January 2021

March 2021 Budget submission

Association of Colleges

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HM Treasury
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Association of Colleges March 2021 budget representation

HM Treasury will use the budget to fix taxes and spending for 2021-2 and to indicate longer-term plans. Leadership from government is more important than ever because the UK is in the middle of its worst health and economic crisis for more than a hundred years. Companies, jobs and family incomes are at risk. Some public services are at breaking point. The government's budget deficit has reached record levels in 2021-2. These challenges come on top of those associated with our new global position outside of the EU, the climate crisis, the Government's own pledge to level up and the need to secure economic and racial justice.

Colleges have a role in offering solutions across the range of big issues facing our society. By the time the Chancellor publishes the budget, government will have published an FE white paper as part of a package of post-16 reforms which, we hope, will recognise the vital role of colleges and set an ambitious, expansive direction for the sector.

Priorities

Economic growth and social justice

There is a pressing need for action on skills to support growth sectors (for example health, construction, digital and the green economy), to help those who have lost their jobs to retrain and to build a stronger technical education system.

At the same time the unprecedented temporary closure of schools, colleges and university buildings during lockdowns has forced a massive shift to remote learning. This has widened social and class divisions. Large numbers of young people lost months of education and training in the summer and further weeks in the autumn. Those leaving education will face a challenging labour market with fewer finding work. Without purposeful and high quality education and training opportunities, too many young people will bear the consequences for the rest of their lives.

The 2020 spending review

The government made some helpful decisions in the 2020 spending review:

- A higher 16-to-18 budget to provide extra places for a rising population, including, for the first time, a capital fund to support expansion;
- Allocation of £375 million for the National Skills Fund;
- Allocation of £110 million to develop higher technical education;
- Continuation of the Teacher Pension Scheme employer contribution grant for another twelve months;
- Capital funding to improve the condition of college buildings, to support the introduction of T-levels, to set up more Institutes of Technology and to promote wider regeneration (the levelling up fund).

However, there were limitations to the 25th November announcement because the spending was allocated for only 12 months. Some significant issues and challenges were deferred. Since then, the deteriorating public health situation has forced government to extend controls in December and announce a third national shutdown.

HM Treasury has an opportunity in the March budget to build on the good work in the spending review and respond to the crisis by:

- Making or authorising a number of immediate and urgent decisions;
- Anticipating longer-term spending requirements;
- Considering relevant tax and pension issues.

Immediate decisions

There are a number of immediate and urgent decisions that HM Treasury or the Department for Education should make on or before 2 March 2021:

1. Catch-up programme

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 have been making good use of these funds in autumn 2020 but now have a cohort of students with even greater need because the period in full lockdown looks likely to be as long as it was in summer 2020.

Despite the best efforts of colleges to provide high quality on-line learning, this is no substitute for face to face classes. Many students will finish 2020-1 having barely got through their syllabus, with little or no work experience, far fewer hours to practice practical, hands-on skills, and exams and end point assessments pared down to nothing or almost nothing. Many students will start further studies in autumn 2021 needing additional support. There is a clear and pressing case for further catch-up funding for 2021-2 to support additional teaching for continuing students and for those transferring from schools.

2. Re-use of underspent funds

It is likely that there will be underspends on some of the education and skills budgets allocated at the start of 2020-1 or in the summer economic update, for example on apprenticeship training, traineeships and kickstart. HM Treasury should work with DfE and other government departments to reallocate these funds to areas of higher need and demand. The patterns of recruitment for young people is a good case in point, with colleges seeing a rise of about 20,000 students (similar to the increase in higher education). Mirroring that rise in colleges is a drop in apprenticeship starts for the same age cohort. In HE, the additional students are fully funded, in colleges they are not, despite the legal requirement for young people to stay in education or training until 18.

3. National skills fund

At the time of writing (14th January), DFE has only issued incomplete funding information on the NSF programmes due to start in April 2021. This is an important initiative but there are eligibility and course restrictions. Only those without qualifications benefit and they can only take courses leading to qualifications on a specific list. The lockdown means that adult learning and training is currently online only. Colleges will work hard on the launch in summer but the circumstances mean there may be a slower start than hoped.

