



Leading learning and skills

# Priorities for Success

Funding for Learning and Skills

## 2006–2008

October 2005

Of interest to all providers receiving  
LSC funding plus partners and stakeholders



## LSC Funding 2006/07 and 2007/08

### Foreword

This document provides details of the priorities for LSC funding in 2006/07 and 2007/08. Minister of State, Bill Rammell MP has also written to delivery partners and MPs setting out the Government's strategic direction for the learning and skills sector for the coming period. The main purpose of this document is to begin the 2006/07 funding allocations process with a clear and concise message on the principles that will underpin the next funding round.

Increases in participation, achievement and the quality of provision have been achieved with the additional funding that has been allocated to Post-16 education and skills. The last Spending Review in 2004 locked in previous real terms increases in funding, as well as providing significant further increases for the period to 2007-08.

The policies detailed within this document build upon this success. However, success in raising participation, achievement and quality increases the pressure on public funding. Given our challenging targets, it is the role of the LSC to prioritise spending on these key targets in order to ensure that public funds achieve best value for the tax payer.

The key priorities for the LSC in 2006/07 and beyond will be set out in full in our Annual Statement of Priorities early in November, following the Grant Letter from the Secretary of State. The headlines will be:

- Ensuring that all 14 to 19-year-olds have access to high quality, relevant learning opportunities;
- Making learning truly demand-led so that it better meets the needs of employers, young people and adults;
- Transforming the learning and skills sector through the *agenda for change*;
- Strengthening the role of the LSC in economic development so that the LSC provides the skills needed to help all individuals into jobs and lifelong employability;
- Improving the skills of the workers who are delivering public services; and
- Strengthening the capacity of the LSC to lead change nationally, regionally and locally.

The following sections of this document set out how the LSC will implement the Government's priorities for the learning and skills sector over the next two years. My expectation, reflecting feedback received on the last funding round, is that by sharing this information earlier with colleges, schools and other providers, our partners will have more time to plan in a considered manner the extent, mix and balance of their learning offers for 2006/07.

**David Russell**  
**National Director of Resources**  
**Learning and Skills Council**

## Section A: Summary of funding priorities

### SUMMARY AND INTRODUCTION

- 1 Following the publication of the 14-19 and Skills White Papers earlier this year, this document sets out the priorities that will inform LSC planning and funding decisions across the learning and skills sector in 2006/07 and 2007/08. It explains in more detail how the LSC will put into practice the strategic approach set out in Bill Rammell's letter of 21 October.
- 2 The priorities are based on a clear funding strategy that builds on the impressive record of the sector in raising levels of participation and achievement for young people and adults. The strategy will ensure that substantial additional levels of public funding for FE and training are focused on the key priorities for the next two years: embedding 14-19 reforms and raising attainment of Level 2 at 19; supporting low-skilled adults in acquiring basic skills and progressing from basic skills to Level 2 and above; increasing employer engagement and increasingly meeting the needs of employers; and continuing to raise standards in all areas of education and training. These priorities will be confirmed again in the LSC Grant Letter at the end of October and in the LSC's Annual Statement of Priorities.
- 3 Based on this framework of priorities, the settlement from the 2004 Spending Review for 2006-07 and 2007-08 will allow the sector to:
  - support an expected additional 46,000 16 to 19-year-olds in schools and colleges by 2007/08 (compared with 2005/06);
  - provide an increase in funding rates for all 16 to 19-year-olds in schools and FE providers in 2006/07 in line with the Minimum Funding Guarantee for schools which will be announced later in the year;
  - deal with some of the technical anomalies in current funding systems for schools and colleges;
  - continue to provide free tuition to adult learners in entitlement groups and national fee remission categories;
  - roll out the National Employer Training Programme across the country from 2006/07, as a new way of delivering training directly focused on meeting employers' needs. This will offer major new opportunities for colleges and training providers to grow their business with employers;
  - continue the substantial improvement in Apprenticeship achievement rates and meet the challenging framework completion objective in 2007/08; and
  - implement a safeguard on funding for Personal and Community Development Learning based on a formula that from 2006/07 will cover PCDL in mainstream FE and LA-funded (Local Authority) adult education.

- 4 In line with the steers received by the LSC during its *agenda for change* events earlier in the year, this document sets out the information that colleges and providers need to prepare their plans for the year ahead at the earliest opportunity. It covers a number of specific changes to LSC funding policy and the process for implementing these changes across the sector. This document will provide the basis for initial discussion at regional and local LSC events during October and November. These events will form the beginning of the LSC business cycle that will result in agreed college and provider development plans and confirmed funding allocations by spring 2006. The arrangements and timetable for confirming allocations with schools are set out in a separate and parallel document.

### Government priorities for public funding of learning and skills

- 5 The priorities for funding set out in this document will provide the framework for the sector to focus funding on delivering the key aspects of the 14-19 and Skills White Papers. The White Papers set out clearly the Government's priorities for public funding of learning and skills:
- a place at a school, college or training provider for every young person that stays on in full or part-time education and training;
  - learning for adults who lack basic skills or the platform of skills for employability (recognised as a first full Level 2 qualification);
  - ensuring a wide range of opportunities for adults to progress to higher level skills and qualifications, particularly at Level 3, while bearing some of the cost in recognition of the benefits received; and
  - ensuring the continued availability of a wide range of adult learning opportunities for personal and community development.
- 6 These priorities are reflected in the post-14 PSA (Public Service Agreement) targets for Level 2 achievement by age 19, and Skills for Life and Level 2 achievements for adults. The LSC has a statutory duty to secure learning for 16 to 19-year-olds. Adults without basic skills are entitled to free learning. Learners pursuing their first full Level 2 do not pay tuition fees and adults claiming income-related benefits are also entitled to full national fee remission. Outside these priority areas, a national fee assumption is applied to base funding rates for provision, in line with the fundamental principle set out in the Skills Strategy that individuals and employers should contribute more towards the cost of their learning in line with the benefits they receive.
- 7 These will continue to be the key priorities that inform LSC planning and funding decisions. However, **rebalancing public and private contributions to the cost of education and training** will now become increasingly central as participation by young people continues to increase; as 14-19 programmes of study become broader and more personalised; and as the LSC needs to increasingly focus funding for adult learning on those adults without a first full Level 2 qualification or basic skills, on increasing progression to Level 3, and on meeting the

needs of employers through the National Employer Training Programme. To focus limited public funding on these priorities will require a step change in the balance of funding between the state and the individual or employer, for learning outside these priority groups.

