

September 2020

Comprehensive Spending Review submission

Association of Colleges

Foreword

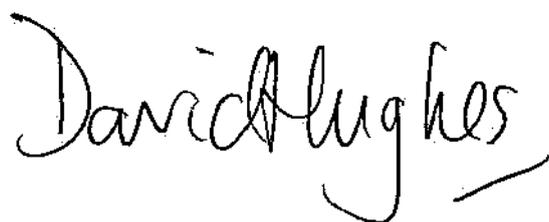
This spending review, alongside the forthcoming FE white paper offers a once in a generation opportunity for the Government to place colleges at the heart of our society and economy. The pandemic requires exceptional leadership nationally and locally if we are to recover quickly and securely. Brexit will bring challenges to our labour markets. Climate change, Black Lives Matter and new technologies offer more challenge as well as opportunities.

Across all of this, colleges offer solutions and investment opportunities with enormous returns economically and socially, Our proposals here build on the discussions we have had with employers, unions, other education providers, government officials and politicians. They represent a realistic investment portfolio which would release colleges to deliver so much more to support people, places and productivity.

After a decade of austerity which has disproportionately hit colleges, it's time for a decade of investment and opportunity. College leaders have shown their resilience, adaptability and resourcefulness through this pandemic and are ready to deliver more to support an inclusive and fair, quick and significant recovery.

This summer the Chancellor made bold decisions and significant investments to protect jobs. That was right for then, but now we need the same level of faith in a skills-led recovery if we are to be able to compete internationally.

I look forward to discussing our proposals with officials and ministers in the run up to the spending review announcements later in the year.

A handwritten signature in black ink that reads "David Hughes". The signature is written in a cursive style with a long horizontal stroke at the end.

David Hughes

Chief Executive

Association of Colleges

24 September 2020

Introduction

The Chancellor of the Exchequer announced plans for the 2020 spending review in July and invited proposals by 24 September 2020. The spending review is due to cover the period from 2021-2 onwards but the severity of the problems affecting the UK mean that some Treasury decisions are needed for the remaining months of the 2020-1 financial year.

The UK has experienced its worst health crisis for 100 years and the worst economic crisis for 300 years. In turn, this has put many companies and jobs at risk and is stretching some public services to breaking point. Unemployment will rise sharply in the next six months and HM Treasury faces the reality of a very large budget deficit in the 2020-1 financial year. The context for the 2020 spending review but there is no time to lose. The proposals in this paper address two big issues:

- **Skills for new jobs:** The government's Plan for Jobs published in July and the Winter Economic Plan statement in September aim to protect and promote employment by reducing costs for employers and stimulating economic activity but there is a pressing need for action on skills. The economic shock has caused a sharp fall in the number of apprenticeships while the end of the Job Retention Scheme is likely to see contracts for existing apprentices end. Meanwhile there are a number of growth sectors with rising job vacancies, including Health, Construction, Digital and the Green Economy. The Spending review should be the place where the government launches a Plan for Skills.
- **Disadvantaged young people:** The closure of schools, colleges and universities in March 2020 was an event without precedent since the second world war. Colleges continued to offer remote learning to the majority of students but there were considerable problems with IT access and curriculum materials, particularly for technical subjects. Many schools struggled. Large numbers of young people lost months of learning time and this has widened existing social and class divisions. Those leaving education will face a challenging labour market and will be less likely to find work with possible negative impacts for the rest of their lives. The £1 billion catch-up fund and the one year programme for 18 and 19 year olds are helpful first step but the pandemic shows that the government's plan

to level up opportunities for people and parts of the country will be an even bigger task than previously understood.

We believe that big problems deserve big solutions. COVID19 and its impact on the economy is like nothing we've seen before, and the government's response has to match that. Every community in the UK has a thriving college with the capacity to help young people and adults progress and that works with hundreds of local employers to develop their workforce and anticipate their future needs. Colleges are perfectly placed to offer education and training for their communities and business but are struggling because the lockdown had a negative impact on their budgets which were already stretched because of funding constraints, uncertainty, cost and competition from better-funded organisations.

HM Treasury took bold decisions with its business support schemes, with the furlough scheme and in the Plan for Jobs but should now have the same resolve when it comes to education and training. To this end, we set out 20 proposals in this paper set out in 5 sections:

- Immediate actions focused on disadvantaged young people, apprentices and ensuring education continuity in 2020-1
- A ten-year further education strategy
- A new deal for skills
- Ensuring every young person has a superb education
- Improving the education system

Proposals

Immediate actions

1. Action to assist disadvantaged young people and apprentices

Swift Treasury and DfE action allowed colleges to continue operating remotely in the summer and to open fully in September but the pandemic continues and there are some gaps that should be filled. Our list includes direct support to young people, measures that will help colleges maintain a full return, action to stabilise finances and technical changes that allow apprentices to continue training.

A further education strategy

2. A national & place-based plan, focused on growth sectors

Whether there is a formal update to the Industrial Strategy or not, DfE should work on a national skills plan with mechanisms to turn this into place-based action, including college collaboration with each other and with key agencies to address growth sectors with rising job vacancies, including Health, Construction, Digital and the Green Economy as well as delivering the Government's ambitions to 'level up' through a boost to inclusive lifelong learning.

3. Higher technical education

DfE should kickstart the growth of higher technical education to meet the needs of employers facing skills shortages by developing new programmes with a clear line of sight to work; that offer choices in small town, rural and coastal cold spots and that assist adults as well as young people with more flexible and cost-effective study modes.

4. College business centres

DfE should work with the Department for Business to set up priority-sector-specific college business centres which support employers through expert advice and delivery on skills, innovation, business change and technology adaptation.

5. FE teacher pay and pensions:

DfE should develop new pay recruitment and retention incentives for FE teaching staff in key sectors but, in order not to undermine overall pay-setting, Treasury should maintain the Teacher Pension Scheme employer contribution funding for colleges for the rest of the current valuation period (until 2023) and commit to support any future increases.

