Autumn Budget 2018

Association of Colleges proposals

28 September 2018

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Introduction

The Association of Colleges (AoC) represents nearly 95% of the 266 colleges in England. Colleges are transformational – they help people make the most of their talents and ambitions and drive social mobility; they help businesses improve productivity and drive economic growth; they are rooted in and committed to their communities and drive tolerance and well-being. They are an essential part of England's education system.

Colleges provide academic, technical and professional education for young people, adults and employers. Among other things, the 266 colleges[i] provide education and training to 580,000 young people aged 16 to 18 (representing 57% of the cohort), 300,000 apprentices and 1.4 million adults including 150,000 taking higher education courses.

Despite their contributions, colleges have had to deal with an average 30% funding cut in the decade from 2009 to 2019. This has resulted in:

- a drastic drop in learning opportunities for adults (from 4.7million enrolments per year to 2.2 million);
- fewer hours of teaching and support for young people (15 hours per week compared with 25+ in most OECD countries),
- teachers in colleges are paid about 20% less than teachers in schools (with adverse consequences for technical subjects)

As always, colleges have made efficiencies and coped admirably with to these challenges and continued to provide high-quality education and training to 2 million people. The sad fact is however that there are many more people who would benefit from what colleges offer, but the funding falls short and our students are getting less support than their international peers.

The UK's industrial strategy identifies skills as an issue across a range of priority sectors. For a long time, the UK economy has relied on large numbers of skilled and semi-skilled people from the EU and beyond. Migration is likely to fall in the short-term and, partly as result, skills shortages will increase. This will make it harder for firms to compete internationally which will, in turn, hold back productivity. A sensible long-term objective is for the UK to be more self-sufficient in skills.

This will require higher public spending on 16 to 21-year-olds to give them the start in life they deserve and to match the academic and technical training of our OECD competitors. The country also needs many more adults to upskill and retrain. This will require spending as well as reform. DfE should also ensure money is used efficiently, to tackle the waste that arises in small sixth forms and to review its approach to GCSE resits. New approaches are needed in policy towards apprenticeships and higher education.

AoC's Autumn budget paper sets out some long-term proposals that should be included in next year's spending review and some issues which need earlier action. Colleges are ready and willing to step up to meet the challenges our country faces; our proposals will help them do that for the benefit of young people and adults, employers and communities.

David Hughes
Chief Executive
Association of Colleges
28 September 2018

2019 spending review recommendations

1. The 2019 spending review is an opportunity for HM Treasury, DfE and other government departments to tackle some big economic and social challenges via a fresh approach to education spending for the period from 2020-21 onwards. As we explain in the first half of this paper, a number of actions are essential if we are to raise achievement, narrow educational gaps and improve productivity. These include:

    - An Education spending target.
    - Higher 16-to-18 funding per student
    - A new target for every citizen to be able to reach Level 3
    - A new higher technical offer
    - A national retraining scheme
    - A new approach to supporting institutions
    - An education workforce strategy

Proposals for the Autumn budget

2. In addition to the longer-term issues set out above, there a number of issues that cannot wait until the 2020 and where HM Treasury and DfE should act now. The first two items, relating to pay and pensions, are the most important but all the issue in the list should and could be addressed:

    - Extend the Teacher Pay Grant to colleges so that the 16-to-18 funding rate rises to £4,050 in 2019
    - Provide a Teacher pensions grant to cover the exceptional increase in the employer contribution rate
    - Maintain adult education budget spending at £1.5 billion in the 2018-19 financial year
    - Guarantee the training budget for apprentices in small companies
    - Set up a higher technical education development fund
    - Provide capital grants for technical equipment in spring 2019
    - Standardise the ESFA payment profile to colleges
    - Extend the restructuring facility for a year

The big economic, education and training challenges

3. The aim of the government's Industrial Strategy is to boost productivity by backing business to create good jobs and increase the earning power of people throughout the UK with investment in skills, industries and infrastructure. The current strategy identifies three key policies to improve skills (the reform of technical education; investment to promote digital and STEM and the planned National Retraining Scheme). Unfortunately these actions listed only address part of the issue. UK workforce productivity has been lower than comparable countries for several decades. Productivity growth has been low since 2008. The government needs to tackle some big challenges to improve the skills of the UK population. These challenges include:

