

Briefing from the Association of Colleges

Higher and further education funding

The Department for Innovation, Universities and Skills (DIUS) budget

1. DIUS is new department which was created in summer 2007 and which is in the process of disentangling itself from DCSF. Like many other government departments, DIUS has been slow to publish financial information.
2. The table below has been prepared using information published by the Treasury about the 2007 spending review and from grant letters to LSC and HEFCE.

DIUS	Note	2007-08	2008-09	2009-10	2010-11
HEFCE	Note 1	6,894	7,073	7,313	7,668
DIUS science	Note 2	3,383	3,525	3,746	3,971
HE grants and other	Note 3	1,134	*	*	*
LSC post-19	Note 4	4,239	4,296	4,504	4,794
Other including admin	Note 5	2,336	*	*	*
Dept Expendit Limit	Note 6	17,986	18,733	19,692	20,778
Year-on-year cash increase			4.5%	3.3%	4.1%
Student loans (resource cost)	Note 8	3,704	*	*	*

- 1: DIUS grant to HEFCE from grant letters; Jan 2008, includes £1.5 billion in research funding
- 2: Figures for DIUS science budget reported in Treasury Pre-Budget report, Nov 2007
- 3: HE grants for 2007-8 reported in DFES Departmental report, July 2007. No figures for 2008-9 onwards
- 4: DIUS grant to LSC from grant letter, Nov 2007
- 5: Other is balancing figure, will include expenditure on post-16 standards (QIA etc) and QCA
- 6: Departmental Expenditure Limit figures reported in Treasury Pre-Budget report
- 7: Student loans resource cost for 2007-8 reported in DFES Departmental report, July 2007. Figures for 2008-9 onwards not reported in Treasury Pre-Budget report

3. Key points:

- DIUS has a cash-limited budget which rises from £18 billion to £20 billion but also controls an annually managed budget for higher education student loans of more than £4 billion. The exact figures were not published in the 2007 spending review but in July 2007, John Denham announced a total package for higher education student support costing an additional £1 billion
- DIUS's cash limited budget rises by 2.2% a year in real terms (4.7% in cash terms). Public expenditure on science and research will increase at a faster rate; expenditure on higher education and adult skills will increase at 2% a year in real terms.
- total DIUS expenditure on science, research and higher education is at least three times greater than expenditure on post-19 skills.

Policy towards higher education spending

4. The government launched an ambitious strategy towards higher education in its 2003 White Paper. This strategy had several elements:
 - a more focused approach towards research, backed up by increased public spending
 - the introduction of price competition for full-time higher education
 - the restoration of full-time grants and reform of higher education loans so that students can repay fees after graduation on an income-contingent basis

5. The Government implemented this strategy in 2006 and has made refinements since (for example the reform of the Research Assessment Exercise or the changes to student support for 2008-9). However, there is a sense in which the Government's ambitions for higher education are not matched by a focused strategy to deliver changes. Policy appears to put protection of the existing university network ahead of developing new forms of higher education or challenging the bias towards full-time study. Examples of this are:
 - HEFCE makes it difficult for **successful universities or colleges** to expand to meet demand (for fear of breaching the limit on Maximum Additional Student Numbers). Funding follows the plan rather than the learner.
 - HEFCE allows universities to claim **funding for modular courses** but refuses to allow colleges to do the same, unless they do so via a university. This makes it more difficult for colleges to meet employer demand.
 - HEFCE spent £1,389 million on **initiatives** in the 2006-7 financial year and will spend £2.4 billion on capital from 2008 to 2011. HEFCE ringfences this funding to universities in a way that preserves existing institutions with little done to encourage competition.
 - The over-commitment of the higher education teaching budget to full-time residential study has prompted the Secretary of State to introduce a policy on **equivalent and lower level qualifications (ELQs)** which could have a damaging impact on lifelong learning and part-time study. This policy is expected to save £100 million a year by 2010-11 but at the expense of withdrawing all public funding from some adult higher education learners. HEFCE's decision was necessary because it does not prioritise its £5 billion teaching budget.
 - **The costs and incentives associated with student support** – a new student support system was introduced following the 2003 White Paper. The total cost of student loans and grants in 2007-8 will be £4.6 billion, the vast majority of which will be spent on loans to full-time students. In 2005, the Director of the Office of Fair Access, Professor Sir Martin Harris, said the system was the most generous available to university students for forty years – this was before the recent extension of support planned for 2008-9