A new deal for skills

6. Skills budget

HM Treasury should increase overall spending on skills so that the budget keeps ahead of:

- inflation
- the growth in the working-age population
- the costs of delivering high quality education (via higher funding rates)
- the need to increase provision for people and places that are bypassed by current spending on universities and apprenticeships.

7. National Skills Fund:

DfE should develop a plan for the National Skills Fund which focuses on higher technical education in colleges to ensure that they are used in all parts of the country and for economically valuable skills.

8. Funding for growth sectors:

There should be selective DfE interventions to support sectors where there is potential for growth, including:

- higher programme cost weightings
- subject premiums
- funding for equipment and buildings
- full funding for adults of all ages taking Level 3 study in these areas.

9. Apprenticeship priorities:

Treasury, DfE and BEIS should develop and publish a statement which sets out the purposes and priorities of apprenticeship funding. Apprentices should mainly be new labour market entrants developing skills for careers and not just current employees. The statement should be accompanied by changes to the funding of degree apprenticeships

10. Retraining:

DWP and DfE should work on a second stage of the Kickstart programme to ensure there is support for adults who lose their jobs to train or retrain on a flexible basis up to higher level technical / professional level. The aim should be to get people into sustainable employment as quickly as possible, with additional training to manage their transition once they are in work.

11. Left-behind areas:

The Shared Prosperity Fund and the Towns Fund should supplement existing skills policies in areas where economic activity is lower, and unemployment is higher. The overall aim should focus on using skills to improve economic performance, by helping people into work and by retraining those in sectors affected by economic change.

Ensuring that every young person receives a superb education

12. Funding rates:

DfE should continue this year's increase to funding rates in 2021-2 and beyond. Rates should rise above the rate of inflation towards a £5,000 rate for 16, 17 and 18-year-olds. This would allow colleges to increase student hours and to increase pay to levels needed to retain and recruit expert staff. 1.1 million young people would benefit from this investment

13. Increase in the population of young people:

HM Treasury should work with DfE to ensure that 100,000 more funded places are available by 2024-5 to ensure that with a rising population of young people, nobody is turned away from education or an apprenticeship.

14. Pupil premium

The pupil premium should be paid to 16,17 and 18 year olds to reflect the commitment to supporting the needs of all young people.

15. Young people with high needs:

DfE should reform the funding of post-16 high needs, including considering block funding of places in colleges where that would meet student needs.

16. Improving the quality of places of learning:

DfE should maximise the value for the money spent on young people by providing capital funding for new places, by developing the IT infrastructure and by a targeted programme of reviews of small school sixth forms to remove uneconomic and lower quality provision.

Improving the education system

17. A new funding formula in the long-term:

DFE should develop a policy-directed, cost-informed funding approach for setting budgets and funding rates across the age range with the aim also of removing some of the supplements and poor incentives in the current system. This would underpin the forthcoming white paper which is likely to include the aim of moving to a more strategic and nurturing relationship with resilient, high quality and independent colleges.

18. Capital spending and financing:

HM Treasury should add to the capital budget allocated in March 2020 so that there are funds to secure new places, to invest in IT and to develop specialist and hyper-specialist provision. Funding need to be at a level that helps colleges move towards the 2050 net zero target. At the same time, the Treasury and DfE should review the capital financing requirements of education in the 2020s including the option of government loans to both academies and colleges as an alternative to 100% capital grants for the former and reliance on a vanishing commercial loan market for the latter.

19. Black Lives Matter:

DfE should fund research and analysis to help understand the experiences and outcomes for Black Asian and Minority Ethnic (BAME) students and staff in further education and commit to an action plan to address the inequalities we know exist. Funding should also be invested to support BAME staff recruitment and progression into colleges at all levels, with the intention of having staffing which better reflects the student make-up.

20. Oversight and bureaucracy:

DfE should simplify the oversight arrangements for colleges with a view to reducing direct and compliance costs of regulation and bureaucracy.

Indicative costs, 2021-2 financial year

		2021-2 £ mil	Notes
	Immediate actions		
1a	Ensuring a full return	100	<i>Fund to cover higher costs plus short-term loans</i>
1b	Assisting young people & apprentices	100	<i>Additional funds for learner support, IT and apprenticeship actions</i>
	<i>sub-total</i>	200	
	FE Strategy		
2	National plan	-	<i>Purpose of plan would be better use of funds allocated elsewhere</i>
3	Higher technical education	80	<i>Post 18 review estimated £300-600 mil steady state costs after 4 years</i>
4	College business centres	40	<i>Estimated cost for pilots</i>
5	Workforce pay and pensions	30	<i>Workforce & pay programme costs on top of £170 million Teacher Pay Grant</i>
	<i>sub-total</i>	150	
	New deal for skills		
6	Skills budget (rates, volumes)	95	<i>£1.3 billion budget in 2020-1 should rise with inflation, population & to raise rates</i>
7	National skills fund	-	<i>£600 million already allocated for 2021-2</i>
8	Funding for growth sectors	100	<i>Post-18 review estimated £500 mil for entitlements. This is a targeted plan</i>
9	Apprenticeships	50	<i>£2 billion budget in 2020-1 should rise with inflation & population</i>
10	Retraining	200	<i>Programme to supplement and extend Kickstart</i>
11	Left-behind areas	50	<i>Spending on top of c£150 mil spent via ESF in DFE and Towns Fund budget</i>
	<i>sub-total</i>	495	
	Young people		
12	Funding rates	390	<i>5% increase in a £6 billion budget plus removal of 18-year-old discount</i>
13	Population growth	200	<i>2% increase in 16-18 population</i>
14	Pupil premium	50	<i>First year costs only</i>
15	High needs	30	<i>Block funding implies no extra costs but rising need means 10% rise is normal</i>
16	Quality places	100	<i>Rationalisation could save costs but restructuring budget may help</i>
	<i>sub-total</i>	770	

	The education system	2021-2 £ mil	
17	Cost-informed funding	-	<i>Reform implies costs and savings</i>
18	Capital	150	<i>Equipment and expansion on top of allocated condition funds</i>
19	Black lives matter	10	<i>Starting budget for research and workforce development</i>
20	Oversight and regulation	-	<i>Savings possible but would take time</i>
	<i>Sub-total</i>	160	
	Total funding	1,625	