- **Falling public investment in skills:** The government makes substantial investments in the skills of people in the UK but public spending on education as a share of GDP has fallen and is falling (to below 4% of GDP by 2020)[ii]. Private spending on education and training is concentrated disproportionately on those in private education, full-time higher education students and those in professional and managerial roles in work

- **Front-loaded spending:** Public spending on education is heavily front-loaded. Education spending per student reaches a peak at age 15 and falls until a young person reaches 18 at which point it increases again for those who take a full-time university course. Today's young people will work until well after age 65 but they will generally complete their education by their early 20s and rarely go back. The number of graduates has increased by one-third in the past ten years while the number of adult learners has halved[iii].

- **Skills shortages in technical occupations:** The oversupply in some graduate level skills co-exists with significant shortages in digital skills, construction and some areas of manufacturing[iv]. There is replacement demand because of retirements and changing migration patterns as well as new industries and new job roles. Many of those who graduate would be better off financially if they had prepared themselves for a different occupation and if they had taken shorter qualifications, and often initially at a lower level.

- **A divided education system:** Young people have high and rising aspirations but the education system judges large numbers to have failed at ages 16 and 18. 40% of young people do not reach Level 3 by age 19 while 15% have not even achieved Level 2[v]. As OECD comments "the penalties in the labour market for the less qualified are severe, especially for the younger generation"[vi]. Meanwhile private schools, operating at funding levels three times above the state system account for fewer than 7% of school-age pupils but account for over 20% of entrants to more selective universities and a disproportionately high percentage of elite positions.

An education strategy focused on long-term growth

4. The 2019 spending review should include a new education strategy focused on long-term growth including the following elements:

   - Education spending target.
   - Higher 16-to-18 funding per student
   - A new target for every citizen to be able to reach Level 3
   - A new higher technical offer
   - A national retraining scheme
   - A new approach to supporting institutions
   - An education workforce strategy

5. **Education spending target.** The government should set a long-term target for education spending as a percentage of GDP, ensuring a clear mechanism for sustainable investment. This would position our country as a leader in education, and allow colleges and other education institutions to undertake long-term financial planning necessary to ensure there is high quality teaching and industry relevant courses for people across their working lives

6. **16 to 18 funding per student**. DfE should raise the 16-to-18 funding per student by 5% a year for five years from 2019-20 to 2024-25. This would narrow the gap in funding between pre and post-16 which has recently widened to 24%. Funding reductions at this level have resulted in shorter teaching hours, closure of specialist courses and downward pressure on teacher pay. The main purpose of the additional funds would be to ensure colleges can recruit and retain specialist teachers at a time when they need to implement the technical education reforms and maintain academic standards. Some of the funds should be used to extend the pupil premium to sixth form age students[vii] and to improve English and maths achievements[viii].

7. **A target and funding to support every citizen to reach Level 3**. Our ageing population is facing increasingly fast rates of technological change which mean that every adult will be re-training and learning throughout their working lives and beyond. A bold target to offer every citizen the funding to be able to reach Level 3 would boost social mobility and support technology transfer in businesses, thus supporting higher productivity. It would complement and underpin the rightful focus the government has on increasing numbers of people learning at Level 4 and 5 to meet skills shortages.

8. **Higher technical education**. Courses at Level 4 and 5 should be re-designed to provide a credible alternative route to a BA/BSc degree, by building on and incorporating those higher technical qualifications that work well currently[ix]. The Government should provide funding so that new national qualifications can be developed locally with customisation to meet employer and labour market needs. As well as the development costs, Government should reform grant, fee and loan

rules to incentivise and support new one and two-year courses at Levels 4 and 5. The same fee cap and loan/maintenance arrangements should be made available for this route for students of all ages - whether they are part or full time. In the first 10 years, a teaching grant should be introduced to reduce the loan required by the student. This might be in the region of, say, 25 to 50% of the fee coming from teaching grant, with the loan available for the remainder. In addition, students should be able to access financial support for living costs, travel and childcare.