The Budget offers the opportunity to reconsider some of the restrictions and provide longer term confidence that this fund will grow with demand.

4. Adult education budget in 2020-1

Most colleges will find it difficult to meet their 2020-1 adult education budget targets. Enrolment and teaching on in-person courses were disrupted in autumn and stopped on the first day of the spring term. Adult students cannot come in and the majority cannot learn online, particularly as many are on low income or taking courses at low skill levels. Referrals from Jobcentre Plus for employability provision has stopped and that income lost. College earnings will fall significantly short in 2020-1 - as they did in 2019-20 - but the capacity in the sector will have a critical role to play in the recovery. DfE needs to act now to put in place protection for this provision.

5. Apprenticeships

Recruitment in a range of technical areas has been affected by the pandemic and by the pressure on employers. There is a case for action in a number of areas:

- extending the enhanced package of apprenticeship employer incentives which currently lapse at the end of March 2021;
- seeking ways to support progression (perhaps a bonus) for any employer who recruits a kickstarter or trainee onto an apprenticeship;
- targeted funding or support to aid the completion of practical apprenticeships;
- more work in priority sectors to provide college education and training aimed at supporting people to progress into apprenticeships as the labour market improves in those sectors.

6. Job retention scheme

HM Treasury has extended the job retention scheme to 31 March 2021 but it is likely some buildings and activities will still be closed at that point, including in education. There is a case for a partial extension to smooth the impact on the economy and to support colleges to retain capacity in priority areas such as apprenticeship training.

7. Education of 16-to-18 year olds

Colleges are currently providing a combination of remote education for most students and in person courses for the vulnerable to a cohort of 16 to 18 year olds which is around 20,000 more than they are funded for. Nearly two-thirds of colleges have unfunded 16-to-18 year-olds at a time where college costs have risen because of safety requirements.

The 2020-1 increase in 16-to-18 funding rates has been absorbed by the additional costs of Covid. Meanwhile apprenticeship starts have fallen because many workplaces are unable to take on young people. An obvious option for the government is to transfer the unspent funds in the apprenticeship budget to cover the costs of extra students in colleges.

8. Planning capital projects

DfE plans to deploy a five year capital fund to help colleges upgrade their buildings, to fund extra places for the rising number of 16 to 18 year olds, to provide grants to support T level providers get ready for 2022, to set up a second wave of Institutes of Technology and to support local regeneration. Colleges are keen to use these funds but can only do so if they have clear information from DfE about what funds are available and on what terms. There has been some delay in publishing information and it continues to be hard to get full value for money when there are hard 31 March deadlines on spending. HM Treasury has recently, helpfully, allowed DfE to extend some spending deadlines past 31 March. Given the delay it would help to extend the same flexibility for 2021-2 funds and set out clear longer term plans for college capital, allowing colleges to take a more holistic and strategic approach to their estates.

9. Restructuring funds

HM Treasury provided £440 million grants and loans for college restructuring between 2016 and 2019 to implement Post-16 area reviews and these have been used well by many colleges to support organisational change, including mergers, and to put their finances on a more stable footing. The area review target to secure financial sustainability for all colleges was never wholly realistic and has been undermined by events. The hope that the college insolvency process would act as a suitable deterrent to financial failure has not really come to pass and, in the two cases where it has been used, has proved more expensive than alternatives. Meanwhile colleges continue to reorganise their affairs to remain solvent which, in some cases, has required them to make redundancies, sell campuses and withdraw all provision from some towns. DfE may use the FE white paper to signal a new approach but it would be helpful to have an appropriate loan or grant budget, a clear set of rules and a quicker process for making restructuring decisions. There may also be a case, in exceptional circumstances, for DfE to use the college insolvency process again to resolve claims on a college.

10. Access to loans

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-organisation but this is a one-off option and not available in many areas of the country where demand for land is low. Most importantly colleges are not able to make the margins needed at current funding rates to service loans for capital investment. The banks themselves are cautious. Two banks (Barclays and Lloyds) accounted for 90% of loans to colleges in 2015 and have spent the last few years reducing their exposure. Reluctant incumbent lenders and DfE's own restructuring loan portfolio is an obstacle to new entrants. Several colleges have found that their local authority – using PWLB funds – is their only long-term lending option but this is now under threat. Treasury should work with DfE to ensure that appropriate education lending is available.

