



Association  
of Colleges

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# 2015 Spending Review

A submission from the Association of  
Colleges: September 2015

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## **Background**

The Association of Colleges (AoC) represents and promotes the 335 colleges in England. There are 232 further education (FE) and 93 sixth form colleges incorporated under the Further and Higher Education Act 1992.

Colleges provide high quality technical and professional education and training for young people, adults and employers. They provide over three million students with valuable employability skills, helping to develop their career opportunities and strengthen the local, regional and national economy.

Colleges are inspirational places to learn because education and training is delivered by expert teaching staff in industry-standard facilities. From basic skills to postgraduate degrees, colleges offer first rate academic and vocational teaching, in a range of professions including engineering, hospitality, IT, construction and the creative arts.

Sixth form colleges provide high-quality academic education to 16 to 18-year-olds enabling them to progress to university or higher level vocational education.

This submission covers issues primarily within the remit of the Department for Education (DfE) and the Department for Business, Innovation and Skills (BIS) but also several other departments.

## Summary

We have ten recommendations for the 2015 Spending Review.

1. Funding for the education of 16 to 18-year-olds should be the same as that provided for the education of 14 to 16-year-olds. This would reflect costs, ensure the best A Level and technical courses are available, ensure students achieve good English and maths results and reduce student drop-out.
2. Three-year funding allocations should be introduced for colleges, reflecting the spending review period.
3. Schools and colleges should be asked to consider merging their sixth forms with a view to no sixth form having fewer than 250 students.
4. Government is encouraging colleges to merge in order to make long-term savings. The short-term costs of such mergers should be met by Government.
5. HM Treasury should cut the VAT on all sixth form education and should reduce public sector pension costs.
6. People aged between 19 and 24 should be able to get a loan to help them fund a college course in the same way as their counterparts in university.
7. Government should introduce a formula which funds adult further education on the basis of outcome agreements. These agreements would be drawn up by colleges and set out objectives agreed with local partners including councils, combined authorities and local enterprise partnerships (LEPs).
8. The apprenticeship levy should be set at 0.5% of payroll costs, paid by all public and private organisations with more than 250 employees and used to support high quality training.
9. Government should introduce long-term initiatives to help colleges recruit English and maths teachers.
10. Government should rationalise and clarify the roles of the Education Funding Agency (EFA), Skills Funding Agency (SFA), Higher Education Funding Council for England (HEFCE), the FE Commissioner and Ofsted.

## The Government's objectives for public spending

1. In the 2015 Spending Review, HM Treasury (HMT) is seeking £20 billion in public spending reductions by 2019-20 and has asked departments to model 25% and 40% savings in real-terms<sup>1</sup>.
2. The Government has protected spending on health, schools, defence and international aid and has not yet set out plans to reform the Barnett formula. The proportion of spending devoted to these protected areas has risen from around 39% in 2010–11 to around 47% by 2015–16<sup>2</sup>. The £20 billion in public spending cuts fall on areas such as local government, the Home Office and post-16 education and training.
3. When it comes to post-16 education and training, HMT, BIS and DfE have a massive challenge:
  - The total Revenue Departmental Expenditure Limit (RDEL) for the DfE funding not provided to schools, and BIS, amounts to £25 billion in 2015-16<sup>3</sup> so a flat rate contribution from the two departments require cuts of more than £6 billion in a four year period.
  - The cuts required between 2016 and 2020 follow six years of austerity measures in post-16 education, which started in 2009 and which have included one-off savings such as introducing higher university fees. The grant to loan switch in higher education has helped reduce the BIS RDEL by £4 billion<sup>4</sup> while cuts in the 19+ further education and skills funding have generated another £1 billion. The cash spent on 16-18 education and training ("DFE 16-18 RDEL") has been reduced by £0.7 billion<sup>5</sup>. Inflation in this period means that the real-terms cut has been larger.
  - Unlike some public services, there is no option in large parts of post-16 education to introduce or increase fees. Government reductions in sixth form funding, or to courses for unemployed people, require institutions to cut their own budgets, often resulting in course closures. The proposed apprenticeship levy<sup>6</sup> creates the prospect of a new source of income for apprenticeships, perhaps £2.5 billion<sup>7</sup>, but this must be in addition, not instead of Government funding.

