through which they are funded directly may be required.

4. **The individual and employer should be at the centre of what becomes a demand-led system, with their needs balanced. Courses should be of value to them, in order to encourage their co-investment.**

   In order to make an informed choice for their co-investment, they need access to **Information, Advice and Guidance and assessments of the quality** of learning provision. BIS should ensure that careers guidance be integrated into the Learning Accounts system, accessed via Directgov.

5. **Individuals and employers should be able to choose between courses they value and between approved colleges and training providers, as identified by BIS and its agencies.**

   BIS should ensure there is transparency in determination of which courses are eligible for funding and where they will be fully funded or involve co-investment. Eligibility for BIS/agency funding (including co-funding) must be a mark of reassurance of the quality and relevance of provision.

6. **BIS/agency funding should be reprioritised to increase the capacity of financial support available to help individual adult learners co-invest.**

   BIS and its agencies should redirect funding into a redefined and re-launched Professional and Career Development Loan programme. Since Government pays the interest only, there is a multiplier effect; thus, for instance, transferring £50 million of funding to loans could be sufficient to support over 600,000 additional learners and protect and even increase participation, and could lead to an additional £800 million[7] of income for the sector without increasing its bureaucracy burden. Further consideration of student support in Further Education will be required, ensuring the approach is consistent with student support in Higher Education.

7. **Where employers are required to make a contribution to meet the price of a course, only contributions in cash should qualify for matched funding from Government.**

   "In kind" contributions are an important feature of the current arrangements and a sign of employer commitment and contribution that we value and would like to see continue. They should be negotiated and handled separately from and not used as a substitute for cash contributions.

8. **BIS and its agencies should ensure colleges and training providers have maximum flexibility to respond to the needs and demands of individuals and employers.**
   The future system should be based on a single main budget for each college and training provider. Full flexibility should apply within funding provided by BIS and its agencies for fully-funded learners, and should apply to income colleges and training providers generate from individuals and employers. There should also be freedom to confer bursaries. Fair competition in the system and a fair deal for learners and employers should be promoted through discouraging cross-subsidising funds intended for fully-funded learners to substitute for private contributions where they are due.

9. **BIS and its agencies should work with relevant sector organisations to ensure there are processes in place for identifying, sharing and implementing good practice and supporting staff in the Further Education sector.**

   The changes recommended by this Review are simple but radical and colleges and training providers in receipt of Government funding will need support as they move towards the new system.

   In order to support the sector as it moves towards the improved system, changes should be signalled early, communicated clearly and implemented through a collaborative approach by BIS. Promulgating **models of good practice** is one means of encouraging change across the network of colleges and training providers. Support for staff should be provided through relevant sector bodies and within colleges and training providers.

[7] This is an indication rather than a projection, based on assumptions detailed in the full report.

10. **BIS and its agencies and colleges and training providers must all prioritise co-investment, in combination with the quality and responsiveness of provision.**

    Government should communicate clearly to its agencies and sector organisations and to colleges and training providers that securing co-investment, in terms of both systems and satisfying demand, is central to the future of Further Education and should ensure other policies and implementation systems are consistent with co-investment.

11. **BIS should ensure that colleges, training providers and all relevant parts of the Government and its agencies support the changes in these recommendations by re-defining the language they use to communicate with individuals and employers.**

    This will facilitate co-investment through supporting an even more important change, in increasing valuing of adult education. In BIS and agency documents such as Funding Guidance, and in more locally produced materials, including prospectuses, the words “co-investment” and “contribution” should be used more, and words like “free” and “fees” should be avoided.

    These linguistic changes should be supplemented by clarity regarding that the facts that people who qualify for full funding will not have to pay, that the full price of a co-funded course will not have to be paid as Government will make a contribution, and furthermore explain that there are options available for financial assistance.

For longer term development

12. **BIS and its agencies should give priority to the development of a Learning Account system fully integrated with other on-line systems.**

    This will be critical to making the system recommended by this Review a reality. Learning Accounts should be a source of accurate and current information, they should tell an individual or employer what they need to know about a course, including the learner or employer co-investment contribution, the total price, any eligibility for fee remission and means of accessing financial assistance. They should ultimately, however, be much more than a source of information.

    They could also be the means through which the decision to engage with a college or training organisation is made, they could have functionality for employers and employees acting collectively (though funding would be linked to individual employees), and they could involve an accurate and personalised record of educational achievement and a convenient place to interact with JobCentre Plus or HM Revenue and Customs. They should be fully integrated with a careers advice service, business advice (BusinessLink) and Directgov.

They could and should involve Higher Education, to ensure adults are aware of the full range of opportunities for progression available to them, and they should be available on a voluntary basis for those undertaking Informal Adult Learning. From the point of view of the funding process, they should become the vehicle through which a private co-investment contribution triggers the college or training provider receiving the Government co-investment contribution for that learner.

13. **BIS should reconsider the criteria for full funding of learning and training for adults to ensure that Government investment is focused where it is needed most and can achieve most.**

This Review was not charged with examining the criteria for full funding, but there may be modifications to the system of entitlements which would both reduce deadweight and increase inclusion and participation. Reviewing the complexity of the current funding methodology and allocations process would also be welcome.

14. **BIS and its agencies should closely monitor the implementation of these changes and any changes it makes to policy in the area of co-investment to ensure they are having a positive impact on co-investment and are protecting participation, particularly among vulnerable groups**.

There is a risk that institution of a robust system to secure co-investment from individuals and employers could act to reduce the number of individuals and employers participating in co-funded Further Education provision. It is vital that BIS monitor progress, using existing systems, and ensure that the changes we are recommending do not lead to a marked or unintended reduction in participation in learning which is of value to individuals, employers and the country as a whole.

IMPLEMENTATION

We would like to see the sector play a leading role in the development of the plan for implementation of the recommendations we have made to improve the system of co-investment in Further Education. The recommendations are the result of consultation and discussion and centre around a series of simple improvements, but their implementation will represent change for the sector and should be handled sensitively.

Detailed plans for implementation based on the fundamentals of the system described here should be incorporated into work being undertaken to simplify the current funding methodology.
The changes contained in our key recommendations for immediate implementation should be fully implemented for 2011/12.

For the start of the academic year 2010/11, however, BIS should confirm the essence of the future system and detailed plans for implementation should be developed with the sector, in order that they can begin the process of culture change required to make a success of the new system.

CONTENTS

SECTION ONE: THE SCOPE AND PURPOSE OF THIS REVIEW

1. The overall purpose of this Review is to make recommendations which lead to a system that supports co-investment in Further Education.

2. In the first section, we will describe how adult education has been funded in recent years, and outline the approach of this Review in terms of using analysis of the past and definition of enduring principles to make our recommendations for the future. In the second section, we will consider the rationale for co-investment, before, in the third section, outlining the problems with the present system intended to support it and describing improvements to secure it. In the fourth section, we will focus on the crucial role of colleges and training providers in the past, present and future of co-investment, before turning to the individuals and employers they serve in the fifth section, and examining their ability to co-invest. Finally, we will describe the culture change required to support a well-funded Further Education sector for the new decade.

The mechanics of making investments in education

Private funding, public funding and co-investment

3. In order to enhance the skills and capabilities of adults, investment is required in the courses which develop them. The costs of such courses, in terms of tuition fees[8], are currently met in varying proportions by different parties. For individuals falling into one of a number of priority groups, on the basis of the type and level of the qualification undertaken, and the age, prior qualifications and benefits status of the learner, Government contributes 100% of the cost of the training course. At the other end of the spectrum, employers often pay 100% of the cost of training for their staff, and many individuals undertaking leisure courses pay 100% of the costs of their own learning. The full categories of eligibility for full funding as they stand at the start of academic year 2010/11 are set out in Box 1 and Figure 1.

4. Where costs are shared, that is to say, where a training course is funded in part by the Government, it is assumed by Government that the remaining proportion of the cost of the course is met by a contribution from either the employer of the individual being trained, or by individual adult learners themselves.

[8] This Review is mainly concerned with the amounts paid to a college or training provider specifically for a course of tuition, rather than the other costs associated with Further Education.

Box 1: Eligibility for funding

The current situation (2010/11 academic year) with respect to learners' fee remission status is set out below. This Review will not make recommendations pertaining to these specific criteria, but will describe a new system to support co-investment where it is due.

16-18 year olds

- Eligible for full funding when aged 16-18 inclusive on 31 August of the year they are starting their course. This applies whether they are studying full or part time.

Adult Learner Responsive provision

Fully-Funded Provision

There are two bases on which an adult learner may be entitled to full fee remission: (1) their personal circumstances e.g. whether they are in receipt of income-based benefits; (2) the qualification they are undertaking either can apply.

(A) **Personal circumstances**

- Relevant income-based benefits
    - Income-based Job Seeker's Allowance
    - Council Tax Benefit
    - Housing Benefit
    - Income Support
    - Working Tax Credit where the learner has an income of less than £15,050
    - Pension (Guarantee) Credit
    - Contribution-based Jobseeker's allowance
    - Income-based Employment Support Allowance
- Unwaged dependant of someone in receipt of one of the benefits in the list above
- Spouse / civil partner or cohabiting partner (as defined by Jobcentre Plus)
- Offenders who are serving their sentence in the community
- Asylum seekers eligible for LSC FE funding according to the LSC Learner Eligibility Guidance 2007/08 and in receipt of the equivalent of income-based benefit (assistance under the terms of the Immigration and Asylum Act 1999) and their dependants

(B) **Qualification studied**

- Basic literacy and numeracy qualifications (known as Skills for Life) – not including English for Speakers of Other Languages (ESOL)
- A first full level 2 qualification (a full level 2 is 5 GCSEs A* - C grade or equivalent vocational qualification)
- Aged at least 19 and under 25 at the start of the first year of the course and following first full level 3 qualification, (a full level 3 is at least 2 A Levels or equivalent vocational qualification)
- Aged 25 plus at the start of the first year of the course and following a first full level 3, having not previously achieved a full level 2 qualification.

Employer Responsive provision

Apprenticeships

- All Apprenticeship programmes for adults require a contribution from the employer. Unlike adult learner responsive provision this can be in the form of cash (i.e. fees) or other forms such as use of premises.

Train to Gain

- Training will be fully funded (and at no cost to the employer) where the individual is undertaking one of the qualifications listed above in section (B). This means that the entitlements to first full qualifications will apply in the same way for Train to Gain as they currently apply in ALR.

- Training will be co-funded (Government and employer each meeting 50% of the cost) where the individual is undertaking :
  - o Their first full level 3 qualification when they are over the age of 25
  - o A full level 2 qualification when it is not the first for that learner at that level
  - o A full level 3 qualification when it is not the first for that learner at that level

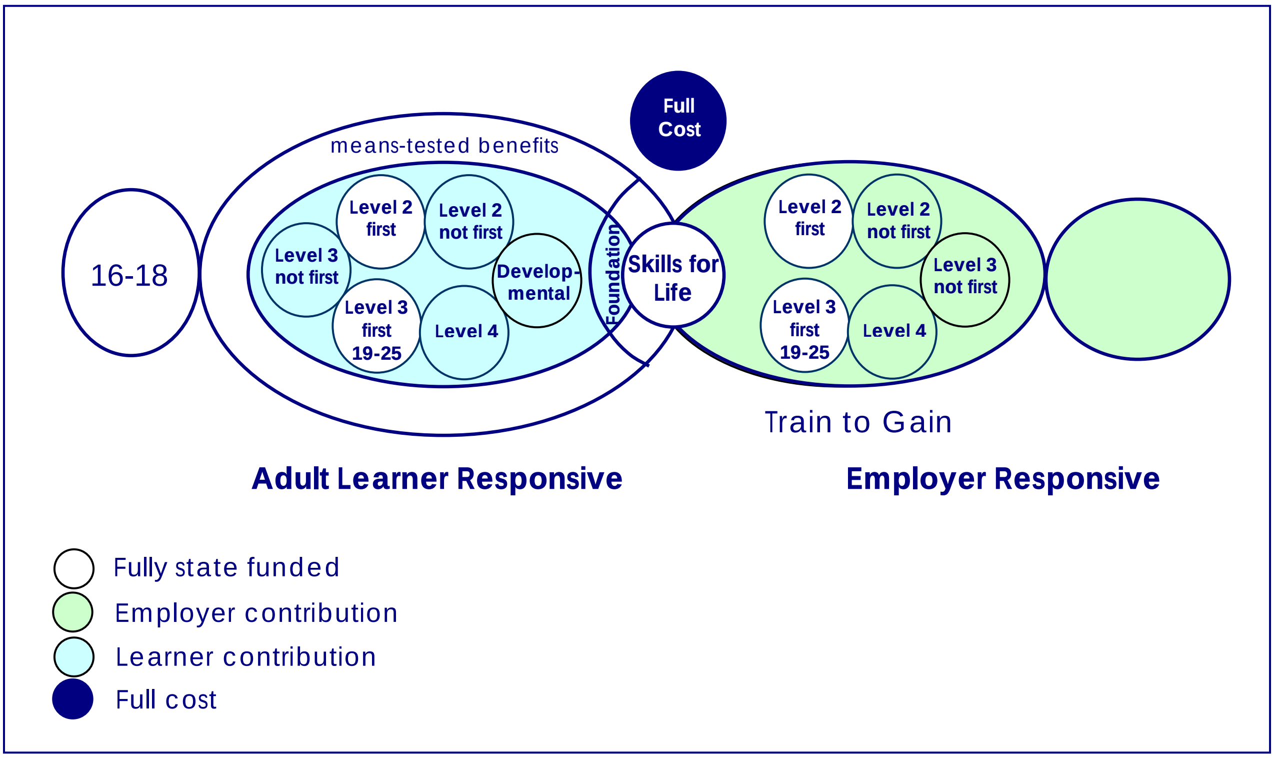

Figure 1
Funding for Further Education in England for 2010/11, showing where Government funding and individual and employer contributions are expected.

5. Since the 2004/05 academic year in England, the assumed proportion funded by individuals or employers has been increasing, from an original level of 25%. For the coming academic year (2010/11), the proportion will reach 50%[9].

6. As the level of assumed contribution arrives at 50%, it is not accompanied by the corresponding expected increase in actual levels of co-investment in adult education.

7. What this Review will attempt to do is redefine the methods through which co-funded training is supported where it is required, in order to ensure the sector can secure the co-investment it needs for the future.

Where we are now and why we need a Review

Contributions from individuals are too low, and from employers, we don't know.

8. For the 2010-11 financial year, a total investment of £3.5 billion[10] is planned for participation in adult learning. If all the co-investment income for this year based on these funding plans were collected from those individuals and employers who are supposed to pay, estimates suggest it would total around £1 billion and constitute around 20% of the planned total investment[11]. This total will not be realised.

9. Under the current system, the overall assumed level of private contribution to co-funded courses in England is not being collected.

10. Individual learners, where they are expected to contribute, are contributing around half the amount envisaged by Government[12]; in the 2008/09 academic year, the shortfall was £113 million[13].

11. Contributions from employers[14] where they are expected, on the other hand, are not being systematically measured. In the absence of comprehensive data, both representations to this Review group and

[9] For Adult Learner Responsive funding this is 50% of the unweighted funding, that is, before adjustments are made to take account of provider-specific factors and so the cost to the learner is not currently 50% of the cost of the course. For Employer Responsive funding , the assumption is 50% of the weighted (full) funding. The national fee assumption does not apply to Informal Adult Learning, sometimes called Adult Safeguarded Learning, which encompasses learning outside formal qualifications, some of which learners will be charged a fee for. The original policy comprised a plan to increase the fee assumption to 50% in 2010/11 academic year, with no details beyond this.

[10] Funding Letter to Skills Funding Agency 2010:11, BIS, June 2010.

[11]The contribution from BIS and its agencies to co-funded Further Education provision for 2010/11 will be over £1 billion. On the basis that BIS should contribute 50% and individuals and employers should contribute 50%, we estimate that individuals and employers should also be contributing around, though not exactly, £1 billion.

[12] Contributions from individuals apply to Adult Learner Responsive provision.

[13] Refers to academic year 2008/09 for the Adult Learner Responsive budget; theoretical fees £242m, fees collected £129m. Data from the Individualised Learner Record, provided by the Data Service.

[14] Contributions from employers apply to Employer Responsive provision.

survey analyses[15] consistently report that employers are more likely to make any contributions to the cost of publicly-funded learning "in-kind," including the use of equipment or premises and so on, rather than in cash.

12. Since colleges and training providers are not collecting the level of contribution assumed, some training which is valued by learners, employers and the Government is not receiving the full level of investment it deserves. In order to ensure high quality provision is available for the individuals and employers who need it, this investment must be secured.

13. Co-investment has been neglected for too long as a feature of Further Education. Neither central departments, Government agencies, colleges and training providers nor learners and employers have truly engaged in the development of a sustainable system for ensuring sufficient co-operation in funding for the further education of adults.

14. **While a sizeable shortfall reflects a sizeable problem currently, it also represents significant potential for increasing investment in the Further Education sector, which can only be positive for the future.**

Progress to Date

15. Across Adult Learner Responsive funding, which is provided mainly to colleges and some to other training providers such as Local Authorities, the Theoretical Fees due for collection can be calculated based on the volume of co-funded provision and the 50% fee assumption. The actual fees collected can then be recorded through the Individualised Learner Record, completed for each learner when they enrol. Comparing Theoretical Fees and the actual fees collected reveals a history of under-investment.

16. In the 2008/09 academic year, the fee assumption was 42.5%. The total of fees collected for Adult Learner Responsive provision was £129m, and the shortfall £131m. The size of the shortfall, both in terms of its absolute value and relative to the amount collected, is significant. Between 2007/08 and 2008/09 academic years, when the fee assumption increased, total fee collection across the sector did not increase accordingly.

17. Beyond these headline figures, the value of the fees collected per co-funded Standard Learner Number[16] is the most meaningful measure, relating as it does to the value of fees collected in relation to the volume of provision for which co-investment is required. Fee collection per co-funded Standard Learner Number did increase between 2007/08 and 2008/09. Total income remained the same, but the number of co-funded learners fell; greater co-investment contributions were made, but still fell some way short of the level required to meet the amount of Theoretical Fees.

[15] "Investigation into Employer Contributions within the Employer Responsive Funding Model." RCU Research for the Learning and Skills Council, August 2009.
[16] Standard Learner Number approximates learners, but is actually a measure of volume of provision, with the volume of activity associated with 1 Standard Learner Number representing 450 guided learning hours.

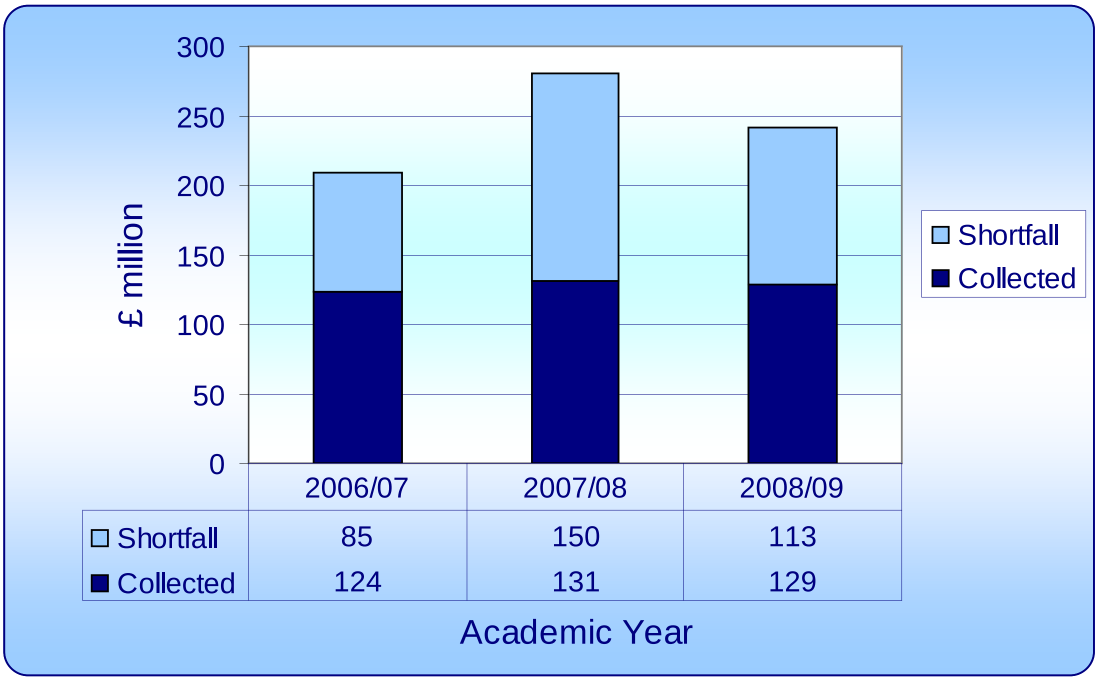

Figure 2
For the three most recent academic years for which data are available, there has been a failure to secure the assumed levels of co-investment in Adult Learner Responsive provision. Such co-investment in this case is expected to be collected from individual learners, and to be collected by colleges and some other training providers such as Local Authorities. No equivalent data are available for Employer Responsive provision, nor for private training providers.

