Autumn Statement

A submission from the Association of Colleges: 17 October 2014
The Association of Colleges represents and promotes colleges in England. There are 233 further education and 93 sixth form colleges incorporated under the Further and Higher Education Act 1992. Colleges educate and train many more 16, 17 and 18 year olds than schools, are the main providers of further education to adults and also account for one-third of apprentices. This submission covers issues within the remit of the Department for Education (DfE) and the Department for Business, Innovation and Skills (BIS) but we considered it helpful to present the information in a single document. We have 10 recommendations for HM Treasury to consider.

**Education and training for 16-19 year olds**

1. There is no scope for further reductions in the funding rates for the education of 16 to 18-year-olds in addition to those made in recent years, without causing significant damage to the quality of education.

2. Additional, one-off, funding should be considered to support the introduction of English and maths up to Level 2 for those aged 16 to 18.

3. A different approach is needed to the organisation of education for 16 to 19-year-olds including higher quality thresholds for new sixth forms, an end to large capital grants to boutique institutions, such as free schools, and a process that supports rationalisation (including a clear process to close uneconomic institutions).

4. An innovation fund to encourage the implementation of new education technology.

5. A reform of the VAT rules as it affects education for 16 to 18-year-olds.

**Further and higher education for those aged 19 and over**

6. There should be no further reductions in funding for further education (FE) and skills for people aged 19 and over, in addition to those announced in the 2013 spending review. Further reductions will further inhibit the country’s ability to meet skills shortages.

7. Budgets already allocated should be reviewed and consolidated to allow money to be redirected to areas of more pressing need.

8. There should be no further devolution of the FE and skills budget in addition to the substantial sums allocated to the Local Growth Fund in 2013, however work should continue on how decision-making and influence can be delegated.
9. The work started on extending the further education loan scheme to students over the age of 19 should be widened into a larger project that considers ways in which the Government can foster individual investment in learning, develop higher vocational education and, at the same time, rebalance the incentives in the higher education student support system away from full-time residential study.

10. Flexibility should be given to the Skills Funding Agency (SFA) to carry forward capital expenditure into the 2015-16 financial year (ie after 31 March 2015) to ensure effective delivery of projects approved in 2013 and 2014.

Section One: Education and training for 16-19 year olds

Numbers of students and funding

1. There are two million young people aged 16 to 18 in England, 80% of whom are in education and training. DfE sets national policy and provides the £6,193 million in revenue funding in the 2014-15 academic year for the education of 1,306,509 young people aged 16 to 18 in 3,265 colleges, schools and other providers.

<table>
<thead>
<tr>
<th>Students</th>
<th>16,17 Full Time</th>
<th>18 Full Time</th>
<th>Other</th>
<th>High Need</th>
<th>Total</th>
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<td>964,416</td>
<td>141,091</td>
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<table>
<thead>
<tr>
<th>£ millions</th>
<th>Programme</th>
<th>High Needs</th>
<th>Free meals &amp; Bursary</th>
<th>Total</th>
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<tr>
<td>Colleges</td>
<td>332</td>
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<td>Schools</td>
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<td>Special schools</td>
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<td></td>
<td>3,265</td>
<td>5,721</td>
<td>276</td>
<td>196</td>
</tr>
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</table>

1 AoC analysis of EFA funding allocations for 2014-15. Maintained and academy schools including UTCs, Free schools and studio schools classified as "schools". Maintained, non-maintained, academy and free school special schools classified as "special schools". The other category includes private and charitable providers, universities and local authorities.
2. There are two million people in England aged 16 to 18 and, at the end of 2013, 81.2% were in education or Government funded training, another 11.1% were in work or training not funded by Government and 7.6% were not in education, employment or training. Although the population of 16 to 18 year olds is due to fall between 2012 and 2018, the participation rate has risen in the last couple of years and appears to be rising in 2014-15. 93.7% of 16 year olds and 85.4% were in education, employment or training at the end of 2013. The age of compulsory participation rose to the 17th birthday in 2013 and rises to the 18th birthday in 2015. Research on the lifetime effects of being not in education, employment and training suggests a cost to each individual in terms of lost income of between £105,000 and £370,000 and a cost to the taxpayer of between £56,000 and £156,000. The gains for the Government and society in increasing participation of 16 and 17 year olds towards 100% may outweigh those from other areas of public spending.

Policy

3. DfE has ambitious goals for the 16 to 19 education system which are not clearly set out in one place, but which include the following:

- raising standards in teaching and learning
- reforming qualifications
- encouraging a shift in what young people study (for example more students taking science and maths)
- closing social class gaps
- increasing the number of young people in education and apprenticeships
- introducing innovation into the system via new institutions
- increasing the number of young people who achieve GCSE-standards in maths and English by the age of 18
- improving the assessment, funding and support of young people with special education needs

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2 Figures reported in NAO 16-18 participation, 2014
3 The Education and Skills Act 2008 raises the participation age between 2013 and 2015 from the 16th birthday to the 18th birthday
4 Research from York University reported in NAO 16-18 Participation, 2014
5 DfE Importance of Teaching White Paper, November 2010
6 DfE has consulted about reform of A-levels, GCSEs and vocational qualifications (eg Tech levels)
7 Cabinet office social mobility indicators published in 2012 set targets for closing gaps in university entry between state and private school educated pupils
8 The Children and Families Act 2014 overhauls the age 16 to 25 special education needs system
4. There have been a number of reform plans to achieve these aims. DfE introduced a wide-ranging reform of vocational education following Alison Wolf’s review published in 2011 which led to the introduction of study programmes and a new 16 to 19 funding formula. There have been changes to apprenticeships (for example rule that they must last a minimum of 12 months) and there is more to come following Doug Richard’s review published in 2012. Meanwhile revenue and capital funding has been used to implement certain policies, for example supporting the creation of new institutions.