### Challenges and pressures

- 8 Since 1997, investment in the FE sector has risen by around 48% in real terms. The 2002 Spending Review included very substantial levels of new money alongside the *Success for All* strategy to invest in improving standards in teaching and learning to create a high quality, demand-led sector, and capital to modernise the college estate. These increases in funding have enabled colleges and providers to make major advances in increasing participation and improving standards of which the sector can be rightly proud: just over 100,000 more 16-18 learners in full-time education since 1997; a tripling of the number of young people on Apprenticeships; tackling the basic skills needs of over a million adults; and an increase in the average student success rates from 53% to 72%.
- 9 The successes of the past few years have been very welcome, and have once again demonstrated the sector's ability to respond to the changing demands of a very broad and challenging agenda. However, while very good progress has been made, there are still areas for improvement:
  - as 16-19 participation continues to increase, **there is a need to ensure that funding is allocated to 16-19 learning programmes to achieve the best value for money.** There is some evidence that higher 16-19 learner numbers coupled with broader programmes of study, have pushed average costs in some types of provision up to higher than appropriate levels. In many cases this is not as a result of young people taking more stretching programmes of study, but rather as result of small, low-level modules taken alongside main learning programmes, or multiple exams taken on the basis of a single course of study. It is important that the broader programmes that the LSC expects young people to pursue are focused on the needs of the learner;
  - **it is important now to focus public investment in adult learning on increasing participation and achievement in areas of highest economic and social priority.** A large proportion of public funding is still focused on students who already have a qualification at Level 2 or above and who are not progressing to higher levels. And while the substantial increase in short course provision has helped to widen participation in learning, many of these students have not gone on to further learning. This is partly because of the emphasis on participation in its own right in the past;

- **colleges have had a mixed record in improving their status as providers of choice for employers:** although those employers that use colleges rate their offer highly, many employers still do not regard their local college as the first port of call for training. Improvements are essential if the sector is to contribute effectively to delivering the skills required for local, regional and national economic success; and
  - **increases in public funding have not been accompanied by increasing contributions from individuals and employers.** This is partly because the LSC has not made progress in making individuals and employers sufficiently aware of the benefits of investing in training and learning at a college. Too many of those who pay fees are still unaware of the level of public subsidy, and hence the true cost and quality of the provision on offer.
- 10 In 2006-07 and 2007-08 the sector will face significant challenges. Continuing to increase 16-18 participation rates will mean engaging more of the hardest to reach young people. Responding to the challenge of expanding the availability of high quality vocational 14-19 programmes, and designing programmes that reflect the needs of employers and individual young people, will require greater flexibility in course planning and teaching practice. And the sector will need to move quickly to embed the principles of flexibility and responsiveness that form the basis of the National Employer Training Programme.

#### Priorities for funding in 2006-07 and 2007-08

- 11 The Chancellor announced the 2004 Spending Review settlement for education and skills in April 2004, which provided over £1 billion of additional investment in the learning and skills sector by 2007-08. Since then, the LSC has reviewed with the DfES the whole range of activity currently funded within the sector, the pressures currently faced across the sector, and the delivery challenges that the sector will face in the coming years.
- 12 Delivering the priorities in the 14-19 and Skills White Papers whilst making best use of the additional funding from the Spending Review, will mean addressing the key issues set out in paragraph 9. This will require a major shift in the way the sector plans, funds and delivers learning: so that public funding is focused even more tightly on key priorities for 14-19 reform, employer engagement and raising standards for all learners; so that the sector has a more diversified and sustainable funding base built on rising contributions from individuals and employers; and so that the sector has even greater credibility with employers, who seek out FE providers and are willing to pay more for training delivered.

- 13 The priorities for funding in 2006/07 and 2007/08 will support the sector in making this shift. The consequences of a focus on priorities will be:
- funding further increases in participation and attainment by 16 to 19-year-olds in schools and colleges, to ensure that the target for achieving Level 2 at 19 is met;
  - maintaining real terms growth in funding for 16 to 19-year-olds whilst restraining further growth in unit funding levels; increasing funding rates in FE in 2006/07 in line with the Minimum Funding Guarantee for schools, which will be announced later this year; and tackling some of the technical anomalies in school and college funding systems for 16 to 19-year-olds;
  - a tighter focus on key priorities in public funding for adult learning, involving more provision delivered at full cost and a significant increase in fees, but with a safeguarded level of public funding for Personal and Community Development Learning;
  - funding vocational learning that is valued by employers, with colleges and providers developing close employer links that inform the curriculum and enable young people who seek this route to progress into employment, ideally through Apprenticeships; and
  - a further significant transfer of funds out of centrally-held budgets in both the DfES and the LSC for consolidation into core sector funding.
- 14 **The most important aspect of this approach is a step change in rebalancing public and private contributions to the cost of learning.** Building on the initial increase in the national fee assumption made for 2005/06, the LSC will take further significant steps in 2006/07 and 2007/08 towards the Government's long-term intention that employers and individuals should contribute financially to the cost of learning as equal partners with Government, in line with the economic and social benefits they receive.
- 15 The Government's current intention is that the national fee assumption should rise further over time to around 50%, while continuing to protect priority groups of learners through fee remission, and to invest public funds in the priority areas of learning. Appropriate support will be assured for people who are disadvantaged and the most vulnerable. In line with this longer-term aim, the level of the assumed fee contribution to the base national funding rate for learners not in the national fee remission categories will increase by five percentage points in each of the 2006/07 and 2007/08 academic years. This will take the assumed contribution of private investment to the cost of learning for those not in entitlement groups to 37.5% in 2007/08. The contribution employers make towards work-based learning will also be reviewed as part of *agenda for change* to achieve greater consistency with FE.