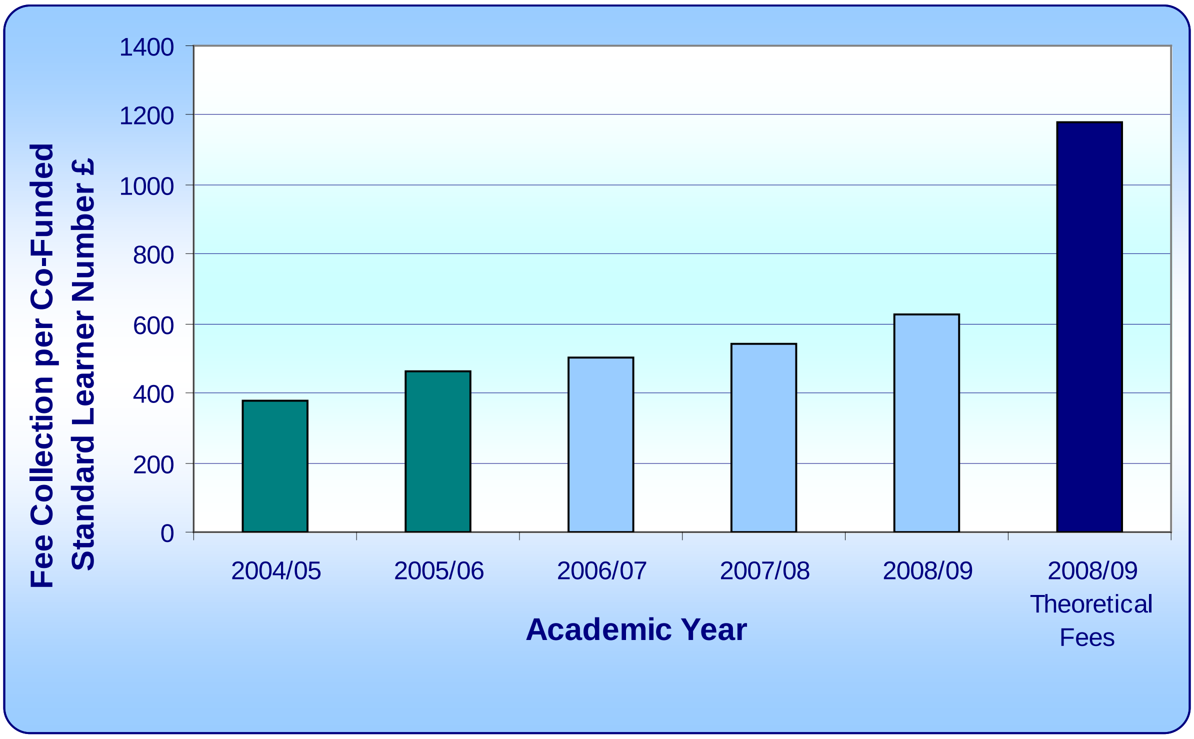

Figure 3
Since 2004/05 academic year, the level of fees collected per co-funded Standard Learner Number (volume of provision for which fees are due) has been steadily increasing (although measures have changed slightly between 2005/06 and 2006/07). These increases have not, however, led to co-investment reaching the level of Theoretical Fees illustrated here for 2008/09. Again these data refer only to Adult Learner Responsive provision.

18. In terms of Employer Responsive funding, across Train to Gain and Apprenticeships, there is little information available on the level of co-investment secured. Funding for these programmes is available to support training accessed through colleges and training providers and operations within some employers who act as providers of training themselves. No data is collected at enrolment through the Individualised Learner Record on the level of private investment from employers secured by private training providers in receipt of public funding. A recent small survey has determined that, for Apprenticeships for those aged 19 and above, around 20% of training providers do not charge any fee to the employers for whom they provide training[17].

19. Further Education colleges are required to provide their accounts to the Skills Funding Agency, and from these accounts it can be determined that, in 2008/09 academic year, around £75m was collected by colleges from employers to meet the costs of co-funded Employer Responsive provision.

It can be done

20. Despite the shortfall, there has been progress across the sector in the securing of co-investment as the fee assumption has increased since 2004/05. That increases in fee collection per Standard Learner Number were maintained in 2008/09, as the economic circumstances became less favourable, is an achievement, and one realised with little cost to the public purse. We should also remember that between 2004/05 and 2008/09 there were only four “rounds” of funding allocations and enrolment into Adult Learner Responsive provision for colleges and training providers to hone their co-investment strategies.

21. The Learning and Skills Council (LSC), the Skills Funding Agency[18] and the Learning and Skills Improvement Service (LSIS) have worked with many colleges and training providers to develop their fee collection capabilities. While there have been improvements, success is unevenly distributed and overall has not been sufficient to increase collection of private investment to expected levels. The progress made does demonstrate that promoting co-investment is possible, but also shows that toiling under the current system is unlikely to get us to where we want to be.

22. We recognise the considerable efforts that many people have made to increase co-investment in Further Education, and note that their achievements have been made in spite of, not because of, the current system. Some colleges and training providers have successfully met the

[17] Investigation into Employer Contributions within the Employer Responsive Funding Model, RCU Research for the Learning and Skills Council, August 2009.

[18] The Learning and Skills Council (LSC) was the non-departmental public body with responsibility for distributing the funding for Further Education in England for learners aged 16 and above between April 2001 and April 2010. It was replaced by the Skills Funding Agency and the Young People’s Learning Agency, with responsibility for learners aged 19+ and 16-18 respectively. Where the term “Skills Funding Agency “is used this should be taken as reference to the functions not the specific organisation, and it should be assumed that the actions and functions of the Learning and Skills Council and the Skills Funding Agency are equivalent and that actions of the Skills Funding Agency now were undertaken by the Learning and Skills Council in the past.

Fees Targets[19] that have been set. We believe this demonstrates that co-investment is possible, and that there is the potential in the supply side and the capacity in the demand side to build on the progress that has been made.

23. **There are clearly long-standing problems with co-investment in Further Education. What this Review aims to do is summarise the lessons learned from this history, and use them to inform development of a new system to ensure adult education and skills development are supported into the coming decade and beyond. The recommendations will lead to a system which supports co-investment where it is required, and therefore also allows Government investment to be used where it is really needed.**

Increasing importance

24. In the past, insufficient co-investment in training has been secured. Looking to the future, the importance of co-investment is likely to increase considerably. For the forthcoming academic year, 2010/11, the assumed private contribution will increase to 50%. Colleges and training providers will receive from Government, therefore, half the level of funding that they would receive for a fully-funded learner, and this is half of a smaller amount than last year as funding rates are reduced[20]. It would be naïve to imagine that the future will not hold any further reductions; as the Spending Review is undertaken over the summer 2010, serious thought will be given to the efficacy of systems which use Government money.

25. In times of austerity, the question of what the state should and should not pay for has added urgency and the answers produce real consequences for front line services, both for those who deliver them and those who require them. As pressure on the public purse is increased, Government must ensure that every pound it spends is directed most efficiently to where it can deliver most effectively. At the same time, individuals and employers will also be seeking to spend their money wisely. Public money must be used judiciously where it can add most value, and be used in effective co-operation with contributions from individuals and employers within a fair system, and within an efficient system.

26. The Further Education sector must confront the three challenges of continuing to support the learning of less advantaged learners at lower levels, continuing to develop higher level skills to support a growing knowledge economy and realising efficiency savings. There is a feeling within the sector that change should come positively and from within, rather than reactively and prompted only by increasing financial restriction.

27. **Future years may produce unforeseen policy changes in Further Education. However, the principles of supporting individuals in the**

[19] Fees Targets have been set by the Skills Funding Agency for colleges and training providers as a proportion of Theoretical Fees, and are not equivalent to Theoretical Fees. See Section Three: Theoretical Fees and Fees Targets.
[20] Skills Investment Strategy 2010-11, BIS, November 2009.

most efficient and fair way possible towards achieving the most that they can, for their own fulfillment and for the benefit of the economy and the country as a whole, are universal concerns.

This Review

What we want to do

28. For co-funded Further Education provision, where the state co-operates with individuals and employers, performance in terms of collection of co-investment contributions has been poor in the past, and will be increasingly important from now on. Our broad aim is to make recommendations which support co-investment in Further Education and secure its future.

29. The focus of this Review is to ensure we understand why co-investment contributions have not been collected at the expected level; how we can use our understanding of the issues within the current system to establish the principles on which a new system can be built; to make recommendations which underpin a new system; and to outline a vision of the future system and the steps which can be taken to reach it.

30. There are perimeters to the scope of this Review. This Review applies only to Further Education provision in England, and will not apply to provision in the devolved administrations. It applies only to adult education and training for those aged 19 and above, and will not affect the funding of those aged between 16 and 18. It applies in the main to funding for mainstream Further Education provision, including Adult Learner Responsive and Employer Responsive provision.

31. Informal Adult Learning[21] is currently funded separately, and comprises 6% of the participation budget for 20101/11 academic year. We would recommend that this be treated separately from the larger funding that colleges and training providers receive with regard to the majority of adult learning which is qualification based. There may be some aspects of this Review, such as the recommendations surrounding a Learning Accounts system, which could appeal to Informal Adult Learning learners and providers. Learning Accounts may offer a form of engagement to promote progression into formal qualifications where appropriate.

32. Specialist Colleges provide Further Education for adults with learning difficulties and /or disabilities. Their funding system is not within the scope of the recommendations of this Review.

33. This Review has not been charged with the examination of nor the making of recommendations concerned with current co-funding policy, including the principle of co-operation between individuals, employers and Government for funding and the level at which co-funding applies. It will also not directly address the issue of who should and should not contribute. The aim of the Review is to ensure that where policy states that individuals and employers should contribute half of the tuition costs of

[21] Alternatively referred to as Adult Safeguarded Learning.

a course, there is a system in place to ensure that this does indeed happen.

34. Naturally, however, these three issues, the principle of co-investment, the proportion at which it applies and who it applies to, have partly determined the current system in place for co-funding and can partly explain its poor performance. Moreover, any future policy changes in the level of the contribution or the boundaries of who is required to make a contribution would, of course, be ineffectual if there were not an adequate system in place to fully implement the policy change. The new system we describe must be sustainable, with the capacity to be responsive and accurately reflect current and any future policy intent, irrespective of what that might be.

35. These three are not the only issues which impact on co-investment; co-investment cannot be thought of in isolation and must be considered as a vital aspect of Further Education policy. In order for the recommendations of this Review to lead to a successful system of co-investment, they must be supported by continued development of further features, such as availability of information, advice and guidance, and transparent analysis of quality of provision. Even more broadly, systems of regulation and taxation will impact on participation in and funding for adult education.

36. In order fully to understand the range of issues surrounding co-funding as they impact on individuals, employers and colleges and training providers who operate under the current system, the Review has used a consultative group containing representatives of key stakeholders in the Further Education and skills system to develop recommendations. It has also consulted more widely, through group events and meetings with key individuals, incorporating sector providers, individual colleges and training providers, learners and employers[22].

37. The insight provided by the users of the system has been combined with analysis of its origins and its overall output to date, and has led to a clear basis on which to make a range of simple yet powerful recommendations. These recommendations can change the performance of the system as intended, but also have ramifications for the way in which we look at the funding of adult education in this country.

Fundamentals of a co-investment system

Principles to put into practice

38. There are clear principles on which this Review builds its recommendations. These must guide the co-investment system, but they apply equally throughout Further Education. Their value is largely self-evident, but is brought into sharper focus, as we shall see, by the analysis of the limitations of the current system.

[22] See Annex C.

39. The new model recommended by this Review will be based on :

1. **Fairness:** people should not be deterred from undertaking the learning and training they need because of costs of tuition. The balance of investment between individuals, employers and the state must be fair; the system must ensure that investment from individuals and employers is secured where it applies, so that Government investment can be used where it is most needed. Equally, fairness should apply to competition between colleges and training providers.

2. **Transparency:** the amount of investment in training course costs by the Government, individuals and employers should be clear to everyone; people should know what they are paying for, and how much other parties are paying on their behalf.

3. **Simplicity:** a simple system of co-investment, incorporating clarity of purpose and clarity of process, and, crucially, clarity of communication, will allow all parties involved in the Further Education sector to operate within it with ease.

4. **Informed customers:** individuals and employers should be able not only to navigate but to drive the Further Education system. They should benefit from fair access to learning, fair competition, transparency and simplicity and should be making informed choices regarding their own futures, with the funding supporting their choices within the range of Government funded provision.

5. **Flexibility for providers:** approved colleges and training providers should be subject to only the minimum of necessary funding constraints, to maximise responsiveness. They should be supported by the system in which they operate, not have their internal operations micro-managed. They should be accountable, but accountable ultimately to the individuals and employers comprising their market.

6. **Quality and value:** to ensure a fair deal for individuals and employers, colleges and training providers must provide training that is of value to their customers, and of a high quality. Individuals and employers will be more willing to invest in training of which they can see the value.

7. **Above all, this Review aims to make recommendations which are practicable and which can provide real improvements to co-investment in Further Education.** This Review has produced a series of simple recommendations which we believe will ensure that adult learning achieves the investment it deserves, and will give the returns we all demand too.

Co-investment success

A means to an end

40. The aim of this Review is to increase co-investment where it is required in order to support a thriving Further Education sector. The two major outputs of the system which will require attention are the level of co-investment secured and, crucially, the level of participation.

Participation

41. There is a risk with any change in policy or systems of Further Education of losing individual adults and employers from the system and decreasing volumes of learning. One aspect of our recommendations therefore includes prioritising funding towards financial support for learners, and providing clarity on where co-investment contributions are required and where they are not.

42. It is reassuring to note that evidence suggests the Price Elasticity of Demand in Further Education is not high[23], and that currently the ability of colleges to collect co-investment contributions does not seem to be related to the affluence of the area in which they operate[24].

43. This Review would nevertheless endorse paying close attention to levels of participation in adult learning, particularly of more vulnerable groups of learners, and to the involvement of small and medium sized businesses, in order to identify any potential areas requiring attention or action[25]. Monitoring should also have a local aspect and ensure that individuals and employers in specific areas are not being disadvantaged, and assess the relative levels of part time and full time students.

44. Such monitoring and analysis could be achieved through use of basic information already collected regarding adults enrolling in Further Education. Gender, age, and of course location and course of study, in addition to a number of other factors, are collected as a matter of course, using the Individualised Learner Record. The Individualised Learner Record might require modification from its current form in one sense, to ensure that equivalent data are collected on the enrolment of a learner whether they are learning as an independent adult or as an employee.

45. Details relating to enrolment numbers are collated by The Data Service and have been published quarterly in the Statistical First Release; we

[23] Analysis of the impact of raising private fee contributions on participation in Further Education, London Economics for BIS, July 2009.
[24] Colleges whose catchment areas include learners with postcodes which MOSAIC analysis suggests they are in the lower range of ability to make co-investment contributions in fact collect higher levels of co-investment than colleges in more affluent areas. Similarly, there is no significant correlation at Local Authority Level between Index of Multiple Deprivation score and co-investment collection levels. This may be attributable to the extensive system of fee remission in Further Education.
[25] Monitoring must be long term; there may be an initial reduction in learner numbers and then recovery. There is anecdotal evidence of such a pattern (Value of Learning in the Adult Market, RCU research for the Learning and Skills Council, July 2008).

would recommend that this continue and that after the first year of implementation of the current system, and indeed any further policy changes, assessments are made using this information of any effects of changes on participation.

46. In the future, much of the decision to engage in Further Education may come from an online system of Learning Accounts. We would recommend that any such system be introduced as part of a wider system of engagement retaining face-to-face communications, with due regard to risks of digital exclusion and with provision of specialist services for learners with learning difficulties and / or disabilities as required.

Co-investment

47. The system we propose in this review is based on the idea of public funding following and supporting the contributions of individuals and employers. Monitoring of "fee collection performance" will not be required as a separate function, it will be inherent in the system. Current processes in place to record learners enroling in the system through the Individualised Learner Record will also produce information on levels of co-investment performance.

48. In the future, the engagement of co-investing learners and the securing of their contributions will be determined in real time through a Learning Accounts system.

Targets?

49. It would not be meaningful to offer specific targets for overall participation and co-investment levels relating to the system described by these recommendations, which are aimed at implementing policy, not driving it. It would only be possible to make meaningful overall predictions if there were clear baselines and if all other things remained constant, which they are unlikely to do.

50. Firstly, there are known policy changes in the number of learners who do and do not have to make co-investment contributions, which introduce changes in the total fee income and may affect participation. For instance, between 2009/10 academic year and 2010/11 academic year for courses undertaken through Train to Gain, qualifications which are not the first course for that learner at that level have transferred from being fully-funded to co-funded, where co-investment is required. Any alterations in output, both in terms of participation and co-investment performance, will be dependent upon but not determined by the structure and performance of the Further Education funding and co-investment system which is the subject of this Review.

51. Secondly, and similarly, there are unknown future policy changes which could have similar effects. The changes recommended by this Review would be fundamental to the efficacy of any such changes, but would not themselves drive any changes in output being monitored.

52. Thirdly, funding in Further Education is demand led, and so dependent on volumes of learners signing up for different courses. It is not always possible to predict where, how, and to what extent learners and employers will undertake their learning. Colleges and training providers, together with Government, must ensure that the courses available are of relevance to individuals and employers if participation is to be protected.

53. Generally, funding is allocated on the basis of volumes of provision, as represented by the Standard Learner Number guided learning hours (SLNglh) for each course. It would be possible to have a situation under the current system in which the number of learners decreased as the volume of provision (SLNglh) for each learner increased, and overall co-investment collection could remain broadly similar. A lower number of learners could be involved in the system not simply because of an increasing fee assumption but because individuals and employers choose to take a smaller number of larger or longer courses.

54. Crucially, on the basis of current policy within this system, whether a learner is fully funded or co-funded and therefore likely to be more directly affected by the recommendations of this Review is determined by whether or they are undertaking their **first** qualification at that level. Firstness rates can only be known post hoc and estimates for 2010/11 academic year have varied widely. They have fluctuated over the years, and are likely to fluctuate in future, an effect likely to interact with policy changes[26].

55. Fourthly, fee collection performance for Train to Gain and Apprenticeships is not currently monitored through the Individualised Learner Record, so we have no baseline on which to base any predictions.

56. Finally, the Recommendations made by this Review will not fix the level of co-investment contributions required, and will allow flexibility in the amount that colleges and training providers will generate through co-investment in co-funded provision. In light of this flexibility, it is not possible to stipulate an amount of money that a future system overall should generate[27].

57. When monitoring participation and co-investment performance, it will also be necessarily to consider not only overall levels quantitatively, but also to make a more qualitative and nuanced assessment. If learners and employers are lost from the system, it will be important to consider which courses are lost, which types of individual and so on are affected[28].

[26] Firstness Rates for Full Level 2 and Full Level 3 Achievements 2010, The Data Service, 2010.
[27] The most meaningful measure of co-investment collection applies to Adult Learner Responsive provision, and would be the amount of co-investment collected per co-funded Standard Learner Number, or basically amount of fees per fee-paying learner. Under a 50% fee assumption, the target for the co-funded Standard Learner Number would be 50% of the funding rate. However, this Review proposes that where colleges and training providers are match-funded for the income they secure from individuals or employers up to a Maximum Contribution, thus the co-investment contribution required could be lower than 50%. Depending on how much lower this might be, it would not be possible to set a meaningful figure for this. The market should determine that figure, and it has not, as yet, been able to do so.
[28] As a guide, the Price Elasticity of Demand in Further Education has recently been suggested to

58. We might have to be prepared to lose from the system individuals and employers who were undertaking training not because it was of value to them, but because it was free or cheap. The aim of co-investment in the Further Education system is to encourage the people who can pay to invest in courses they want, not subsidise them to take courses nobody wants.

59. Initially, a robust system of co-investment might risk a reduction in the volume of training of low value to individuals and employers. Over time, and in a market where colleges and training providers are competing for individuals and employers, the relevance and quality of training for individuals and employers would have to increase, with associated increases in co-investment. If the training on offer is truly valued by those Government is seeking to encourage to invest in it, then encouraging participation and investment should not be difficult.

60. Similarly, we might have to be prepared to lose from the system the co-funded aspects of provision from colleges and training providers who do not want to offer a diverse range of provision or who were only offering some forms of training to gain Government funding, and instead see co-funded provision delivered by more dedicated quality providers. If individuals and adults are not involved in Government-funded Further Education, they may still be accessing training in private markets.

61. **The recommendations arising from the Review should therefore be evaluated with reference to the fundamental principles described above, and be measured against the outputs of maximising co-investment and protecting participation.**

be -0.13, using data from 2004/05 to 2006/07. On the basis of this value, if the fee level had increased from its actual level in 2008/09 to its theoretical level in 2009/10, which would involve more than doubling the fees collected per co-funded Standard Learner Number in one year, this would result in a loss of 27,504 SLNs from co-funded Adult Learner Responsive provision. If Standard Learner Numbers are taken as a rough approximation for individual learners, this represents less than 0.73% of all the adult learners in Further Education in 2008/09. Analysis excludes sixth form colleges with small Adult Learner Responsive Allocations. There is no reason to believe that such a value of Price Elasticity of Demand, derived from small marginal increases, would be applicable over larger increases in fee levels, nor that it would be applicable to Employer Responsive provision, nor that it would be equally applicable across all classes of learner.

Terminology

An explanatory note

62. The terminology surrounding aspects of the Further Education sector has been subject to change and may be vulnerable to mis-interpretation. Further Education historically has been a catch-all term for education for adults outside Higher Education, and thus it covers a very wide range of activity, from basic literacy and numeracy qualifications to advanced Apprenticeships, and includes individuals acting on their own initiative and employees at their employers behest[29].

63. Some prefer to describe Further Education as indeed "education," or "adult education," and appreciate language which supports the value of "learning," finding words such as "training" and "skills" to be belittling. Others, however, might find the practicality and applicability of "training" and "skills" represent more accurately what they are seeking from the system. This Review has the utmost respect for education, for learning, for training and for skills, and will use the terms almost interchangeably depending on context, with no judgement applied to the value of each.

64. Further Education colleges and training providers have also been subject to varying descriptors. Again, this Review makes no assessment of the relative merits of the terms, and uses colleges and training providers throughout, with the intention of capturing the diverse range of classes of college, and the full range of local authority, third sector and private training providers, including those within large employers, who are funded by the Skills Funding Agency for the provision of Further Education.

65. Moreover, where the Skills Funding Agency is mentioned, it should be taken to refer to the roles of the body rather than its name; between April 2001 and April 2010, these functions were undertaken by the Learning and Skills Council[18.]

66. The Review refers in the main to funding for **tuition**, the amount of money an individual or employer and the Government pay to a college or training provider for the provision of a course. There will be other costs to the learner or employer, and indeed to the Government, associated with adult learning, such as books or examination fees. While these costs are obviously not insignificant for those who have to meet them, they are not the focus of the present Review.