Longer-term spending

HM Treasury has confirmed departmental budgets for 2021-2 but should set longer-term budgets during 2021. Public spending on education as a proportion of GDP will now be higher than it was before the pandemic because of recession. HM Treasury should anticipate increased spending on post-16 education and training over the medium term and lock in a larger percentage of GDP for education for a number of reasons set out below.

1. 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 and employers to address the recruitment and skills needs of growth sectors which have rising job vacancies and which need to change to flourish. These sectors include Health, Construction, Digital and the Green Economy and supporting them more directly will help deliver the Government's ambitions to 'level up' as will a boost to inclusive lifelong learning.

2. 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. This will help stimulate the demand for skills and lead to higher productivity as companies adopt new business practices and technology.

3. FE teacher pay and pensions:

DfE should develop new pay, recruitment and retention incentives for FE teaching staff in key sectors. Colleges had hoped to use the additional 16-to-18 funds allocated in 2020 to improve pay but most of the money has been used on Covid related costs with the result that AoC has only recommended a 1% or minimum £250 pay rise in 2020-1. AoC is currently researching the costs of two measures:

- A £30,000 starting salary for FE teachers, to match the same ambition for schools;
- Paying the foundation living wage for all directly employed staff.

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 pledge to meet any future increases. Pension costs could rise further following the next valuation. Treasury should work with DfE to anticipate an effective response.

4. Skills budget

HM Treasury should increase overall spending on adult 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.

AoC recently published research which shows that government funding for adults is set at a level that colleges can barely cover direct costs if they run technical courses and sometimes make a loss. This discourages the sort of activity that government wants from the sector.

5. 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.

6. 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.

7. Retraining:

DWP and DFE should work on an updated version of the Kickstart and Restart programmes to support adults who lose their jobs to be able 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.

8. Funding rates

DfE increased 16-18 funding rates by 4.7% in 2020-1 but has reverted to a no change approach in 2021-2. HM Treasury should provide funding so that rates can 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.

9. Demographic growth

HM Treasury has provided funding for additional 16-to-18 places for one year only (2021-2) but should work with DfE to ensure that the system expands fully to deal with an increase of 100,000 in the population over the coming years.

10 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. There is no clear justification for stopping the premium at age 16.

11. 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.

AoC, LGA and Natspec recently published a jointly commissioned research on ways to improve the efficiency and effectiveness of the post-16 high needs funding system.

12. 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.

13. 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 should be a major proposal in the forthcoming white paper because it is an essential underpinning reform to help achieve the aim of moving to a more strategic and nurturing relationship with resilient, high quality and independent colleges.

14. Capital spending and financing:

HM Treasury should add to the capital budget allocated in 2020 so that there are funds to secure new places, to invest in IT and to develop specialist and hyper-specialist provision. Funding needs 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.

15. 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 and governance which better reflects the student make-up.

Tax measures

1. VAT

HM Treasury may now be able to make changes to VAT which were previously difficult because of UK membership of the European Union. The differing treatment of sixth form college corporations and sixth form college academies in the VAT refund scheme exemplifies the absurdity of the current rules, particularly as 25 corporations have converted to academy status in the last few years. 16-to-18 education VAT rules favour smaller, state-controlled sixth forms focused mainly on academic courses over more efficient, not-for-profit colleges aiming to develop technical education.

There is also a case for action in more detailed areas, for example

- the issues raised in the St Brendan College case where a sixth form college had to go to the VAT tribunal to prove that a new building was self-standing and should be eligible for zero rating.

- the issues raised in the Colchester Institute case which involved a college taking an appeal to the upper tribunal to secure VAT relief for capital spending. The decision now creates a threat to zero rating of education buildings and partial exemption of energy costs.

All of this is important because it takes funding away from some students simply because of their choice of institution.

More information

AoC can provide more information on any of the issues in this letter on request, Please contact Julian Gravatt (Julian.gravatt@aoc.co.uk) in the first instance.

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