Funding changes

5. DfE has introduced these reforms at the same time as it has reduced spending on 16 to 18-year-olds’ education and training from £7.7 billion in 2009-10 to £7 billion in 2013-14 as a direct consequence of the 2010 spending review settlement agreed by HM Treasury and DfE. The table below lists the ways in which DfE and the Education Funding Agency (EFA) has implemented these savings.

<table>
<thead>
<tr>
<th>Spending increases</th>
<th>Spending reductions</th>
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<tbody>
<tr>
<td>• Funding for additional 16 to 18-year-old students recruited by institutions</td>
<td></td>
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<tr>
<td>• Funding for new institutions</td>
<td></td>
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<tr>
<td>• Additional funding of £150 million for disadvantaged students (2011)</td>
<td>• No funding for inflation since 2008 apart from a 2% rise in 2013</td>
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<td></td>
<td>• Funded teaching hours cut by 84 hours per student (about £500 million saving)</td>
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<td></td>
<td>• Cuts in school funding rates (c £150 mil)</td>
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<td></td>
<td>• EMAs replaced by bursaries (c £300 mil)</td>
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<td></td>
<td>• Removal of short courses (2013)</td>
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<tr>
<td></td>
<td>• 17.5% reduction in funding for 18 year olds on full-time courses (about £100 million)</td>
</tr>
</tbody>
</table>

9 DfE Wolf recommendations progress report, November 2013
10 From August 2012, apprenticeships for 16 to 18 year olds have had a minimum 12 month duration
11 DfE/BIS The future of apprenticeships in England, October 2013
12 New institutions have had capital funding, funds for start-up and support in their first couple of years. In 2014-15, EFA will be funding 12,643 16-18 year olds (fewer than 1% of 16-18 student population) in 93 UTCs, free schools and studio schools.
13 AoC paper on College Funding and Finance, May 2014; NAO report on 16-18 participation, September 2014
14 Table compiled by AoC from successive EFA funding letters
6. DfE's new 16 to 18 funding formula has resulted in a shift towards full-time study above 540 hours, a reduction in part-time study and the greater use of work experience as an alternative to qualifications. The college response to funding reforms cannot be disentangled from the impact of reducing funding per student. The biggest issue is the removal of the entitlement funding from 2011 onwards which has contributed to year-on-year reductions in income. Cash funding per student has reduced at a rate of 1-2% each year since 2010-11\(^\text{15}\). This has forced colleges to find efficiencies where they can, some of which have consequences for other policies. The response of colleges includes:

- **The closure of courses.** A recent survey reports 22% of sixth form colleges closing STEM courses and 38% dropping foreign languages. AoC is doing work on FE and tertiary college A Level provision. We estimate that 40 colleges have dropped A Level courses in the last four years\(^\text{16}\).

- **Many colleges and schools have a strategy of increasing student numbers to maintain overall income at a time of reducing funding.** This is possible for the more popular institutions but has resulted in pressure on others and will, in time, lead to sixth form closures (including in new institutions when their transitional start-up funding has run out). There are also signs that schools are holding onto more 16 year olds for their own sixth forms but that an increasing number leave at the age of 17 to study elsewhere\(^\text{17}\).

- **Colleges have taken a tough line on staff pay with increases offered by FE colleges below what has been offered in schools\(^\text{18}\).** Despite efforts to make careers in FE attractive, the pay restraint has had consequences for recruiting and retaining staff in some key areas, including maths, computing and engineering.

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\(^{15}\) AoC calculations from successive funding surveys\(^{16}\)

http://www.sixthformcolleges.org/sites/default/files/160614%20SFCA%20Funding%20Impact%20Survey%20FINAL.pdf reports\(^{17}\)

Information taken from reports from principals about September 2014 enrolment. This is not a new issue

Alison Wolf's report from 2011 (page 39) reported that 18% of those who stayed in education left at age 17

Information from AoC's role as an employers' organisation on behalf of colleges
7. The reductions in spending on education for 16 to 18-year-olds have been more severe than on secondary schools and have opened a gap which means that funding drops by about 20% when a young person moves from Year 11 to Year 12\textsuperscript{19}. Schools have retained sixth forms by subsidising them from their pre-16 budgets which is unlikely to be sustainable\textsuperscript{20}.

**Staff costs**

8. Education is staff-intensive and the proportion of income spent on directly employed people is around 60-65% in colleges, 75% in academies and an average of 80% in maintained schools. AoC acts as the employer's organisation for colleges and discusses pay and employment issues with trade unions in a Joint National Council but the final decision on pay rests with college governing bodies. The Sixth Form College Association (SFCA) has a comparable role for sixth form colleges. Colleges have continued to make small pay increases every year but have made offers below 1% for the last six years (ie since 2008). Pay growth in schools and universities has both exceeded these rates.