67. We believe that language has a vital role to play in communication between the Government and its agencies and colleges and training providers and, crucially, to the learners and employers who use the

[29] In the Education Act 1996, Further Education was defined as "full time and part time education suitable to the requirements of persons who are over compulsory school age (including vocational, social, physical and recreational training); and organised leisure-time occupation provided in connection with the provision of such education, except that it does not include secondary education or higher education." Higher Education is, however, often delivered in Further Education colleges.

system. As will be explained, words influence the culture in which the system operates, and may well influence behaviour.

68. While this Review, at its inception, was dubbed the Review of Fees and Co-Funding in Further Education, it will, in fact, redefine its own terms as it seeks to redefine the sector. In order to use one single term which covers all parties who might make a contribution to the cost of training, the term **'co-investment'** will be used. This is not being used, however, only for the sake of brevity. Use of the term co-investment represents a subtle shift. This is a more positive term, in that investments have returns. Investment is also pro-active, while fees might be penalties and funding is passively received. Co-investment is also a more customer-focussed term; Government might fund things but individuals and employers choose what they want and make investments. Overall, we feel this term befits a new model, based on co-operation and empowerment, of Further Education.

SECTION TWO: THE VALUE OF EDUCATION AND TRAINING

1. The importance of education is beyond question. It is “good” for individuals, for employers and for nations, both socially and economically. The different benefits of education to these parties are partially separable yet linked and inter-dependent, leading inevitably to questioning of who should meet the costs, to realise the benefits.

2. Under the present system, individuals and employers are expected to combine with the state to meet the tuition costs of some Further Education courses. In the present section, we will explore some of the reasons why investment in Further Education courses matters, why these expectations of individuals and employers exist in the current funding system and the role of Government in funding adult education. In the following section we will explore the reasons why the present system for securing this co-investment has failed, and how these issues can be addressed in a new system.

Why investment in adult education is important

It bears repeating

3. Education determines, in part, ones chances in life. Adult education offers people the chance to continue to learn and progress throughout their lives. Some people might need to take the opportunities for learning which they could not take in the past, gaining literacy and numeracy skills and, crucially, confidence; others might want to enhance the skills they need in their current situation, or adapt their skills to a changing labour market, or simply learn something new because they are interested in it and what it might offer them. Some will be employed, others seeking employment or pursuing promotion or a change of direction; others will have retired from employment. Investing in education should allow everyone to move forwards from where they are now, wherever that might be along the journey.

4. Adult education also offers this country the opportunity to develop the talent within it to allow it to compete in a larger and fiercer field. We are operating in an increasingly globablised marketplace, a marketplace which asks questions of industry in this country that it does not always have the skills to answer. We must, in the future, operate in industries in which we do not have a history, in which there is no history; as technology changes, skills must keep pace too. Demographically, we are living and working for longer, increasing the likelihood that we will need to update our skills and increasing the demand for a system which will allow us to continue to learn throughout our lives.

5. It is crucial that money invested in adult education is used wisely to bring the returns that we all demand from the system. Simply increasing the level of investment is not necessarily going to provide growth; we need to

make sure the money that is invested works hard, and that the education and skills it funds are put to work effectively.

6. Approaches to financing learning and training for adults have not always kept pace with developments in the wider world, however. In order to help individuals into employment, to help employers source the skills they need now, and to help create a high baseline level of skills to support innovation for the future, we need to have a system in place to support the process of individuals, employers and Government investing fairly in adult education.

7. A new system should ensure that overall levels of investment are optimised, that the weight of investment is shared fairly, that Government money is used where it is really needed and can achieve most, and should ensure that the quality of Further Education provision is maintained.

Who pays for what?

Sharing the costs, sharing the benefits

8. Within co-funded adult education courses, the courses with which we are concerned, the principles of sharing the costs of education are put into practice. There are of course large swathes of training in which Government funding has no role, where individuals and employers simply pay for what they want, and there are also aspects of education for which Government alone meets the tuition costs. Under the present system, there are a range of adult education courses for a range of learners for which individuals and the state, or employers and the state, are intended by the Government to co-operate to meet the costs of tuition.

9. It is clear that adult education brings benefits for individuals, employers and the state. Ensuring that the division of the investment between the groups is fair is more likely to produce a situation in which the total investment from all the groups is optimal. It seems reasonable to suggest that a clear definition of the responsibilities of each group would go some way towards promoting such a fair division and overall optimisation. It is worth noting, however, that there may be some variance between the reasons why each part “should,” rightfully and objectively, contribute to the costs of their training, and each party’s rationale when making the decision to engage in paying for a training course.

10. The common characterisation of the interactions between individuals, employers and Government in paying for education is a market which would fail to deliver an optimal level and breadth of skills without Government intervention. Individuals and employers, left to their own devices, would not invest sufficiently in particular types of adult education, as the benefits to them would not make this investment worth their while; Government must subsidise some adult learning in order to ensure skills investment is at sufficiently high a level and appropriately distributed across the range, in order to gain the greater benefits for all.

11. Where Government is involved in a market to subsidise the provision of a service such as Further Education, the situation is altered slightly from a

more typical market. Learners and employers may exercise choice without always paying personally for what they receive, and motivations of the supply side might include provision of equitable and high quality public service rather than profit.

12. History, however, would describe the system as it pertains to co-funding in Further Education in the opposite direction. Rather than Government intervening in a market to prevent failure, Government has generally provided funding, with a limited role for markets and an unclear selection of the points at which, and the system through which, individuals and employers should contribute their investment.

13. We will therefore examine some of the general reasons why individuals and employers might want to invest in skills, and the forces which act to limit their investment. The reasons for any disinclination to invest underlie the rationale for Government having a role in funding in adult education, and provide a background to many of the reasons why the current system has not delivered sufficient co-operation and co-investment. They therefore inform us as to the issues a future system must address.

Individuals

Incentives to invest

14. The present Further Education funding system assumes that individuals (where deemed appropriate) will meet half the tuition costs of their chosen course, usually at a Further Education college. Since many of the benefits that education brings are conferred on individuals, it is policy to ask that individuals meet some of the costs of this education.

15. Across a range of nations, as reported by the Organisation for Economic Co-operation and Development (OECD), there is a general link between the level of educational attainment and employability.

16. This general international trend of a relationship between employability and level of education applies also to vocational qualifications offered in the United Kingdom[30]. Within the total pool of economically active (unemployed and seeking work) and inactive (removed from the labour market) adults included in the Labour Force Survey, holding an NVQ level 2 or level 3 qualification is positively associated with employability[31]. For Apprenticeships, the association between the qualification and employment has been reported to increase over time[32]. More directly, some qualifications are required for specific jobs and therefore represent a definite step towards employment, for instance in the care sector.

[30] The direction of causality is not always clear, however, as individuals already in employment may be more likely to gain vocational qualifications.
[31] The Returns to Qualifications in England: Updating the Evidence Base on Level 2 and Level 3 Vocational Qualifications, Jenkins, Greenwood and Vignoles, Centre for the Economics of Education, 2007.
[32] A Cost-Benefit Analysis of Apprenticeships and other Vocational Qualifications, McIntosh, University of Sheffield for DfES, 2007

17. Individuals with a higher level of education are not only more likely to be in employment, but they are more likely to earn more when they are there. Across the OECD nations this relationship is clear, and applies equally in the UK, where individuals who have failed to complete upper secondary education earn 30% less than those who have completed upper secondary education, while those who have completed vocationally-oriented tertiary education earn 27% more[33].

18. Careful analysis of the wage returns to vocational qualifications in the UK have suggested that there are small positive wage returns to NVQs at level 2, particularly for women, and larger returns for other forms of qualification, such as BTECs and Apprenticeships, the returns for Apprenticeships being more pronounced for men. Level 3 NVQs and other qualifications also have statistically significant wage returns over and above those seen at Level 2[34].

19. The net present value of gaining a qualification takes account not only of the employability and wage benefits to the individual, but also the costs. The average private net present value of obtaining upper secondary or post-secondary non-tertiary education as part of initial education across OECD nations is $28000 (USD) for females and $40,000 for males[27]. This figure unfortunately excludes the United Kingdom, but offers an indication of benefits of investing in education. In the United Kingdom, the net present value of a Level 3 apprenticeship is estimated to be around £105,000, and that of a Level 2 apprenticeship around £73,000, while an NVQ level 3 is reported to have a net present value of £34,000[35].

20. Estimates of wage returns to qualifications, in particular, are subject to bias; there may be upwards bias resulting from ability biases or selection criteria, and other unobserved characteristics of individuals, such as motivation. Alternatively, there may be downwards bias, particularly for lower level vocational qualifications, wherein some qualifications are acquired by individuals who have other characteristics which are likely to reduce their wage-earning capacity, such as working in low-pay sectors. Where economic returns to particular qualifications are measured, they might neglect some of the returns which derive from access to further learning in future; 30% of a cohort of 1500 learners who had recently completed a course of training were already undertaking further training, with 35% saying it was very likely they would undertake further training at a higher level in the next three years[36].

21. The benefits to individuals of education are not solely economic. Such benefits are harder to evaluate, but there is clear evidence of improving

[33] Unfortunately, data for post-secondary non-tertiary education for the UK are not available. Education at a Glance 2009: OECD indicators, OECD, 2009.
[34] The Returns to Qualifications in England: Updating the Evidence Base on Level 2 and Level 3 Vocational Qualifications, Jenkins, Greenwood and Vignoles, Septmeber 2007. There is an extensive literature on this topic; see also eg An In-Depth Analysis of the Returns to National Vocational Qualifications Obtained at Level 2, Dearden, McGranahan, Sianesi, December 2004.
[35] A Cost-benefit Analysis of Apprenticeships and Other Vocational Qualifications, McIntosh, University of Sheffield for DfES, 2007.
[36] Train to Gain Employer Evaluation Sweep 5 Research Report, Learning and Skills Council, January 2010.

self-reported health measures and higher levels of inter-personal trust with increasing level of educational attainment[37]. The full extent of the benefits of learning to individuals is therefore not always easy to gauge, but overall there are clear reasons why they would invest.

Limiting investment

22. It is worth noting, of course, that data reported on employability, wage returns and net present value are averages and there will be variance about the mean. Some individuals will not experience the same level of positive returns as others. Particularly in the case of wage returns, some individuals, when deciding whether or not to invest, might be more positively influenced by a higher chance of a more modest return, as opposed to being influenced by a smaller number of people receiving greater returns.

23. Returns will vary not only from person to person, but also over time, and they may be slow to be realised. The returns also vary with sector, and with the route of acquisition, and, very likely, with other factors too. Individuals might also feel that any information they have on the benefits of education is retrospective and so not relevant to them, or they might feel that their outcomes, in terms of employability for example, are more likely to be determined by external forces, such as the economic circumstances, rather than their own level of education or training activity.

24. There is therefore an external aspect, a genuine low level or low reliability of return to investment, which will tend to reduce an individual's investment in training. There is also, however, an internal aspect, a level of risk aversion within individuals and an extent to which they might under-estimate the returns coming from their investment.

25. In the first instance, where the state might be asking individuals to invest in education where the returns are small, and the individual is reacting rationally by being reluctant to do so, consideration is perhaps required of the quality and relevance of the training that is on offer.

26. **We emphasise in this Review that when asking individuals to pay for education and training, we must make sure that what is on offer is of value to them; this would equally apply to employers**.

27. In the second instance, where there **is** in fact a clear return to investment, under-investment can result from imperfect information. Imperfect information might also lead to over-investment in skills which are not actually required in the labour market, an alternative form of market failure which results in a mis-match. **Again, we would emphasise in this Review that information is crucial for investment.**

[37] Education at a Glance 2009: OECD indicators, OECD, 2009.

Real world motivations

28. Individuals are broadly aware of the benefits training brings them. 44% of nearly 1500 learners reported that they had experienced a positive change, such as better pay, since completing their training and attributed this change to their training[38].

29. Awareness of the possibility of such positive change does seem to feed individuals' motivation to train. A survey of nearly 6000 individuals who had just begun a training course found that 85% wanted to gain skills which would look good to future employers, and 80% to gain skills to help them in their current job, suggesting individuals take account of positive effects on employability and wage returns or promotion when deciding to train[32]. 89% had undertaken the course "to gain a qualification," and 81% "to learn something." A further survey of over 1,000 learners, for whom the most frequent reply to the motivation question was "to improve their knowledge/ability in the subject," suggests individuals are aware of the intrinsic value of learning[39].

30. Individuals do make investments in their education. It has been estimated that, when opportunity costs are accounted for, investment for individuals counts for about 40% of the total[40].

31. **It seems that individuals are willing to invest in learning. The purpose of this Review is to describe a system which will support them doing so within co-funded Further Education courses.**

Employers

Incentives to invest

32. In a similar manner to the system for individuals, the present Further Education funding system assumes that employers will meet half the tuition costs of courses they choose their employees to undertake. Since many of the benefits that training brings are conferred on businesses, it is policy to ask that they meet some of the costs of this education.

33. One key factor which suggests that employers should, in theory, contribute to the costs of training and also explains why they do, in practice, make such investments is the increased performance they often derive from upskilling their workforce. It is not always easy to measure, let alone relate education and training to, a single overall measure of performance, but, in a careful study of British industries between 1983 and 1996, a one percentage point increase in training was associated with an increase in productivity, that is to say, an increase of 0.6 per cent value added per hour[41].

[38] Train to Gain Wave 5 Learner Survey, Learning and Skills Council, January 2010.
[39] Attitudes to Fees in Further Education, MORI for DfES, 2005.
[40] Inquiry into the Future of Lifelong Learning, Schuller, National Institute for Adult and Continuing Education, 2010.
[41] The Impact of Training on Productivity and Wages: Evidence from British Panel Data, Dearden,

34. For small businesses, training has been related to increased profitability, increased turnover and increased employment growth[42]. Small businesses who train their staff strategically, as opposed to those who do not train or those who train on a more ad hoc basis, are more likely to report employment growth and sales growth both retrospectively and in projections[43]. Other studies have been more equivocal in their characterisation of the financial benefits of training; many employers might not directly monitor the impact of training in any formal sense, yet are still aware that it does have benefits.

35. Some of the positive effects of training employees might be more difficult to discern; training has been linked to increased job satisfaction, and may therefore be linked to reduced absenteeism and a reduced tendency to quit[44]. Interestingly, though intuitively, employees who are over-skilled relative to their level of employment are likely to have lower job satisfaction, which demonstrates the importance of matching skills to requirements and using them optimally once developed.

Limiting investment

36. Offsetting these incentives, there are factors which might moderate the extent to which employers are willing to invest in training. Fear of "poaching" is commonly cited as such a factor; it is often proposed that employers are wary of paying for training for staff who might leave, which would result not only in the loss of skills for the original business, but a gain in skills for a competitor. Evidence from small business suggests this is a relatively minor concern but the importance of this effect is likely to vary with the sort of training in question. Since many of the benefits of training are seen to be conferred on the member of staff, employers might feel that the costs should be met more by the individual than by themselves. It is worth remembering that a wage increase, whilst a positive return to an individual, represents a cost to an employer.

37. The benefits of training to an employer might be slow to be realised, and many businesses are operating under short term financial pressures. Among small businesses who reported barriers to training (as opposed to a lack of need for training) as the main reason for their low training behaviour, the main barriers cited were lost working time and the financial costs of training[43]. For Apprenticeships, the payback period has been used as a means of evaluating returns to employers, and has been found to be between one and two years of post-Apprenticeship employment in the hospitality and retail sectors, for instance[45].

Reed, van Reenen, Institute for Fiscal Studies, 2006.
[42] The Relationship between Training and Business Performance, Cosh, Hughes, Bullock, Potton, 2003.
[43] The Nature of Training and Motivation to Train in Small Firms, Kitching and Blackburn, Kingston University for DfES, 2002.
[44] Training,Job Satisfaction and Workplace Performance in Britain: Evidence from WERS 2004, Jones, Jones, Latreille, Stone, 2008.
[45] The Net Benefit to Employer Investment in Apprenticeship Training, Hasluck, Hogarth, Baldauf, Briscoe, 2008

38. As is the case for individuals, imperfect information can also lead to a low level of training; 25% of small employers who were not involved in Government initiatives cited a lack of information as a reason for the lack of participation[46].

39. Market failure is thought to relate particularly to the size of a business; enterprises with more employees were more likely to be involved in Government funded training than smaller businesses those with fewer than 20 employees[46]. Small employers also face higher expenditure per trainee, as much as seven times more than the largest employers[47]. Since 99.9% of businesses in this country are small or medium-sized enterprises, this is a considerable issue[48].

Real world motivation

40. Employers generally have a level of awareness of the benefits training can bring them. Reports from 1800 employers accessing training demonstrate that over half see an increase in product or service quality and staff productivity, with around 20% of employers reporting increased sales or turnover and increased profit margins following training[49]. In addition to this, 82% of employers reported increased employee self-confidence, 77% employees being better at their jobs and 70% improved day-to-day running of the provider. Less measurably, it seems likely that a higher level of education and skills would lead to a greater basis for innovation and development.

41. Whether employers are aware of these benefits before and during their decision to invest (or not) in training is a further question. Evidence from small businesses (up to 50 employees) suggests that a drive to improve skills for an employee's current job and to improve business performance were the two most important motivators to train. About 10% of employers, however, felt that training offered no benefits[46].

42. Nevertheless, there has been a steady increase in the number of employers providing training for their staff (67% in 2007 compared with 59% in 2003) and employers invested a total of £39.2 billion in training in 2008-09 in England[50]. An alternative evaluation, excluding wage costs for on the job training and accounting for tax relief, puts the figure at £30.2 billion across the UK[51].

[46] The Nature of Training and Motivation to Train in Small Firms, Kitching and Blackburn, Kingston University for DfES, 2002.
[47] National Employer Skills Survey 2007, Learning and Skills Council, 2007.
[48] Statistical Press Release, BIS, October 2009.
[49] Train to Gain Employer Evaluation Sweep 5 Research report, Learning and Skills Council, January 2010
[50] Total investment includes opportunity costs, with the amount being paid to training providers for tuition being £2 billion.
National Employer Skills Survey 2009, UK Commission for Employment and Skills, 2009.
[51] Inquiry into the Future of Lifelong Learning, Schuller, National Institute for Adult Continuing Education, 2010.

43. **As is the case for individuals, it seems that employers are willing to invest considerable sums in training. The purpose of this Review is to describe a system which will support them doing so within co-funded Further Education courses.**

Government

Incentives to invest

44. There are overall benefits of adult education which each individual or employer investing in a course would not capture as a return. These externalities mean that there are insufficient incentives to the individual or employer to make the investment, thus the market fails and Government must invest alongside individuals and employers to ensure that all the benefits of training are realised for all parties. Government therefore invests in training where it sees that it should, because returns for others would not be provided through individuals and employers investing alone.

45. Where Government sees that it should invest to secure benefits for all, this can be divided into two areas.

46. In the first area, there will be active barriers and disincentives to investment for individuals and employers. Government's options, in this case, are either to make the investment where other parties will not, or to help the individual or employer to surmount or circumvent those barriers. For individuals, one major aspect of the system which can act as an active barrier includes access to funds or to loans. Government can either fund the training directly or support the provision of finance, or work towards other solutions.

47. In the second area, there will be insufficient incentives to private investment, forces operating in the direction of investment, but acting weakly. Benefits of training which might not induce sufficient investment from employers might include general benefits of transferable skills, which have limited applicability to an employer's specific working environment.

48. Economic spillover benefits are likely to be shared beyond a particular individual or employer, and can have far-reaching effects on levels of growth and innovation across the whole economy.

49. Societal benefits represent a further externality for Government to capture, including better (self-reported) health, lower crime, higher interpersonal trust and greater political engagement. Investment might also be required from Government in order to ensure a high level of appropriate skills to support public services.

50. The final group of reasons underlying Government investment in education and skills would encompass the benefit it derives from greater income and corporation tax revenues. Government therefore invests in training as any other party would, where it sees returns for itself.

Where to invest

51. The points at which Government could intervene in the training market and itself fund training might depend on specific market failures identified. When examining the roles of individuals and employers, there are factors which might tend to reduce their investment and lead to market failure, such as fear of small returns on an investment or fear of poaching of staff. From the point of view of Government, looking across the nation, the market failures are unevenly distributed and likely to be heterogeneous in cause.

52. Market failures might be sectoral, geographical, or temporal, or affect specific groups of learners or sizes of employer. Evidence of reduced training provision in certain sectors and particular "skills gaps" can be generated, but it is harder to determine the causes of such a profile. For example, small enterprises within the "business and professional" category are more likely to provide training for their staff than other enterprises, while "associate professional" and "personal service" are the occupations for which the largest number of skills-shortage vacancies are reported[52]. As mentioned, smaller enterprises are less likely to be involved in Government funded training than those with more employees[53].

53. The possible causes of market failure, as alluded to, include imperfect information, uncertain and slow returns, constraints on capital or loans and externalities, including economic spillover or societal benefits. These will also be variable; for individuals, access to funds or finance might be a specific problem, or for employers short-termism might be a specific problem in a particularly fast-moving sector perhaps with high staff turnover.

54. **Government should generate and support the fundamentals of a system in which there is sufficient flexibility for colleges and training providers to operate in an effective market where it works, and for Government to recognise and add leverage where the market fails.**

The broader role of Government

55. Beyond investing directly in Further Education, Government has a crucial role to play in shaping the market. Government will use funding as its main lever to influence behaviour. By fully-funding a large proportion of adult education, Government might distort the market, perhaps reducing levels of training in those areas which are not fully funded, or leading to a reduced ability to charge for training which is not fully funded. By funding different courses at different levels, government could increase the level of training undertaken in certain sectors, although, if these are sectors where there is considerable growth and demand for training, then Government might be funding training which the market would have provided anyway.

[52] National Employer Skills Survey 2009, UK Commission for Employment and Skills, 2009
[53] The Nature of Training and Motivation to Train in Small Firms, Kitching and Blackburn, Kingston University for DfES, 2002.

56. Government interventions in a market can also lead to, or at least fail to prevent, failure. Government failure results when a Government intervention in a market causes an inefficient allocation of resources within that market, essentially resulting from unintended consequences of a policy to intervene.