- 16 A clear direction of travel on fees for adults outside national entitlement groups is being announced now to give colleges and providers time to plan ahead. However, this increase in fees will be challenging to implement and the LSC will support colleges and providers in making this change. It will require a further debate with learners and employers to ensure that they understand the true cost of learning provided by the sector, and the scale of the public funding subsidy. It means that the sector will need to collect more of the fees that colleges and providers currently choose to remit. The LSC will set challenging fee income targets and work with colleges as they raise the income they generate from private sources. And the DfES and the LSC will provide further support, by helping to develop fee strategies; through the LSC's *agenda for change*, which will further reduce the bureaucratic burden on colleges and providers and simplify accountability; and through support from other agencies such as the Quality Improvement Agency and Sector Skills Councils.
- 17 Responding to these priorities will enable the sector to respond to the full range of challenges in the 14-19 and Skills White Papers. Public funding will continue to provide the core for stability and continued improvement in standards across the sector, but increasing private investment will both enable and encourage the flexibility and responsiveness required to realise the long-term vision of a sector which is the engine of a successful, dynamic economy and a key driver of social mobility.
- 18 The second section of this document sets out the elements of the funding strategy for 2006/07 and 2007/08 in more detail.

## Section B: Funding policies for 2006/07 and 2007/08

### GOVERNMENT INVESTMENT

19 Between 2001-02 and 2005-06 the Government has invested over £3 billion of additional funding in the learning and skills sector. This investment will continue into 2006-07 and 2007-08, although the rate of increase will not be as rapid as between 2003-04 and 2005-06, which reflected the step-change investment of the *Success for All* strategy. In addition, the Government has announced that an additional £100 million of capital funding will be made available in 2008-09, and £250 million in 2009-10.

**Table 1 – Summary of LSC funding 2001-02 to 2005-06<sup>1</sup>**

|  | 2001-02<br>Actual<br>£000s | 2002-03<br>Actual<br>£000s | 2003-04<br>Actual<br>£000s | 2004-05<br>Actual <sup>4</sup><br>£000s | 2005-06<br>Forecast<br>£000s |
|--|----------------------------|----------------------------|----------------------------|---|------------------------------|
| Learning Participation                       | 4,655,151                  | 5,085,444                  | 6,155,040                  | 6,414,640                               | 7,096,202                    |
| School Sixth Forms                           | 1,345,300 <sup>2</sup>     | 1,399,134                  | 1,525,453                  | 1,654,764                               | 1,785,800                    |
| Local Intervention & Development Fund (LIDF) | 280,791                    | 504,427                    | 331,784                    | 280,749                                 | 190,853                      |
| Capital                                      | 182,612                    | 233,031                    | 299,531                    | 372,316                                 | 393,800                      |
| <b>Total</b>                                 | <b>6,463,854</b>           | <b>7,222,036</b>           | <b>8,311,808</b>           | <b>8,722,469</b>                        | <b>9,466,655<sup>3</sup></b> |

**Table 2 – Forecast LSC expenditure 2005-06 to 2007-08<sup>1</sup>**

|                               | 2005-06<br>Forecast<br>£000s | 2006-07<br>Forecast<br>£000s | 2007-08<br>Forecast<br>£000s |
|-------------------------------|------------------------------|------------------------------|------------------------------|
| Learning Participation & LIDF | 7,287,055                    | 7,338,962                    | 7,698,023                    |
| School Sixth Forms            | 1,785,800                    | 1,871,098                    | 1,910,437                    |
| Capital                       | 393,800                      | 468,800                      | 595,800                      |
| <b>Total<sup>3</sup></b>      | <b>9,466,655</b>             | <b>9,678,860</b>             | <b>10,204,260</b>            |

1 Figures exclude LSC administration costs.

2 School sixth-form expenditure not included in the LSC's statutory accounts

3 Does not include Education Maintenance Allowance

4 Subject to NAO approval

20 The scale of investment reflects the importance of the learning and skills sector for the Government's aims of improving productivity and competitiveness, and achieving social justice. There are challenging Public Service Agreement (PSA) targets for the LSC to support with its funds, for both young people and adults:

- increase the proportion of 19-year olds achieving at least Level 2 by three percentage points between 2004 and 2006, and a further two percentage points between 2006 and 2008;
- improve the basic skills levels of 2.25 million adults between 2001 and 2010, with a milestone of 1.5 million by 2007; and
- reduce by at least 40% the number of adults in the workforce who lack Level 2 or equivalent qualification by 2010. The LSC has committed to contributing a minimum of 950,000 first full Level 2 qualifications to this target.

- 21 In addition to these headline targets and its statutory duty to provide places for 16 to 18-year-olds, the LSC has a range of other priorities: it must help to deliver the 14-19 reforms, promote Apprenticeships, and support regional skills priorities, particularly at Level 3 and above, and management and leadership training for employers; it needs to secure sufficient progression learning to enable people to move on to their first full Level 2; and it must fund learning for personal and community development, in line with the 'safeguard' set out in the Skills White Paper. The LSC also has a statutory duty to promote equality and diversity, and to ensure that the needs of learners with learning difficulties and/or disabilities are addressed. In addition it now has a new responsibility to plan and fund learning for offenders.

### FUNDING PRESSURES

- 22 Despite the substantially increased investment, colleges, providers and the LSC have faced considerable funding pressures between 2003-04 and 2005-06. In addition to normal cost increases, colleges and providers have been required to deal with increased pension contributions for teachers and support staff, and additional national insurance payments.
- 23 For the LSC, there have been three key areas of significant cost pressures. Firstly, **16-18 unit costs** (funding per pupil or FTE) have increased rapidly, particularly because of additions to learners' programmes. Within the funds available for 2006-07 and 2007-08, there is a tension between increasing the numbers of 16 to 18-year-olds participating in education, and further increasing average funding per pupil or FTE beyond the increases that the settlement allows.
- 24 The second main pressure concerns **work-based learning**. Costs have increased because of welcome and rapid improvements in retention and achievement in Apprenticeships. Learners' programmes expanded to accommodate technical certificates and key skills, and the costs of the highly successful e2e (Entry to Employment) programme also exceeded expectations.
- 25 Thirdly, there has been a continuing increase in the cost of specialist provision for **learners with learning difficulties and/or disabilities**. At the inception of the LSC, the funding for this provision amounted to £50 million; in 2005-06 the LSC expects to spend £138 million, growing to £181 million in 2007-08. The LSC has commissioned a wide-ranging independent review of provision for learners with learning difficulties and/or disabilities by Peter Little OBE, and the report will be published in November 2005. This report will include consideration of how the cost-effectiveness of this specialist provision can be improved. The LSC has also recently reviewed the costs associated with the matrix through which placements for individual learners are funded at specialist providers.