Report

Immediate actions to help disadvantaged young people and apprentices

1. Swift Treasury and DfE action allowed colleges to continue operating remotely in the summer and to open fully in September but the pandemic continues and there are some gaps that should be filled ranging from the arrangements for the 16-18 catch-up fund to ways in which colleges can support redundant apprentices.
2. Treasury and DfE have already provided £96 million to help 16-to-18-year-olds catch up as part of a £1 billion package but this will take more than a year and will require intense support to re-engage learners, to support attendance and to develop well-being. Colleges are also finding they need many more laptops and devices to support a blended education model.
3. Actions to directly support to young people should include:
 - a) extending the 16-18 catch up funding for a year so that support for disadvantaged young people does not simply stop next summer
 - b) extending the laptop scheme to cover colleges in 2020-1.
4. Many apprentices are vulnerable to redundancy and many of those who complete and progress will not be replaced by new starters because of the difficult circumstances facing their employers. There are a number of quick actions that could underpinning apprenticeship training:
 - c) extend the apprenticeship employer incentive, due to cease in January 2021, for the rest of the year so that employers continue to be paid £2,000 for each new apprentice aged under 25 and £1,500 for those aged over 25.
 - d) introducing an enhancement for small and medium sized enterprise (SMEs)
 - e) introducing a progression bonus for any employer who recruits a kickstarter or trainee onto an apprenticeship
 - f) developing a support plan for longer duration, specialised apprenticeships to allow several employers to bear the support and employment costs.

- g) facilitating mid-year transfer of redundant apprentices across to education provision by supplementing 16-to-18 allocations, fully funding those who already have Level 2 or 3 qualifications and adjusting the retention calculations
 - h) ensuring that the planned statutory instrument that supports redundant apprentices to complete programmes is enacted the end of the job retention scheme and operates retrospectively
5. Colleges continued to teach remotely during the summer term and have successfully made a full return in September on a blended learning basis but have faced new costs at a time when their finances were already weak. The FE white paper is an opportunity for a longer-term plan but there are some short-term measures that could stabilise colleges in 2020-1:
- i) allowing FE colleges to use some of their recently allocated condition funds on temporary building work and on equipment because this will help sustain opening and teaching in an emergency situation and because it is difficult to have construction on sites where teaching is going on in a Covid safe manner.
 - j) categorising sixth form colleges as responsible bodies so that they can receive maintenance funds on the same terms as multi academy trusts. DfE took a short cut in allocating funds which leave 50 responsible colleges without much needed funds.
 - k) bringing forward funds from DfE's 2021-2 budget to remove the unjustified 6% reduction in college March 2020 grant payments. Around 50 colleges will have 10 cash days or less in early April.
 - l) extending adult education tolerance arrangements for one more year (2020-1) to maintain capacity at a time when social distancing has made in-person learning less efficient.
 - m) a temporary rule change to allow colleges to use unspent work placement grants to sustain key apprenticeship staff in work during 2020-1

Proposal One. Immediate actions

HM Treasury and DfE should make some immediate decisions to support a full college return and to assist disadvantaged young people and apprentices at risk of redundancy

A further education strategy

6. The further education system has many strengths but long-standing policies to promote competition and put employers in control of funding have produced negative results.
7. The curriculum in all sectors and types of provision (academic, technical, and vocational) has narrowed to focus on cheaper and more popular courses. Capacity for specialist and hyper-specialist FE has been reduced or does not exist.
8. Relying on existing employers to determine need limits support for new jobs or for jobs where there is expected to be major expansion. Policy in future needs to identify ways to over-train to meet escalating demand, whether this is for new health professionals, for specific construction skills, to make use of artificial intelligence or for the changes resulting from climate change plans.
9. The Department for Education has plans for a FE white paper with a time horizon of ten years. DfE should consult on and publish this as a strategy for further education focused on:
 - Providing long-term goals for everyone involved in further education.
 - Assisting and protecting the development of courses that are high cost but valuable (specialist) or focused on growth sectors.
 - Maintaining the quality of provision by keeping it relevant and ensuring the right inputs (teaching, equipment, and facilities).
 - Providing the mechanisms for turning this into place-based action including college collaboration with each other and with key agencies.
 - Putting these foundations in place to persuade learners, parents, and employers of the value of technical and vocational education.
 - Supporting a stronger economy and delivering on the Government's 'levelling up' ambitions.

Proposal Two. A national & place-based plan, focused on growth sectors

Whether there is a formal update to the Industrial Strategy or not, DfE should work on a national skills plan with mechanisms to turn this into place-based action, including college collaboration with each other and with key agencies to address growth sectors with rising job vacancies, including Health, Construction, Digital and the Green Economy.

Higher technical education

10. The number of 18-year-olds will rise in the 2020s and initial participation rate is also on an upward trend because of higher aspirations and with better qualifications. Unless presented with a better alternative, the rising number of students will take the default option of a full-time degree course because it appears to maximise their options as adults.
11. There will be long-term benefits for individuals, employers and the country if increasing numbers take an improved set of level 4 to 5 qualifications. DfE has approved the establishment of 12 Institutes of Technology and intends to fund 8 more. The department has also published plans for a new set of qualifications in digital, construction and health. These all take matters forward, but the Independent Post-18 review panel recommended further changes to fees and funding. The panel recommended that students on these courses should be covered by the same tuition fee cap, student finance rules and teaching grant funding as degree-level students. The panel estimate ongoing revenue costs at £300-600 million a year by 2024-25 compared to current spending. We recommend that Treasury allocate a rising budget starting in 2021-22 to deliver these aims.
12. DfE should support new higher technical education programmes with a clear line of sight to work; that offer choices in small town, rural and coastal cold spots and that assist adults as well as young people with more flexible and cost-effective study modes.

Proposal Three. Higher technical education

DfE should kickstart the growth of higher technical education to develop new programmes with a clear line of sight to work; that offer choices in small town, rural and coastal cold spots and that assist adults as well as young people with more flexible and cost-effective study modes.