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<sup>1</sup> HMT "A country that lives within its means, Spending review 2015" CM9112, July 2015

<sup>2</sup> Institute of Fiscal Studies, <http://election2015.ifs.org.uk/public-spending>

<sup>3</sup> HMT Summer budget Table 2.3. reports DfE RDEL as £53.7 billion which implies non-school DfE is £12.5 billion. BIS RDEL is recorded as £13.2. The combined total is £25.7 billion

<sup>4</sup> BIS revenue grant to HEFCE was £7.1 billion in 2010-11 and £3.2 billion in 2015-16

<sup>5</sup> DfE' and its Young People's Learning Agency reported £7.7 billion in revenue spending in 2010-11 which compares to an estimated total of £7,0 billion in 2015-16

<sup>6</sup> <https://www.gov.uk/government/news/pm-unveils-plans-to-boost-apprenticeships-and-transform-training>

<sup>7</sup> AoC estimate

- There is a risk that spending cuts will have an unintended impact on particular groups of people or courses. For example, we have seen in recent years how a series of decisions by Government have contributed to a decline in the number of skilled construction workers.
  - Staff costs constitute the majority of expenditure on education and training. Further pay cuts and redundancies will make it harder to recruit and retain sufficient staff to offer high-quality courses or to deal with rising demand, for example the need for more maths and engineering specialists.
4. If Government wishes to improve the efficiency and effectiveness of public spending in DfE and BIS, then college budgets need to be considered in the round as well as in departmental silos. Tables Two and Three summarise the key budgets in DfE and BIS for 2015-16 using AoC's best estimates of what is currently allocated:

**TABLE TWO: BUSINESS INNOVATION AND SKILLS ALLOCATIONS 2015-16<sup>8</sup>**

<b>BIS Revenue DEL</b>	<b>(£ billions)</b>
Science via Research Councils	2.9
Science via HEFCE	1.5
Science budget (sub-total)	4.6
HEFCE teaching & other	1.7
HE maintenance grants	1.6
HE & Science budget (sub-total)	7.9
Apprenticeships 19+	0.8
Adult further education	1.2
Adult skills budget (sub-total)	2.0
SFA other skills budgets	0.7
19+ FE/Skills (sub-total)	2.7
Other BIS	2.4
<b>Total</b>	<b>13.2</b>

<sup>8</sup> Table 2 compiled from tables in 2015 summer budget, HEFCE and SFA grant letters. Final spending for 2015-16 will be reported in BIS accounts in June 2016.

**TABLE THREE: DfE BUDGET ALLOCATIONS 2015-16<sup>9</sup>**

<b>DfE DEL</b>	<b>(£ billions)</b>
Dedicated Schools Grant	39.8
Pupil Premium	2.5
Protected budget	41.2
16-18 education	6.3
16-18 apprenticeships	0.7
Other DfE	5.5
Non schools DfE	12.5
Total	53.7

5. Cutting spending is always difficult, but it is not impossible. The Office of Budget Responsibility report that the decision to end maintenance grants for new higher education students will save £2.5 billion by 2020<sup>10</sup>. There are other smaller savings that are possible if Government takes a fresh look at post-16 education. We explain these in this paper and in the associated technical annex. We cannot, however, see how £6 billion could be removed in four years from the budgets listed above without serious damage to Government's own objectives.

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<sup>9</sup> Table 3 compiled from tables in 2015 summer budget and information from DfE, EFA and SFA apprenticeship allocations. Final spending for 2015-16 will be reported in DfE accounts in June 2016 or later if there is another qualification of the accounts

<sup>10</sup> HMT summer budget 2015, page 3 quotes a £2.5 billion saving by 2020 which is a larger figure than the current budget because of assumptions about student number growth. OBR Economic and Fiscal Outlook July 2015 forecasts £3 billion extra in student loans as a result of the associated decision to increase maintenance loans

## **Recommendation 1**

**Funding for the education of 16 to 18-year-olds should be the same as that provided for the education of 14 to 16-year-olds. This would reflect costs, ensure the best A Level and technical courses are available, ensure students achieve good English and maths results and reduce student drop-out.**