- 26 The LSC will work with specialist colleges for learners with learning difficulties and/or disabilities to ensure that the sector is not destabilised by implementing the findings of the review of the costs associated with the matrix funding of learners with learning difficulties and/or disabilities at specialist colleges.
- 27 As the LSC moves into 2006-07 and 2007-08, there are further issues that have to be addressed – concerning the National Employer Training Programme (NETP), school sixth-form and college funding arrangements, and offender learning. These are set out in the following paragraphs.

#### National Employer Training Programme

- 28 The Skills White Paper published in March 2005 announced that the National Employer Training Programme (NETP) would be rolled out from 2006/07. The NETP is the centrepiece of the delivery of the Skills Strategy – a demand-led approach to training where employers have an effective choice of provision. Colleges and providers will need to deliver high-quality training programmes at the time, pace and place determined by the employer.
- 29 The total costs of NETP are £230 million in 2006-07 and £399 million in 2007-08. This expenditure will allow NETP to be introduced into the 20 LSC areas currently running Employer Training Pilots from April 2006, and into the remaining 27 LSC areas and the National Employer Service from August 2006.

#### School sixth forms and colleges

- 30 In her statement on school funding from 2006-07 made on 21 July 2005, Jacqui Smith said the Government would examine the scope for addressing the technical anomalies between school sixth-form and college funding methods. The LSC has identified a number of steps it will be taking in 2006/07 and 2007/08 to address some of these anomalies and further work will be taken forward in the context of the LSC's *agenda for change* programme.

#### Offender learning

- 31 From 1 August 2006 the LSC will be responsible for the planning and funding of offender learning. It will provide a revitalised set of delivery arrangements with a set of high-quality providers charged with delivering a richer and more relevant curriculum to offenders both in custody and in the community. Funding to support this additional responsibility will transfer to the LSC from 2006-07.

### FUNDING POLICY CHANGES FOR 2006-07 AND 2007-08

- 32 Ministers and the LSC have agreed a set of funding policy changes to make progress towards the Government's vision for the learning and skills sector (set out in section A) and the funding system envisaged under *agenda for change*. The changes will rebalance our funding, with savings in some areas enabling further investment in priorities. The LSC recognises that making the required savings will pose some significant challenges for colleges and providers. Hence the LSC needs to harness the resources of the DfES, LSC and other agencies, to help our partners work through the issues (see section C).
- 33 The priorities for funding, and the changes to funding policy that support them, can be set out in three main groups:
- maintaining real terms growth in **16-18 funding**, increasing funding rates in FE in 2006/07 in line with the Minimum Funding Guarantee in schools, while restraining growth in average funding per student and tackling the anomalies between school sixth-form and FE funding arrangements;
  - **increasing contributions of employers and individuals** to the costs of adult learning, while focusing public funding on the highest priority activity and safeguarding funding for Personal and Community Development Learning; and
  - **redirecting funds** held centrally by the DfES and LSC to supporting participation, maximising allocations to institutions and learners.

### 16-18 FUNDING LEVELS

- 34 The proposals for 16-18 funding outlined below will support a sharper focus on priorities – particularly the PSA target for Level 2 achievement at 19 – and start the process of dealing with the anomalies between school and college funding. Most importantly the funding allows for a significant increase in volumes for this age group and it will allow funding rates for pupils in schools and colleges to be increased in line with the Minimum Funding Guarantee. This section is aimed at the whole learning and skills sector – there is a more detailed separate document being sent to schools that covers issues which apply to that sector alone.

### Funding rates in schools and colleges

- 35 The Secretary of State will announce the Minimum Funding Guarantee applying to school funding for 2006-07 and 2007-08 later this year. Details of the guarantee and other funding changes relating to schools will be provided in a separate document.
- 36 For 2006/07 the LSC will increase funding rates for 16 to 18-year-olds funded through the FE route by the same amount as the Minimum Funding Guarantee. Funding rates for 19+ learners in FE will increase by 2.5%.

- 37 The Minimum Funding Guarantee methodology that currently applies to schools' pre-16 funding will be extended in 2006-07 and 2007-08 to include school sixth forms. This is explained in the separate document setting out in more detail the funding methodology and approach for schools in 2006/07 and 2007/08.

### Funding levels in schools and colleges

- 38 Currently both sixth-form and college funding systems impose a limit on the amount of funding assigned to learners. In colleges this operates at the level of funding per individual learner, through the funding 'taper'. In schools it is an average based on all pupils' learning programmes in the sixth form.
- 39 From 2006/07 the policy intention is to set the funding limit at a level which supports our policy of encouraging genuinely challenging and enriching courses of study, while bearing down on the practice of pupils taking very similar qualifications or lower level 'add-on' courses and recognising the economies of scale that occur when students take larger programmes.
- 40 The practical application of that policy is that for schools the maximum base funding per learner in 2006/07 will be set at an average of 4.25 AS/A2 qualifications, before the addition of per pupil entitlement funding. Other funding factors, such as subject weightings, disadvantage and area costs, will continue as at present. The funding limit will continue to apply as an **average** across the whole school sixth form. A safeguard to ensure overall stability for schools funding as these changes are introduced is set out in the separate schools funding document.
- 41 For colleges the maximum base level of funding is currently calculated at individual learner level rather than as an average as in schools. This means that if there were no further changes the revised maximum would have a different effect in colleges as compared to schools. The LSC will therefore develop a method for applying the maximum in the FE sector that ensures stability of funding as the changes are introduced and that the effect is the same as for sixth forms. Details will be provided later in the year.