9. The forthcoming rise in employer contributions to the Teachers' Pension Scheme (TPS) added to National Insurance increases will result in tens of thousands of education job losses in 2015-16. The TPS employer contribution rate rises from 14.1% to 16.48% on 1 September 2015 with 0.08% of the rate being a levy to cover scheme administration. A few months later, in April 2016, employer and employee national insurance will rise in education as part of the wider reforms to the state pension. The standard employer contribution will rise from 10.4% to 13.8%. The combined impact of this change and higher employer contributions will be a 5% supplement on the cost of employing a teacher in 2015-16.

10. DfE has pushed ahead with reforms agreed in 2012 despite the evidence of higher costs. HM Treasury has pushed costs onto the education budget both via the TPS actuarial assumptions and via the removal of national insurance relief. Even at this late stage, it may be worth making decisions to cut the TPS employer contribution or phase the national insurance changes in over several years. The TPS deficit recovery period could be extended beyond 15 years or the post-2015 scheme could be made less generous in terms of accrual rates or indexation.

\textsuperscript{19} Joint ASCL/AoC/SFCA letter http://www.sixthformcolleges.org/sites/default/files/2014_post-16_funding_letter_and_report.pdf
\textsuperscript{20} Report by London Economics for SFCA suggests the cross-subsidy from 11-16 to 16-18 may be as high as £1,000 per student
11. Efficiency in education is typically achieved by:

- reducing the costs of staff, services and supplies;
- increasing teaching contact hours;
- reducing the student hours;
- increasing the average class/group size.

12. Colleges have explored all of these options in recent years but face some constraints in certain areas. If pay costs are reduced too far, this has consequences for recruiting and retaining teachers. Colleges have increased teaching contact hours and reduced student hours where possible but this can put quality at risk. EFA funding rules also make it necessary to maintain student hours in order to maintain income although this still leaves full-time taught hours of 540 a year significantly below comparable levels in other OECD countries\(^{21}\). This leaves average class or group size as an obvious area where 16 to 18 education could make efficiencies. There are subjects and work-based areas where group sizes are small because they are valuable specialisms or where there are health and safety considerations related to supervision. This does not excuse the low average class sizes in many sixth forms where there are less than ten students.

13. Current VAT legislation acts as an obstacle to college efficiency in two ways. Education is VAT-exempt which means that colleges face a tax of 20% on any service they contract out and thus acts as a disincentive to do so. Colleges are unable to reclaim VAT in the way that schools can which leads to an absurd situation in the case of 16 to 19 free schools and sixth form colleges (similar characteristics, different tax rules). The VAT take from colleges is worth about 3% of their income which requires them to be significantly more efficient. VAT rules also make it prohibitively expensive for colleges to open newly built 16 to 18 facilities for community use\(^ {22}\). Colleges can make use of their facilities for their own students but the restrictive nature of the VAT concession is that they cannot generate additional income to employ specialist staff to enhance provision.

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\(^{21}\) 540 hours a year is equivalent to a three-day week of 5 hours a day

\(^{22}\) Construction costs for new buildings used predominantly by under 19 year olds are VAT exempt but there is a risk that HMRC will charge VAT retrospectively if they consider the buildings are being used for a business use even if this is a small percentage of total activity
Capital funding

14. DfE shares responsibility with BIS for providing buildings and facilities for the education and training of 16 to 18-year-olds:

- DfE is responsible for the revenue funding of 100% of the costs of 100% of the students and apprentices in the system but only has responsibility for the capital funding issues in schools and sixth form colleges (together accounting for about 50% of 16 to 18 year old students). DfE relies indirectly on the ability of FE colleges to generate money from their own resources, banks and LEPs and on the ability of training providers to secure private funds.

- Capital funding for 16 to 18 education has been made available via a series of one-year budgets in small amounts which has not aided longer-term planning. Additional sums have been spent on the 93 new institutions which, in 2014-15, account for just 12,000 students.

- There is an obvious short-term priority to provide school places but, by 2018, there will be a rise in numbers which requires planning now.

- 1,180 school sixth forms have fewer than 100 students. Most schools with small sixth forms will be sharing of facilities with pre-16 pupils. This means there is a lack of dedicated space for post-16 study beyond classrooms.

15. The experience that colleges have is that purpose-built 16 to 18 facilities are popular with students (even when full), allow effective timetabling, support large and efficient class sizes, include specialist facilities and provide opportunities for students to take combinations of subjects. We recognize that DfE does not have capital funding available for rebuilding to the take extent that it had in the last decade but we consider that there could be major efficiencies through concentrating 16 to 18 teaching facilities.