57. The demand-side of the market can also influence the training that takes place within it. While market failures could result in insufficient training within a market, demand-side failures can have a negative impact on the volume or type of training which is being undertaken whilst satisfying demand within the market. There is a risk of establishment of a so-called Low Skills Equilibrium, in which demand for skills is limited by an economy based on the use of low level skills to produce low value goods. As Britain seeks to grow as a knowledge-based advanced economy, a Low Skills Equilibrium is obviously particularly undesirable.

58. Government can seek to shape demand by informing consumers, both individuals and employers. This can involve a specific and personalised level of information in terms of quality of local training provision, and information at a higher level through labour market intelligence and analysis of long term growth prospects. Informing consumers in order to encourage them to invest in training will, however, only work up to the structural limits imposed upon them in terms, most likely, of access to funds or finance. Government can also increase overall levels of training, for instance introducing a legal requirement for time to train, and can influence training activity through tax relief.

59. Above all, Government has a duty to regulate the training market, in terms of quality of training provision and the fairness of the competition between them. The “weights and measures” role of Government is to gather and verify information that individual customers cannot, and protect them from poor quality provision. There is also a requirement for financial propriety, with Government ensuring that the system is not vulnerable to fraud or inefficiency.

60. **Of particular importance to co-funded courses, Government has a crucial role to play in designing and operating the system through which co-investment is realised. The recommendations we make here are intended to lead to structures which support such a co-investment system.**

Individuals, employers and government

What this means for co-funded provision

61. Having examined the reasons why each party, individuals, employers and Government, might be inspired or disincentivised, we can also gauge views on where the different groups think the balance between the parties should be struck. People do appreciate in principle the need for individuals, employers and the Government to co-invest in adult education.

62. Around a quarter of us in this country feel that Government should pay for Further Education in general, with just under a quarter feeling that individuals should pay and a further quarter feeling that Government and individuals should combine to pay. When the question was phrased in terms of “vocational courses” and “leisure courses,” the balance of these responses shifted and most people thought that employers and individuals should pay respectively. Moreover, there was a general low level of awareness of existing Government support for Further Education[54].

63. A further examination of over 4000 adults asked how much of every £10 of the cost of adult education should be met by each party. For courses which support personal development, learners should, it was reported, meet over 80% of the cost, while for vocational courses employers should meet over half the costs. In both surveys therefore, people show a natural inclination for the charges to be distributed in accordance with the main beneficiary[55].

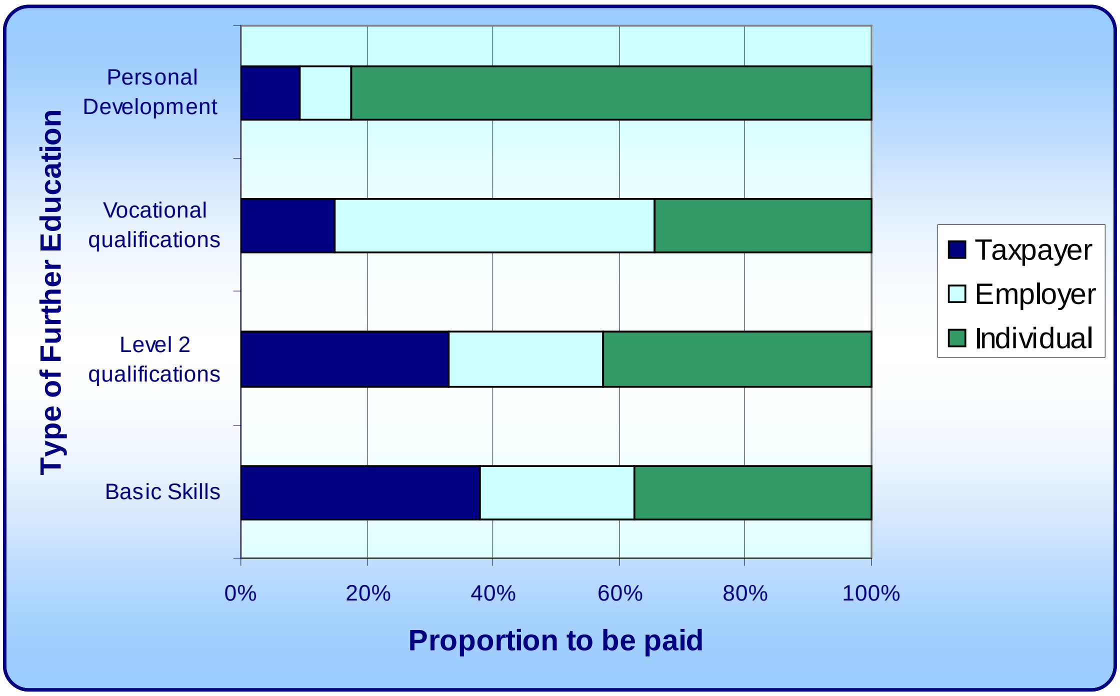

Figure 4
The proportions of the costs of a training course people believe should be met by the taxpayer, the employer and the individual. From source in footnote 55.

[54] Of 2,006 adults (56% of whom had accessed FE as an adult learner), 26% felt the Government should pay for FE in general, 22% felt the individual should pay and 22% felt the individual and Government should combine to pay. For “vocational courses,” the largest group of respondents (32%) felt the employer alone should pay, and for “leisure courses,” the largest group of respondents (66%) felt the individual alone should pay. There were differences between the role survey participants thought the different parties should play in funding education, and the role they estimated the parties do currently play, highlighting a general low level of awareness of Government support. Attitudes to Fees in Further Education, MORI for DfES, 2005.
[55] In a Quandary: Who Should Pay for Learning, National Institute for Adult and Continuing Education, 2006.
[56] In a Quandary: Who Should Pay for Learning, National Institute for Adult and Continuing Education, 2006.

considered absolutely as taxpayers' money and used with utmost propriety. Adults currently engaged in learning thought the taxpayer should meet more of the cost than adults who weren't; no party will want to pay if they can avoid paying, but ultimately we need to find a system where every party believes what they are paying is fair.

Conclusions

Sharing the costs, sharing the benefits

65. The evidence suggests that individuals and employers do have incentives to invest in learning and understand that a balance should be found between their levels of investment. While individuals and employers do co-invest, there is also a risk of market failure.

66. At this high level of explanation, we support increased co-operation between individuals and employers, increased relevance, responsiveness and therefore returns to training, increased information and a means of over-coming the structural constraints for individuals and a level of Government involvement in order to support co-investment.

67. There are several areas where the interests of individuals and employers are aligned; what is most logically required is for them both to invest in training to some extent. Interestingly, training for employees undertaken through the Train to Gain programme was initiated by individuals in 30% of cases and employers in 34% of cases, with 64% of individuals within the employer-led 34% reporting having had some say in the decision[57].

68. Currently, there is no provision in the system for individuals to meet the costs of tuition in conjunction with both employers and the state, although individuals do of course meet many of the other costs associated with employer-Government funded training themselves. Moreover, a three way split in funding might reduce the limitations on investment based on fear of poaching trained staff. This would be helpful in cases of general training, where the employer is not inclined to fund the full extent of the training but would share in some of the benefits.

69. A three-way split would not always be appropriate, and funding should still be provided on the basis of the individual, not the employer but we **greater capacity for co-operation between individuals and employers to engage in and meet the shared costs of adult education, using Learning Accounts as one vehicle for this. Employer functionality should be incorporated into Learning Accounts.**

70. Where there is a risk of a failure to co-invest, this could be due in part to supply side failures, with Government-funded training perceived as irrelevant by some employers[58]. In order to promote co-investment,

[57] Train to Gain Wave 5 Learner Survey, Learning and Skills Council, January 2010.
[58] 28% of small employers. The Nature of Training and Motivation to Train in Small Firms, Kitching and Blackburn, Kingston University for DfES, 2002.

colleges and training providers must offer training of value to individuals and employers, and so co-investment will develop with responsiveness.

71. A lack of information has also been cited as a reason for failure to engage[59]. To the extent that market failure is a result of such a lack of information, improving information is likely to be a successful strategy in promoting co-investment; **the improvement of information, rather than simply increasing volumes of information, is crucial, in terms of quality, relevance and permeation.** Information can involve not only increasing understanding of personal benefits of training for each party, but also the promotion of co-investment, indicating to individuals and employers that by working together their money works harder. The informed and empowered customer is central to the Recommendations of this Review, and Government is uniquely placed to collate and disseminate information with regard to applicability and quality of Further Education provision.

72. Failure to invest can also result from barriers such as a lack of funds or finance; this is a central issue and will be discussed in depth in section five.

73. Given the heterogeneity of market failures in both location and cause, it seems unlikely that Government could intervene in such specific areas in order to support training levels where needed. There is no control situation, in which there is no Government intervention, so it is not always clear to see what the path for each party should be, but by promoting co-operation between individuals, employers and the state, and developing a system to underpin it, Government can establish foundations and support structures which will increase the likelihood of a fair division and a consequent optimal overall level of investment being achieved.

74. **Where there are specific market failures, we recommend that Government retain the capability to make simple and specific interventions, not through adding further layers of complexity and criteria, but simply through modifying the contribution the Government makes to co-funded courses for learners from small businesses or courses in certain sectors, for a certain period of time.**

75. What the system requires, at this high level of explanation, is a clear definition of the responsibilities of each party. We need to ensure that, from the supply side, the training on offer is the training people want, which really does give people benefits. Information on these benefits should empower customers, and when customers have made their choice, there should be a system in place to support them and to secure their co-investment. **The recommendations of this Review are based on the premise that Government structures and systems should underpin but never undermine the flow of the market.**

[59] The Nature of Training and Motivation to Train in Small Firms, Kitching and Blackburn, Kingston University for DfES, 2002.

76. If we fail to make these structural changes to secure adequate co-investment, we risk not only a deficit in the skills we need now, but a lack of the skills and education we will need to support our future growth.

SECTION THREE: THE CURRENT SYSTEM - INCENTIVES, MONITORING AND REDRESS

1. Having examined the basis and balance on which different parties will invest in education and training, we will examine the mechanisms in place for directing this investment and, ultimately, collecting the money for co-funded Further Education courses. Currently, mechanisms for the collection of co-investment are inadequate and heavily reliant, as we shall examine in section four, on the actions of individual colleges and training providers.

2. **We believe the new system should be transposed, so that in the future Government money will follow the choices and support the investment of individuals and employers, with transparency throughout this process.**

The current funding system

Demand led funding

3. The ultimate aim of a system of adult education must surely be to fulfil the needs of the society it serves. With a view to becoming more responsive to the various demands of learners and employers, the Further Education sector in England adopted a demand led funding system for the 2008/09 academic year. Under such a system, funding essentially follows the learner[60]. This applies, for 2010/11 academic year, to Adult Learner Responsive and Employer Responsive (Train to Gain and Apprenticeships) funding. Colleges and training providers will also receive funding for 16-18 year olds, and for Informal Adult Learning, and for Offender Learning and Additional Learner Support separately[61].

4. The Further Education sector is somewhat unusual as a market, in that its customers include both individuals and employers, and its suppliers include Further Education colleges and private training providers, in addition to third sector and other training providers; the ultimate motivations of some colleges and training providers will not simply be to bring in money. Across this range, the principle of supporting the learner with funding that follows them is consistent.

[60] Alternative systems through which Government can fund training involve providing a block grants to training providers, but this could be an obstacle to new providers entering the market; voucher systems where the funding is provided either virtually or even directly to the learner; or at a higher level, through the tax system or training levies for employers.
[61] For a full breakdown of funding streams in Further Education see the Funding Letter to Skills Funding Agency 2010-11, BIS, June 2010 and the Skills Investment Strategy 2010-11, BIS, November 2009.

5. Colleges and training providers will enrol learners, either independently or through employers, and will then be funded by Government to support them (either fully or partially in co-funded provision). In this way, customer choices drive supply. The level of public funding a college or training provider receives is dependent on its ability to attract and retain customers, and to successfully support them to gain qualifications[62]. Government has in recent years determined priorities for funding; these act in concert with, or counter to as some would claim, customer choices, to shape supply[63].

6. **We recommend a system in which public funding follows learner and employer choice. Government's co-investment contributions should follow and support the choices and co-investment contributions of learners and employers.**

Competition and choice in the training market

7. Competition is usually described as a basis for increased efficiency, innovation and customer satisfaction, through efficiently matching supply to demand. Competition between colleges and training providers for the patronage of learners and employers in Further Education is a dominant feature of the current system.

8. In addition to deciding in general to engage with Further Education, the individual or employer must also make decisions between competing colleges and training providers. Such decisions may be based on the relevance of the course or qualification on offer, the availability of funding and the co-investment contribution required, the location, assessments of the quality of provision and other factors such as childcare facilities and public transport options.

9. Those undertaking Further Education courses might not be willing to relocate or commute long distances in order to access their chosen course, so local markets are important. The Office of Fair Trading has estimated 91% of Further Education colleges in England have at least one other college within 30 minutes drive time of their location, with more than half having more than four others[64]. In addition to the 352 Further Education colleges in England, there are a further 170 non-college providers, such as Local Authorities, in receipt of Adult Learner Responsive funding and many more private providers with access to Employer Responsive funding.

10. Markets will be shaped locally, including by Local Authorities who not only comprise part of the supply side, but will also commission strategically.

[62] A proportion of funding for Employer Responsive is paid on achievement.
[63] This depends partly on whether or not Government priorities are seen as interventions to prevent market failure or amount to attempts to articulate demand from the market which some would argue can be best articulated by learners or employers themselves. It could be argued that if Government is paying for the courses then it has the right to determine supply; indeed, some control is certainly required out of duty to the taxpayer. The role of Government in choice and competition also involves definition of approved training providers and accredited qualifications.
[64] Data exclude 6 colleges whose postcodes could not be mapped. Choice and Competition in public services: Case Studies. A Report prepared by Frontier Economics for the Office of Fair Trading, March 2010.

There are also examples of co-operation between colleges and training providers, and these, where they are productive and beneficial overall, should not be jeopardised in the new system.

11. The overall shape of provision has also been shown to be dynamic, with the number of providers changing in response to demand and new providers entering the market. For instance, within Train to Gain, the number of providers increased from 500 in 2006/07 to over 900 in 2009/10[65], though this response was perhaps to a change in central funding systems rather than learner or employer demand. It must also be remembered that the less pleasant corollary of this supply-side flexibility is allowing failing or poor quality training providers to exit the market.

12. On the whole, there is considerable choice available to most learners and employers who wish to access Further Education, although we must be mindful of the lower level of choice facing some, perhaps in more rural areas. Choice is ostensibly greater for employers and employees than for independent learners, as Employer Responsive funding is available to a wider range of training providers. **We believe that such choice is beneficial to learners and employers, and should be supported as a feature of a future system.**

13. Competition on the basis of quality can only take place to the extent that individuals and employers are informed with regard to the quality of the product before making the decision to purchase it. As will be discussed below, the aspects of the system which centre around the provision of information and quality of communication to inform choice and drive competition are perhaps not as well-developed as they should be. As part of a move towards an effective market, in which learner and employer choices are meaningful and drive the relevance and quality of Further Education provision, transparency should apply in all areas, including quality and outcome measures, in addition to more immediately obvious parameters such as price. Effective functioning of this complete package will be required to support co-investment.

A brief history of the iterations of fees and co-funding

Increasing assumptions

14. Co-investment has long had a role to play in Further Education. When local government, and then the Further Education Funding Council (1992-2001) had responsibility for the funding of Further Education, there was an assumed fee contribution of 25% of basic course costs. Employers receiving specific provision delivered on their premises were expected to contribute 50% of basic course costs. Although there is not much evidence surrounding fee collection over this period, it has been claimed that fee collection by colleges was higher 30 years ago than it is today[66], and that, on average, adult and community learners made contributions of around 40% to the costs of their courses[67].

[65] Train to Gain: Developing the Skills of the Workforce, National Audit Office, 2009.
[66] How to Shift Power to Learners, Alison Wolf, Learning and Skills Network, 2010.
[67] 21st Century Skills: Realising our Potential, White Paper,2003.

15. Current policy on fee collection was defined in the 2003 White Paper 21st Century Skills: Realising our Potential. This drew attention to the falling amount of fees being collected despite the absence of a decrease in the fees requirement, with colleges choosing to remit the fees which should have been charged. Three reasons were proposed to account for this; government targets being reflected in the funding system, incentivising colleges to maximise student numbers and in effect making fee collection unnecessary; colleges charging the assumed fees being undercut by others not charging; and concerns that charging fees might discourage participation by some individuals, most notably the disadvantaged and economically inactive. As we shall see, these concerns are as relevant in now as they were in 2003.

16. 21st Century Skills announced in light of this situation that public investment would be prioritised towards areas where it would have the greatest benefit, with some provision fully-funded but an expectation that in other areas individuals and employers should contribute more towards the cost of their own learning.

17. Following this move, it was decided that a national framework for the setting of fees was required to reverse the declining role of fee collection in the income of the Further Education and skills sector. The Learning and Skills Council consulted with the sector, and the approach of setting an aggregate co-investment income target for each college and training provider was decided upon. Where courses were co-funded there would be a fees assumption, that is to say, a percentage of the funding rate which the college or training provider would be expected to derive from sources other than the Learning and Skills Council. Additionally, some courses would have to be provided at full cost to the learner.

18. Where co-funding applied, fee requirements and remission would be determined on the basis of the learner undertaking the course and the course being undertaken. However, an overall level of co-investment contribution would be agreed for each college. Each college would determine where and how fees were applied to meet this level, with the discretion to set fees in light of local circumstances.

19. This fee assumption was set to increase annually, to meet its final level of 50% for the academic year 2010/11, as set out in table 1.

Table 1: Increasing fee assumptions

YEAR (Academic)	FEE ASSUMPTION (% of funding rate)
2004/05	25%
2005/06	27.5%
2006/07	32.5%
2007/08	37.5%
2008/09	42.5%
2009/10	47.5%
2010/11	50%

20. It seems that the initial low level of the fee assumption led to a situation in which potential fee income for colleges was so small, particularly relative to the size of the income a college received from the Government, that it was not in their interests to charge fees. If fees going up led to a learner dropping out, the college lost more income from the Government through losing that learner than it would lose from not charging the fee in the first place. As the fee assumption increased, this situation would have arisen less and less frequently, but would perhaps not have disappeared. By the time the fee assumption was higher, the culture and structures required to collect the fees that were now more urgently required had not been developed.

Imagine a course running with 35 co-funded learners enrolled in 2004/05. The **fee assumption is 25%, so the learner pays £25** and **the LSC pays £75**.

The college receives :
(**35 x 75**) + (**35 x 25**) = £3500

By 2006/07, the fee assumption has increased to **32.5%, so learners pay £32.50** and the **LSC pays £67.50.** But, the price elasticity of demand is perhaps around 0.2, so for this 30% increase in fees, the college loses 2 learners from this course.

The college then receives :

(**33 x 67.5**) + (**33 x 32.5**) = **£3300**

So, the college, from their point of view, has lost £200, lost learners and missed its participation target.

Fee assumptions at low levels do not make it arithmetically sensible for colleges to charge fees.

21. An unintended consequence of making an assumption and gradually increasing it has led to a failure to secure private contributions. This policy seems to have been adopted with little consideration of internal structures in place to support its achievement, nor external pressures acting against its realisation. The alternative would not have been a rapid increase in fee levels, but rather the instigation of an entirely new, robust and holistic approach.

22. **We believe such a new approach can be provided by a simple system based not on assumption and targets but on integration of co-investment into the funding system and inherent incentives, such that investment secured by colleges and training providers from individuals and employers will be matched up to a Maximum Contribution by Government.**

Assessing Co-investment

Measures of success

Theoretical fees and fees targets

23. For Adult Learner Responsive provision, the national fee assumption for each year and the volume of co-funded provision of an individual college or training provider have been used to produce a total of fees each college or training provider should theoretically collect. However, this Theoretical Fees value is not the Fees Target. The actual Fees Target for an individual training provider for Adult Learner Responsive provision was negotiated between the Learning and Skills Council and the college or training provider as a percentage of Theoretical Fees up until 2010/11.

24. The Target-Setting Framework has been in place since June 2008. The Framework is intended to assess the past performance of Adult Learner Responsive providers in relation to income generation, and to use those assessments to set targets for fee income generation for the forthcoming year. Each target set is based on past levels of fee collection, the potential to increase fee collection in the local area and the size of the Adult Learning Responsive allocation.

25. Data are taken from the Individualised Learner Record for each college and training provider for every co-funded Adult Learner Responsive learner enrolled, to determine fee collection levels for the previous academic year. The size of the Adult Learner Responsive allocation for that provider is then used to determine a level of fee collection per co-funded Standard Learner Number. Fully-funded learners and those who pay the full cost of their course are excluded from the calculation. This rate of fee-collection per co-funded Standard Learner Number is then uplifted in accordance with the increase in the fee assumption and taking account of the capacity of the college or training provider to increase fees based on the household income of the learners they attract[68]. This is then multiplied by the total of

[68] Such an analysis is based on the MOSAIC score of the postcodes of learners that the college attracts.

Standard Learner Numbers allocated for the coming academic year, in order to calculate an overall fee collection target for the provider.

Reporting arrangements for Adult Learner Responsive and Employer Responsive provision and colleges and training providers

26. The Individualised Learner Record, completed for every learner on their enrolment, contains fields A13 'Tuition fee received for year' and A57 'Source of Tuition Fees' which are used to capture information on fee income within and across providers for Adult Learner Responsive provision.

27. Contributions to Employer Responsive provision, whether made to colleges or training providers, are not recorded in this way in the Individualised Learner Record. Across both aspects of Employer Responsive provision, Train to Gain and Apprenticeships, the contribution made by an employer is not subject to targets, nor to monitoring, although there has always been an expectation that funding for this activity includes a level of employer contribution. Some information can be gleaned from college accounts, but the accounts of private training providers are not monitored by the Skills Funding Agency. Accounts of private training companies are available in the public domain, but reporting of employer co-investment contributions is not consistent.