### Data collection: retention and achievement

- 42 Although the present funding arrangements for school sixth forms and colleges both take into account learners' retention and achievement, they operate in different ways. In schools pupils can withdraw from particular subjects or 'learning aims', but remain fully funded provided they do not withdraw from the school altogether before the January pupil number return (PLASC). In colleges withdrawals are calculated at a learning aim level, using data relating to the three census points in the year. Achievement is assessed on actual data in colleges, while an assumption of 87% achievement (based on historical data for sixth-form colleges) is built into schools' allocations. As outlined earlier the LSC is pursuing the best way of collecting pupil level data in school sixth forms as part of our work on measuring success and to make further progress in removing anomalies between the school sixth-form and FE funding systems.

### Real terms guarantee in school sixth forms

- 43 The Real Terms Guarantee (RTG) will be phased out over 2006/07 and 2007/08, ceasing from 2008/09 onwards. Although the proportion of sixth forms having their allocations determined by the RTG is declining (14% in 2005/06), ending the RTG will result in a more straightforward system.

### In-year pupil adjustment in school sixth forms

- 44 In line with the Secretary of State's proposals for using a single pupil count as the basis for stable school funding, the LSC will cease making in-year adjustments to sixth-form funding after September 2005. Allocations will be linked to the previous year's numbers – so, for example, the 2006/07 allocation will be based on the pupil numbers and qualifications recorded in the 2005 September Pupil Count.
- 45 This will make the school funding approach more consistent with the FE system, where there is no automatic adjustment of funding during the year. It is also a step towards a common funding approach envisaged in the *agenda for change* proposals.

### Work-based learning

- 46 The costs of Apprenticeships and other work-based learning have risen significantly in recent years. The focus on improved achievement will continue and following the changes introduced in 2005/06 providers can be expected to earn additional income through increased framework achievement. It has therefore been determined that the funding rate for work-based learning for 16 to 18-year-olds and for e2e should increase by 2.5% in 2006/07.
- 47 A factor driving increased unit costs has been the introduction of technical certificates. In many cases there is an overlap between the knowledge-based technical certificate and the competence-based NVQ. The LSC will work with Sector Skills Councils (SSCs) to remove



duplication, and this will inform a review of framework funding rates. Technical certificates are often delivered by colleges contracted to providers, and colleges determine the fee paid, which can be substantially above the amount received by the provider. The LSC would not expect colleges to charge above the rate to the provider in the future.

- 48 The Government's contribution to the costs of delivery of work-based learning for 19 to 25-year-old learners is also in need of review in the light of wider fees policies and the introduction of NETP. Further details will be provided following consultation with providers and colleges.

### ADULT LEARNING

- 49 The proposals for adult provision will redirect public funding, partly through increasing the contribution of employers and individuals to learning costs, so that more Level 2 and Skills for Life learning can be supported through public funds, and partly through the planning process giving effect to Government priorities.
- 50 The Skills White Papers and LSC consultation document on adult learning (July 2004) mapped out a long-term reform programme focusing on the Government's key priorities in adult learning, and providing greater equity and transparency in the distribution of funds. This includes a 'safeguarded' amount of funding for Personal and Community Development Learning. The safeguard will cover learning for personal development (primarily 'leisure' learning) within the current Adult and Community Learning (ACL) and FE funding streams, and family and neighbourhood learning. For 2006/07 the safeguarded sum will be £210 million, comprising £153 million for Personal and Community Development Learning, and £57 million for family and neighbourhood learning. The LSC will continue to work with adult providers and colleges on the details of the implementation of the safeguard for 2006/07. The LSC will maintain the safeguard in 2007/08 as a proportion of adult participation funds.
- 51 This learning potentially offers social and economic benefits for a wide range of people, and the funding will ensure that there is a range of opportunities available in each area. The LSC will build on existing good local practice in planning this type of provision. The aim will be true partnerships at local level which will lead to wider participation in this type of learning, drawing in non-LSC funding sources where feasible and involving local communities. Finally, the LSC will introduce gradually over the next few years an objective basis for allocating LSC funding to local areas based on the size of the adult population and taking into account areas of deprivation and local costs. The detailed arrangements will be developed over the coming months in partnership with other stakeholders.



### Increase in fee contributions

- 52 The national fee assumption has been increased by 2.5% (to 27.5%) in 2005/06 as part of our wider strategy to raise the level of contributions from employers and learners who can afford to pay, in order to redirect funds to support growth in priority areas of learning. The LSC proposes to raise the fee assumption by a further 5 percentage points in both 2006/07 and 2007/08, taking the assumption to 32.5% in 2006/07 and 37.5% in 2007/08. This will raise the average level of fee paid per hour by adult learners from £1.42 to £1.94 by 2007/08, with the public purse continuing to meet at least 62.5% of the tuition costs.
- 53 The LSC recognises that increasing fee income is a significant challenge for colleges and providers. In section C of this document the LSC outlines how it intends to work with all providers to achieve this change, and to communicate clear messages to employers and individuals. In addition, Learner Support funds will be sustained and increased from current levels.

### Short courses

- 54 The majority of very short learning aims (below nine guided learning hours) fall into two groups; very short Skills for Life programmes of between three and six guided learning hours, and other short programmes, particularly in information technology. Very short Skills for Life programmes should be part of larger programmes aiming towards the achievement of qualifications. Other very short courses appear to have limited benefits in terms of progression for learners. The LSC will therefore cease funding very short learning aims below nine hours.

### Volume of adult learning

- 55 As part of our drive to refocus funding on the Government's key priorities for adult learning, the LSC has been reviewing, with colleges and providers, the volume and balance of provision. In addition to learning contributing directly to targets and priorities, the LSC spends approximately £550 million on provision that is generally internally certified or not certificated through the National Qualifications framework. While some of this learning offers progression to further learning, this is not always the case.
- 56 To increase the focus of public funding on the Government's key priorities for adult learning, the LSC proposes to reduce spending on this type of activity by £73 million in 2006/07. While this rebalancing will require careful implementation by the LSC, colleges and providers, there will be substantial funding remaining to ensure that there is adequate progression learning available in each area, and to meet the needs of people with learning difficulties and/or disabilities.

### Provision to meet employer responsibilities

- 57 One example of potential rebalancing follows. Employers have a range of responsibilities concerning the training of staff to meet health and safety and food hygiene requirements at work. The majority of this training is already fully funded by employers on a commercial basis and it is something of an anomaly that over time courses provided by colleges have come to be available at partial or no cost to employers. As part of the process of reviewing funding priorities, the LSC is urgently and actively considering its funding for first aid at work and food hygiene training linked to employers' responsibilities. The option is that the LSC will cease funding this provision with colleges and providers delivering at full cost to employers, but the LSC will consult with key partners on the implications of making this change.