6. Spending on schools is the largest element in DfE's budget. This is under some pressure however because of rising pupil numbers and the Government's promise to protect cash funding per pupil. This policy is a continuation from that of the Coalition between 2010 and 2015 but will mark the end of a 15 year period in which spending per school pupil rose in real-terms. Lack of protection for the 16 to 19 budget has resulted in a 13.6% real terms fall in the overall budget for this age group by 2014-15.<sup>11</sup> This has had several consequences:

- Full-time sixth form study in England involves average contact time of less than 20 hours a week compared to between 25 and 30 hours a week in higher-performing areas such as Sweden and Canada<sup>12</sup>.
- Research has already shown that colleges are cutting A Levels, including modern foreign languages and the sciences, because they can no longer afford to offer them<sup>13</sup>. There is clear trend towards a simple three A Level programme for students on the academic track and a risk that English and maths requirements are narrowing the teaching time for technical subjects.
- Some institutions have only been able to manage on existing 16 to 18 funding with the help of transitional funding or by cross-subsidising post-16 provision from pre-16 budgets (as many schools do)<sup>14</sup>. Funding drops by about 22% when a young person moves from Year 11 to Year 12.<sup>15</sup>
- Efforts to close gaps in entry to selective higher education will stall. Private schools charge higher fees for sixth form age students (averaging £13,797 per pupil in 2014<sup>16</sup>) while DfE cuts funding for this age group.

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<sup>11</sup> Schools Spending, Institute for Fiscal Studies Briefing Note, BN168.

<sup>12</sup> SFCA Costing the Sixth Form Curriculum, March 2015, Part 2 for international comparisons

<sup>13</sup> <http://www.bbc.co.uk/news/education-33847860>

<sup>14</sup> 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

<sup>15</sup> Joint ASCL/AoC/SFCA letter [http://www.sixthformcolleges.org/sites/default/files/2014\\_post-16\\_funding\\_letter\\_and\\_report.pdf](http://www.sixthformcolleges.org/sites/default/files/2014_post-16_funding_letter_and_report.pdf)

<sup>16</sup> Average sixth form fee for daytime students reported in Independent School Council census. The average fee is 5% more than the senior (secondary) fee

7. Everyone must now remain in education or training until the age of 18. Government research has demonstrated a number of important factors which result from 16 to 18-year-olds remaining in education<sup>17</sup>:
  - Higher wages
  - Increased likelihood of labour force participation
  - Improved educational outcomes
  - Increased likelihood of civil involvement
  - Health benefits
  - Increased life satisfaction
  - Reduced offending behaviour and crime
8. These benefits can only be brought about if education and training for 16 to 18-year-olds is appropriately funded. Between 2015 and 2019, there will be 141,000 fewer 16 to 18-year olds<sup>18</sup>. This provides an opportunity for Government to extend the ring-fence to cover the 16 to 18 budget, plan for a steady increase in the participation rate and tackle the disparity in funding levels.
9. DfE's longer-term plans for a national school funding formula are relevant. Modelling by the Association of School and College Leaders on a possible national funding formula for schools, suggests that the Key Stage 5 funding rate needs to be set at £4,800 rather than £4,000 if it is to cover actual costs. This should be set at the same level as for Key Stage 4<sup>19</sup>. If DfE takes further steps towards a national funding formula for 5 to 16-year-old funding, then there is an opportunity to integrate funding for 16 to 18-year-olds but some care would need to be taken. It would be wrong simply to extend the school formula upwards because the well-established formula for 16 to 18-year-olds has some important features which ensure that funding levels are appropriate for a broader curriculum. There are also several funding pressures:
  - The programme weightings support courses in construction, engineering, land-based subjects, catering and care and have been fixed in cash terms for three years. A review in 2013 confirmed they were appropriate<sup>20</sup>.
  - The £480 additional Government funding each student who does not have grade C in GCSE English or maths (£960 for those without both) is

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<sup>17</sup> *Raising the Participation Age in Education and Training to 18*, Research Report, DCSF-RR012

<sup>18</sup> ONS single year 2012-based population projections

<sup>19</sup> ASCL paper on education funding, May 2015

<sup>20</sup> DfE 16-19 funding formula programme cost weightings review, December 2013

insufficient to meet the costs of helping these young people meet this level. Timetabling maths and English for three hours a week each, plus providing time for work experience and tutorials, leaves around 300 hours teaching time (10 hours a week) for the student's main qualification.