28. Currently, contributions to Employer Responsive provision can be cash or "in kind" contributions, including the use of premises or facilities. The Skills Funding Agency defines an employer contribution for funding purposes as a contribution which reduces the cost of delivery for a Skills Funding Agency funded college or training provider. These contributions might well be provided as part of a package for training a group of employees, so the value of contributions is not easily attributable to an individual learner on a particular course. The potential monitoring of co-investment performance through including such contributions obviously represents a greater enterprise than ensuring that cash is collected.

29. Overall, the reporting arrangements for co-investment cannot provide an adequate rendering of the overall levels of private contribution to co-funded Further Education provision, despite overall levels of bureaucracy in the sector being perceived as high.

Lack of Sanctions and Redress

30. While the level of co-investment in Adult Learner Responsive provision is monitored, the system has no capacity for acting on this information. There is currently no means of rewarding co-investment, nor penalising under-investment. No actions have been taken centrally on this information, and there are no sanctions at the level of colleges or training providers who fail to meet their expected level of performance. Since the level of co-investment in Employer Responsive provision or for private training providers is not monitored, there are not even any grounds, let alone any system, for performance to be penalised or incentivised.

31. Since where we do have evidence, as delineated in section one, it suggests we have a problem, and to ensure appropriate use of public money, **we recommend the use of the current system of registering learners at the time of enrolment, the Individualised Learner Record, to record cash co-investment contributions from individual adults and employers. In the new system, recording co-investment contributions will not, however, be a bureaucratic burden, it will be part of the funding system.**

32. A system in which co-investment contributions from individuals and employers are matched up to a maximum, such that public contributions follow private contributions, will reduce the need for data monitoring and penalties for failing to reach targets. It will have inherent rewards for colleges and training providers, and intrinsic influence for individuals and employers. Monitoring will be at the front end and incorporated into current systems, rather than appearing too late and too weak.

Communication and prioritisation

Mixed messages

Communications from BIS to the Skills Funding Agency

33. Fees Targets based on a moderated fees assumption have historically been negotiated with colleges and training providers. This is one small target set against a backdrop of other, more prominent targets and more general guidance and communications, involving missives from Government departments to agencies and non-departmental public bodies, and then further messages from such agencies and bodies to the sector.

34. Overall funding strategies have historically been communicated from the Government to the Learning and Skills Council in the Grant Letter. This has been the central means of defining policy commitments for implementation. The Grant Letter for the academic year 2004/05 noted that the annual implementation agenda of the Learning and Skills Council should focus, among other things, on "reforming our methods for allocating funds to support training and skills, including the introduction of a new fees framework," and invited proposals for reform.

35. For 2005/06, the equivalent communication discussed "developing a better balance of contributions from adult learners, employers and the public purse to reflect the benefits received." The Learning and Skills Council was invited, by March 2005, to set out its plans for managing the changes in funding policy and including a coherent strategy for maximising private investment in learning.

36. A shift to longer and more meaningful qualifications was highlighted in 2006/07, and the concomitant increase in the number of shorter courses for which the learner would have to be charged full cost was flagged. Co-funded courses are not mentioned, but the move towards "diversified sources of funding" is reiterated.

37. In 2007/08, the Grant Letter does not mention fees, although the fee assumption increased by 5 percentage points from 32.5% to 37.5% between 2006/07 and 2007/08.

38. In 2008/09, the Grant Letter stated that the Learning and Skills Council should make "significant progress in opening up and expanding the fee-paying market," through the setting of robust targets and collection of data.

39. The 2009/10 Grant Letter does not refer to fees.

40. The Skills Investment Strategy 2010-11 emphasises that the fee assumption will increase to 50% and that fee collection performance is variable, whilst explicitly highlighting the need for this Review.

41. It would be reasonable to assess that the securing of adequate co-investment in training by individuals and employers was not prioritised by Government departments in their public communications to the Learning and Skills Council and the sector as a whole.

Communication to colleges and training providers

42. The Skills Funding Agency issues detailed Funding Guidance documents for Further Education colleges and training providers. These have followed and expanded upon the higher level of explanation in the Grant Letters.

43. In 2004/05, following the described change in fee policy, the Funding Guidance dedicated several paragraphs to the conceptual shift required. It was explained that all courses would be expected to have a fee associated with them in the absence of a case for fee remission, accentuating the balance of the default position towards a fee assumption. It was acknowledged that previous policies had not facilitated fee collection and colleges and training providers were invited to provide their views on the matter whilst reviewing their current policies on an individual level.

44. In all subsequent Funding Guidance documents the increase in fee assumption has been stated in accordance with the table above, without further embellishment.

45. **We recommend that Government and its agencies should prioritise co-investment and clearly and consistently communicate its importance to the sector. Government communications should signal to the sector where priorities lie and where serious work must be done, they should support and encourage the sector and provide direction. The role of co-investment should be emphasised in future Skills Investment Strategies, Funding Guidance documents and other communications.**

Support in place for colleges and training providers

46. In addition to the Funding Guidance, the Skills Funding Agency has provided more focused support to colleges and training providers seeking to secure private funding for their courses. In 2008, training courses were funded by the Skills Funding Agency, who then combined with the World Class Skills programme operated by the Learning and Skills Improvement Service. This connection led to staging of one day events aimed at helping colleges maximise their capacity for income generation; demand has been high and feedback, evaluated through questionnaires following the sessions, has been very positive.

47. Applications for download have also been provided. There is a Smarter Fees Policy toolkit and a corresponding Employer Contributions toolkit, which allows colleges and training providers to develop a personalised action plan to increase the level of contributions they receive. This was developed through collaboration with a number of training providers, based on the premise that employer contributions can only be raised if training providers communicate to employers the value the training provider can add. The toolkit allows colleges and training providers to evaluate a range of factors relating to the employer they are seeking to engage, and their own capabilities.

48. Under the banner of World Class Skills, more general and e-learning modules including “finance and funding for maximising business,” “gaining repeat business from employers” and “targeting small, micro and medium sized enterprises for training” are available. The Skills Funding Agency has also provided case studies of good practice through its website, in order to publicise and incentivise success.

49. **Within a system based on the recommendations of this Review, the importance of support for colleges and training providers may increase. We therefore recommend that provision of support continue, whether generated within the sector by relevant organisations, or supported by Government where appropriate.**

Communications to learners and employers

50. Colleges and training providers are the most apparent agents of the Further Education system interacting with learners and employers. Communication directly from Government to individuals and employers can nevertheless contribute to an effectively functioning system.

51. As mentioned, Government is uniquely placed to gather information, for instance labour market intelligence or quality ratings for provision, and has a responsibility to ensure this information reaches the individual or employer in order for them to make informed choices about their future and their investment, so that these choices actually mean something when it comes to influencing a competitive market and deriving maximum benefit.

52. A Learning Account system offers a direct link to the individual, and a chance to empower the learner not only through provision of information for decision-making, but through processing the decision to invest in training.

53. Learning Accounts and their antecedents have been in existence as a concept for some time, and in existence as a functioning system in various incarnations too. Individual Learning Accounts lasted little more than a year, as they were vulnerable to fraud, but trials of an updated Skills Account model began in 2008. Skills Accounts under this model, however, are only a shadow of what they could be. We recommend in this Review a central role for a new Learning Account system.

54. Within the piloted Skills Account, learners are informed of the courses available with full or partial Government funding, and their potential eligibility for Government funding in light of personal circumstances. It is pointed out that the learner's eligibility for public funding will have to be officially determined at a later date by a training provider.

55. A "Funding Indicator," allows the Skills Account holder to "identify an estimated level of funding the government may have contributed towards the total cost of learning already undertaken. This will be set against contributions you may have made yourself." The learner is free to type in the contribution they have made if they feel so inclined. A "Learner Statement," provided retrospectively, shows how much the Government has put towards the learning as verified by the college or training provider, updated twice annually. This is not, however, expressed with reference to the total cost of each course, so the contributions made by Government or the learner relative to the total cost or the learner's contribution cannot be known.

56. Skills Accounts include a "Skills Voucher" function, but only 108 of 900 users of Skills Accounts surveyed had generated such a voucher, and those who had found it confusing as it did not actually enable one to pay for learning at a college or training provider, and does not represent extra "money-off." Confusion was also reported in distinguishing between the Skills Voucher function and the Funding Indicator function.

57. More generally, over 30% of respondents, the most popular response, didn't know what they would list as the main advantage of having a Skills Account, and nearly 20%, the third most common response, cited "extra funding to pay for learning" as an advantage of having an account, even though there is no extra funding involved.

58. It therefore seems that the current level of information and the clarity of communication provided to individuals regarding co-investment through the current Skills Account route are inadequate. The information provided through this route to employers, or as to learners as employees and their employers together, is negligible.

59. Employers might have greater contact with skills brokerage services, now incorporated within BusinessLink; overall, nearly 80% of employers have

been satisfied or very satisfied with the skills brokerage service[69]. The National Apprenticeships Service provides information for employers regarding Apprentices, and the National Employer Service specialist information for large employers. Advice for employers is often quite separate from that offered to individual learners.

60. **We recommend a system in which meaningful communications to learners and employers regarding co-investment are made through a Learning Accounts system. In future, individual adults should be able to engage with the system, co-operating where appropriate with their employer, through the Learning Account in order to make their co-investment contribution with the Government contribution to the costs of training.**

Conclusions

61. The purpose of this Review is to make recommendations regarding a system to support co-investment in Further Education in this country, in order to ensure that every learner undertaking every publicly funded (fully or co-funded) course receives the investment and the quality of provision they deserve, and to ensure that taxpayers' money is used where it is really needed. It is not hyperbole to suggest that for too long, this country has not had any such system.

62. Government attempts to bring in sufficient investment in training courses have involved simply reducing the amount of money it provides for co-funded learners, and assuming that colleges and training providers will collect the remaining funds they need in order to deliver quality provision. These assumptions have not been met. There is a delineation of what Government will fully fund, and full funding is provided accordingly. There are definitions of who Government will part fund, often for the same courses, but in this area there is no process to ensure that the full level of funding required will be provided to support these learners through their course.

63. There is no meaningful consequential analysis of whether or not learners and employers contribute at the level they should in order to receive the cumulative investment in training they deserve. There is an assumption and there are targets, but there is no underlying system. There is no central strategy to support individual colleges and training providers as they have attempted to implement Government policy.

64. Our recommendations are based on the progress colleges and training providers have made, and will offer them a system of greater support as they implement Government policy.

[69] Train to Gain Employer Evaluation Sweep 5 Research report, Learning and Skills Council, January 2010

Priority

65. The messages surrounding fees and contributions have been mixed, and their content not prioritised within a complex system. One could perhaps argue that the approach to fees has been simple and consistent since the fee assumption has been increasing for more than five years, but other aspects of the system outside of this fee assumption have not been consistent, and are often conflicting. This policy environment has been created iteratively, with the overall landscape produced likely unintended by any of the individual sculptors. Fee remission predominates, and there are participation targets permeating the system, and drives to increase levels of "priority provision."

66. Within this maelstrom, the importance of guaranteeing sufficient investment within the range of provision to which fees and contributions apply has, in effect, been subjugated to a range of other priorities. Securing co-investment should not simply be promoted in importance, but positioned as an inherent part of the Further Education funding system.

67. The first step, therefore, prior even to defining a new system, is to prioritise co-investment. In addition to simply encouraging more people to be involved in training, it is important to ensure that investment is optimised, that the weight of investment is shared fairly, that Government funding is used where it is most needed and that quality is maintained.

68. This involves Government prioritising co-investment in relation to other policies, communicating this focus clearly to all parts of the sector, defining the aims of the policy and signalling support for a system that will implement the policy. Practically, this will require co-investment having a more prominent role in communications at all levels, and being considered as a central part of the funding system and annual allocations processes.

Simplicity

69. We then recommend the introduction of a simple and robust system, articulated clearly by the centre but implemented flexibly by colleges and training providers on the ground. Simplicity and responsiveness are fundamental. Responsiveness should not involve adding layers of centralised complexity as a reaction to perceived specific needs, it should mean generation and support of a single clear system which provides the foundations on which colleges and training providers can respond flexibly to the needs of the learners and employers everyone is trying to serve.

70. To replace a situation derived iteratively over a period of years, we would recommend the introduction of a clear structure which will support co-investment and indeed the Further Education funding system for the long term. The simplest means of ensuring that those who should pay for their courses do indeed invest in the system is to turn the system around. Rather than putting forward Government money in a rather optimistic attempt to leverage investment from individuals and employers, we advocate a system in which individuals and employers make their choice of course, make their investment in the tuition fee, and then have their

choices supported by Government funding. Such a system would ensure that co-investment is a natural product of a Further Education funding system with no perverse incentives, allowing income to be generated for the sector without increasing the strain on the public purse and reducing the need for targets and monitoring.

71. When an individual or employer seeks to engage with a college or training provider and a co-investment contribution is due from them, on the basis of policy criteria, then the college or training provider will collect that fee from them as a first step. They will then be able to draw down funding for that learner from their Government co-funded allocation.

72. The Government will provide funding up to a published Maximum Contribution, under a system of matched-up-to-maximum. Up to the Maximum Contribution, which will be set normally based on 50% of the national funding rate on the basis of the current level, they will be able to draw down the same amount of funding from Government that they have confirmed from the individual or employer. If they are efficient or wish to position themselves as a high volume, low cost provider they can charge a lower co-investment contribution price, and that lower sum will be matched by a lower contribution from Government. If they wish to operate as a high quality provider, perhaps, they could charge a higher fee, they will be matched up to the Maximum Contribution.

73. While Government funding should support the choices of learners and employers, it should also be used wisely and accountably. Government will have overall control of which colleges and training providers can access taxpayers' money, through an approved provider list, and define the range of provision which will be funded, in a consumer protection role.

74. Where there are market failures, Government can alter the proportion of funding it provides within this simple framework. For instance, Government could increase the level of funding it provides for some courses to 70%, with the contribution expected from the learner or employer being 30%; this would not violate the principle of private funding preceding public (although not technically matched funding), such that the 30% contribution would be collected before the 70% of Government funding were accessed. Such alterations to funding proportions would have to be rapid in onset, finite and used only where required. They could be informed by the inherent monitoring, using current systems, of participation.

75. An alternative to this system, which this Review was asked to consider, would involve a minimum fee. Exploration of this idea, and the reasons why it has not been recommended here, can be found in Box 2.

Implementation

76. Initially, this system can be operated through current processes. The requirement to collect private co-investment contributions before drawing down Government funding will be articulated in the contract between the Skills Funding Agency and the college or training provider. The fee

collected will be recorded as part of the Individualised Learner Record, the existing system for enrolling adult learners.

77. Ultimately, these transactions should be centred around the Learning Accounts system, a more highly evolved descendant of previous conceptions of the Skills Account. These will not operate to dispense funding directly to individuals or employers or non-accredited training providers, and so should not increase the risk of fraud. Rather, they will operate as a cashless system for approved providers and, by ensuring that private contributions are made before public funding can be accessed, this system should act to safeguard public funding.

78. The system must remain consistent, and incremental changes to it should be avoided where possible. Once a system is introduced, and is developed, it must be allowed the stability required to deliver high volumes of quality adult skills training.

79. For colleges and training providers, a matched-up-to-maximum funding approach would represent a major change in the way the funding system allows them to operate. For learners and employers this represents a true empowerment, being handed the controls and being able to double their money. Government could control the effective use of taxpayers' money by defining the total scope of what they will and will not fund, and can also bring in added or targeted leverage through funding particular sectors at varying levels if a particular weakness in an skills area is identified, perhaps by employers operating through Sector Skills Councils.

80. By working together, individuals, employers and the state can all make their money work harder.

Communication

81. Where the system is simple, this should be communicated; the criteria for inclusion within the boundaries of fee remission should seem simple to the learners and employers they affect, and should convey that they are protected. Communications should be accessible, and in a common format. As communications to the sector should prioritise co-investment, so communications to learners and employers should explain where it applies and how it works.

82. Beyond the simple principle of public-follows-private, further simple criteria for fee remission, simple calculations of who has to pay what and simplified funding arrangements will lead learners, employers and training providers alike along a clear path to quality training through a simplified wider skills landscape.

83. Clarity of purpose, clarity of process and clarity of communication are all essential. Clarity of purpose will come from a shared understanding of the role of each party, with each acknowledging that it is right that they invest in training in accordance with the benefits they will ultimately derive therefrom. Clarity of process will come from a simplified system,

manifestly based on a fair and clearly defined set of principles, and communicated clearly to all those involved.

84. All learners and employers must have access to information, advice and guidance, including labour market intelligence and potential outcomes in a general sense. More specific information on individual colleges and training providers and the quality of their courses should also be accessible. Only in this way, through informing consumers, can the training market truly function.

85. Fee remission will still have a role to play in the Further Education system. There will continue to be vulnerable groups who need the support of full funding, and indeed these groups may benefit from the increased focus of Government funding upon them. Eligibility for fee remission must be clearly communicated.

86. We would recommend consistency across co-funded and fully-funded learners; since they are likely to be accessing the same education within the same system, they should have the same level of control, irrespective of the level at which Government is involved in funding their tuition fees. Fully funded learners should be aware of how much Government is investing in their courses on their behalf, and with access to information, advice and guidance and choice of college or training provider applying as they do to co-funded learners. The difference will be that the co-investment contribution will not have to be made by the learner in these cases.

87. One corollary of a co-investment system which incorporates simplicity and funding to match learner choices is transparency, particularly transparency of price. Information should be readily and consistently available to assist learner and employers. As the discussion of Skills Accounts demonstrates, there is minimal information available to learners and employers regarding the total price of their course, the amount Government pays for their course and the amount they are expected to contribute to their own learning, whether the fee applies at 50%, or whether the costs of their course are met for them by the Government.

88. Co-investment is a function of total investment. The new system should foster a culture in which there is complete transparency on the total amount being invested by all parties in a course of training. There will be transparency on how much the Government, the learner and the employer are contributing to this total. The total price of a course, and the price the learner pays as a function of this, will be known to the learner or the employer and available publicly. The main figure of interest to a learner or employer is the contribution price they have to pay; those who provide training will still compete to offer well-priced courses on this basis, but their prices will be clear. We would also support moves towards transparency at an early stage on the costs to the learner or employer of training outside the tuition fee. In order to ensure transparency is not a deterrent, this must be accompanied by a full range of information regarding fee remission eligibility and financial assistance options.

89. Consistency and co-operation for individuals and employers are also important; we would recommend that employers access some functionality of a Learning Accounts system, with access to the same information as individuals as regards quality and choice, and with the ability to work together with their employees to invest in training; this could include a role for skills brokerage and the National Apprenticeships Service within the learning account. Funding should still be allocated on the basis of individual learners, with employers not able to access funding for their employees and use it for other purposes. This should not bypass situations where employers should pay for training for their employees, but might be useful, for instance, for wider developmental training that both individuals and employers have an interest in, but perhaps neither would fund directly.

90. Training providers will compete on price and on quality. It follows, therefore, that transparency on price must be accompanied by transparency on the quality of training provision, and of outcomes for previous learners. Competition should act not only to drive down prices, but to drive up standards. Where the pressures on price might be greater than the pressures on quality, Government must act to ensure that quality is monitored and maintained.

91. By encouraging the individual and employer to make their co-investment contributions, quality could be increased by a direct impact on colleges and training providers; if they are paying, individuals and employers may well demand a higher level of service.

92. Higher Education should also be linked into the Learning Accounts system, in order to ensure learners are aware of the full range of possibilities open to them; links to further information at least would be easy to provide.

93. This Review will therefore describe a vision of a future system in which learners, as individuals or employees, are at the centre. They should benefit from transparency and from fair competition, and drive the funding system. Learners should be engaged, empowered and informed consumers, accessing reliable, comprehensive and up-to-date information regarding their best options for high quality training which will help them to progress in a good job, and their options for accessing funding for the cost of their course and any further financial support.

Box 2: A minimum fee

This Review has examined directly whether the approach of a “minimum fee” would be helpful in securing co-investment from individuals and employers in Further Education. Such an approach represents an immediately obvious answer to the question of fees, and its examination was an explicit request of the terms of reference of this Review. However, the introduction of a minimum fee is not the optimal response to a system failing to collect co-investment contributions, and will not be recommended here.

A minimum fee could involve the central determination of a standard level of contribution which must be collected, across all colleges and training providers, across learners and employers and across all courses to which co-funding applies. Alternatively, it could involve the setting of variable but standard fees, depending on characteristics of the course or learner. This is obviously a more complex and bureaucratic approach.

The minimum fee could be collected from the learner or employer after the Government contribution is drawn down by the college or training provider from its allocation. Any failure to collect the minimum fee would be reported and could lead to “clawback” of funding by the Government in an annual reconciliation process. In this way, the minimum fee approach would act as a stronger fees target system, where there is a real penalty for colleges and training providers, in terms of losing funding through clawback, if they fail to bring in the minimum fee. Colleges and training providers would be encouraged to charge a higher level of fee where their market permitted.

Alternatively, the minimum fee could be incorporated within a matched funding system, wherein the minimum fee must be collected before the Government funding can be drawn down.

Ostensibly, a universal minimum fee offers simplicity, at least at the centre from an administrative perspective. It could also, arguably, support a system in which a culture of investing in education could evolve and, since everyone has to pay at least the same, it seems uniform and fair. Competition would take place on price above the minimum level, and also on quality.

However, the recommendations offered by this Review can provide simplicity and culture change without recourse to a blunt instrument like a minimum fee. Under the system described, simplicity and a culture of investment in education come from matched funding, and from transparent pricing. Simplicity and fairness do not necessarily come from everyone having to pay the same price; they come from a system with sound foundations but also with flexibility, and from generating private investment where possible, and using public investment where it is really needed. In order to ensure fair access to Further Education, the system should incorporate support for learners who really can not pay fees, through fee remission, and support for those who should pay but need a little extra help, through Professional and Career Development Loans.

A minimum fee is simply not appropriate to the Further Education sector, where choice and competition are already in place. To introduce a minimum fee is a regressive step. If the Government contribution to co-funded courses is x and the minimum fee is y, then Government controls both x and y. Although y is a minimum which can be exceeded, the current situation with respect to securing co-investment suggests that the price charged to learners and employers would tend towards y. The cost of a course is likely to be x+y and the new fee assumption will be the ratio y/x+y.