### Skills for Life

- 58 The Skills for Life strategy has been highly successful. Up to July 2005 more than one million learners have improved their literacy, numeracy or English language skills. However, the LSC is concerned that there is still too much provision that is of poor quality or that does not contribute to the PSA target. In line with our commitment to only fund good quality provision, the LSC will continue to work with providers to deliver improvements, but will remove funding from provision that is consistently poor and does not enable learners to progress towards achieving qualifications. The LSC will build on improvements made in 2003/04 and 2004/05 and work with providers to manage the balance and mix of provision so that there is a greater shift towards the use of nationally approved qualifications.
- 59 The plans to reduce the volume of short course provision of three and six guided learning hours include savings from this type of basic skills provision. The LSC expects providers to incorporate initial and diagnostic assessments into longer programmes for learners. In addition, and in line with our determination to focus resources on those with the greatest need, the LSC will no longer fund external candidates who access stand-alone basic skills national tests and it will expect providers to charge a fee for this service.
- 60 Our total expenditure on adult Skills for Life provision in 2005/06 is projected to be £470 million. The proposals above will generate savings in the region of £16 million a year. This will be managed locally through the planning dialogue and adjustments to provider allocations. Funding for ESOL provision will also be reviewed to inform arrangements from 2007/08.

### Ufl/learnirect

- 61 The LSC will continue to make a substantial investment of over £175 million in Ufl/**learnirect**, which will enable it to continue its innovative work, and in particular its Skills for Life programmes. However, consistent with other adult provision the following funding changes will be applied to **learnirect** provision for 2006/07 and 2007/08:
- any decisions arising from the LSC's review of first aid and other health & safety and food hygiene qualifications designed to meet the statutory obligations of employers will apply to **learnirect**;
  - no public funding will be available for learners undertaking stand-alone national tests where they are not enrolled on a **learnirect** Skills for Life course;
  - a 32.5% fee assumption will be applied from 2006/07. This will subsequently be increased to 37.5% from 2007/08;
  - Ufl's administration budget will be reduced by at least £1 million; and
  - the LSC will commission a further review of Ufl and **learnirect** provision.
- 62 However, if the proposal to stop separately funding short courses was applied to **learnirect** provision, providing consistency with other recommendations in this report, **learnirect** provision would effectively cease, compromising the Government's e-learning strategy. The intention of **learnirect** provision is that it was and continues to be short-course based. The volume of **learnirect** provision and associated budget will be determined through the planning dialogue between Ufl and LSC.

### REDIRECTION OF CENTRAL BUDGETS

- 63 For 2006/07 and 2007/08 our key priority is to ensure as much of the available funding as possible is directed to the front line. The DfES has identified an additional £65 million in 2006-07 and £93 million in 2007-08 which will be available to the LSC to support participation.
- 64 The LSC's review of its central budgets has identified £58.7 million in 2006-07 and £59.5 million in 2007-08 for redirection. This represents a reduction of approximately 10% in expenditure. Details of specific budgets will be confirmed following receipt of the LSC Grant Letter.

### IMPACT OF FUNDING CHANGES ON LEARNERS, COLLEGES, SCHOOLS AND PROVIDERS

- 65 The measures outlined above will enable schools, colleges and providers to expand opportunities for learners in priority areas. For 16 to 18-year-olds, the LSC envisages that it will be funding an additional 27,000 places in schools and colleges in 2006/07, and a further 19,000 in 2007/08. And 16-18 Apprenticeship and e2e numbers are also expected to rise.

- 66 Funding available from the LSC for adult learning will be sufficient to broadly maintain the total amount of publicly-funded adult learning taking account of the duration of courses. There is, however, an important shift in the planned composition of provision towards longer and more expensive courses for adults seeking the skills they need for employability and further progression in learning. This means that the number of places supported by LSC funding in internally-certified or non-certificated provision that contributes less directly to priorities will fall by around 500,000. Set against this there will be an additional 274,000 full Level 2 places by 2007/08 over 2005/06 levels, delivered through NETP and mainstream FE. Therefore the net loss in places will be around 230,000, leaving a total of 3.5 million by 2007/08, a reduction of around 6%.
- 67 Take-up of places by employers and individuals, of course, cannot be forecast with any certainty. The impact of the increase in the fee assumption for non-entitlement learning to 32.5% and then 37.5% is difficult to assess. Institutions are likely to reshape their programmes to offer more courses for which people are prepared to pay, and to target their Learner Support funds to mitigate the effects of fee increases on people least able to pay. The LSC is increasing Learner Support funds, and Adult Learning Grant will be rolled out to further regions. The LSC has commissioned the Learning and Skills Development Agency (LSDA) to research the impact of fee increases in 2005/06, and this work will inform strategies to help institutions manage the changes in 2006/07 and 2007/08.
- 68 The LSC also expects that colleges and providers will expand their full-cost programmes, particularly to meet employers' business needs. As set out in section C, the LSC will work with partners to create the culture and climate for this expansion.
- 69 The effects of the funding changes on allocations to colleges, schools and providers will deliver an estimated average 3% cash increase in each of 2006/07 and 2007/08, subject to future grant settlements. There will be variations around this average, and the LSC will be working through the impact with individual schools, colleges and providers over the next months. The impact of these changes on work-based learning providers will be dependent on current and future achievement rates and the success of an individual provider in attracting fee income from employers for those over 19. However it is recognised that providers will need to make efficiency savings.