College business centres

13. Universities, larger business and small and medium sized enterprises have benefitted for many years from funding for knowledge and technology transfer and collaborative R&D, supported by the third leg of higher education funding (for example the Higher Education Innovation Fund
14. Support outside higher education has been limited. For many SMEs, the research and development activity undertaken in collaboration with HEIs does not fall within the scope of their activities. Often SMEs are less likely to engage with some of the more academically focused or early stage research being undertaken by HEIF, which is less likely to lead to tangible near term benefits.
15. A wider view of innovation is required. Innovation is often thought of as a transformational process stemming from research and development (R&D) which results in completely new products and processes but incremental innovation – small improvements to existing products and processes – is just as important.
16. There is a significant opportunity to capitalise on existing links between FE colleges and SMEs, and to fund practical innovation that delivers economic impact quickly. FE colleges are drivers of social mobility and economic growth. They provide high-quality technical and professional education and training for young people, adults and employers. In doing this, they support people into careers and strengthen the economy. They have wider links with SME employers than any other type of education or skills provider; the average college works with 600 businesses. AoC's Innovation survey published in September 2020 confirms that colleges already support SMEs with innovation but on a small scale and despite the lack of funding or external interest from regulators.
17. The core aims of a new fund would be to:
 - enhance the capabilities of FE colleges to deliver knowledge-based collaboration with SMEs
 - generate and disseminate new information about the practical benefits to business,
 - contribute to stimulating demand to engage in innovation activity.

18. The purpose would be to overcome the commercial barriers to SMEs engaging with education. Given uncertainty about the business benefits of such activity, and the tendency for innovation to pay off over the medium to long-term, there is a tendency of both SMEs and commercial finance providers to be risk-averse. This may be keeping companies and sectors in a low-innovation, low-productivity cycle.
19. There is a case for a pilot - perhaps in a small number of areas - to test the concept, systems and procedures so that lessons could be learnt before a wider rollout.

Proposal Four. College business centres

DfE should work with the Department for Business to set up employer hubs which support, advise, and deliver skills, innovation, business change and technology adaptation.

Workforce, pay and pensions

20. Good quality education and training is more likely to happen with skilled and experienced teaching staff on permanent contracts with job security. Colleges know the value of good employment practices but have been forced by a decade of spending constraint to hold down pay to stay within budgets. This has had an impact on both retention of staff – there is higher turnover than desirable – and on recruitment. Technical education is improved where staff are dual professionals. Over the next decade there will be a replacement demand (as people leave and retire) and an expansion demand (for rising numbers and also for growth sectors). The shifts in the economy and technology create a need both for retraining and recruitment. A number of good initiatives have been tested in recent years, including Taking Teach Further and several Education and Training Foundation programmes, but there is a case for a larger, bigger plan involving recruitment and retention initiatives, measures to increase pay (so that it catches up with and keeps up with schools) and CPD. HM Treasury and DfE fund and support recommendations made by the School Teacher Pay Review body but leave further education staff and pay issues under-researched and unaddressed.

21. There is a related issue on pensions. FE Colleges spend around two-thirds of their budgets on staff costs. Rising pension costs make it hard for colleges to afford pay rises. Employer contributions to the teacher pension scheme have risen from 14.1% in 2015 to 23.7% in 2020. The funding for part of this increase stops in March 2021 (unlike in schools where it continues to 2023). The government needs stable colleges sector and needs to avoid undermining the investment it has recently made to restructure colleges as well as ensuring colleges can recruit and retain the teachers they need.

Proposal Five: Workforce, pay and pensions:

DfE should develop new pay recruitment and retention incentives for FE teaching staff in key sectors but, in order not to undermine pay-setting, Treasury should maintain the Teacher Pension Scheme employer contribution funding for colleges for the rest of the current valuation period (until 2023)

A new deal for skills

Skills funding

22. There are 2.2 million full and part-time adult students receiving £2.3 billion of public funding compared to over £8 billion committed in student loan write-offs and teaching grant to support 1.2 million undergraduate students. Annual public funding per university student averages £6,600 compared to £1,050 for adults in further education. The Independent Panel for the Post-18 review described this as a large under-investment in skills given the sector's importance for the country's future economic success.
23. The budgets for adult education and skills are also fragmented. In addition to the £1.3 billion allocated to the adult education budget, there is £440 million in advanced learner loans, £150 million in European Social Funds, and £40 million in National Retraining Scheme spending deployed across three different projects. On top of this, there is £2 billion for apprentices from age 16 upwards.
24. A few months before the pandemic, the government was elected on a manifesto with an ambitious agenda to make Britain the best place to start and grow a business, to foster innovation, to support working families, to revive our towns, to support rural life and coastal communities, to fix the immigration system, strengthen the NHS, make the country safer, deliver the housing people need and fight climate change. All these objectives are still valid, and all require appropriately skilled people. For the government to achieve its different aims, businesses and public services across the economy will need more people with the right skills. The government also wants to level up skills in every part of the country. Doing this will improve the attractiveness of places for investment which, in turn, will spread prosperity and help more people improve their lives.
25. The skills system in England has many strengths including strong institutions, good systems for measuring and improving performance plus flexibility in adapting learning and training content to economic need. There are some significant challenges which government needs to address to make progress with its plans. Participation in adult education and training has fallen at all qualification levels (below degree level). The number of adults taking a funded non-apprenticeship course has fallen by two-thirds. Only one in three adults self-report any participation in learning (the lowest level in 22 years). Participation in basic English and maths

provision is falling. Meanwhile the number studying higher and intermediate technical courses is lower than desirable given current skills shortages and those that can be predicted given retirements and economic change. Those who do participate are far more likely to be well-educated and better off. The poorest adults with the lowest qualification levels are the least likely to access adult training despite being the group who might benefit most.