Box 2. A MINIMUM FEE

The importance of determining an appropriate level for the minimum fee is therefore vital, and its likelihood slim. Too low would lead to even more years of under-investment, while too high could risk people being priced out of learning.

What this Review suggests is simply the setting of one parameter by Government, the Government's Maximum Contribution, and the determination of one structure based on the principle of Government's contribution following the choices and supporting the investment of individuals and employers.

Colleges and training providers need flexibility in setting their prices in order to respond to demand from learners and employers in their market. Learners and employers deserve to have their needs and their choices responded to by the system. It is the widely held view of the many parties consulted as part of this Review that a centrally determined minimum fee would reduce responsiveness to local demand and flexibility in the marketplace for colleges and training providers, and reduce choice and the benefits of competition for learners and employers. The system cannot be based on an assumption that all colleges and training providers are the same, and that all individuals and employers will want the same things from their course.

Within the current Further Education sector, there are a high number and a broad range of training providers on the supply side. On the demand side, there are individuals and employers; employers in particular will be expecting to look at various competing suppliers, assess them on the basis of price and quality and then procure what they need. As colleges and training providers have the freedom to set their own prices, they will think seriously about what they charge and what they offer and the attractiveness of their overall package, increasing the quality and relevance of education across the sector. Where a minimum fee is applied and collected by poor quality operations, the system is protecting those poor quality providers rather than protecting the consumer from poor quality provision. Of course, this is all dependent on information, and this Review recommends informing individuals and employers to empower them.

We need to encourage flexibility and innovation for colleges and training providers, giving them more freedom to meet the demands of the learners, and giving learners the power to choose so they get what they want from the system.

Box 3. International comparisons

Many countries have attempted to define systems for co-investment which will support a developing culture of learning throughout life.

Some schemes to encourage individuals to co-invest have involved providing Government subsidy to individuals, as a lump sum or through Learning Accounts. This was attempted in England in 200, and endures in Scotland. The approach has also been used in the Netherlands, the Basque Country and many other countries and regions, including Flanders, where a voucher system has also been used for employers.

Alternative approaches include facilitating the access of individuals to loans to pay for their education. The Korean system of interest rate subsidies is similar to the Professional and Career Development Loan. In Canada, individuals are encouraged to save up to meet the costs of their course.

To engage employers, systems of tax relief are often employed, for instance in Austria or in the Netherlands, where there is a tax refund of 15% of trainee wages for employers accredited by a sector council. In New Zealand, there is a high level of employer involvement in where Government funding is used.

See also Co-Financing Lifelong Learning: Towards a Systemic Approach, Organisation for Economic Co-operation and Development, 2004; Skills Abroad: A Comparative Assessment of International Policy Approaches to Skills Leading to the Development of Policy Recommendations for the UK, Centre for Labour Market Studies, 2006.

SECTION FOUR: COLLEGES AND TRAINING PROVIDERS

1. As we have seen, the current system does not exist to any greater extent than the issuing of requests to college or training providers to implement Government policy. Colleges and training providers are the very locus at which teaching and learning take place, where the investment in quality is required and where it is secured from the learners and employers involved. The role of colleges and training providers in the present system, and in any future system, is central.

2. The failure of co-investment could be attributed to colleges and training providers who have simply failed to collect fees. This is a proximal cause of the failure. However, colleges and training providers are not operating in a vacuum, nor are they operating irrationally. They will avoid collecting co-investment contributions for a number of distal reasons, perhaps behaviours they perceive or anticipate in the learners and employers they serve. Some of these more distal causes of the failure of co-investment will be explored in the following chapters, but first we will examine the immediate forces acting on colleges and training providers.

3. Having looked at the system in which colleges and training providers operate, and the signals they receive from Government, we will now examine the internal reasons why they might not feel inclined to collect co-investment contributions, before turning our attention outwards to the market of learners and employers and why they might not want to make the payment .

Incentives and disincentives for colleges and training providers

Weak forces, strong forces

Incentives for colleges and training providers to collect co-investment

4. From the point of view of the college or training provider operating within the current Further Education funding system, there are not always large incentives to collect co-investment contributions.

5. The most obvious incentive is the additional income; individual colleges and training providers are able to keep the cash they bring in for their own purposes, rather than have it re-distributed through a centralised system. Additional income from sources other than Government naturally reduces a college or training provider's dependence on Government funding, and serves to cushion them from changes in Government policy in terms of fee remission or funding levels which might otherwise have adverse effects on their total income. Securing income from private sources can therefore lead to greater financial stability and another step on the road towards self-governance and independence for colleges. In addition, income

generation allows for greater flexibility and offers the opportunity to support colleges' missions in other areas such as sustaining a broader adult curriculum. Historically, charging fees has not always been associated directly with a significant increase in income, but as the fee assumption has risen, the balance of this incentive has shifted towards charging fees.

6. While co-investment contributions are a source of income for most colleges they represent only a very small percentage of total income[70]. While Government and its agencies operate on the basis of funding streams, colleges and training providers will work on the basis of their total budget, encompassing funds derived from all streams, and as a proportion of their total income the rewards for collecting co-investment contributions are small and the effort is not inconsiderable. For colleges, the average percentage of total income derived from fees collected for co-funded Adult Learner Responsive provision in 2007/08 academic year, was 1.86%. The minimum was 0 and the maximum 22.9% In 2008/09, this increased to 1.95%, with a minimum of 0% and maximum of 31.7%[71]

7. The potential benefits of income generation are not likely to be lost on colleges and training providers, but they may drive them to increase their income from other sources, such as through "full cost" provision, for which they charge a full fee, rather than through the collection of fees for co-funded provision.

8. It is natural to speculate that there is a lack of need for colleges and training providers to charge fees. This might have been true when the fee assumption was languishing at 30%, but is unlikely to remain the case as it has risen to 50%, and as funding rates are reduced for 2010/11 academic year. The ability of colleges and training providers to deliver high quality provision which fully satisfies the needs of learners and employers, not just in terms of getting them through the door, but getting them out again with genuine skills and satisfaction, will surely be compromised by under-investment.

9. The system should ensure that where colleges and training providers do see the advantages of income generation, they are able to act in an appropriate manner to realise them, rather than being constrained by perverse incentives and conflicting forces. Under a matched-up-to-maximum funding system, the incentive for colleges and training providers to optimise their co-investment will be much greater. Colleges and training providers who enrol a co-funded learner will be able to double the money they collect. They would be guaranteed the full investment that providing a course requires, not forced to run it on half the money.

[70] Data are only available from colleges, but the situation is likely to replicated across all classes of training provider.
[71] This analysis excludes sixth form colleges with Adult Learner Responsive allocations of less than £500,000. Data from the Individualised Learner Record and college finance records.

Disincentives for colleges and training providers to collect co-investment

10. As we have seen, the process of introducing a fee policy at a low level (a low percentage assumption) led to a situation in which the disincentive of losing learners, with their higher proportional level of guaranteed Government funding, outweighed the incentive to collect a fee from those learners.

11. Historically, colleges (through their Summary Statement of Activity) and training providers (through their contracts) have agreed the volume of provision (the number of learners) that they will deliver for an academic year. They have been allocated funding on this basis. If they failed to meet the agreed levels of provision, simply if they lose learners, they lost their funding. Funding they have already been given is "clawed back." It is logical, therefore, that colleges and training providers act under these participation pressures to maximise the number of learners they can bring in, avoid collecting fees from them and safeguard their investment from the Government.

12. Colleges and training providers are wary of losing learners and employers not necessarily from the system altogether but to competing colleges and training providers. Each college and training provider tends to feel that if they charge the expected co-investment contribution then they might be under-cut by a competitor who offers the course for free. It seems that either everyone charges the full fee, or no-one does.

13. A system, therefore, which supports all colleges and training providers as they seek to collect co-investment and ensures fair competition between them will improve overall levels of investment in adult education and training. A system based on matched-up-to-maximum funding and full transparency should promote a culture of charging a fair price for a good product.

Flexibility

Degrees of freedom

Fair Competition

14. Colleges and training providers are disincentivised from collecting the required level of co-investment because they fear other providers might not collect this co-investment and engage the custom. One of the reasons colleges and training providers might be able to offer a course without collecting the co-investment, at least when the assumed percentage of co-investment was lower, would be their high levels of efficiency. A second reason might be that they provide the course at a lower level of quality. Thirdly, they might need to bring in the remaining "assumed" proportion of the income over and above the Government funding in order to deliver the training, but derive this money from other sources, rather than from the learners and employers engaging with the system. One such source of income would be Government funding provided to the college or training

providers for other purposes, such as full funding for courses for those with entitlements.

15. Such cross-subsidy is not always egregious, but there is evidence of it, both from anonymous surveys and from personal communications to this Review.

16. Within Employer Responsive provision, a survey of 15 Apprenticeship providers, including a broad range of classes of colleges and training providers, reported that "most" did not charge fees to employers for adult Apprenticeships, and subsidised the fee proportion (42.5% at the time of the survey, November 2008) through funding provided for 16-18 Apprenticeships and other programmes, such as Entry to Employment[72]. A further survey of 29 colleges and training providers found that around 20% of them never asked for fees from employers and admitted cross-subsiding from funds provided for fully-funded learners aged between 16 and 18[73].

17. An indication of the extent of the practice within Adult Learner Responsive funding in colleges and other training providers can be derived from the pervasiveness of discretionary fee remission. Colleges and training providers can grant fee remission for individuals who should, under current policy, be paying fees. In 2008/09, of the 70% of adult learners who received fee remission, nearly 40% of these were granted fee remission on this discretionary basis[74].

18. This process amounts to subsidising private contributions from adults and employers (who Government believes should be able to pay for their learning) using taxpayers' money intended to fund more vulnerable learners who cannot afford to pay or who need access to education in order to lift them to the level of school-leavers. The consequences of this, one might well imagine, are that the total investment in both fully-funded and co-investing learners is reduced and quality may suffer.

19. Some colleges and training providers do not offer certain ranges of provision, and so they might not be able to cross-subsidise their co-funded learners. The system therefore leads to unfair competition. Government intervention in the market can promote distortion, and this should be minimised in order for competition on the basis of price and quality to be meaningful and to genuinely drive improvements in the offer available to learners and employers.

[72] Apprenticeships: Understanding the Provider Base LSC April 2009
[73] Investigation into Employer Contributions within the Employer Responsive Funding model, RCU Research for the Learning and Skills Council, August 2009.
[74] Percentage of adult learners not described as "tuition fee collected in full" and described as receiving fee remission for "Another Reason consistent with Local Provider Policy." Only one reason for fee remission can be recorded in the Individualised Learner Record. Where a learner is accessing a second year of a two-year course, or there are other circumstances, this reason may be recorded under this category but actually mask some form of co-investment contribution collection. Data from field A14 of the Individualised Learner Record, completed for all learners accessing training through the Further Education system, compiled by the Data Service.

20. Under Article 102 of the Lisbon Treaty (2009)[75], abuse of a dominant market position, including directly or indirectly imposing unfair purchase or selling prices, is contrary to European Union competition law. This article covers so-called "predatory pricing," in which a dominant body sells a product below-cost, in order to eliminate competition from other, perhaps smaller, bodies who would find it harder to sustain such pricing policies. This is a controversial area of law, and this Review is not seeking to make allegations against colleges and training providers within the Further Education sector; this point is included simply to illustrate the importance of minimising cross-subsidy and establishing simple fundamentals in order to support fair competition[76].

21. Colleges and training providers need flexibility in order to meet the demands of the learners and employers they are seeking to engage. Colleges are independent institutions providers and private training providers are private companies, and they should be free to act as they see fit in order to offer a range of quality products to their market. Full flexibility should apply to the income that colleges and training providers generate for themselves from individuals and employers, either through co-funded or full cost provision. Some colleges and training providers provide bursaries to support learners who need extra assistance, and we recommend that these continue to be used particularly to cover costs other than co-investment contributions for tuition.

22. Colleges and training providers should be discouraged, however, from using public funding to substitute for funding from individuals and employers. It is fitting with open and transparent competition that learners and employers should pay a clear price rather than cut a murky deal based on shuffling of funds.

23. This discouragement should take not only the form of admonishment or request, but also a removal of the need to cross-subsidise. Colleges and training providers should be supported by a robust system for the collection of co-investment contributions and the individuals and employers asked to pay them should be able to pay; in such a system, the drive to cross-subsidise would be minimised.

Contributions in kind

24. Currently, for Employer Responsive provision, the contribution from employers to meet the 50% fee assumption can be "in kind," involving activity rather than cash. 70% of 29 providers surveyed felt that the provision of training and workshop facilities was an important employer contribution, with administration and further aspects also reported. Overall, however, there was little attempt to ascertain whether or not the value of such contributions would be equivalent to the level of the fee

[75] The Lisbon Treaty updates Article 82 of the Treaty on the Functioning of the European Union, known in 1957 as the Treaty of Rome and establishing the basic principles required for free trade.
[76] In April 2009, France Telecom had an appeal rejected by the European Court of Justice following the imposition of a €10m fine by the European Commission for offering internet access at below-cost, cross-subsidising this from other operations.There are many issues to be considered, for instance the definition of market dominance.

assumption; given the level of work involved in such a process, this is perhaps not unsurprising.

25. Contributions employers wish to make "in kind," as opposed to in cash, should be considered separately. In kind contributions are valuable, and an important part of negotiations between colleges and training providers and employers. They can enhance the training experience for the learner, and ensure that the employer obtains value for money and has a quality package tailored to their needs. In terms of fees, however, in kind contributions can tend to erode transparency and add complexity, and so "in kind" contributions should be considered outside of the contribution to the price paid for delivering Employer Responsive provision.

26. The total price of a course, and the related private contribution to it, should be calculated and paid based on the costs of delivery of the course. If an employer can provide certain assistance or services which act to reduce the costs of delivery of the course for the college or training provider, then the total price of the course will decrease, and the funding contribution both the employer and Government have to make is reduced. "In kind" contributions are certainly, therefore, valuable, but this is a separate value from the transparent payment of a co-investment contribution to a course of tuition.

Capacity of colleges and training providers

Developing the staff who help develop the skills

Staff capacity and training

27. As we have discussed, support for colleges and training providers to develop their strategies for income generation has been provided through the Learning and Skills Improvement Service working with the Learning and Skills Council in the form of workshop events and online toolkits. Toolkits might not be, however, sufficient to address the needs of the staff of colleges and training providers and provide the support they might need in future to operate within a system as defined in the recommendations of this Review.

28. It has been reported to this Review group that college staff tend to take on a variety of roles, as careers counsellors and employment or financial advisors, or as assessors of prior qualifications and benefits status. In order to support co-investment, colleges and training providers would benefit from the capacity for business development and for marketing strategies.

29. Within a system based on the recommendations of this Review, the importance of support for the development of capabilities of staff within colleges and training providers will increase. We therefore recommend that it continue, whether generated within the sector by relevant providers, or supported by Government where appropriate. Currently, there are a range of bodies within the sector, such as the Learning and Skills Improvement Service and the National Improvement Performance Board, which could be

involved in this process. While the Review has already sought the views of many working in the sector, it is important that any future changes be introduced through a collaborative approach. The Skills Funding Agency itself has a central role to play, and must support the sector as it implements change and involve the sector in the plans for implementing change.

30. Support for the recommended co-investment system must also come from within each provider. It has been reported to this Review that in some cases, internal politics or culture within colleges and training providers can lead to a resistance to co-investment policy implementation. There is a vital role for quality leadership and the dissemination of good practice within colleges and training providers in securing successful co-investment.

31. In addition to promoting good practice and learning from others' strategies, there is also a role for changes in thinking and approach within some colleges and training providers, and indeed across all parties in the system. Colleges which perform well in terms of securing co-investment are likely to have a good understanding of what the learners and employers they are seeking to engage are looking for, and the ability to shape their offer to provide it. Many also collect contributions to the costs of courses delivered under the banner of Informal Adult Learning and full cost provision, and may be able to transfer and extend their good practice internally.

32. Where co-investment is prioritised and structurally supported, and where staff are developed, such limitations to securing co-investment based on capacity should be minimised. In a sector whose aim is to develop adults, development of those adults employed within it should not be neglected.

Good practice from colleges and training providers under the current system

33. Under the present system, co-investment has been successfully secured by some colleges and training providers through good practice. In terms of Adult Learner Responsive[77] provision in the 2008/09 academic year, the most recent year for which data are available, some colleges and training providers managed to collect from individual learners high levels of investment; 43 colleges and training providers exceeded the Theoretical Fees level, and a further 71 collected more than 75% of Theoretical Fees.

34. Between 2006/07 academic year and 2008/09 academic year, 49 of the 433 colleges and training providers delivering Adult Learner Responsive provision increased their co-investment performance by over 50%, and 43% increased their performance by over 25%. Between 2007/08 and 2008/09, over a single year, 36 colleges and training providers increased their performance by over 100%. We believe, therefore, that securing co-investment is certainly possible, and that changes in performance can be achieved, sometimes very rapidly. With the introduction of the system

[77] Data for Employer Responsive are not available.

recommended here, we believe it is possible to sustain those who have previously performed highly and develop those who have not, and ensure that successful co-investment becomes the norm, not the notable exception.

35. Research suggests that there are a number of strategies which colleges (in particular) have found to be effective when implementing their own fee policies, many of which we believe should continue and could expand and thrive under the future system. Two volumes of case studies have been produced by the Learning and Skills Council, the second in response to the popularity of the first, in order to disseminate knowledge to the sector. These volumes have been easily available online, and supplemented by further research undertaken with anonymous contributors[78].

36. Interestingly, our analyses have shown there are no direct relationships between a college's fee collection performance and its size, its full cost operation, its financial health, its leadership and management nor the areas where its learners are drawn from. We should therefore be optimistic about every college and training provider's ability to optimise its co-investment.

37. Unsurprisingly, high quality provision and dissemination of information regarding quality in order to establish a good reputation were regarded as important, particularly by one college who raised their required contribution level to 50% as early as 2006/07. Quality was linked not only to the quality of tuition, but to the quality of the offer of the college in terms of their specific customers, through establishing unique selling points and tailoring their offer and offering flexible provision at suitable times for their learners[78]. As one training website expresses, a "business solutions team" aims to respond efficiently and "provide a professional and high quality service[79]." One college website highlights its employer responsiveness strategy, seeking to be the "number one" in the area through providing high levels of service[80].

38. Similarly, research into the practices of private training providers engaging employers found them to be aware of the principles of collecting payment for high quality provision and "excellent customer service[81]." Quality may well be linked to repeat business from employers; 24% of employers surveyed as having been engaged by individual training providers for Train to Gain provision had been in contact with that training provider previously, with half of this group having a long history of engaging with that particular training provider[82].

[78] Fees and Commercial Income – Good Practice and Other Key Issues, RCU Research for the Learning and Skills Council, March 2008.
[79] Northbrook College
[80] Mid-cheshire College
[81] Investigation into Employer Contributions within the Employer Responsive Model, RCU Research for the Learning and Skills Council, August 2009.
[82] Train to Gain Employer Evaluation Sweep 5 Research report, Learning and Skills Council, January 2010

39. In terms of college and training provider strategy, identifying their strengths and unique selling points was seen as important, and the flexibility to rebrand and target different markets and broaden their offer were key. Internally, colleges and training providers benefit from taking their co-investment strategies seriously and making progressive changes, in terms of organisational design and creative approaches. One college detailed the important combination of sector experience and commercial development, while others emphasised the importance of everyone within the college, from top to bottom, engaging with the co-investment strategy. One college, for instance, has published its internal fees policy online, explicitly saying that all staff and all learners need to know about the policy.

40. Interestingly, colleges who made clear the full unsubsidised costs of the courses they were providing, either through dialogue and engagement of employers or simply through publication in the prospectus found an increased willingness, both from employers and individuals, to co-invest. Allowing learners to make their contribution through flexible payment methods also promoted co-investment[83].

41. Engagement of employers, in particular, has a very practical side. This engagement has been supported by setting up a call centre for employers and being pro-active in establishing contact in some cases. In 52% of cases surveyed, the training provider had approached the employer to engage in a Train to Gain programme[84]. Employers who were dissatisfied with the colleges or training providers they had engaged with cited a lack of contact (23%) follow-up actions (20%) and a lack of professionalism (23%) as reasons[85].

42. Some of the examples of best practice undertaken by individual colleges and training providers can therefore be extended into national principles and systems, such as price transparency, quality ratings and supporting deferred payment through loans. However, some aspects of current good practice must remain unique to individual colleges and training providers, with the only role of the system being to allow them the flexibility to tailor their offer to their learners and adopt market strategies that work for them. Support for the staff of colleges, both within their own providers or through sector-wide providers, should provide the capacity for good practice to develop and thrive. Ultimately, the good practice of today must become the standard practice of the future.

[83] Fees and Commercial Income – Good practice and other key issues, RCU Research for the Learning and Skills Council,July 2008.
[84] Train to Gain Employer Evaluation Sweep 5 Research report, Learning and Skills Council, January 2010
[85] Base of 257 provider-led employers. Train to Gain Employer Evaluation Sweep 5 Research report, Learning and Skills Council, January 2010

Box 4: Good practice in co-investment

Manchester College of Arts and Technology increased its course fees to 50% of the national base rate in 2006/07, four years ahead of the national strategy. The colleges was rated by Ofsted as having outstanding leadership, and the new fees strategy was developed by senior staff across the college, in areas of both fees, finance and enrolment. The college was surprised by the lack of impact of the fees increase on participation, and put this down to the fee remission policy and the quality of the provision at the college.

Wakefield College has developed significant links with a large local employer, and delivered provision flexibly for them and secured repeat business.

Great Yarmouth College has strengthened its links with employers, particularly local small businesses supported by a dedicated Business and Enterprise Support Team (BEST), and forged links with the local University. Again, leadership and management and teamwork are central to their success.

South Devon College, under new management, saw employer engagement as a central part of securing the college's role in the community. Their research showed that employers were wary of bureaucracy and speaking to different departments in colleges, and so they streamlined their operations through a Business Advantage unit and developing a customer database.