16. It is time to reverse the 10 year DfE policy in favour of small sixth forms. In addition to the 93 new institutions, as many as 200 schools have acquired sixth forms. Research by ASCL suggests that the minimum size for a sustainable A Level sixth form is around 250 students and that an average

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23 DfE is responsible for capital funding for DfE-sponsored institutions (ie schools of all types and sixth form colleges but not FE colleges or private training providers
24 There have been four DfE capital funding rounds for sixth form colleges, three of which were one year only
25 DfE does not publish pupil number forecasts for the 16 to 18 age group but secondary school pupil number projections suggest a rise in 16 year olds after 2018
26 Statistics on numbers of schools with sixth forms of fewer than 100 pupils supplied by DfE
27 AoC estimates from EFA funding allocation data
funding level of £4,500 per student implies a break-even class size of 18 in order to preserve a curriculum of 18 subjects with two of them on twice to allow for popular combinations\(^28\).

**English and Maths**

17. Colleges have re-designed their courses for 16 to 18 year olds in line with new study programme requirements and this includes maths and English for those who did not obtain grade C at age 16. In 2013-14, there were 250,000 young people on EFA funded courses who did not did not have maths at grade C and 275,000 who did not have English. We are collecting survey data on 2014-15 numbers because official DfE estimates will not be available until January 2015. The majority of 16 to 18 year olds in the “compulsory maths and English” category are in colleges because they are the main providers but also because schools with sixth forms lose around half of their students between Year 11 and Year 13. AoC surveys report that more than 40% of college students were in this compulsory maths and English category in 2013-14 which creates a major challenge. 90% of colleges timetable the subject on a cross-college basis while 30% report staff shortages. BIS has made a £30 million investment in the further education maths workforce but the money has runs out in March 2015 and has not been enough to fill this education skills shortage.

18. Since 2013-14, the funding formula provides an additional payment of £480 for each student who is below either of the thresholds (and £960 for those below both). Timetabling maths and English for three hours a week each, plus providing time for work experience and tutorials, leaves only around 300 hours teaching time (10 hours a week) for the student’s main qualification. However these various financial incentives are unlikely to be enough to achieve the longer-term goal of helping everyone reach the Level 2 maths and English standard by the age of 18.

**Qualification reform**

19. In 2015, schools and colleges will begin teaching a new set of A Levels. At the same time new GCSEs will be introduced in secondary schools and for those in sixth forms taking resits. DfE hopes that more institutions will be teaching a new ‘Core Maths’ qualification which is being piloted in 2014-15. Many colleges will also be preparing students for new vocational qualifications including Tech Levels (at level 3) which will count towards a new Tech Bacc and new Substantial Vocational Qualifications at Level 2. In recent years when new qualifications have been introduced, Government has offered support via a national qualification agency and in the form of staff.

\(^{28}\) Work by Stephan Jungnitz reported in ASCL Leader Magazine, November 2013
development funds. This is not the case with this set of reforms which means that institutions will pay for implementation out of their own funds and via the exam fees which they pay to awarding organisations. Colleges spend around 3% of the income on exam fees. There may be short-term savings for DfE, by not providing development funds, but there is a risk that implementation will not go to plan and qualifications and courses will need to be re-worked. If there are significant problems with assessment in 2017 or 2018, this could have knock-on effects for the progression of young people into higher education or employment.\textsuperscript{29}

**Innovation**

20. The 16 to 19 education sector is highly competitive. Student, parent and employer expectations are all as high as ever with less public tolerance for poor performance. Competition helps ensure that institutions are responsive but there is a risk that this creates a bias towards tried and tested approaches and subjects. There is an appetite in colleges for education innovation in some areas, for example:

- ways to use technology more effectively in teaching and learning.
- use of work experience and student enterprise companies.

21. There are, however, a number of obstacles to innovation. Current funding levels only allow modest surpluses and require high teaching loads. Government is flogging an existing teaching model while providing little space for an alternative to develop. Innovation is also held up by a fear of Ofsted and audit requirements. A small innovation budget to match fund and nudge desirable activity might act as a useful counter to these obstacles and help encourage new learning technology. Once set up, the fund could be used for other purposes, for example to develop capacity in maths and engineering or rationalise provision to cope with reducing public spending. There is a tendency within DfE to develop single budgets to tackle single issues. A more successful approach might be to hold a single innovation fund, to spend money from it on a match funding basis and to develop a common set of procedures to manage the money through each bidding round. HEFCE's Catalyst fund is one model for this but there have been other similar funds in further education.\textsuperscript{30}

\textsuperscript{29} E. Maurin and S. McNally, LSE, Vive la Revolution, Long-term returns of 1968 to angry students, conclude that the one-off and temporary effects of an exam failure (in this case one that increased the number of students who passed) resulted in significant private returns to the generation who benefitted compared to those in the years immediately preceeding and immediately following.

\textsuperscript{30} HEFCE's Catalyst fund was preceded by a Strategic Development Fund which had similar characteristics and which acted as a catch-all for development activity.
Devolution

22. There is a Government-wide commitment to devolution but care should be taken with education for 16 to 18-year-olds. The previous administration made plans to devolve the budget to local government but this would have involved creating a complex funding architecture. Local government re-organisation over the last 20 years has increased the number of upper tier councils from 96 to 152. Around 35% of college students travel across a boundary. The plan, therefore, involved a patchwork of ad hoc sub-regional groups. An alternative option would be to devolve funding to the 39 local enterprise partnerships, but they are still at the start-up phase and have overlapping boundaries\(^3\). Many devolution proposals discuss the alternative of devolution to combined authorities but, as yet, these only cover five major metropolitan areas so would not be a comprehensive solution\(^2\). The 16 to 18 budget cannot be seen in isolation from school funding (which has become increasingly centralised) and funding for those over the age of 19 which is now mainly routed via the Student Loans Company.