- The funding paid to support disadvantaged students aged 16 to 18 is less than half of that available via the Pupil Premium and disadvantage element for their younger counterparts<sup>21</sup> and is also expected to be used to cover students with low-level special education needs.

## **Recommendation 2**

### **Three-year funding allocations should be introduced for colleges, reflecting the spending review period.**

10. Colleges are funded by two Government departments via two agencies, the EFA and the SFA. All four organisations work on annual budgets and sometimes announce decisions late in the academic or financial year. This is particularly an issue with BIS and SFA. For any organisation, the ability to plan ahead can make the difference between success and failure.
11. Colleges have got used to managing within fluctuating annual budgets. However, the result has been self-defeating because it results in quick decisions and pushes colleges towards recruiting temporary staff and sub-contracting provision. There is a disincentive to make the long term investments necessary to build up high-quality, skilled education and training in specialist areas.
12. There has been a prime example of this recently. Following the Treasury's in-year budget review announcement on 4 June 2015<sup>22</sup>, the SFA did not notify colleges for seven weeks (until 20 July 2015)<sup>23</sup> that their monthly adult skills budget payments would be cut by 3.9% for the academic year starting in September.
13. In their recent report<sup>24</sup>, the National Audit Office (NAO) reported an 11% reduction in Government funding to colleges between 2010 and 2014, but omitted the large cut applied in 2015 and the impact of inflation. On a real-

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<sup>21</sup> The pupil premium adds £2.5 billion (6%) to the school budget. The average school budget formula allocated 8% of funding for deprivation (though the range was from 1% to 20% according to the EFA publication "School block formula funding 2014-15". By contrast the disadvantage element of the 16-18 formula adds about 5% to total funding

<sup>22</sup> "Chancellor announces £4.5 billion of measures to bring down debt" 4 June 2015, <https://www.gov.uk/government/news/chancellor-announces-4-billion-of-measures-to-bring-down-debt>

<sup>23</sup> SFA chief executive letter on funding allocations 2015 to 2016, 20 July 2015

<sup>24</sup> National Audit Office report Overseeing Financial Sustainability in the FE sector, July 2015

terms basis, there has been a 27% reduction in spending on FE colleges in the five year life of the Coalition. NAO's report did not cover sixth form colleges but we estimate there has been a 21% real-terms reduction in their Government funding.

14. Dealing with funding cuts is a challenge but is made more difficult by the way in which Government uses one-year allocations, makes regular changes to funding formulae, introduces new programmes, ratchets up expectations and makes other decisions which add to college costs<sup>25</sup>. In these circumstances, it is not surprising that SFA and EFA currently assess 30 FE colleges and 10 sixth form colleges as having inadequate financial health and are actively monitoring another 40<sup>26</sup>. This leaves another 150 colleges in a slightly stronger position but, with 30% of colleges in weak financial health and others at risk of deterioration, there is a systematic issue to address.
15. The Spending Review will set Government budgets to 2019-20. There is no reason why Government should not be able to confirm the spending envelope for further education and skills for the same period, allowing colleges to plan their provision effectively and seek to meet the needs of their local community and local employers over the full period.

### **Recommendation 3**

**Schools and colleges should be asked to consider merging their sixth forms with a view to no sixth form having fewer than 250 students.**

16. In recent years, Government has promoted choice and competition through the creation of new education institutions. This was affordable when public spending and the number of 16 to 18-year-olds was rising before 2010 but is now unjustifiable. Despite the addition of 169 new academy and maintained sixth forms in the last five years<sup>27</sup>, the total number of young people in the sector has barely increased. This means that the average number of 16 to 18-year-olds per institution has declined and has created many small institutions. 1,180 school sixth forms have fewer than 100 students<sup>28</sup> putting these young people at risk of a poor education. There are several related issues:
  - Young people are more likely to achieve if they have the opportunity to study their preferred subjects, but small school sixth forms are often not able to offer a broad range of subjects to their students.