9. **National Retraining Scheme.** Education and skills have a major role in securing economic prosperity because of the impact that they have on productivity, business competitiveness and helping people back into work. The government is testing a National Retraining Scheme and also needs to make plans for regional policy once the EU Structural Fund programme ends in December 2020. These funds have had a helpful role in supporting skills and economic development in less prosperous parts of the UK and in helping both people and companies adapt. The key issue for the early 2020s is to maintain and develop effective approaches to deal with the challenges the country will face, including the reduction in the number of young adults entering the labour market; changes to migration; the ever-increasing pace of automation; the slowdown in social mobility and regional disparities in educational attainment and skills which underpin variable economic performance. Government needs to work on a coherent response. The National Retraining Scheme should be properly funded to to support re-training through flexible short and longer courses which can be accessed whilst working and focus particularly on Level 3 to 5 skills in shortage occupations.

10. **A new approach to developing institutions**. The government's ambitious post-16 reforms represent a new 'local offer' which every community needs to be able to access. The new parts of this offer include:

- T-levels
- Transition year
- Off-the-job apprenticeship training
- Higher level technical education
- National retraining scheme.

11. All of the reforms have over-lapping and complementary requirements which will most efficiently and effectively be delivered from hubs in every locality which deliver across all of the programmes. This would be a different approach to the one taken by DfE over the last fifteen years. The aim of current and recent policy has been to encourage innovation by introducing new competition and new institutions. 1,500 apprenticeship training providers, 400 new school sixth forms and 50 new university technical colleges have secured funding but at a time of limited budgets this has stretched resources and led to many notable failures. More places to study has resulted in many places in an overall narrower choice of subjects. Duplication of institutions has resulted in more money spent on

management, administration and support services. The lowering of entry barriers has resulted in lower operating margins and fewer funds for reinvestment. Short-term funding has resulted in short-term responses by providers. The various regulators struggle as a result of their span of control. They might find it easier to manage a smaller number of better resourced organisations. Instead a transactional approach to selecting providers will result in duplication, wasted investment and caution.

12. A better approach for the 2020s would be to develop a network of accessible centres whose staff have strong industry links, whose equipment and facilities are up-to-date and which have long-term relationships with employers. Strong and confident institutions can take calculated risks with new programmes and new technology. They can offer their communities, students and employers better routes to progression and flexible re-training opportunities. This is all possible if government sees the existing network of colleges as something to be developed. A new grant-funded relationship could allow colleges to build necessary capacity. 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. The government also needs to continue to support workforce development and capital – buildings, equipment and new technology. We also believe that this could underpin the Institute of Technology network.

13. An **education workforce strategy** is needed for several reasons. Teacher recruitment and retention are DfE's number one priority because of rising pupil numbers, rising staff turnover and skills shortages in key subjects. Like many issues in education, this is not a school-only issue but also affects colleges and other education sectors. The technical education reforms and the pass-through of secondary age pupils into post-16 education will create new demands. Meanwhile Brexit and the introduction of a new immigration system means that the education system will need better data to identify shortage occupations early enough to avoid problems. A further challenge relates to the training and retraining of the teaching profession to deal with new education technology. Finally the haphazard and short-notice decisions in the last few months on pay and pensions suggest that a new approach is needed to have the right rewards in place for the teaching workforce of the future.

The finances of colleges

14. The entire English education system faces financial problems. There is a serious mismatch between expectations, costs and resources. The root of the problem in state-funded education is public spending restraint at a time when demand and need is rising

15. The financial issues are particularly acute in the college sector and this will have consequences for government policy. The outlook for the 266 colleges in England has deteriorated in the last 12 months despite funds made available in recent

Treasury budgets and despite the widespread agreement that education and skills matter for the country's future.

16. The immediate financial issues for colleges are:

- **Falling income from 16-to-18-year-olds** Education of 16-to-18-year-olds account for 47% of FE college income and 85% of sixth form college income[x]. This income is falling because there are fewer 16-to-18-year-olds in the population and falling numbers staying in education[xi] as well as a reduced base rate which has not risen since 2013. DfE funding for 16-to -18 education in colleges will fall by 2.1% in 2018-19 because the autumn 2017 census reported a 2.4% fall in student numbers[xii].