Table 3 – Forecast LSC expenditure 2006-07 and 2007-08

| Budget Line<br>£000's/Financial Year                    | Latest<br>Allocations<br>2005-06 | Planned Expenditure |                   | % change<br>year on year |           |
|---|----------------------------------|---------------------|-------------------|--------------------------|-----------|
|   |                                  | 2006-07             | 2007-08           | 2006-07                  | 2007-08   |
| School Sixth Forms <sup>1</sup>                         | 1,785,800                        | 1,871,098           | 1,910,437         | 5%                       | 2%        |
| 16-19 FE <sup>1</sup>                                   | 2,666,667                        | 2,863,200           | 3,026,800         | 7%                       | 6%        |
| Work-based Learning                                     | 1,094,820                        | 1,080,325           | 1,108,225         | -1%                      | 3%        |
| 19+ FE (includes LA non-PCDL activity) <sup>2</sup>     | 2,009,815                        | 1,932,858           | 1,873,337         | -4%                      | -3%       |
| National Employer Training Programme/ETP                | 161,027                          | 230,000             | 399,000           | 43%                      | 73%       |
| Personal and Community Development Learning (PCDL)      | 210,000                          | 210,000             | 210,000           | 0%                       | 0%        |
| Learners with Learning Disabilities and/or Difficulties | 138,252                          | 157,662             | 181,311           | 14%                      | 15%       |
| Learner Support Funds                                   | 191,454                          | 198,249             | 208,609           | 4%                       | 5%        |
| Ufl/ <b>learndirect</b> <sup>3</sup>                    | 201,225                          | 176,332             | 175,332           | -12%                     | -1%       |
| 14-19, Skills and Quality Reform                        | 447,549                          | 425,792             | 436,625           | -5%                      | 3%        |
| Capacity and Infrastructure <sup>4</sup>                | 166,246                          | 64,244              | 78,784            | -61%                     | 23%       |
| LSC Capital   | 393,800                          | 468,800             | 595,800           | 19%                      | 27%       |
| <b>Total DEL Expenditure<sup>5</sup></b>                | <b>9,466,655</b>                 | <b>9,678,560</b>    | <b>10,204,260</b> | <b>2%</b>                | <b>5%</b> |
| <b>AME Expenditure<sup>5</sup></b>                      | <b>403,000</b>                   | <b>511,000</b>      | <b>529,000</b>    | <b>27%</b>               | <b>4%</b> |
| <b>Grand Total</b>                                      | <b>9,869,655</b>                 | <b>10,189,560</b>   | <b>10,733,260</b> | <b>3%</b>                | <b>5%</b> |

**Notes**

- 1 Subject to the announcement on the Minimum Funding Guarantee later in the year.
- 2 Includes some internally certified or non-NQF provision funded via LAs previously contained within the Adult and Community Learning budget.
- 3 2005-06 Ufl/**learndirect** allocations include resources carried forward from 2004-05.
- 4 2005-06 figure includes additional resources transferred to the LSC in-year for time limited activities which do not continue into 2006-07.
- 5 Indicates expenditure within DEL (Departmental Expenditure Limit) and AME (Annually Managed Expenditure). DEL figure currently excludes LSC administration costs. Expenditure in AME represents the LSC budget for Education Maintenance Allowance.

## Section C: Supporting the changes

- 70 The DfES and LSC recognise the challenges faced by colleges and providers in responding to the Government's priorities. Colleges and providers will need to market their training services more effectively, especially to employers. Leaders, managers and all staff working in the sector will need better preparation and support to understand and respond to the policy and funding priorities. Employers and individuals will need to understand clearly the government's expectations about their contribution to the costs of learning. Government and the LSC with partners in the Skills Alliance will make sure that those priorities are communicated nationally and locally to explain and reinforce work with learners and employers at institutional level. This section sets out how the LSC will work with institutions and all partners in the learning and skills sector to ensure that as much support as possible is available.

### Fees and income generation

- 71 A central element of the Government's funding strategy is to increase contributions to the costs of learning from employers and individuals, in line with their ability to pay and the benefits they receive. Colleges and providers will need to focus on strategies to grow fee income and other income-generating activity such as full-cost courses.
- 72 The LSC will work with partners at local, regional and national levels to support institutions to maximise fee income. Sector Skills Councils will have a key role in working with the LSC and Regional Development Agencies (RDAs) to stimulate employer engagement and raise demand. The fee income measure introduced in 2005 will be a key part of the next development planning dialogue, building on the recommendations of the *Fees Good Practice Guide* (published July 2005). Local LSCs will address situations where colleges or providers are systematically undercutting the fee assumptions, within the requirements of competition law. They will seek assistance from other partners, including RDAs and government departments, to ensure that organisations sponsoring training act in line with the fees strategy. Communications and marketing activity will emphasise key messages on fees contributions, to employers and individuals.
- 73 As part of its role in enabling the sector to respond to strategic change, the new Quality Improvement Agency (QIA) will, from April 2006, help colleges and providers develop their capacity for generating income by disseminating innovative approaches and good practice and facilitating partnership working with those in the sector with a positive record of income generation.
- 74 The QIA will offer a range of services which colleges and providers can call upon to help them manage strategic and cultural change in line with Government priorities and their own development plans. QIA will publish a prospectus in April 2006 setting out its national, regional and online services and how the sector can access them. Some will be in

place immediately; others will become available over the first year. They will include, for example:

- guidance on best practice and effective approaches to maximising fee income;
- brokering partnerships between providers to share experiences and learning;
- facilitating peer review and mentoring between organisations and offering expert advice to providers through its Improvement Adviser network; and
- national quality improvement programmes, including the Teaching and Learning Change programme.

- 75 The Centre for Excellence in Leadership (CEL) will offer targeted support on income generation from late autumn 2005, including:
- workshops to support income generation (with input from the National Audit Office and linking with good practice and advice from QIA);
  - conference workshops at relevant events during the year;
  - shared good practice and advice in collaboration with QIA;
  - action learning sets for provider CEOs/Principals, middle managers and governing bodies; and
  - relevant input to their core leadership programmes on strategic financial planning.

### Support for NETP roll-out

- 76 CEL and QIA are working together with DfES, LSC, ALI (Adult Learning Inspectorate) and other partners to help providers prepare for and deliver the NETP, as this becomes available across the country. This will include support for leaders available from CEL in late autumn 2005, and a quality framework for the delivery of NETP available by March 2006.
- 77 There is also a programme of work to support the development of high quality 'assess train assess' approaches in NETP and to strengthen the effectiveness of teaching and training through the programme in key vocational areas. This builds on the successful approaches developed in the Teaching and Learning Change programme, interpreted and applied to the NETP context. A guide to existing resources most applicable to NETP, and a good practice guide to 'assess train assess' will be ready for early summer 2006.