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<sup>25</sup> Increases in VAT (2010), pension contributions (2015) and national insurance (2016) offset by lower interest rates

<sup>26</sup> NAO report *Overseeing Financial Sustainability in the FE sector*, July 2015

<sup>27</sup> DfE answer to written question 220526 sixth form education 16 January 2015

<sup>28</sup> Statistics on numbers of schools with sixth forms of fewer than 100 pupils supplied by DfE

- Judged by results, smaller school sixth forms generally perform less well. The percentage of schools adding more value than expected decreases consistently depending on the number of sixth formers<sup>29</sup>. Research by the ASCL suggests that 250 students is the minimum efficient number to offer high-quality education at current funding levels<sup>30</sup>.
17. DfE should start a rationalisation process involving closure or merger of small school sixth forms, although we acknowledge that there are cases in very rural areas where an 11-18 school with a small sixth form is the best option. There are also small tightly-focused specialist sixth forms which achieve high standards but a Government determined to make public spending cuts must look critically at all areas of spending. DfE needs to grapple with this issue and should consider an area review process for school sixth forms to match the programme which is about to start in the college sector.
  18. In the medium term, there could be benefits if sixth form closures released space which could be used to expand secondary school provision. In London, for example, a recent estimate identifies the need for 113,000 new school places in the next five years, 34,835 of which are at secondary level<sup>31</sup>. At the same time, DfE is funding 107,410 places in 371 academy and maintained school sixth forms in London, 149 (40%) of whom have fewer than 200 students<sup>32</sup>. The majority of 16 to 18-year-olds in London are in school sixth forms rather than colleges<sup>33</sup>. Yet reports from the Mayor of London and London Councils have identified the high level of drop out at age 17 (i.e. after one year) as a major issue<sup>34</sup>. The Mayor, London boroughs and DfE should be working together on a co-ordinated plan to close the worst performing small sixth forms to make places available for younger secondary age pupils while investing in high quality cost-effective post-16 education near public transport hubs.

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<sup>29</sup> National Audit Office, Getting Value for Money in the education of 16 to 18-year-olds, 2011

<sup>30</sup> Work by Stephan Jungnitz reported in ASCL Leader Magazine, November 2013

<sup>31</sup> London Councils "Do the Maths 2015" September 2015

<sup>32</sup> AoC analysis of EFA 2014-15 funding allocations

<sup>33</sup> The numbers in 2014-15 were 54,667 in 221 academy sixth forms, 52,742 in 150 maintained sixth forms, 65,426 in 30 FE colleges and 19,816 in 12 sixth form colleges.

<sup>34</sup> The Annual London Education Report quotes Key Stage 5 drop-out rates as being "almost 25%". IoE's "What is happening with 17+ participation, attainment and progression in London" 2013 for London Councils

#### **Recommendation 4**

**Government is encouraging colleges to merge in order to make long-term savings. The short-term costs of such mergers should be met by Government.**

19. Following the publication of the *Productivity Plan*<sup>35</sup>, DfE and BIS have published a joint statement on reviewing post-16 education and training which envisages a national programme of area reviews over the next 18 months. The aim is ensure there will be “fewer, often larger, more resilient and efficient” colleges. This process is being undertaken to address “the significant financial pressures on institutions including a declining 16-19 population and the need to maintain very tight fiscal discipline in order to tackle the deficit.”<sup>36</sup>
20. As self-governing institutions, colleges are willing to lead these reviews in their area with a view to saving money for the benefit of their students, employers and the wider public. The experience of 120 college mergers in the last 20 years<sup>37</sup> has shown a short term benefit of stabilising weaker institutions and to provide a platform for improvement. Professional fees before the merger can easily amount to £100,000 while the first year of the new college involves large costs in terms of staff redundancies, investment in IT and changing the use of buildings<sup>38</sup>. There is often also a short-term decline in performance which affects income from Government and employers. Longer term savings can be substantial, particularly if colleges are able to rationalise courses and buildings but these will take time. It is unlikely the current area review process will produce many direct savings before 2020. Many of the benefits will be realised in the longer-term.
21. In the circumstances, Government needs to incentivise a process for longer-term benefit through a rationalisation fund. This would provide support for the area review process, perhaps on a matched funding basis or on a revolving basis with payback within five years.
22. Rationalisation will help create stronger colleges and develop Institutes of Technology in some circumstances, but will not be a catch-all solution. In some cases mergers can be a distraction. Colleges are self-governing institutions and should be able to decide their own destiny. The results of any area review should not be pre-judged by Whitehall or the local town hall. Any funds for rationalisation should be additional to a continuing capital budget which is necessary to keep classrooms and workshops up to date