City College Coventry has engaged employers whilst also developing its full cost operations through a dedicated unit called Charterhouse Training. They have developed an entrepreneurial culture, and shared good practice across departments.

See also Case Studies on Income Generation, Learning and Skills Council, October 2008.

Full cost provision

43. In addition to fully funded and co-funded provision, colleges and training providers run operations in which they charge learners and employers for courses in which the Government does not have any funding involvement. The learners and employers accessing such training will be charged something close to the full cost of providing their course (although of course colleges and training providers will have full flexibility in determining the prices of such courses). For many private training companies, this might represent a significant proportion of their work, for other colleges and training providers, perhaps less so.

44. Income derived in this way can be used by the college or training provider as they wish. We would recommend that this continue, and be encouraged as a means of promoting the general value of private investment in education and training, both in terms of the mindset of learners and employers and the processes in place within colleges and training providers. A healthy “full cost” operation will support the independence and flexibility of colleges and training providers, helping them maintain a broad curriculum.

45. Further Education colleges offering such “full cost” provision, one might think, might also have effective strategies for income generation from co-funded provision, and high performance in that regard. However, there is no significant correlation between the levels of investment secured by colleges in their full cost operations and their co-funded provision[86]. Hopefully, individual colleges will be able to develop both aspects of their offer.

46. Overall, in 2008/09, colleges generated £106m from provision funded entirely by individuals and employers, without Government funding. This indicates that it is possible in principle for colleges to generate income from charging for their provision, and we would hope that colleges can extrapolate their expertise from their full cost to their co-funded operations.

Conclusions

47. Colleges and training providers are the point at which co-investment from learners, employers and the Government comes together into a total level of funding then used to deliver a training course. Colleges and training providers have, however, got stuck at this point.

48. There have been minimal incentives for colleges and training providers to collect co-investment, but an abundance of disincentives and further structural constraints, such as unfair competition and a lack of capacity. In spite of this, there are clear examples of good practice, and we welcome these and hope they can become the foundations on which all colleges and training providers can build within the new system.

49. In order to furnish colleges and training providers with the capability to secure co-investment, we recommend a simple system to support them as described in section three, but would also seek to recommend certain actions regarding their own practices which we believe will support their own and the overall co-investment strategies.

50. Colleges and training providers need flexibility to meet the demands of their local markets; flexibility will contribute to optimal use of budgets. Flexibility should, we believe, apply to income generated by colleges and

[86] Data for other training providers are not available. Data on full cost provision from college accounts, data on co-funded provision from individualised learner record, from 232 colleges for whom data are available and have Adult Learner Responsive allocations of greater than £500,000.

training providers through their own activities and efficiencies, but in the future, flexibility should not be confused with ambiguity, and transparency must apply. Real flexibility and responsiveness to individuals and employers involves the customers of each individual college and training provider knowing what they are paying for. It should not involve funding provided by Government intended to support vulnerable learners being used so individuals and employers who should pay don't have to, or used to out-compete other colleges and training providers.

51. We recognise that sometimes cross-subsidy is used to support learners who could not afford to pay, even though policy suggests they should. We therefore call for further examination of this issue. In order to promote fair competition between colleges and training providers, cross-subsidy within their budgets should be discouraged, and the need for it should be removed by making sure that all providers have to charge, through public-following-private, and making sure that where people are asked to pay, they can.

52. Flexibility is complemented by limiting the bureaucracy burden on colleges and training providers. As has been described, the monitoring and funding aspects of the new system are both an inherent part of its functioning. In order to reduce bureaucracy and intrusive micro-management, matched-to-maximum funding can be operated at the level of the individual provider, until the systems are in place for funding individuals, as independent adults or employees, in a truly demand-led system.

53. In a similar move towards transparency of the offer of each college and training provider, we would recommend the separation of cash contributions related to the price of the course being delivered, and in kind contributions which might reflect a broader relationship between a college or training provider and employers. Such an approach ensures learners accessing courses either as independent learners or employees receive the same level of investment and service.

54. We recognise that the minimisation of cross-subsidy and "in kind" contributions could represent a challenge to some colleges and training providers, but in order for competition between them to be fair and meaningful, benefitting learners and employers in terms of meeting their demands efficiently, we must move towards transparency and openness. We would support the continued provision of support, within the sector and within individual colleges and training providers, for staff as they develop co-investment strategies. In terms of a possible challenge to employers, measures to support small businesses or employers operating in particular sectors should be clear, and based on a single simple system as described by this Review.

55. We have made recommendations which we believe offer all colleges and training providers an equal basis on which to compete, and a firm basis on which they can themselves then act flexibly. The simplicity of the system described in section three, based on prioritisation of co-investment, the principle of public funding following private funding and transparency, should help colleges and training providers, freeing them from forces

within the current system which act to curtail their collection of co-investment where they want and need it, and minimising bureaucracy and the burdens on staff. We also recognise, however, that colleges and training providers act under forces from learners and employers, and so turn our attention to how we can facilitate learners and employers contributing co-investment, rather than colleges and training providers collecting it.

Box 5: Apprenticeships

To provide stability for the continuing development of Apprenticeships in meeting the challenges of a higher skilled economy, messages from Government to colleges and training providers on the expected input and contribution to the costs of training made by employers and individuals must be coherent and transparent.

For too long, employers in particular have been subject to conflicting policy and funding initiatives. In order to increase uptake of Apprenticeships, particularly in specific geographical areas and industrial sectors, financial incentives outside the main funding rate have been provided, yet employers are then asked to pay a contribution to the costs of delivering the Apprenticeship. It is important that participation in Apprenticeships is maintained and increased in specific areas of need, but it is also important to ensure the messages are clear, and that employers understand the value of an Apprenticeship and contribute accordingly.

Firstly, Apprenticeships should be promoted to learners in addition to employers, to ensure that individuals are empowered in their choices and that they can engage employers in the system themselves, where previously they might have been disinclined to be involved. This is particularly important to build upon the work that has started to increase and strengthen the advice and guidance given to young people. Union learning representatives should also be used, where they exist, to promote engagement of those employers that do not have a tradition of Apprenticeships.

It is clear that we need to grow high quality Apprenticeships in those sectors and with those employers that can contribute most to a strong and competitive economy. Transparent pricing should apply to Apprenticeship frameworks as it applies across the remainder of adult education. For too long, the messages given by Government and the contribution they make to employers has been based on a single fee charging level for all Apprenticeship frameworks (from 2010/11 this will be 50% for adult Apprentices), regardless of the priority or skills needed in the labour market. Where Government seeks to incentivise Apprenticeships through the National Apprenticeship Service in a particular sector, then we recommend an increase in the proportion that Government provides to the cost of these Apprenticeships. The balance between public to private funding can be used more effectively to signal the priority areas where public funding can do more to strengthen the growth in key sectors and specific skills shortages. The National Apprenticeship Service should work with Government and the UK Commission for Employment and Skills to agree those sectors and frameworks where a change in the fee level will promote Apprenticeship expansion, but doing so within the overall spending limits that have been set.

Box 4: APPRENTICESHIPS

We do not however, want to lose the benefits that all Apprenticeships can bring. In doing so, it will be right that some employers should contribute more in realising the benefits of an Apprenticeship to them. A strategy for setting a differential rate of employer contributions must also provide stability into the system, so we recommend any decisions to change the fee element away from the national norm is time limited, perhaps for a period of three years or so, to address specific market failures. This alteration to the proportion to fees being charged would not alter the principle of public money following private contributions.

The Maximum Contribution of each Apprenticeship framework and the related private contribution to it would continue to be calculated and paid to reflect the costs of delivering the Apprenticeship programme. Any contributions employers wish to make "in kind" rather than in cash should be considered separately. In kind contributions are valuable, and an important part of negotiations between colleges and training providers and employers. They can enhance the training experience for the learner, and ensure that the employer obtains value for money and has a quality package tailored to their needs. In terms of fees, however, in kind contributions can tend to erode transparency and add complexity, and so should be considered outside of the contribution to the price paid for delivering the Apprenticeship framework.

The actual contributions made by employers to the costs of an Apprenticeship vary considerably with the size of the employer. Although only a crude proxy of a relationship, it is widely held that the size of a business is related to its ability or willingness to meet the costs of staff training. Smaller companies face greater total (including opportunity) costs when accessing training, which may act as a disincentive, while employers with large numbers of staff in training might be able to realise economies of scale.

In light of the view that large employers can realise greater economies of scale when accessing training, we need to review how changes are made to the funding rate paid to colleges and training providers as well as the fee charged to employers, and pay particular attention to employer who act as providers of training themselves.

We must institute a simple system which can encompass small, medium and large employers, with principles underlying equitable treatment for them all, but the flexibility to ensure that small employers are not priced out of training their staff and the recognition of the economies of scale that larger employers can realise. A system based on clear principles about the appropriate level of fees to be charged removes the confusion between a national fee strategy and the funding rates set and paid to providers. These in combination will enable Government to realise the continued growth in Apprenticeship numbers, reflect the differences in a fee strategy between young people and adults, but at the same time recognise the how the specific contributions of employers should be made.

56.

SECTION FIVE: INEQUALITY AND INABILITY TO PAY

1. Colleges and training providers act in accordance with their perceptions of the learners and employers they are seeking to engage. One of the reasons they might not seek to secure the co-investment Government expects involves their assessment of the ability of learners and employers to meet those charges. In some cases, cross-subsidy or a reduction in quality in order to avoid charging fees could result from motivation to allow people to enrol who might otherwise find it difficult to pay.

2. Where we recommend that individuals and employers know the amount Government is investing in their training and the amount they are expected to contribute, we have to ensure that this information is supplemented by further details on the support available to them to enable them to make the investment in their future.

Individuals who can't pay

Facilitating co-investment

The current boundaries of fee remission

3. As has been mentioned, recommendations pertaining to the delineations of who and who does not have to pay fees are beyond the scope of this Review, but examination of this distinction where it has an impact on fee collection performance is instructive.

4. The current delineations of who is and who is not expected to contribute to the costs of their learning are outlined in Box 1. Fee remission criteria apply to a learner, whether the learner is accessing their course as an individual or with the involvement of their employer. They are based either on the personal circumstances of the learner or the course they wish to undertake such that, essentially, attainment at a new, higher level is encouraged through full funding.

5. The current boundaries of fee payment and fee remission as they stand for the start of the academic year 2010/11 have evolved from a series of changes. The view has been that for some literacy and numeracy and first full Level 2 vocational qualifications there is an obvious case for Government to intervene and provide people with entitlements to a minimum level of attainment for participation in society and the workforce. The statutory entitlement to a first full Level 3 qualification for those aged 19-24 includes non-vocational in addition to vocational qualifications, partly to support access to Higher Education. The current form of statutory entitlements was described in the Education and Skills Act 2008.

6. Beyond the statutory entitlements, policy has come to encompass a range of further criteria for fee remission, including full funding being provided

for all Skills for Life literacy and numeracy provision and, for a period, all (including non-first) full level 2 vocational qualifications within Train to Gain. Policy commitments have also led to support for individuals in receipt of benefits, not only job seekers allowance, but housing benefits or working tax credits.

7. This Review is concerned ultimately with securing investment from those individuals and employers that policy, whether current or future policy, determines should be contributing to the education from which they benefit. When examining why fee collection performance has been poor, there are two central issues regarding the fee remission boundaries which have an impact.

8. Firstly, the gradual increases in the perimeters of fee remission have resulted in a Further Education system in which the vast majority, around 70%, of individual learners accessing Adult Learner Responsive provision, do not have to pay fees. Overall, this results in a culture of "not paying," and an insubstantial system to support payment in the narrow area in which it is due. More specifically, this results in the inclusion of people within the fee remission policy criteria who could be willing and able to pay co-investment contributions. It is also worth re-iterating that even outside these criteria there are those who **should** pay, under current policy, who are granted discretionary fee remission by individual colleges or training providers.

9. The second issue involves the exclusion of those who cannot afford to pay from the fee remission criteria; the criteria which determine fee remission status are broad but yet mis-placed, and have the potential to price some adults out of learning. The fact that the household income cut-off point for fee remission for adult learners in receipt of Working Tax Credit is £15,050, when the median annual pay for full-time employees in this country in 2009 was £25,800[87], suggests there is a vital group of adults in employment but not earning enough to contribute to their own training who are being neglected by the current system. Such learners in employment might be able to take advantage of Train to Gain programmes, but only with the backing of their employer.

10. To expect individuals earning this level of income to spend money on the tuition costs of a Further Education course, when they also have to meet the additional costs of learning, such as books and travel and so on, is probably unrealistic.

11. **In order to address these issues, we recommend that the current policy of who does and does not have to co-invest in their learning be re-evaluated, and that, crucially, the issue of student support in Further Education be addressed.**

[87] Median gross annual earnings for full-time employees for tax year ending April 5th 2009; the lowest 10% are paid less than £13872 and the lowest 20% less than £16874 (Annual Survey of Hours and Earning, Office of National Statistics, November 2009).

Support for Individuals

12. Currently, financial support for individuals undertaking Further Education is mostly provided in the form of fully subsidised training. Beyond this, bursaries might be available at the level of each provider, particularly colleges, who also have access to Additional Learner Support funds. Further means of support for the individual from a central source include the Adult Learning Grant and Professional and Career Development loans.

13. The Adult Learning Grant is a means-tested grant of up to £30 per week for those undertaking their first full level 2 or first full level 3 qualification. Broadly, therefore, its availability is limited to those entitled to full fee remission. It is not available to those earning more than £19,513 gross, nor those claiming Jobseekers allowance, Incapacity Benefit or Income Support. For those earning more than £15,406 its value is £10 per week.

14. Professional and Career Development loans are private bank[88] loans of between £300 and £10,000. The Professional and Career Development Loan replaced the Career Development Loan in June 2009; the Career Development Loan had been in existence since 1998. Individuals are responsible for the loan in the normal way, and interest rates are comparable, though usually favourably, with those for other unsecured personal loans, but the state pays the interest on the loan for the duration of the course of study and for one month afterwards. The loaned money can be used to pay fees, up to 80% of the total, or 100% if the learner has been unemployed for three months.

15. Professional and Career Development loans can be used for a broader range of provision than that funded by the Skills Funding Agency, including postgraduate courses or courses accessed through training companies who do not receive Skills Funding Agency funding. Between 2001 and 2006, 59.7% of those taking out a Career Development Loan were already educated to Level 4 or higher. This makes analysis of their role in supporting individuals undertaking Skills Funding Agency-funded Further Education difficult.

16. Nevertheless, a survey of learners with Career Development Loans between 2001 and 2006 found that over half of learners would not have undertaken their course without the Career Development Loan, with only 13% saying they would definitely have undertaken the course anyway[89]. For nearly 90% of learners in a wider sample, there were no other sources of financial assistance for which they were eligible. Loans therefore allow learners to undertake courses which they would not otherwise have been able to access, and provide financial support where no other means were available.

17. Of those taking out loans between 2001 and 2006, nearly 60% were employed, and nearly 60% had an annual income of £15,000 or less. The

[88] Professional and Career Development loans are currently available through Barclays Bank, the co-operative bank and the Royal Bank of Scotland.
[89] Evaluating and Evolving the Career Development Loan Programme, GGJ and the Learning and Skills Council, 2007.

data suggest, therefore, that this is a valuable means of assisting those in employment but earning a low wage to access education.

18. It was also estimated that each year, excluding postgraduate qualifications, Career Development loans created additional wage revenue of around £90m. Between 2001 and 2006, the costs of Career Development Loan scheme to the public purse each year were £14m. (Professional and) Career Development Loans therefore provide support for learners at minimal cost to the public purse.

19. Since this survey was undertaken in 2006, uptake of loans has fallen, with fewer than 10,000 learners across the United Kingdom accessing a Career Development Loan in 2007-08. **We would recommend, as an initial step, that Professional and Career Development Loans be made available to more people.**

20. Such an expansion would be most meaningful if undertaken through the redirection of resource. Government only pays the interest on a Professional and Career Development loan, thus the increase in Government funding required for a larger number of people to access such loans is actually quite small. Funding could be redeployed from other areas of the Further Education budget, where it is less effectively used.

21. In addition to redirecting funding, increasing the number of loans available could also involve decreasing the limit on the size of the loan or the range of provision for which they apply, in order to allow more people to benefit within the current constraints. There may be scope within the system to expand the proportion of learners undertaking qualifications below Level 4.

22. Since these loans are bank loans, this will require some negotiation with banks offering such loans, careful consideration of the full range of costs and risks, including defaults, and analysis of demand. It is worth noting, however, that the default rates are currently capped, and this cap has not been approached.

23. Beyond this, we would recommend a thorough analysis of the student support systems available to Further Education students, including loans. Such an analysis must take account of debt aversion which, among a group of younger Further Education and other students surveyed, was greater among groups whose participation we absolutely do not want to deter, including women, those from a lower "social class," lone parents and black and minority ethnic groups[90].

24. We would emphasise that it is not our intention for the re-launch of the Professional and Career Development Loan to be a replacement for fee remission for those who need it, but an option for some assistance where required. This recommendation is intended to enable people who are currently asked to pay fees but are unable to do so to have access to support, and would complement a fee remission system. If any policy

[90] Social class determined on the basis of self-reported familial occupation. Attitudes to Debt, Universities UK, 2003.

changes are made to eligibility for fee remission, then corresponding further arrangements for student support will have to be considered at that time.

Comparison with Higher Education and student support

25. In Higher Education, the issues of fees and of student support are usually considered together, as indeed they are in the Independent Review of Higher Education Funding and Student Finance. The present Review was tasked with examining, in Further Education, the implementation of fees policy alone. However, recommendations regarding fees and co-funding in Further Education, without considering the measures in place to facilitate people investing in their education, can only be limited.

26. There are important differences between Further and Higher Education which warrant different approaches to their funding. Since there is a strong system of fee remission and since many learners in Further Education may be working adults and may access Further Education of various sorts at various times in their life, there is a less strong requirement for universal, uniform access to a system of loans than in Higher Education.

27. As a point of comparison, however, students in Higher Education have access to loans for tuition fees and maintenance, for which the terms are favourable and repayment not required until the individual is earning over £15,000. While we do not recommend here an automatic extension of the present Student Loan system to encompass Further Education, the Higher Education system exemplifies a logical approach wherein, when charging fees, there is a means through which people can be supported to pay them.

28. Where Further Education leads into Higher Education for an individual, and they have a Professional and Career Development Loan and want to take out a Student Loan, we would recommend that the repayments on the Professional and Career Development Loan be deferred.

Employers who can't pay

Support and simplification

29. One crucial difference between Higher Education and Further Education is the regularity with which employers, rather than individuals, pay for the tuition costs of a course. As mentioned, the criteria for fee remission are determined by the individual, not the employer for whom they work. Some employers are, however, less likely than others to be able to meet the costs of training for their employees. This might lead to them failing to train, or being offered by a college or training provider a cheap package of training to which they themselves do not have to contribute a large amount of funding.

30. The most frequently cited determinant of an employer's ability to pay for training for its employees is its size. The average costs of training per

trainee increase as the size of the employer decreases, from less than £925 for those with 500 or more staff, up £6,125 per trainee in the smallest establishments. It comes as no surprise, therefore, that smaller employers are less likely to provide training, and train smaller proportions of their workforce[91]. Large employers are more likely to be able to realise economies of scale when training, and to have greater flexibility when organising time to train, reducing the cost to them of time lost. Large employers, through the National Employer Service, can also access Government funding directly.

31. Using the size of employer as a basis on which to make decisions regarding funding is not always simple. The total size of a business's workforce might not be directly related to the number of employees it wishes to train, for instance, and there are other factors to be considered, such as the sector in which the employer operates.

Support for Employers

32. Support for smaller businesses to train their employees has tended to involve supplying full funding for an increased range of provision, although further assistance is available in terms of contributions to wage costs, to cover the costs of employees losing time at work in order to train. These are available to businesses with fewer than 50 employees, specifically when learners are undertaking the same qualifications which entitle the learner to fee remission, namely Skills for Life or a first full Level 2 or Level 3.

33. The proportion of employers who take up this offer is low, around 7% of those employers with fewer than 50 staff who had employees undertake training in working hours[92]. 65% of those who had not taken up the offer said they simply weren't aware of it, and 10% said they didn't think it was worth the effort for the amount of money involved.

34. It seems therefore, that in a similar manner to the Adult Learning Grant, help is available only to those who are entitled to fee remission, and so any slight unfairness in the boundaries which delineate fee remission are compounded at this level. Small businesses whose employees do not qualify for fee remission and who should be co-investing in their courses are generally excluded from accessing wage subsidies, and even those employers who are eligible have found the communication and the level of bureaucracy act as deterrents.

35. It is worth noting that, as has been described for individuals, employers who can and can't afford to pay fall the "wrong" side of the policy line

[91] Based on all trainers completing the Cost of Training survey (7,190) scaled to cover all employers (974,091). Per trainee figures are calculated using respondents' trainee numbers from main National Employer Skills Survey 2007 data, and rounded to the nearest £25. These figures represent total expenditure on both on-the-job and off-the-job training; fees for training courses are one component of off-the-job training costs. National Employer Skills Survey 2007, Learning and Skills Council, May 2008.
[92] Train to Gain Employer Evaluation Sweep 5 Research report, Learning and Skills Council, January 2010

which determines who is and isn't going to be asked to pay. Thus, where some employers cannot afford to co-invest, others could and are not being asked.

36. Within Employer Responsive provision, under the banner of Train to Gain, Skills for Life and full Level 2 and Level 3 qualifications (for those aged 19-25) have been fully funded. This has led, naturally, to accusations of deadweight, with Government funding training which employers would have undertaken anyway[93]. This offers an example of the general risks of deadweight across the sector, and highlights the importance of Government funding being used to its utmost effect where it is most urgently needed.

37. We recommend that smaller businesses continue to be supported within the Further Education system, with their needs being catered for through increasingly responsive colleges and training providers and a developing culture of co-operation between individuals and employers. Their involvement in the system should be facilitated by the removal of bureaucracy surrounding support measures, and monitored to ensure it does not fall, with further examination of the issues they face and measures to support them being undertaken as necessary. This should be considered as part of broader measures to support smaller businesses in this country.