Recommendations

23. We have five suggestions for the Autumn Statement on the education of 16 to 18-year-olds:

- There is no scope for further reductions in the funding rates in addition to those made in recent years without significant damage to the quality of education that can be offered to young people, particularly given the pressure on pay costs and the need to ensure English and maths provision is approached in a systematic manner.

- Additional, one-off funding to support the introduction of English and maths up to Level 2 for 16 to 18 year olds. Funds could be used to increase the rate and to support recruitment and training.

- A different approach is needed to the organisation of 16 to 19 education including higher quality thresholds for new sixth forms, an end to large capital grants to boutique institutions, such as new free schools, and a process that supports the rationalisation of existing institutions (including a clear process to close uneconomic institutions).

- An innovation fund to encourage the implementation of new education technology.

- A reform of the VAT rules as they affect 16 to 18 education.

\(^3\) Around 10% of the population of England lives in an area covered by more than one LEP

\(^2\) Greater Manchester, Liverpool city region, West Yorkshire, Sheffield City region, North East
Section Two: Further and higher education for those aged 19 and over

24. Colleges have always served people of all ages but, since 2007, have had to deal with two Government departments whose responsibility for education divides by age. The issues we have highlighted earlier in this paper in looking at 16 to 18 education also apply to education and training for those over 19. This section doesn't duplicate issues but covers new ground specifically within the BIS remit.

Challenges

25. There are some significant national challenges for England's recovering economy:

- Although there are record numbers of people in work, there are also substantial numbers who are self-employed or work part-time who might prefer full-time work and, in addition, there are nearly two million people who are unemployed.\(^\text{33}\).

- There is evidence that skills shortages are increasing\(^\text{34}\) and there is a risk that employers in growing sectors have not sufficiently changed their hiring practices to move away from migrant workers.

- The numbers of people entering the workforce with science, technology engineering and maths (STEM) skills is insufficient and there are looming shortages because of an ageing workforce and because of the industrialisation of service jobs.\(^\text{35}\).

- Fewer than 10% of engineers in the UK are women compared to more than 30% in countries such as Sweden, Poland and Turkey. Gender segregation here, as in some other sectors, probably exacerbates skills shortages.\(^\text{36}\).

- The amount of training at work appears to have fallen by 50% over the last 15 years and employer spending has been in decline since 2005.\(^\text{37}\).

\(^\text{33}\) ONS Labour Market Statistics for May 2014. The ONS estimate of underemployment will be produced at the end of the year.

\(^\text{34}\) Prince's Trust report, The Skills Crunch, August 2014

\(^\text{35}\) BIS, Professor John Perkins Review of Engineering Skills, February 2014

\(^\text{36}\) BIS, Professor John Perkins Review of Engineering Skills, February 2014

26. There is firm evidence that a better educated and skilled workforce provides a strong foundation for sustainable economic growth. The issue is widely recognised by policy makers and commentators but has not yet led to the right action.

27. England has many world-class universities and a strong research base but only 43% of those leaving education participate in higher education. The university system is built on a residential, full-time model with students taking three years to get a degree. This is an expensive way to prepare for the future, particularly as the tuition and maintenance costs are now loaded onto students. Full-time higher education students can now expect to graduate with an average debt of £44,000. Compounding the problem there is a mismatch between the courses taken and jobs available which means that there are pockets of graduate unemployment and a wider issue of graduates in non-graduate occupations. Financial support for graduates to take postgraduate courses is restricted while the equivalent or lower qualification policy has restricted opportunities to change careers later in life.

28. Alternatives to full-time degree study in England are diminishing, there are declining numbers of part-time students and a weak higher skills system. People who have not started a university course find there are fewer alternatives than there were in the past in England or they would find elsewhere (for example the USA, South Korea or Ireland). The numbers of 20-29 year olds in learning is low compared to the OECD average.

29. The reduction in adult learning opportunities is apparent at all levels in education with a loss of more than a million publicly funded adult learning places in recent years. This reduction started during the last decade partly as a result of spending decisions. Under the Labour Government, the amount expected to be paid by the student (known as the ‘fee assumption’) rose from 25% to 50% of the course cost. This was so Government spending could be focused on national qualification targets (full Level 2 qualifications) and shifted to workplace learning (known as Train to Gain). Under the Coalition, the overall adult learning budget has been cut and a 100% fee assumption introduced for those aged 24 or over taking Level 3 courses.

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38 The higher education participation ratio for those aged 18 to 30 is 43%, BIS statistics, August 2014
39 IFS Payback Time? Student debt and loan repayments, April 2014
40 Laura Gardiner, CESI, Totalling Hidden Talent, March 2014, estimates that there are 295,000 graduates under the age of 25 in non-graduate occupations
41 HEFCE report on higher education trends, March 2014
42 OECD country report skills beyond school in England, September 2014
43 OECD Education at a Glance, 2014
44 Calculations from SFA official statistics on further education participation
45 FE White Paper, March 2006 set out the plan to increase the fee assumption from 25% in 2004-5 to 50% by 2018-19
Fees have risen in response to the loss of funding but the impact has been a reduction in the number of students. Although the internet and smartphones have created new opportunities to learn for some, there are skills and knowledge that can only be acquired in a formal setting from an expert, either at work or in an education and training setting.