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<sup>35</sup> HM Treasury, *Fixing the Foundations*, July 2015

<sup>36</sup> *Reviewing post-16 education and training institutions*, BIS, July 2015

<sup>37</sup> AoC research

<sup>38</sup> Information provided by a sample of recently merged colleges to AoC

and to provide cost effective purpose built facilities. There is no dedicated capital funding stream which creates a risk of under-investment now and higher costs in future. DfE funds are concentrated on new school buildings while BIS funds are now managed by LEAs. DfE and BIS should be working on a capital plan which anticipates demographic changes (e.g. student number growth in the 2020s).

## **Recommendation 5**

### **HM Treasury should cut the VAT on all sixth form education and should reduce public sector pension costs.**

23. Colleges, unlike schools and academies, are required to pay VAT on their purchases. This breaches the principle of competition. Sixth form colleges pay an average of £335,000 per year in VAT which amounts to 4% of an average turnover<sup>39</sup>. The distortions created by differential treatment are demonstrated in Manchester. DfE funded a new free school for 16 to 19-year-olds, Connell Sixth Form College, with a few hundred students in a city with two sixth form colleges, Xaverian and Loreto and an FE college, the Manchester College. Between them these three colleges educate more than 10,000 16 to 19 year olds. The free school can recover its VAT costs as can the 15 secondary schools with sixth forms but the three colleges cannot. This different treatment operates as an HMRC subsidy to parts of the country that have more school sixth forms and academies than colleges and as a £200 million tax on FE and sixth form colleges.
24. Pension costs are also a major issue for colleges. Mistakes in the reform of the Teacher's Pension Scheme mean that colleges and other employers now pay a 16.48% contribution compared to the 12.1% cost ceiling proposed in the wake of the Hutton Report<sup>40</sup>. Combined with the rise in public service employers' national insurance contributions in 2016, this adds 5% to the cost of employing a teacher.
25. Local Government Pension Scheme costs have also risen in recent years and are likely to rise again in 2017. The former Chief Secretary of the Treasury promised in November 2011 that that the most recent set of pension reforms will last for 25 years<sup>41</sup>. This promise has been enshrined in law<sup>42</sup>. This leaves colleges and the rest of the education sector locked into pension schemes which take a rising share of their budgets at the expense of their ability to pay competitive salaries. If Government seriously wishes to cut

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<sup>39</sup> SFCAs survey of VAT funding, 2014

<sup>40</sup> Colleges, schools and post-1992 universities pay 16.48% in employer contributions from September 2015. This includes a 0.08% levy to pay for administration. The 12.1% cost ceiling for employer contributions was promised in the provisional final agreement published by DfE in March 2012

<sup>41</sup> HM Treasury written ministerial statement, 20 November 2011

<sup>42</sup> Sections 21 and 22 of the Public Service Pension Act 2013

public spending, it needs to consider making the pension schemes cheaper and allow employees who value pensions more to pay higher contributions.

## **Recommendation 6**

### **People aged between 19 and 24 should be able to get a loan to help them fund a college course in the same way as their counterparts in university.**

26. Student loans were introduced for FE students aged 24 and over in 2013. In 2014-15, 68,000 people applied for a loan<sup>43</sup>. Public awareness of the scheme is low, mainly because Government has been unwilling to invest in a national advertising or marketing scheme. Loans have, however, played an important role in providing continuity at a time of spending cuts and in giving individuals control over their own decisions.
27. Although there is a case for education to be free at all levels because of the benefits that greater knowledge and skills bring to society and economy, it is also clear that individuals benefit directly and there is a good case for those who can afford to do so, to pay the full cost. Student loan schemes remove up-front costs for individuals and reduce the financial risk by linking repayments to salary levels after the course has finished. The extension of the higher education student loan scheme to level 3 and 4 courses in 2013 has worked satisfactorily and a further extension is worth considering, particularly if the alternative is no support at all. We calculate that the funding available for employed adult students outside apprenticeships has fallen from more than £2 billion to less than £500 million in the last ten years<sup>44</sup>. The trend suggests total elimination of the funding, the consequences of which will be ever greater skills shortages in areas where apprenticeships are not an option. It is worth noting that apprenticeships are restricted to full-time employees only.
28. The extension of the FE loan scheme could be organised quickly because colleges are already working with the Student Loans Company and the regulations can be changed relatively easily. Making loans available to all people over 19 for courses at Level 2 and above in quality assured colleges and universities would send a clear message to the public about the availability of support. Government clearly needs to take care about making loans where there is a high impairment charge (a RAB charge above 50%) but, until repayments of existing loans start in 2016, it is too early to predict the costs and benefits.