38. We also recommend examination of the way and rates at which funding is provided directly to large employers who act as training providers.

39. **We would recommend, as an initial practical step, the removal of wage subsidies and the associated bureaucracy, and increase moves towards supporting training for employees of businesses in certain sectors or of a certain size through modulation of the funding proportions in the public-follows-private funding system.**

Conclusions

40. In order to successfully implement a co-investment policy in Further Education, not only must the structures be supportive and the colleges and training providers be freed from conflicting forces, but those who are being asked to co-invest must be able to pay. In order to ensure this is the case, it might be necessary to re-evaluate who it is that is being asked to pay, but that is beyond the scope of the present Review. More immediately, we would recommend that in order for individuals to be able to co-invest, a system of loans be readily available and a new culture of co-operation between individuals and employers co-investing with Government be fostered.

[93] There are different measures of additionality that can be made, and many different figures have been quoted. The National Audit Office cited only half of the training being provided representing additional training. The most recent evaluation of Train to Gain found that for over 5000 employers who undertake training following engagement with a broker or a provider in the first instance, total additionality was 95%. Train to Gain is included only as a recent and prominent example of the general issues in Further Education of deadweight and using Government money to its utmost effect.

41. Fee remission has a vital role to play in facilitating those who would not be able to afford learning to access the education they need. It does not, however, cover all those who need to access adult learning but cannot afford it. In order to truly engage and empower learners in the Further Education system, we must provide not only information advice and guidance, but also purchasing power and financial support for their choices.

42. We would recommend that systems in place for information, advice and guidance also involve financial advice and clear communications regarding not only fee remission eligibility, but financial support options, and possibly advice on saving. Alongside transparency on price, we should have transparency on payment options. Within the private-follows-public matching system, we must ensure that Government funding is not simply matching existing advantage, but rather providing means for all those asked to co-invest to have access to the private funds that Government can match. This would be under-pinned by ensuring that those who should pay do indeed make the investment expected, so that Government funding can be used to support those who need it the most.

43. The most obvious potential support mechanism for individuals in Further Education is a system of loans. We recognise that extension of the Student Loan from Higher Education across the range of Further Education provision is not likely to be considered as the optimal solution at this stage. The suggested solution of an expansion of Professional and Career Development Loans offers the opportunity to use a relatively small amount of Government funding to facilitate private investment in training courses where appropriate, without the need for the taxpayer to fully support the debt.

44. **We would recommend, therefore, as an initial move, the expansion and re-launch of the Professional and Career Development Loan system which is already in place and operates efficiently.** We would then recommend a further examination of the student support in place for Further Education.

45. Expansion of Professional and Career Development Loans offers an efficient and rapidly implementable means of increasing access to education, for many, many people. At the same time, it minimises the initial outlay for Government, minimises bureaucracy for colleges and training providers, and can be seen in the context of the new role for banks, perhaps paralleling measures to ensure banks support smaller businesses and ensuring financial institutions recognise learning as being worthy of investment. Crucially, expansion of the loans programme will allow huge investment to be made in the Further Education sector, the multiplier effect on Government funding being considerable.

£50m for Professional and Career Development Loans?

£50 million represents around 1% of the total of the Further Education budget for 2010-11.

Since the system is in place the administration costs would not be increased significantly. The major cost is derived from defaults, but since bank lending conditions will apply, and since default rates are capped and have never been approached anyway, we predict this should be manageable. So, there are minimal costs.

But the benefits? As an example, an extra £50m could allow over **600,000** learners accessing Adult Learner Responsive provision in Further Education colleges to co-invest in their learning, which would total over **£800m** additional investment in the sector in one year.

Based on a total Further Education budget of £4.5bn, an ALR funding rate of £2732, an SLN value of 1, a fee assumption of 1366, interest rates of 5.7% and assuming that loans are used exclusively to cover fees for one year. **These figures are for illustrative purposes only, they do not represent a projection.**

46. One means through which learners and employers can be empowered is a personalised Learning Account system***.*** Replacing previous conceptions of a Skills Account, we believe that an online portal for each learner and employer should enable access to careers advice, course availability, pricing information and financial support information.

47. We believe that a Learning Accounts system should have funding information for both individuals and employers. While funding will be directed towards supporting an individual undertaking a particular course of training, co-operation between individuals and employers should be facilitated. This would involve employers being able to access the information they need, and employees being associated with an employer through a grouping mechanism and, where desired, individuals and employers should be encouraged to co-operate to meet the private contribution to the costs of publicly co-funded training. This would be useful, for instance, for wider developmental training that both individuals and employers have an interest in, but perhaps neither would fund directly.

48. Information which encourages people to make meaningful choices regarding investing in their own education and future must be supplemented by information regarding the practicalities of making that investment. Overall, we need to support a culture change, and support moves towards investment. The role of Government will shift away from provision of funding to the extent that it causes devaluation and dependency, and towards a more sustainable system in which Government facilitates and leverages private investment and uses directs its own funding to increase support for those who need help the most.

SECTION SIX: CULTURE

1. **The culture of "free" adult education has influenced the thinking of individuals, employers and providers, and, we believe, must be addressed as a fundamental part of securing the future of co-investment.**

2. The thinking surrounding "free" education, it has been reported to this Review, affects the willingness of learners and employers to pay for their training where it is expected, and colleges and training providers to charge where they are intended to. More generally, it can affect the value that individuals and employers ascribe to education.

3. In the previous section, we described a situation surrounding those who cannot afford to pay, but there is a further group of learners, both individuals and employers, who can afford to pay, but are not being asked to do so. We believe that re-establishing the principle that education does cost money, even if it is Government money, will be central to promoting the value of education and willingness to co-invest in it.

4. In order to protect engagement with the system, we must of course ensure that fully funded learners are aware they will not have to pay their tuition fees, and that for co-funded learners they have to pay only their contribution. **A simple, transparent and personalised system, effectively communicated, will ensure that everyone knows what their training is worth and what, if anything, they have to pay. Crucially, we hope, they will also understand why.**

Influence of the system

A culture of dependency?

Fee Remission Policy

5. In some senses, the design of the system has contributed to a culture in which people do not, in general, see the need to pay for their adult education. The vast majority of learners undertaking Further Education courses do not have to pay for their learning; nearly three quarters of learners are not avoiding payment, they are simply not being asked to pay. In 2008/09 academic year, for only 29% of adult enrolments was the box "tuition fees collected in full" marked on the Individualised Learner Record[94].

6. For 60% of the learners receiving fee remission, this was directly in accordance with Government policy on fee remission. The proportion of

[94] Since Employer Responsive provision is not accounted for in this field of the Individualised Learner Record, for Employer Responsive learners many will tend to mark "tuition fee collected in full" for this provision as a default. The percentage of learners or employers for whom the tuition fee is in fact paid may well, therefore, be lower. This percentage excludes 16-18 provision.

learners eligible for fee remission has been increasing over recent years, with the addition of further entitlements and policy commitments. Going back to 2003, only 19% of courses were eligible for fee remission under LSC categories[95].

7. It is not for this Review to say that the proportion of learners receiving fee remission is too high, but it is for this Review to highlight the possibility that the prevalence of fee remission within Government policy on Further Education has led to **a situation in which it is not only practically but culturally difficult to seek co-investment from learners who are intended to pay.**

Fee Remission at Random?

8. For 40% of the enrolling adult learners in 2008/09 who received fee remission, this was in accordance with local provider policy, that is to say, it was discretionary or arbitrary. Policy deemed that these learners should be able to pay, individual colleges and training providers essentially decided they would not have to. As we have discussed, this might have been founded in the fears of the college or training provider that with unfair competition or ill-financed customers in the market, charging a fee would be unfavourable.

9. Wherever it comes from, this leads to a quantitative enlargement of the number of learners who don't have to pay and a qualitative shift in culture among learners, employers and colleges and training providers that co-investment can be over-ruled or circumvented.

Don't expect to pay, but where they can, they will

10. Currently, there is a situation, caused perhaps by a large volume of provision being uncharged, in which employers and individuals do not expect to have to pay for their learning. There is, however, evidence to suggest that when asked they are in fact willing to make that investment.

Individuals

11. As mentioned in section two, individuals do expect that Government will meet some of the costs of their learning.

12. Individuals do also expect to have to meet some of the costs of education themselves, suggesting that the implementation of the current policy under-estimates the extent to which individuals are willing to pay[96]. A recent analysis of the Price Elasticity of Demand in Further Education found demand to be relatively inelastic, with learners continuing to enrol in courses even as fees increased[97]. Within the current prevailing culture of

[95] 19% of courses and 73% of learners is obviously not a direct comparison, this offers an indication only. Discreiotnary Fee Remission in Colleges, DfES 2003.

[96] Attitudes to Fees in Further Education, MORI for DfES, 2005, and In a Quandary, National Institute for Adult and Continuing Education, 2006.

[97] PED of -0.1 and -0.3, with variability in sectors and types of learner. Estimating the Effect of Raising Private Contributions to Further Education Fees on Participation and Funding, London

"free" provision, there is scope for implementing co-investment policy and utilising the latent willingness of individuals to contribute.

Employers

13. Experience suggests to employers that Government will meet the costs of training. Over half of employers surveyed accessed **fully** subsidised training, with access to subsidy being rated as "very important" by 43% of employers[98]. Although full funding for non-first qualifications will not be provided for 2010/11 academic year, the recent provision of such funding, in addition to other flexibilities, has, as reported to this Review, created a climate in which employers have been taught through their experience of the system that they will not have to invest large amounts in co-investing in training for their staff.

14. We believe, however, that in light of the deadweight in employer co-investment provision and the belief of many of the public that employers should contribute to the costs of learning[99] that there is scope for an effective implementation of co-investment policy to engage employers.

Colleges and Training Providers

15. The primacy of free training has been an aspect of the mindset of colleges and training providers. As we have discussed, the current system encourages them to offer free provision rather than lose learners. It is interesting to note that college's own subjective estimates, or fears, of the Price Elasticity of Demand of Further Education, were in fact much higher than the data (from a survey of colleges or the Individualised Learner Record) suggest is actually the case[97]. Once again, we would suggest that the culture of "free" has superseded a clear approach to thinking about paying and charging real prices for real education.

16. We believe there is some slack in the system, caused by the culture of "free" that it has itself generated, and ripe for addressing through a simple change in culture. We are not recommending that Government policy determining the proportions of individuals and employers who access Further Education at no cost to themselves be changed. We would recommend that this be examined at a future date, but that is not an issue for this Review. We recommend here that a system of public-follows-private funding within a fair and transparent market will create conditions which preclude arbitrary fee remission. Crucially, we also call for careful control of the handling of the messages that surround vast swathes of fee remission and what they convey to individuals, employers and colleges and training providers.

Economics for BIS, July 2009.

[98] Train to Gain Employer Evaluation Sweep 5 Research report, Learning and Skills Council, January 2010

[99] Attitudes to Fees in Further Education, MORI for DfES, 2005, and In a Quandary, National Institute for Adult and Continuing Education, 2006.

Promoting the value of training

Power of perception

17. The messages which individuals and employers receive which promulgate the notion of "free" training are not only implicit consequences of the system, they are explicit in promotional materials, both from central Government and its agencies and from individual colleges and training providers themselves.

18. While the system currently is predominated by fee remission, it does not have to be dominated by "free." Even where Further Education tuition is free at point of use, and rightfully subsidised 100% for those who need it most, it does not have to be advertised as "free."

19. Nearly 60% of adults did not know that Government subsidised Further Education, and of those who did, many under-estimated the level of the subsidy[100]. It has been reported to the Review group that people often think their fee, where they pay one, is the total price of the course. It follows, therefore, that if people think the price is low, they may well think that the course does not cost much to put on or might not be worth much to them.

20. It is widely acknowledged that price has a positive effect on perceived quality[101]. Conversely, when confronted with a lower price, customers moderate their positive evaluations of the discount with negative inferences regarding the quality of the product[102]. In terms of Further Education in particular, there are some cases in which people enrol at higher levels when you have to pay more to do so, that is to say, there are some cases in which Price Elasticity of Demand is positive. It is not unlikely that these people are more eager to enrol in more expensive courses because they think the course is of a higher quality and a greater value.

21. **When a product is given as free gift, customers tend to devalue that gift, unless they are presented with price information or contextual information through which to make judgements**[103]. This Review has found that learners would actually like such information and to know how much their course costs, and we contend that this would counter devaluing of education. Eliminating the notion of education being a "free gift," combined with providing information on the true price and the rated quality of the education a customer will receive is likely to lead to a greater valuing of education, and a willingness to co-invest in it.

22. We recommend, as we have described, a system of transparent pricing for both the total price and the individual or employer contribution, as realised

[100] Attitudes to Fees in Further Education, MORI for DfES, 2005.
[101] Effects of Price, Brand and Store Information on Buyers' Product Evaluations, Dodds, Monroe, Grewal,Journal of Marketing Research 1991.
[102] Effects of Pricing and Promotion on Consumer Perceptions: It Depends on How You Frame It. Darke, P.R., & Chung, C.M.Y. Journal of Retailing,2005.
[103]Free Gift with Purchase: Promoting or Discounting the Brand, Raghubir, Journal of Consumer Psychology, 2004.

through lifelong learning accounts and other promotional materials such as prospectuses. We also recommend more careful handling of pricing and promotions, and the avoidance of use of the word "free." It is possible to convey to individuals and employers that their training is "free to them" or "free at point of use", but that it costs money to provide. In this way, we believe, learning will be valued and people will be more willing to invest in their own future.

23. Similarly, we would avoid use of the word "fee" when communicating to learners and employers, and promote the term co-investment. Paying for education isn't paying a penalty, it is making an investment with returns in the future.

24. This culture change can be instituted reasonably rapidly through **simple changes to language** in centrally produced materials. Instead of Government information websites, for a start, promoting free training, we would recommend that they clearly state that training will be fully funded. These messages must be careful, and must equally make it clear that no payment is required from certain learners, particularly those in vulnerable groups, and that where co-investment is required help is available. They must be simple and easily understood.

25. In terms of colleges and training providers, we recommend that culture change, which is already developing, be supported through prioritisation of co-investment and a system which supports it.

Conclusions

26. In recent years, a culture of dependency on "free" training has been created. Although difficult to evaluate, the level of fully-subsidised training, both within and without Government policy, and the messages about "free" may well have served not only to make it difficult to secure co-investment where appropriate, but to devalue adult education as a whole.

27. We should make it very clear that reducing the culture of "free" does not mean reducing the availability of fully-funded training or the awareness of individuals of their eligibility for it. What we recommend is a system in which fully funded training is provided to those who need it, supported by collecting investment from those who do not, supported by transparency and simplicity on all aspects, including total price, contribution and eligibility for fee remission. Individuals and employers will be interested first and foremost in what they personally have to pay, and so this information should be simply provided without overloading with extraneous detail; effective communications should empower learners, not ensnare them, and should enable them to operate easily in a system which simply facilitates them finding and enrolling in a course of training.

28. Many of the issues discussed in this section return to the issues identified in section two, in terms of who should pay for what. Historically, the problem has been that Government has mis-handled the messages about

who it pays for, how much, and why. Individuals and employers do not always expect to be asked to pay, but their thinking tells them that individuals and employers should contribute, and their behaviour suggests that they do contribute to training they value when they are asked. We therefore believe that there is a latent willingness of individuals and employers to co-invest, provided the system supports it and the language used promotes it. Changes in language to establish the concept of value are of course complementary to establishing real value, and supporting individuals and employers co-investing in the courses they need.

29. A culture change is required at all levels of the system, and in some cases it may already be germinating. For learners and employers as a whole, the system should demonstrate the value of their training. For colleges and training providers, the system should be conducive to marketing on the basis of top quality, not rock-bottom prices. All learners, whether fully-funded or co-funded, can benefit from increased quality and increased investment.

30. We recommend that this culture change be started through simply changing some of the language surrounding Further Education, including limiting use of the word “free” and explaining to people that they will be fully funded by the Government, or partially subsidised by the Government. In order for people to co-invest in their education, a general atmosphere of valuing adult education must be generated too.

Taking opportunities

The time is right for change.

We need to make sure we have the skills we need to drive an economic upturn and thrive in an increasingly competitive global economy.

The Government must ensure that every pound it spends is focused efficiently to where it can deliver most effectively.

The Further Education and skills sector needs, now more than ever, clarity and consistency. Change should come positively and from within, not reactively and in response to financial pressure, and must produce a long-lasting solution to support the training that will power individuals, businesses and the economy forwards.

Further Education is all about opportunities to improve.

There is an opportunity, in the present situation, to make a fundamental improvement to the system of investment in adult learning and training that can help resolve the historical issues, promote co-investment as a central feature of the future and introduce positive change and co-operation across the Further Education sector.

RECOMMENDATIONS FOR ACTION IN THE SHORT TERM

1. Funding from BIS and its agencies should follow and support the choices and contributions of individuals and employers. Where appropriate, BIS and its agencies should match co-investment contributions received from individuals and/or employers, up to a published Maximum Contribution.
2. All colleges and training providers in receipt of funding from BIS and its agencies should define and publicise a total price for the course on offer and a clear price of the co-investment contribution individuals and/or employers are required to make.
3. BIS and its agencies should clearly set out which courses they will fund and at what level of Maximum Contribution, and for whom.
4. The individual and employer should be at the centre of what becomes a demand-led system, co-investing in courses of value to them.
5. Individuals and employers should be able choose between courses they value and between approved colleges and training providers and accredited qualifications.
6. BIS/agency funding should be reprioritised to increase the capacity of financial support available to help individual adult learners co-invest. BIS and its agencies should redirect a proportion of its funding into a redefined and re-launched Professional and Career Development Loan programme.
7. Where employers are required to make a contribution to meet the price of a course, only contributions in cash should qualify for matched funding from BIS and its agencies.
8. BIS and its agencies should ensure colleges and training providers have maximum flexibility to respond to the needs and demands of individuals and employers.
9. BIS and its agencies should work with relevant sector organisations to ensure there are processes in place for identifying, sharing and implementing good practice and supporting staff across the Further Education sector.
10. BIS and its agencies, colleges and training providers must all prioritise co-investment, in conjunction with the quality and responsiveness of provision.
11. BIS should ensure that colleges, training providers and all relevant parts of the Government and its agencies support the changes in these recommendations by re-defining the language they use to communicate, particularly with individuals and employers.

RECOMMENDATIONS FOR LONGER TERM DEVELOPMENT

1. BIS and its agencies should give priority (in terms of timescale and funding) to the development of a Learning Account system fully integrated with other online systems.
2. BIS should reconsider the criteria for full funding of learning and training for adults to ensure that Government investment is focused where it is needed most and can achieve most.
3. BIS and its agencies should closely monitor the implementation of these recommended changes and any changes it makes to policy in the area of co-investment, to ensure they are having a positive impact on co-investment and are protecting participation, particularly among vulnerable groups.

URN 10/1025 - Independent review of fees and co-funding in further education in England.

ANNEX A: TERMS OF REFERENCE

Review of Implementation of FE Policy on Fees and Co-Funding

Objective

To ascertain the effectiveness and fit for purpose nature of the LSC's fees and co-funding policy, in light of the National Skills Strategy and as the LSC prepares to transition to the Skills Funding Agency, with a view to identifying areas for improvements and making recommendations accordingly.

Scope

To meet the above objectives, the review will focus its attention on the following areas:

Improving fee collection	· Undertake a desk study analysis of the current level of fee collection · Consider support currently available (LSC/LSIS) to providers to improve performance against fee collection targets and make recommendations accordingly · Review good practice in fees collection *(previous work on innovative case studies)* with a view to sharing lessons learned · Understand any barriers (real or perceived) to fee collection and recommend action to overcome barriers · Recommend action to ensure compliance with fee and co-funding policy, including proposals for penalties for failure to comply · Review the process for collecting co-funding from employers and learners · Consider alternative approaches to co-funding, including minimum fees for all provision/learners, and make recommendations accordingly

Membership

Christopher Banks, CBE – Chair
UKCES, CBI, TUC, AoC, ALP, HE Vice Chancellor, FE Principal, NIACE

Timing

The review will deliver its final report to Ministers to enable recommendations to be considered in good time for implementation in Academic Year 2010/2011 – final timing to be agreed.

ANNEX B: THE REVIEW GROUP

- Christopher N Banks CBE (Chair) - Independent
- Martin Doel - Association of Colleges
- Julian Gravatt - Association of Colleges
- Graham Hoyle - Association of Learning Providers
- John Cridland - Confederation of British Industry
- Richard Wainer - Confederation of British Industry
- James Fothergill - Confederation of British Industry
- Peter Lavender - National Institute of Adult Continuing Education
- Mark Ravenhall - National Institute of Adult Continuing Education
- Geoff Hall - New College Nottingham
- Marinos Paphitis - Skills Funding Agency
- Frances O'Grady - Trades Union Congress
- Tom Wilson - Trades Union Congress
- Michael Davis - UK Commission for Employment and Skills
- John Coyne - University of Derby
- Jacqui Longley - Young People's Learning Agency
- Rosemary Milton (Secretariat) - Department for Business, Innovation and Skills

ANNEX C : GROUPS CONSULTED AS PART OF THE REVIEW PROCESS

- 157 group
- Association of Colleges
- Association of Learning Providers
- Birmingham Metropolitan College
- British Chambers of Commerce
- British Telecom
- Campaign for Learning
- CITB Construction Skills
- Confederation of British Industry
- Edexcel
- Institute of Directors
- JHP
- John Lewis Partnership
- Local Education Authorities Forum for the Education of Adults
- Local Authorities

- National Apprenticeship Service
- National Association of Specialist Colleges
- National Institute of Adult Continuing Education
- National Institute of Adult Continuing Education Further Education Advisory Group
- National Learner Panel
- National Union of Students
- Newcastle College
- New College Nottingham
- Oaklands College
- Plymouth College
- STL Training
- St. Helen's College
- Skills Funding Agency
- Third Sector National Learning Alliance
- Trades Union Congress
- UK Commission for Employment and Skills
- University of Derby
- Virgin Media
- Workers Educational Association
- York College