30. Further issues arise because of weaknesses in school and post-16 education. Only 59% of 16-year-olds achieve grade A*-C in GCSE English and maths and many adults do not have strong enough command of the basics. Despite 20 years of initiatives, large numbers of young people drop out of education or training between 16 and 20 without moving into full-time work. According to a recent estimate, as few as 30% of students taking Level 2 vocational courses progress to Level 3 courses. Careers information and advice arrangements are weak. DfE has taken some action on these issues, through the implementation of the Wolf review, but its focus has been on secondary education and on those taking academic courses. Spending on educating 16 to 18-year-olds has been cut.

Policy

31. There are a number of different, and occasionally contradictory, reform plans underway in the adult learning and skills system. These include:

- Routing the £1.5 billion apprenticeship budget (currently spent on 16 to 18 year old and adult apprentices) via employers either via the PAYE system or using a new system of vouchers. These plans are scheduled for 2016 but it is inconceivable that this timetable will be achieved.

- Reforming the content of apprenticeship qualifications via a series of employer-based pilots known as trailblazers which may, in due course, replace all existing apprenticeship frameworks.

- Increasing the number of traineeships for 16 to 24-year-olds which may involve adjustments to the funding system in 2015 with rewards for getting young people into work and more flexibility over what can be delivered.

- Making income-contingent loans available to all courses above Level 2 taken by adults over the age of 19 in 2016, with the possibility that loans

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46 Chapters 4 and 5 of Tony Dolphin, Remember the Young Ones, IPPR, August 2014 summarises these issues
47 DfE 2013 school performance tables
48 Owen Corrigan, Policy Exchange, Technical Matters, January 2013
49 Ofsted reported in September 2013 that only 12 of the 60 schools visited were ensuring students had sufficient information to consider a wide range of careers
50 NAO's report on 16-18 participation reports an 8% reduction in spending between 2010-11 and 2013-14
51 BIS Future of Apprentices in England, Guidance for Trailblazers, July 2014
52 BIS Traineeship Funding Reform, Funding Consultation, June 2014
will become the only funding route outside those covered by the existing full entitlements\textsuperscript{53}.

- Moving the funding for higher national qualifications from the higher education student support system to the further education loan system\textsuperscript{54}.

- Giving local enterprise partnerships a stronger role in allocating skills funding which are currently being tested in pilots in three parts of the country\textsuperscript{55}.

32. There are good arguments both for securing more business involvement and building the role of local government in publicly funded training but these are not policies that can be pursued simultaneously without adding significant complexity to the system and putting existing capacity at risk. Given the reduction in public spending, it is also not sensible to hand budgets over either to businesses or to councils without securing co-investment.

**Apprenticeships**

33. There has been a revival in apprenticeships in recent years which has provided a firmer route from education to work and has helped supply skills and raise productivity. NAO estimated in 2012 that apprenticeships deliver £18 of economic benefit for each £1 of public investment or £4.70 total benefits per £1 total costs\textsuperscript{56}. Earlier BIS research estimated that advanced level apprentices earn between £77,000 and £117,000 over their lifetime compared to lower level qualifications. Apprentice numbers have also risen to a point where there have been more than 1.5 million starts since 2010. After significant recent growth, apprenticeship numbers slowed in 2013-14. The number of under 19 year old apprentices rose 5% to 117,800 but the number of 19 to 24 year olds fell by 3% to 156,900 and the number of 24+ apprentices fell by 29% from 222,200 to 157,700\textsuperscript{57}. The reduction in the number of adult apprentices reflects the funding changes for those aged over 24 but also results from measures to improve quality, for example by introducing minimum length of apprenticeships. There is a good case to continue to focus on quality improvement by increasing numbers of advanced and higher level apprenticeships and by developing pre-apprenticeship alternatives at lower qualification levels.

\textsuperscript{53} BIS Future Development of Further Education Loans Consultation, June 2014
\textsuperscript{54} Set out in the FE loan consultation
\textsuperscript{55} Skills Funding Statement summarises the Skills Funding Incentive Payments on Page 28
\textsuperscript{56} NAO Estimating the Economic Benefits of Apprenticeships, February 2012
\textsuperscript{57} SFA statistical first release, October 2014
34. The Government’s current reform plans are designed to improve apprenticeship quality and increase employer involvement but there is a risk that these desirable goals will fall short because of weak implementation. BIS has set out two new ways to route spending both of which involve new computer systems and would fragment the budget further. Dividing funding, which is currently directed to colleges and other training providers, among a much larger number of employers would lose economies of scale and risks destroying training capacity. There is no evidence that this would really increase employer spending.