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<sup>43</sup> 24+ Advanced Learner Loan application information, August 2015, BIS

<sup>44</sup> AoC estimates of the distribution of adult skills budget spending given a total budget of £1.8 billion, a 19+ apprenticeship allocation of £800 million, ESOL spending of £150 million and perhaps £400 million on courses for the unemployed, in English, maths and for those on benefit all of which are fully funded.

29. Our proposal for an extension of the loans scheme does not mean that Government can plan on the basis that it can totally end funding for adult further education and skills. Aside from education and training covered by statutory entitlements (for example young adults with special education needs or adults who need English and maths qualifications), there is a need for Government to ensure that essential skills are provided in areas necessary for the effective performance of the economy and society. There are already clear consequences from years of under-investment in terms of skills shortages in a range of areas of which construction is the most immediately obvious. At the basic level, courses in English for Speakers of Other Languages are necessary for integration and cannot be covered by fees for those who are out of work.
30. Extending loans will help people obtain work-related skills and also those who want to change career or who are returning to work after they have had children but a system which relied solely on individual and employer contributions would be seriously deficient in education and skills.

#### **Recommendation 7**

**Government should introduce a formula which funds adult further education on the basis of outcome agreements. These agreements would be drawn up by colleges and set out objectives agreed with local partners including councils, combined authorities and Local Enterprise Partnerships.**

31. College acquired self-governing status more than 20 years ago as a result of the Further and Higher Education Act 1992. This has been an essential factor in ensuring that colleges can respond to different needs, can make improvements relatively quickly and can balance priorities in an efficient way. This is true for colleges, just as it is true for universities and academies.
32. In areas where skills policy and funding is devolved, colleges will, of course, work even more closely with local partners, including local councils, LEPs or combined authorities, to ensure that local businesses are able to train their staff and community need is met.
33. Even in these areas, however, Government needs to account to Parliament for public spending, collect national statistics and oversee national education standards and qualifications. In particular, Ministers have ambitious plans for apprenticeships about which they will report to Parliament<sup>45</sup>. None of this should prevent greater devolution but potential consequences include the loss of economies of scale, creation of new locally based rules, a reduction in choice for students and deterioration in performance. The devolution of funding to councils for 16 to 25 year old students with learning

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<sup>45</sup> The apprenticeship reporting duty is included in the Welfare Reform and Work Bill

difficulties and disabilities at a time when they have many other priorities and reducing administrative budgets has generated delay, bureaucracy and new obstacles to student choice.

34. Outcome agreements might be a way in which colleges and local areas could work effectively together, rather than devolving unreformed national systems<sup>46</sup>. An outcome agreement is a collectively established, written agreement identifying both the skills needs in a local area and the solutions to address them. Local partners including employers and education providers come together to agree the priorities for the area, the outcomes that need to be achieved and the contribution that each partner will make to achieve those outcomes.

### **Recommendation 8**

**The apprenticeship levy should be set at 0.5% of payroll, should be paid by all public and private organisations with more than 250 employees and should be used to support high quality training.**

35. The Government's proposed apprenticeship levy creates the possibility to develop a new independent funding stream for apprenticeships. Using Government statistics, we estimate that there are 9,055 employers with more than 250 staff and that they employ 15.9 million people. We estimate that a 0.5% payroll levy paid by all of these organisations could raise £2 billion a year. 1,000 of these organisations are in the public sector and employ 4.7 million people. There will be pressure from some quarters to exempt public sector organisations from the levy. We believe this will send the wrong signal about the scheme because its strength will be that it is universal.
36. The apprenticeship levy will need a robust set of rules to ensure that it contributes to genuine training. Experience in recent years shows that this needs to involve transferrable skills, reputable training organisations and quality assurance.
37. Government must not be seen to be using the levy as a reason to reduce its own £1.5 billion annual spending on apprenticeships because this will leave average funding at just £2,000 per apprentice<sup>47</sup> and will stall the necessary progress towards a high quality programme focused on developing skills.