26. HM Treasury, DfE and other departments needs to work up detailed budget plans in the 2020 spending review but should consider increasing overall spending on skills: so that it keeps ahead of multiple pressures including inflation, the growth in the working-age population, greater employer demand resulting from lower EU migration and the desirability of levelling up achievements by people and in places that are being bypassed by large employer apprenticeship spending.
27. There is also a need to consider the purpose of the adult education budget, which is focused mainly on basic and intermediate skills and is partly devolved to eight mayors and combined authorities. Whether this is so in future depends in part on what is decided with the National Skills Fund (see above) but there is a clear need to increase numbers of lower paid workers on courses and numbers taking the new digital skills entitlement. DfE and the combined authorities should increase the funding rates for all courses to reverse the freeze on rates which has been in place for a decade. The rate should then be increased annually in line with education inflation while considering higher increases for economically valuable courses.
28. AoC undertook research into adult curriculum costs in April 2020. Adult funding rate are now well below that of 16-19 programmes, in spite of the fact that delivery of adult programmes are often the same as for 16-19. College income for adult provision differs based on how many learners are fully funded versus those that are co-funded plus those that are fee paying. AoC's research looked at costs for 15 course categories (including technical courses in different subjects, basic skills, GCSE resits, English for Speakers of Other Languages) and used data from colleges to work out actual, average and maximum class sizes; typical student mix and staffing profiles (for example whether support staff are used). The report shows that course characteristics and funding levels mean that some courses are underfunded in every scenario.

29. There is a particular need to develop new places at level 2 to support progression into apprenticeships and to increase training activity at level 2 to fill skills gaps previously covered by inward EU migration.
30. Finally, the adult education budget also has a role in supporting integration through the English Language. Fluency in English helps people find work, ensures people can participate in community life and reduces the risk of loneliness, segregation, and exploitation. Data from the 2011 Census showed that 844,000 people living in England (1.6% of all residents) did not speak English well or at all.

Proposal Six: Skills budget

HM Treasury should increase overall spending on skills so that the budget keeps ahead of (a) inflation (b) the growth in the working-age population (c) the costs of delivering high quality education (implying higher funding rates) and (d) the need to increase provision for people and places that are bypassed by current spending on universities and apprenticeships.

Proposal Seven: National Skills Fund

DfE should develop a plan for the National Skills Fund which focuses on higher technical education in colleges to ensure that they are used in all parts of the country and for economically valuable skills.

Proposal Eight: Funding for growth sectors:

There should be selective DfE interventions to support sectors where there is potential for growth, including (a) higher programme cost weightings (b) subject premiums (c) funding for equipment and buildings (d) full funding at adults over 25 taking Level 3 study

Apprenticeships

31. Government has put employers in a central decision-making role but needs to act to ensure there is money where it is needed most. There is a wider public interest in ensuring that apprenticeships are focused on new labour market entrants and on training for a career not just for a current job.
32. Recent reforms have given employers more control over apprenticeship spending and they have done what they have often do – spend the largest

share of training funds on managers and professionals. There is a lack of public information about apprenticeship training trends but clear evidence of growth in high cost degree apprenticeships, in mid-career manager apprentices and in money being spent on professional roles located in the biggest cities (for example accountancy apprenticeships). Obligations previously covered by tuition fees have been shifted onto the apprenticeship budget. This has prioritised current need over future need and leaves apprentices themselves as passengers in the decision.

33. There has been three years of underspending but fears of an overspend forced ESFA to tightly cap non-levy allocations. Many colleges ran out of funds for new starts in small employers towards the end of 2019. There were fears of an overspend in 2020-1 but the pandemic means there may be a fourth underspend year but falling levy receipts may shift the problem to 2021-2. Apprenticeship levy receipts in 2021-2 are likely to fall below the current budget. There is a risk of restrictions on activity just when employers and young people wish to step up training activity.
34. Treasury and DfE should start by publishing more information on where the money is being spent and who is using existing funds and by developing a statement which sets out the purpose and priorities for apprenticeship funding.
35. Government should consider the Post 18 review recommendations that there should be rule changes so that there are common equivalent and lower qualification rules across all programmes at level 6 and above. This would imply new restrictions on the ability of employers to claim funding for degree apprentices in non-STEM courses for those already qualified at degree level.

Proposal Nine: Apprenticeship priorities

Treasury, DfE and BEIS should develop and publish a statement which sets out the purposes of apprenticeship funding. Apprentices should mainly be new labour market entrants developing skills for careers and not just current employees. The statement should be accompanied by changes to the funding of degree apprenticeships

Retraining

36. The rise in unemployment in 2020 and the rapid change in economic activity has created a new need for retraining to help people shift to new jobs and to support growing businesses and public services. Without intervention this need will be met by an adult education and training system weakened through sustained lack of investment over the past decade. Large numbers of adults, including redundant apprentices, will require training to help them move from sectors in most difficulty into those which might expand, including those employing key workers (such as, but not only, health and care). The government needs to consider how the adult education budget can assist.
37. There is likely to be a further rise in unemployment when the Job Retention Scheme is phased out in the autumn. Those currently furloughed are at higher risk of being made redundant. Serious consideration should be given to their retraining needs.
38. Department for Work and Pension spending on active labour market measures fell from £500 million at the start of the decade to barely £100 million in 2019-20 (on work coaches and the Work and Health programme). The new Kickstart programme has a large (£2 billion) budget and appears to have high awareness (1,000 employers registered on one day this week) but it is:
- A job support scheme with no firm requirement for training or skills acquisition
 - Narrowly focused on terms of eligibility (on those who have been on Universal Credit for six months)
 - Not clearly linked to apprenticeships
 - Unclear what will happen to participants at the end of the 6 month period

Proposal Ten: Retraining

DWP and DFE should work on a second stage of the Kickstart programme to ensure there is support for adults who lose their jobs to train or retrain on a flexible basis up to higher level technical / professional level. The aim should be to get people into sustainable employment as quickly as possible, with additional training to manage their transition once they are in work.