35. The trailblazer initiative involves a different risk which is that well-organised large employers will design apprenticeships mainly for their own benefit (including for their supply chains). The disruptive nature of trailblazers will bring innovation to apprenticeship design, which may be helpful in involving new employers, but (as with the employer ownership pilot experiment) it is unclear that this can be scaled up in a sustainable manner. 48% of apprentices in 2013-14 fit within just five frameworks (Health and Social Care, Management, Business Administration, Hospitality and Catering and Customer Services). These are high volume, relatively low cost courses. The current trailblazer plans would only partially replace these frameworks. The development process assumes that coherent employer groups can be assembled for every part of the economy which is not a valid assumption for more generic skills.

**Funding changes**

36. BIS is responsible for overall policy towards further and higher education for people aged 19 or over but passes responsibility for managing the budget to the SFA. The budget in 2014-15 includes:

- £3.3 billion revenue funding for adult further education and skills which pays for more than two million students including large numbers of apprentices, jobseekers and people looking to acquire basic skills plus education of prisoners and new initiatives like the employer ownership of skills programme.

- £0.4 billion in student loans for those aged 24 and over on advanced courses.

- £0.4 billion budget for capital.

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58 SFA data on apprenticeships by framework 2013-14
59 BIS, Skills Funding Statement, January 2014
60 The Employer Ownership of Skills asked employers to ‘develop proposals that raise skills, create jobs, and drive enterprise and economic growth’ and was supported by Government funding www.bis.gov.uk
37. Like other departments, BIS has had to make spending cuts in the last few years which has resulted in a 35% reduction in spending via the core adult skills budget between 2009 and 2015 with total spending falling from £3 billion to £2 billion\(^{61}\). Meanwhile BIS ministers have chosen to protect or increase spending in other areas. Key decisions on the skills budget have had the following impact:

- Funding within the adult skills budget has been directed to fund adult apprenticeships and unemployed people referred by Jobcentreplus under skills conditionality\(^{62}\) rules introduced in 2012.

- Entitlements have been maintained which means that funding is also directed on 100% fee remission for people who receive benefits or who are taking courses at the lowest qualification levels\(^{63}\).

- Decisions to protect specific programmes have focused spending reductions on the adult skills budget. The budgets which have been maintained in terms of cash include community learning, offender learning and financial support for individuals (for example childcare)\(^{64}\).

- Money has also been earmarked for new initiatives like employer ownership of skills which have, so far, had very low take-up\(^{65}\).

- The introduction of income-contingent loans for advanced level courses taken by those aged 24 and over has involved a budget transfer. This has protected the spending on this group (but routed it via the Student Loan Company).

38. The 35% reduction in spending via the adult skills budget between 2009 and 2015 and the shift in spending towards priority and protected areas has created stark choices in areas where colleges wish to maintain adult learning and skills training. Government funds are squeezed so the only choice is to try to use fee income to cover the costs. This is not easy either with individuals or employers. Adult learners find it difficult to pay the full costs of courses, particularly after a seven year period in which living standards have been squeezed\(^{66}\). Employers feel similarly pressurised and feel that they

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\(^{61}\) AoC calculation comparing 2014 Skills funding statement with prior year comparatives in 2010-11 SFA accounts

\(^{62}\) Skills Conditionality Toolkit, SFA and JCP, July 2011

\(^{63}\) Page 18 of the Skills Funding Statement, 2013 to 2016 lists seven groups who attract full SFA funding

\(^{64}\) Successive skills funding statements report budgets for community learning, offender learning and adult financial support which are broadly consistent in cash terms

\(^{65}\) SFA reported 23,400 Employer Ownership starts between August 2012 and April 2014, Statistical First Release June 2014

\(^{66}\) Resolution Foundation, Priced Out, August 2014
discharge their obligation to apprentices by paying them the minimum wage or above. Employers do not expect to pay for training in addition to this which means that the expansion of adult apprenticeships has been funded almost entirely from government funds – from the £1.5 billion spent by DfE and BIS on apprenticeship training.

39. In the last two years, the SFA has sought to simplify matters including:

- Writing all the funding rules into one book, removal of unnecessary rules and editing the rest to Plain English standards.

- Introduction of a new funding formula in 2013 which removes some of the clutter from the calculations and reduces the number of funding rates from a specific amount for each qualification (all 14,000 or so) to a simple five-by-six table.

- Introduction of a new process for approving qualifications as eligible for funding and removing 2,000 from funding approval in 2013 while offering an alternative route for new courses which respond to employer or community need (“the innovation code”).

- Reducing the number of SFA staff from 1,500 to less than 900 over the last four years and redirecting their efforts to support new programmes, maintaining system operation and intervention.

40. The efforts to simplify the funding system or to create new funding routes (for example employer ownership pilots or trailblazers) keep running up against the barrier created by a minimum set of rules which apply to all parts of skills funding. These include assurance on public funds, eligibility, quality controls on organisations and courses, collecting official statistics, compliance with tax and EU rules and the providing access to people regardless of background, protected characteristic or need.

**Efficiency**

41. Efficiency in the delivery of education and training for people aged 19 and over is achieved in the ways described earlier but with a slightly different emphasis. Faced with reductions in funding per individual (and a 32%
reduction in funding per qualification in just two years\textsuperscript{71}), colleges have forced reductions in the costs of staff, services and supplies. This has involved holding down pay, increasing staff contact hours and substituting less qualified instructors for lecturers where this can be done without significantly compromising quality.