### Understanding skill needs and strengthening relationships with employers

- 78 Sector Skills Councils (SSCs) have a strong interest in supporting the development of responsive and high quality training provision to meet the needs of employers in each sector of the economy and in encouraging employers to invest in skills development to meet the needs of their organisations. The SSDA (Sector Skills Development Agency) and SSCs understand that employers have responsibilities as



well as rights in relation to training and will assist in the culture change required to convince more businesses of the value of making their investment in skills alongside that of individuals and the Government. SSCs will work with the QIA and with the inspectorates to support the activities already outlined. And through the work of SSCs colleges and providers will increasingly be able to tap in to information about skills priorities in different sectors of the economy, more fit-for-purpose sectoral qualifications and a more informed market of employers.

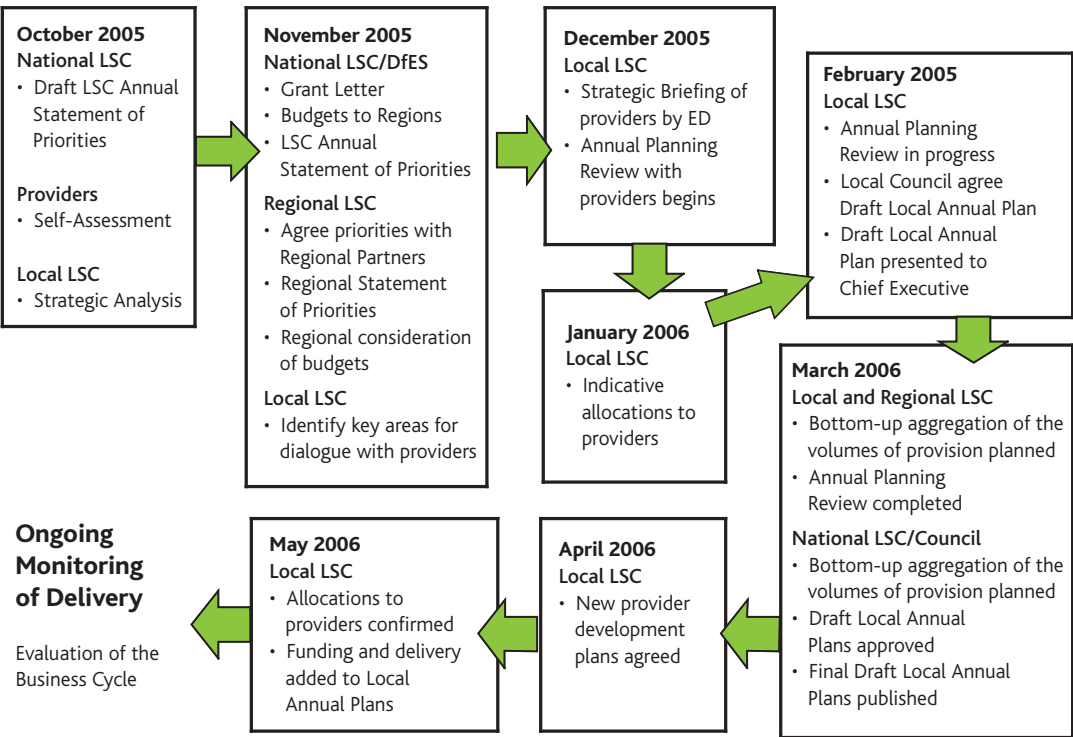
- 79 The Sector Skills Agreements they are developing will set out the collective action employers intend to take to drive up the level of skills in their industries, and Sector Qualification Strategies will define frameworks of employer-preferred qualifications for the sector. These will feed through the LSC planning cycle, alongside regional skills needs, to inform colleges and providers about future skills priorities.
- 80 SSCs are also working with employers to develop proposals to establish 12 National Skills Academies (NSAs). Ministers will announce in October which sponsors have been asked to develop business plans for the first NSAs. The first four academies will be due to open in autumn 2006 with the remaining eight in place by 2008. These will be led by employers and will respond directly to the skill needs of industry, building on the best CoVE and other public and private provision. NSAs will create national networks of provision that are recognised by employers in each sector as meeting the highest quality standards. NSAs will build links to other local colleges, providers and specialist schools. They will be specifically tasked with helping to drive up standards across the system and thus will help in convincing employers that the quality of vocational learning will really deliver the skills they need to improve the productivity and competitiveness of their businesses.
- 81 In addition, the LSC has helped colleges and providers to improve the quality of Skills for Life teaching and learning through the programmes of professional development available as part of the Skills for Life Quality initiative. Since 2002, more than 24,000 teachers and managers have improved their skills as a result of the initiative, and many more have been trained through providers' own staff development budgets. The initiative's resources are free to colleges and providers. These include access to learning materials and to trained facilitators, who work with colleges and providers to embed whole organisational approaches to Skills for Life within their organisations, to promote embedded and sustained quality in Skills for Life.



### Next steps

- 82 The LSC will be discussing the funding changes in this document with colleges, schools and providers at regional and local meetings over the next weeks. This will feed into the business cycle planning and allocation process for 2006/07 (see annex A). A key part of this process will be to work through the implications with each college, school and provider, and identify next steps.
- 83 The LSC recognises that the overall funding strategy and the specific changes to funding policy for 2006/07 and 2007/08 pose many challenges for the learning and skills sector. The LSC wants to work with the sector to meet these challenges, and would welcome views on the way forward, in particular:
- the rebalancing of funding towards supporting government priorities will have a significant impact on the sector – how can this best be managed?
  - the LSC is having to reduce funding from some adult provision – how can these reductions best be managed?
  - how can the LSC best support colleges and providers in achieving increases in contributions from employers and individuals? And what learner support should be available for those least able to pay?
  - what are your views on the range of support available to achieve the changes over the coming years? What more might the LSC, DfES or other partners do to help?
- 84 Views on these issues will be gathered through regional roadshows, or can be sent to [prioritiesforsuccessfeedback@lsc.gov.uk](mailto:prioritiesforsuccessfeedback@lsc.gov.uk) at the LSC by 25 November 2005.

Annex A: Business Cycle 2005/2006



NB: Different timings will apply for school sixth forms