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<sup>46</sup> *Local action, national success* UKCES with the assistance of AoC, June 2015

<sup>47</sup> Alison Wolf *Heading for the precipice* July 2015

## **Recommendation 9**

### **Government should introduce long-term initiatives to help colleges recruit English and maths teachers.**

38. DfE has introduced compulsory English and maths for all 16 to 18-year-olds who do not have GCSE grade C or above. This means they must re-sit the exam until they are successful. A recent report from Policy Exchange found that that 67% of those resitting English and 77% of those resitting maths did so at a sixth form or FE college<sup>48</sup>.
39. In 2014, BIS introduced bursaries in order to encourage people to teach English and maths in FE colleges. This scheme has been repeated for another year but its future is unclear. Given the scale of the challenge faced, a longer term strategy is needed. Average pay for maths teachers in colleges is around £32,000<sup>49</sup>, compared to £23,000 starting salaries for maths graduates<sup>50</sup>. 30% of colleges in successive AoC surveys have reported staff shortages<sup>51</sup>. These may get worse in the next couple of years because there is competition from schools and also because of the growing opportunities in other subjects.

## **Recommendation 10**

### **Government should rationalise and clarify the roles of EFA, SFA, HEFCE, the FE Commissioner and Ofsted.**

40. The education and training system serves a diverse society and an advanced economy. It is unavoidably complicated and Government needs to spend money on regulation, inspection and monitoring to ensure that it gets value for money. The costs of regulation have been cut in recent years and this has reduced the number of officials<sup>52</sup>. Nevertheless, there is a combined administration and regulation cost of almost £1 billion, particularly if large agencies like Ofsted<sup>53</sup> and the Student Loans Company<sup>54</sup> are counted in the cost.

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<sup>48</sup> Policy Exchange, *Crossing the line: improving success rates among students taking English and maths GCSE*, August 2015

<sup>49</sup> Figures from UCEA 2015-16 employer statement background material (circular 15025, page 10). Median full-time FE teacher earnings £34,652 compared to £36,727 for secondary teachers and £47,576 for HE teachers

<sup>50</sup> Sutton Trust, *Earnings by Degrees* 2014. The report also suggests that graduates in STEM subjects earn £27,000 on average within 3.5 years.

<sup>51</sup> AoC Maths and English survey 2014

<sup>52</sup> The Learning and Skills Council employed 5,000 people ten years ago. EFA and SFA employ just under 1,000 each.

<sup>53</sup> Ofsted's resource departmental expenditure limit in 2014-15 was £155 million

<sup>54</sup> SLC operating expenses reported in its 2014-15 financial statements were £134 million of which £115 million was funded by BIS for English activities

41. The Government will clearly want to make further savings in its own costs to achieve its spending review targets but there is a risk that this could damage progress in apprenticeship reform or improving technical education. The best way to avoid this is to make reforms at the same time as savings. Government is asking colleges to merge in order to make savings and it might need to review whether it needs two education departments, three funding agencies<sup>55</sup> and a variety of commissioners. There are also four different national education databases<sup>56</sup>.
42. Inspections and exams generate significant compliance costs. Colleges spend £205 million on exam fees<sup>57</sup> while schools spend more than £250 million<sup>58</sup> and, although AoC is now working with the Crown Commercial Services on a national procurement framework, a more systematic reform will be needed to reduce these costs.
43. A 25% reduction in regulation costs is possible but only if there is clarification and rationalisation of responsibilities, smarter use of IT, a more efficient network of larger providers<sup>59</sup> and probably some updated legislation.

## **Association of Colleges**

### **4 September 2015**

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<sup>55</sup> The three funding agencies are EFA, SFA and HEFCE.

<sup>56</sup> The four databases are the school census, the individual learner record, the higher education student database run by HESA and the student loan company system. A review of these systems was started in 2012 but was never finished.

<sup>57</sup> Consolidated college finance records available from AoC

<sup>58</sup> Ofqual written evidence to Education Select Committee, 2012

<sup>59</sup> By “a more efficient network of larger providers” we mean stronger colleges, more academy chains and school federations, fewer school sixth forms, more group training associations and fewer small publicly funded training providers