42. Sub-contracting is another way in which colleges have dealt with lower funding levels. SFA reports that more than 200 general FE colleges have more than 1,900 contracts worth a total of £500 million in 2013-14 – about 30% of SFA funding\textsuperscript{72}. Sub-contracting is a long-established way of managing training funds\textsuperscript{73} which has become more prevalent in recent years as a way for colleges to meet demanding targets, manage the risks of short-term changes in policy, offer a one-stop service to employers who may not match their geography and act as a broker for local community organisations.

Areas for improvement

43. There are a number of issues that should be tackled in the further education and skills system:

- There are substantial compliance costs which, NAO estimated in 2012, amount to 3.6% of Government funding to colleges spent on the administration of funding, qualifications and quality assurance and that this implied costs of £250 million in the system as a whole (£150 million in colleges)\textsuperscript{74}. The measures taken by the SFA in the last two years have made the system clearer but have not reduced the funding compliance or data collection burden.

- There are several different national funding agencies and systems covering fairly similar education and training activities offered to people from the age of 16 including SFA, EFA, HEFCE and DWP.

- The new SFA formula introduced in 2013 rewards the accumulation of qualifications rather than broad and balanced programmes which help people move out of unemployment or acquire new skills linked to

\textsuperscript{71} BIS, Average funding per course in BIS-funded adult education, July 2014 reports average funding per qualification falling from £991 in 2010-11 to £678 in 2012-13 which is the same level as in 2005-6
\textsuperscript{72} AoC calculations from SFA sub-contracting register, June 2014
\textsuperscript{73} The Construction Industry Training Board has sub-contracted apprenticeship training to colleges for more than forty years and currently has more than 100 college contracts worth a total of £14 million. Learndirect, which was created by government in the late 1990s and recently sold to Lloyds Development Capital, has 70 sub-contracts worth £73 million almost all of which are with private training providers. The British Army has 6 SFA funded sub-contracts worth a total of £26 million
\textsuperscript{74} NAO Reducing Bureaucracy in Further Education, January 2012
employment need. Qualifications still drive further education and skills funding. There are almost 1,000 SFA-funded providers (including 300 colleges) competing for diminishing budget with too little focus on, or incentives for, additional revenue from individuals, employers or elsewhere.

- SFA's efforts to squeeze maximum value out of its limited budget mean that the 12 month funding allocations are divided into two time periods and two categories of activity (apprentices and other) and can be adjusted at any one of four points in the year on the basis of data returned monthly via the Individual Learner Record. Colleges and providers can never rely on their income for students aged 19 and over more than a few months ahead. Among other things, this creates incentives to sub-contract activity and to employ staff on short notice periods.

A final area of improvement relates to capital funding and the tight limits placed by HM Treasury on budget exchange between financial years. SFA has allocated just over £500 million in 2013-14 and 2014-15 to more than 150 FE college projects which total around £950 million in value. The biggest share of money is going via the college capital investment fund which will help renew and modernise the education and training estate with a combination of public and private funds. Government allocated these funds with relatively little notice in November 2012 given the time required to design, plan and build effective education buildings on sites which are generally being used for existing students. A particular problem has been created by the requirement that SFA spend the entire capital budget by 31 March 2015 with no opportunity to carry over funds, even though there is currently an FE/skills capital budget allocated for 2015-16. This is likely to result in hasty expenditure and worse value for money than would be achieved with a small amount of budget flexibility.

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75 SFA’s formula assigns a cash value to each learning aim (mainly qualifications) taken.
76 Count taken from SFA’s 2013-14 funding allocation list. There are 230 FE colleges. In addition many sixth form colleges have SFA allocations.
78 SFA paper presented to AoC Capital Reference Group, March 2014.
79 BIS published the College Capital Investment Strategy in November 2012; SFA made the first grants in July 2013 and all 150 projects are due to be completed less than two years later. By contrast, DFE announced 42 successful bids to its Priority Schools Building Programme in May 2012 and it took a full two years for the first of these 42 schools to open.
Recommendations

45. We have five suggestions for the Autumn Statement on further education for people aged 19 and over:

- There should be no further reductions in funding for further education and skills in addition to those announced in the 2013 spending review. This is because the cuts and reforms already in train are resulting in a reduction in training and education for adults at a time when there are growing skills shortages.

- Budgets already allocated should be reviewed and consolidated to allow money earmarked for employer ownership pilots which have not delivered on their original promise (but which provide useful innovation) to be redirected to areas of more pressing need.

- There should be no further devolution of the further education and skills budget in addition to the substantial sums allocated to the Local Growth Fund in 2013 but work should continue on how decision-making can be delegated and influence given to local agencies, in particular combined authorities.

- The work started on extending the further education loan scheme to students over the age of 19 should be widened into a larger project that considers ways in which the Government can foster individual investment in learning, develop higher vocational education and, at the same time, rebalance the incentives in the higher education student support system away from full-time residential study.

- Flexibility should be given to the SFA to carry forward capital expenditure into the 2015-16 financial year (ie after 31 March 2015) to ensure effective delivery of projects approved in 2013 and 2014.