Left-behind areas

39. For the last three decades, UK government agencies have used European Union regional and social funds to tackle regional inequalities. Colleges have used these funds to help retrain and improve the skills of hundreds of thousands of people. The stop-start nature of government procurement and the complexity of the rules has made it hard for colleges to use the money as effectively as they could do. The UK government will continue to participate in the European Social Fund until December 2020 but has not yet confirmed what will happen afterwards. Contracts let by DFE typically run until July 2021.
40. Exit from the EU requires a fresh look at the priorities but should not result in any reduction in spending because this would widen existing social and economic divisions. The new Shared Prosperity Fund should be targeted at left behind areas where economic activity is lower and unemployment is higher. There is some overlap with the Towns Fund, which is currently open to bids from 101 towns, almost all of which have a college. The overall aim should focus on using skills to improve economic performance by helping people into work, by retraining those in sectors affected by economic change and by providing support to businesses to adapt. The administration of funds could be much simpler if managed as part of other programmes.

Proposal eleven Left-behind areas:

The Shared Prosperity Fund and the Towns Fund should supplement existing skills policies in areas where economic activity is lower, and unemployment is higher. The overall aim should focus on using skills to improve economic performance, by helping people into work and by retraining those in sectors affected by economic change.

Ensuring that every young person receives a superb education

16-18 funding rates and volumes

41. The government announced a 7% increase in the 16-to-18 education budget in the 2020-1 Spending Round as a first step to addressing the frozen funding rate. DfE has used these funds to increase the full-time base rate to £4,188 and to target money on high cost programmes, high value courses, English and maths resits and workforce development. This is a helpful start, but it does not go nearly far enough. There has been a seven-year period in which rates were not increased at all. The national funding rate for 16-and-17-year-olds has been fixed at £4,000 since 2013. DfE cut the 18-year-old rate by 17.5% in 2014 and has made no allowance for inflation or other costs loaded onto institutions.
42. The main losers have been young people and college staff. Classes in England only run for 15 hours a week compared to more than 26 in high performing systems abroad. Course choices have been cut to stay within budget, particularly in science and languages. Meanwhile college teachers are paid an average of £7,000 a year less than their counterparts in schools. Colleges already have a 3% vacancy rate for teachers (compared to a 1% rate in secondary schools) with specific challenges recruiting staff with engineering, construction, maths, and digital/IT specialisms.
43. This under-investment results in under-achievement by the country's young people compared to their potential. At a time when more and more jobs require education at Level 3 and above, only 60% of young people reach this level by age 19 and 15% don't even reach Level 2. England's schools and colleges supply a strong flow of young people with the right qualifications to enter university, but their maths and foreign language skills fall short of those in our competitor countries. There is insufficient focus on digital skills.

Proposal Twelve: Funding rates

DfE should continue to increase funding rates in 2021-2 and beyond. Rates should rise above the rate of inflation towards a £5,000 rate for 16, 17 and 18-year-olds. This would allow colleges to increase student hours and to increase pay to levels needed to retain and recruit expert staff. There are 1.1 million young people who would benefit from this decision.

44. The numbers of 16-to-18-year-olds in England reached a low point in 2019 and is now rising by around 2% a year. The current participation rate might well rise from current levels (94% at age 16, 84% at age 17). DfE does not publish projections for numbers in education in Year 12 and above (16, 17 and 18) but, assuming consistent participation rates, we estimate there will be 90,000 more young people in education by 2024-5 and even more later in the decade . There are several reasons for expecting an increase in education participation after the age of 16:

- Before the pandemic, around 25,000 16 year olds started apprenticeships each year. These numbers have been on a downward trend since 2017 because private and public sector employers have focused their attention on older, better qualified apprentices. The reduction in apprenticeship starts in 2020 has accelerated.
- The option for 16 and 17 year olds to take jobs without training in sectors like leisure and hospitality has also diminished.

45. DfE needs to act to ensure that young people, employers and colleges can be certain their apprenticeship training can be funded. There is a social and economic case for DfE to reduce numbers dropping out at 16 and 17 to ensure that no young person is left behind. The risk in not acting is that the young people with the worst GCSE performance (or no GCSEs at all) will not be in useful education or training.

Proposal Thirteen: Increase in the population of young people

HM Treasury should work with DfE to ensure that 100,000 more funded places are available by 2024-5 to ensure that with a rising population of young people, nobody is turned away from education or an apprenticeship.

Closing social and class gaps in 16-to-18 education

46. Education funding leaves young people from poorer families behind once they reach the age of 16. The squeeze on funding in the 2010s has limited access to education for young people at a time when the relative child poverty rate is at a record 34%. The Social Mobility Commission has noted a

gap between the young people who stay in school sixth forms (who on average, are better off) and those who move to college or apprenticeships. 8% of sixth form pupils in schools were on free school meals at 16 compared to 16% of those in colleges. Despite this DfE's funding policies protect and prioritise school sixth forms over other places of study. These decisions have further consequences for the most disadvantaged young people. Just 35% of those who were on Free School Meals (FSM) at 16 achieve Level 3 by age 19.

47. An effective way for DfE to level up achievement between 16 and 18 would be to introduce a post-16 premium to help close the attainment gap by identifying and supporting students from disadvantaged backgrounds. Inexplicably the pupil premium, which has focused investment in schools, stops at age 16. The Social Mobility Commission has recommended a post-16 student premium should be introduced at a rate of £500 a student on the same eligibility criteria as the pre-16 fund (receipt of free school meals) An alternative approach would be to build on the approach being used for Level 3 students in 2020-1. DfE will be paying a £750 supplement for students on Level 3 courses who do not have English or maths at grade 4 . The distribution method is important but most important of all is what this would represent - a government decision to prioritise 150,000 disadvantaged young people.

Proposal Fourteen: Pupil premium

The pupil premium should be paid to 16,17 and 18 year olds

48. Last year Department for Education ministers embarked on a high needs review. This work has been delayed by the pandemic but should be completed in 2021. There are particular challenges in the administration of this system for those over 16. There are around 18,000 young people with high needs in colleges and the funding arrangements are excessively complicated. The typical FE college enrolls around 80 high needs students, negotiates with at least five councils individually on every single student and spends an increasing share of this budget on administration rather than education. The Local Government Association, AoC and National Association of Specialist Colleges (NATSPEC) have jointly commissioned research in 2020 to suggest ways forward. With our partners, we will be sharing and discussing the recommendations with DfE, some of which address funding.