Policy towards skills and further education

6. The government has issued one white paper or strategy a year on skills and further in every year since 1997. Some of these documents were simply lists of initiatives prefaced by worthy phrases but the following strategy took effect around 2003:
 - a drive to tackle the deficit in adult skills by massively increasing the number of adults gaining skills for life and level 2 qualifications.
 - a shift in public funding towards these priorities with a compensating increase in the fee assumption from 25% to 50%. This allowed government to cut public funding for adult learners by one-third
 - greater controls over the courses that attract public funding. LSC funding for short courses was removed in 2005; funding for English for Speakers of Other Languages was rationed in 2006. In the longer-term the government wishes Sector Skills Councils to decide which courses can be funded.
 - the introduction of a new mode of delivery (Train to Gain) which was piloted from 2002 and extended nationwide in 2006. Funding has been fully opened to competition as part of a policy to encourage new providers.
 - a drive to improve success rates culminating in the introduction of minimum levels of performance in the 2007 funding round as part of a policy to make all funded courses better than satisfactory.
7. These policies have had a dramatic impact on the further education system and on the nature of the learners served by colleges. Over a six year period – from 2004/05 to 2010/11 –the LSC will increase the share of adult learning funding spent on priority qualifications (skills for life, level 2, level 3) from 45% to 95%. AoC estimates that this represents a redistribution of £1 billion over 6 years ie ten times the size of the ELQ change. This redistribution of funds has not been without cost.
8. The number of adult learners funded by the LSC in further education fell by 1.4 million between 2004/05 and 2006/07. This was much more than forecast, partly because learners taking priority groups cost much more than those whose learning is considered less important. Colleges increased their average fees by more than 50% (from 84 pence an hour to £1.31 pence a hour) between 2004-5 and 2006-7. They are not able to increase fee income (currently £250 million) to compensate for the £1 billion redistribution of public funding.
9. There are further shifts in government policy towards further education and skills over the next few years:
 - the growth plan for Train to Gain to attract a total 1.8 million new learners by 2010 at an annual cost of £1 billion a year. The growth plan extends the focus of Train to Gain to level 3 qualifications, to those working in big companies (as well as small) and to those who are out of work.

- the new apprenticeship strategy, with much of the expansion focused on 19-25 year olds taking advanced apprenticeships (at level 3).
 - a new drive to improve the skills of those who are out of work
 - the introduction of skills accounts for adult learning which is not driven by employers. The idea is to create greater choice over £1.6 billion in public spending for those taking skills for life and level 2 courses
 - the reorganisation of national agencies (including the Learning and Skills Council) as a result of the transfer of 16-19 funding to local authorities.
10. Colleges are responsive and flexible. They have shown a remarkable ability to cope with changes in the last ten years, albeit with the loss of 80 (20%) of their number through merger. Colleges are reshaping their services and redeploying their staff to deal with the new focus on learning in the workplace. They continue to invest in new facilities despite the risks involved with government policy. Unlike universities, colleges have survived by delivering results.
11. It is, arguably, less easy for the learners served by colleges, particularly when their position is compared with those in the higher education system:
- courses have been withdrawn because they do not meet national priorities, lead to national qualifications or meet minimum quality standards. To take one example, an adult wishing and able to take an A-level course has much less choice than they did a few years ago (which is why numbers of adult A-level students have halved).
 - funding for courses will increasingly only be available if they are linked to an individual's current work or to the views of Sector Skills Councils. Little public funding will be available for reskilling.
 - where courses still run, fees have risen to compensate for reductions in public funding. The changes in the fee assumption imply average annual fee increases of 16% a year for 6 years.
 - financial support is available for those facing high costs (for example childcare or hardship) or those on low incomes taking priority qualifications. Career development loans are available for help with fees but on much less favourable terms than higher education loans. A paper from the National Skills Forum estimates that total financial support budget for further education is less than 10% of the higher education budget which is why fewer than 10% of college students receive support compared to more than 60% of university students
12. Colleges respect the right of Ministers and Parliament to set policy. The key question for DIUS ministers and for the Select Committee is whether the policy towards a £20 billion budget is the right one.