Proposal Fifteen. Young people with high needs:

DfE should reform the funding of post-16 high needs, including considering block funding of places in colleges where that would best meet student needs.

Raising quality

49. The spending review is the opportunity for a fresh DfE plan to raising the quality of the learning experience for young people by moving resources to the places they are needed most and away from areas of inefficiency or poor quality. This implies a change of approach as well as some redistribution.

50. The independent Post-18 review panel argued for change when it considered the principles that should guide the system:

"competition between providers has an important role to play in creating choice for students" but that on its own a market "cannot deliver a full spectrum of social, economic and cultural benefits" and "with no steer from government, the outcome is likely to be haphazard" .

51. As in the health service where there is universal provision sitting alongside specialist facilities at different levels (including regional and national centres) so, in post-16 education, there should be a concerted effort to identify, protect or develop specialist and hyper-specialist provision alongside the standard courses necessary in all communities. There is no shortage of sixth forms offering the most popular A-level subjects but there is a need to ensure there is capacity to support key industrial sectors.

52. At a time when resources in education are stretched, it is odd that DfE overlooks the fact that class sizes in school sixth forms average 11.5 and the offer in many is very narrow because of the small size of the cohort. Secondary schools use their pre-16 funding to cross-subsidise these smaller classes which represents a subsidy towards students from better-off families. There are many excellent school sixth forms but it is extraordinary that Regional School Commissioners, ESFA and councils tolerate so many small ones. In London alone (a city with excellent public transport), the Post-16 area reviews reported 221 sixth forms with fewer than 200 students. Half of 11-18 schools in the capital have non-viable sixth

forms and hundreds more across the rest of England are wasting funds on small class sizes while limiting the educational offer. Small sixth forms focus on the most popular A-levels and on lower cost BTECs. Fewer students take science, languages, engineering and digital courses than would be the case if there were fewer, larger sixth forms.

53. Closing or merging school sixth forms, university technical colleges and studio schools would produce revenue and capital savings while improving quality and choice of courses. There is considerable duplication and there have been cases where DfE's school team has spent time trying to find new sponsors for a weak academy trust rather than seek a solution involving the college next door. Corporately, DfE should be focusing effort and resources on post-16 centres which have the economies of scale to offer a breadth of courses, specialist subjects and high quality provision. The exact arrangement in different counties, towns and cities will vary but the aim should be a strong national network of high quality academic, technical and professional provision.
54. At the same time, DfE should act to improve IT provision. One of the consequences of financial weakness has been that many colleges have struggled to maintain investment in their IT infrastructure. This means that many colleges have old hardware and dated software. An injection of capital is needed to put this right to ensure that students have the best resources and up to date operating environments.

Proposal Sixteen. Improving the quality of places of learning:

DfE should maximise the value for the money spent on young people by providing capital funding for new places, by developing the IT infrastructure and by a targeted programme of reviews of school sixth forms to remove uneconomic and lower quality provision.

Improving the efficiency of the education system

55. The Department for Education is responsible for the education and training of people of all ages but has a long-standing, barely acknowledged practice of favouring schools (in particular academies) over other types of provider. The main examples of this:

- Protection for core school budgets with funding cut by 24% when a pupil moves from year 11 to 12.
- Funding to ensure that schools can afford annual pay rises recommended by the statutory review body.
- Support for disadvantaged pupils via the pupil premium (£955 for secondary pupils).
- Supplementary grants paid only to schools or academy sixth forms (including the teacher pay grant, formula capital funding and teacher recruitment incentives).
- Lighter touch financial policies, for example no match funding requirement with capital grants and zero interest loans for institutions with cashflow difficulties.
- Coverage of costs including VAT, business rates and copyright paid and insurance (via the Risk Protection scheme).

56. Schools have a vital role in national life so it is a good thing that DfE stands behind them but there are some undesirable consequences:

- The underfunding of post-16 education results in a narrower curriculum, lower teaching hours and reducing support overall.
- Higher pre-16 funds allow many 11-18 schools to cross-subsidise sixth forms, generally using funds allocated for Key Stage 3 pupils.
- Schools with large sixth forms are more likely to be academically selective so the net beneficiaries of any redistribution are higher achieving A-level pupils. Schools with small sixth forms are more likely to be attached to smaller schools or schools in disadvantaged areas.

The net losers from the cross-subsidy are their Key Stage 3 pupils.

- The school premium has rewarded the 25 sixth form colleges who have converted to become academies - a voluntary nationalisation in which the governing body agrees to limit the number of adults, apprentices and international students they will enrol in return for the extra public funding and the VAT refund.
- Young people in Hampshire, the South West, Greater Manchester, Lancashire and the Tees Valley lose out on this distribution of funds because the local education system is more likely to involve college education.

Proposal Seventeen. A new funding formula in the long-term:
DFE should develop a policy-directed, cost-informed funding approach for setting budgets and funding rates across the age range with the aim also of removing some of the supplements and poor incentives in the current system .

Capital funding

57. The distribution of government capital funding in education is haphazard. DfE plans to spend £4 billion on school capital in 2020-21 and just £300 million for further education, most of which was only awarded in August 2020 to be spent within just over six months. In recent years, some FE colleges have secured useful grants from the Local growth fund administered by Mayoral combined authorities or Local Enterprise Partnerships or via the Institute of Technology programme but there have been unrealistic expectations and the process is haphazard. DfE works hard to help schools access capital funds but has neglected colleges. Schools and sixth form colleges receive £22 per 16-to-18-year olds via the Devolved Formula Capital allocation (with £115 if the building is in poor condition, i.e. categories C or D). The new college condition fund is the first formula fund for FE colleges in more than ten years but sits in parallel with the £1 billion formula-based grant budget for schools is £1 billion in 2019-20. There is £100 million for universities. Meanwhile there is a £38 million budget for building and equipment in the 50 2020 T-level providers but restricted specifically to T-level students.
58. Government's long-standing assumption on college capital funding is that colleges can raise their own funds to supplement public grants. This has

become increasingly difficult. Some colleges have sold property as part of campus re-organisations but this is a one-off option. Most colleges are not able to make the margins needed at current funding rates to service loans for capital investment. The banks themselves have changed their approach to the sector. Two banks (Barclays and Lloyds) accounted for 90% of loans to colleges in 2015. Both banks have reduced new lending, have spent college loan repayments elsewhere and have worked with ESFA to reduce unsustainable debts to more manageable levels. However, government restructurings have generally left either bank holding a continuing loan to avoid accusations of a bailout. This may have left the sector in a worse position. The incumbent lenders are reluctant but their presence is an obstacle to new entrants. Several colleges have found that their local authority – using PWLB funds – is their only long-term lending option. It might be more efficient to allow colleges direct access to the PWLB, while perhaps putting academies on the same basis.

Proposal Eighteen. Capital spending and financing:

HM Treasury should add to the capital budget allocated in March 2020 so that there are funds to secure new places, to invest in IT and to develop specialist and hyper-specialist provision. Funds need to be at a level that helps colleges move towards the 2050 net zero target. At the same time, the Treasury and DfE should review the capital financing requirements of education in the 2020s including the option of government loans to both academies and colleges as an alternative to 100% capital grants for the former and reliance on a vanishing commercial loan market for the latter.

Black lives matter

59. The Black Lives Matter movement has shone a glaring light on racism across our society, within our institutions and structures. Sadly, the college sector is not immune. Much work is needed to understand the lived experiences and outcomes for BAME students and staff in order to address those inequalities and create true equity in education, where everyone feels they belong and can succeed. The AoC is working on an action plan with a range of partners, for publication in October, but change in this area will need government action in a number of areas. Priorities include:
- long-standing differences in education participation, achievement and progression which reflect entrenched disadvantages. Government's Race Disparity Audit identified lower average achievement in GCSEs and A-levels by students from black ethnic groups, higher rates of

participation in further education overall for people from all Black Asian and Minority groups than the population as a whole and questions about progression to higher education, work and apprenticeships. There has been no obvious action since then.

- the lack of interest and research means that we don't know what we don't know. Government's main skills policy in recent years has been apprenticeship reform yet there is little data on whether the best paid and funded apprenticeship opportunities (degree, engineering and construction apprenticeships) are properly open to people of all backgrounds.
- Despite having a student population which is more likely to come from black and minority ethnic backgrounds, the staff population in colleges is more and more likely to be white the higher up the structure, up to and including governors. The plan due to be launched in October will address these and other issues but there is evidence that the progress made in the 2000s with the help of DfE initiatives has been lost.

Proposal Nineteen. Black Lives Matter:

DfE should fund research and analysis to help understand the experiences and outcomes for Black Asian and Minority Ethnic (BAME) students and staff in further education and commit to an action plan to address the inequalities we know exist. Funding should also be invested to support BAME staff recruitment and progression into colleges at all levels, with the intention of having staffing which better reflects the student make-up.

Oversight

60. At the same time as setting overall budgets, DfE also needs to work out how it can build on the strengths of schools, colleges and universities as well as non-profit and community providers. By investing in colleges, the government will be able to offer every community institutions whose staff have strong industry links and whose equipment and facilities are up to date. Strong and confident institutions can take calculated risks with new programmes and new technology. They can offer better routes to progression and flexible re-training opportunities. They offer an efficient investment in capital which can be used for many types of education and skills.

61. This will require a change of approach in terms of funding. There should be greater use of grants to allow colleges to build necessary capacity in the priorities for every place, supporting the industrial strategy. Grant-funding allows more of a partnership with colleges to stimulate demand, invest in quality, develop long-term plans with employers and invest in the best equipment and facilities.
62. A new strategic relationship would also allow the government to support workforce development and capital – buildings, equipment and new technology where it is introducing new policy or priorities. With better funding rates, colleges would be able to invest adequately in their own staff, buildings, equipment and IT in the same ways that all thriving businesses do.
63. More work is also needed to streamline regulation and support the right balance between accountability and innovation. Several issues should be tackled:
 - **Intervention:** DfE assigns a lot of people and spends a lot of money on intervention with half of colleges in early or formal intervention (30% of the total). There is no clear view from DfE about how colleges should improve their finances and there is insufficient support to help achieve that. Outsiders making brief visits to colleges often have good ideas and practice but college leaders and governing bodies and leaders who need to be empowered to act and implement.
 - **Regulating higher technical education appropriately:** OfS regulates and funds 168 colleges on its register but along with its designated bodies (QAA, HESA), duplicates the work of FE funding agencies and regulators (ESFA, Ofsted, IFATE). This results in confusion, duplication and excessive costs. Those taking higher technical courses in colleges generally pay lower fees but a larger amount per student is being spent on administration and compliance.
 - **Parallel arrangements:** DfE runs two parallel intervention arrangements for schools and colleges which has resulted in unhelpful obstacles in the use of publicly funded assets. There have been cases where DfE staff have closed a UTC but refused to consider a transfer of the site to a nearby FE college.

- **Funding colleges on a transactional basis:** Colleges are also subject to an apprenticeship funding regime designed essentially for for-profit providers. This means that colleges which generally provide high-cost, high quality apprenticeships to small companies and to younger apprentices struggle to maintain provision.
- **Withholding payment from colleges each springtime:** Colleges hold fluctuating cash balances throughout the year. The uncertainties associated with running further education in England means that colleges hold more cash than they would need to if the environment was more predictable. ESFA underpays colleges each spring, between January and March, with a shortfall of 6% each March.

64. DfE ministers and officials are working on an FE white paper. If there is time in the Parliamentary calendar for legislation, there might be a case for DfE to redesign the regulatory regime so that it funds and regulates colleges as colleges rather than as something they are not. In doing this it could have a clear strategy to support colleges to thrive and introduce a new, more appropriate accountability, support and intervention regime which looks to the long term and focuses on the place-making, productivity and lifelong learning ambitions which colleges can lead.

Proposal Twenty: Oversight

DfE should simplify the oversight arrangements for colleges with a view to reducing direct and compliance costs of regulation.

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