- **Apprenticeship challenges:** Apprenticeships accounted for 10% of total FE college income in 2016-17. Despite expectations of higher apprenticeship income, the numbers starting apprentices in 2017-18 has fallen by a third and actual spending has been well below expectations.[xiii]. Colleges expect apprenticeship income to fall in 2018-19 compared to 2017-18[xiv].

- **Unavoidable pay costs.** Staff costs account for 65% of FE college and 71% of sixth form college income in 2016-17. This is above the FE commissioner benchmark of 63%, reflecting the pressure to keep pay competitive and higher social costs. The 40% increase in the employer contribution rate for the Teacher Pension Scheme in 2019 to more than 23% will push many colleges into deficit and force them to make savings that will cut their capacity to act. The increase in the 16-18 base rate for schools and academies to £4030 this year and £4050 in 2019-20 has not been matched for colleges where it will remain at £4000. There is no justification for this.

- **Refusal of the government to cover inflation.** The Consumer Price Index has risen by 7% in the last five years and is expected to rise by 4% between now and 2020[xv] but the funding rates paid to colleges have been fixed in terms of cash since 2013. DfE has found money from its budget to protect funding per school pupil and to support pay increases but there is nothing similar to protect colleges or post-16 education.

- **Withdrawal of finance**. Colleges are able to borrow commercially but for the last three years the sector has been paying back more to the banks than they are taking out. Total college debt fell from £1.5 billion in July 2015 to £1.25 billion in 2016-17. The banks have become very cautious as a result of the new college insolvency laws[xvi] and DfE plan to remove exceptional financial support which is used where colleges have difficulty securing sufficient cashflow.

17. AoC's 2018 paper on college finances provides more detail on these issues[xvii].

Proposals for the Autumn budget

18. There are a number of issues that cannot wait until the 2019 spending review and where HM Treasury and DfE should act now. The first two items, relating to pay and pensions, are the most important but all the issue in the list should and could be addressed:

- Extend the Teacher Pay Grant to colleges so that the 16-to-18 funding rate rises to £4,050 in 2019
- Provide a Teacher pensions grant to cover the exceptional increase in the employer contribution rate
- Maintain adult education budget spending at £1.5 billion in the 2018-19 financial year
- Guarantee the training budget for apprentices in small companies
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Recommendation One: Extend the Teacher Pay Grant to colleges so that the 16-to-18 funding rate rises to £4,050 in 2019

19. DFE is paying Teacher Pay Grant to schools and academies with sixth forms (11-18 schools), 16-19 academies and University Technical Colleges but not to sixth form colleges or FE colleges. The effect of this decision is to provide a non-consolidated increase in the 16-18 rate for schools/academies to £4,030 in 2018-19 £4,050 in 2019-20.

20. It has been obvious for some time that the 16-to-18 funding rates are inadequate:

- The rates have not changed for five years and have been fixed at £4,000 since 2013 despite inflation and higher pension costs.
- The funding rate freeze means that young people only receive around 15 hours of teaching and support per week compared to 25 hours or more in high performing education systems in other countries[xviii]. Institutions have been forced to remove cross-subsidies for smaller groups and reduce the A-level subject choice to cheaper and more popular subjects. This has prompted cuts to languages and science[xix].
- Wider support for students has also been cut back which means institutions will focus on core tasks rather than personal development (which employers say is important[xx]) or mental health issues (a rising challenge for the NHS). Colleges in rural areas will also cut back on the transport support they offer students which will increase exclusion.
- Insufficient funding has driven down median pay levels in FE colleges to £30,000 which is 20% below the school median and which represents a threat to the ability of colleges to retain and recruit teachers. The three

biggest shortage areas are engineering, construction and maths, which happen to merit pay premiums in industry because of skills shortages.

21. DFE has increased the 16-to-18 funding rate in school sixth forms via the Teacher Pay Grant. The department should extend this increase to all 16-to-18 provision in 2018-19 and 2019-20 and should consolidate the funds into the rate as a first, modest, step towards converging the pre-16 and post-16 formula.

Recommendation Two: Provide a Teacher pensions grant to cover the exceptional increase in the employer contribution rate

22. The on-cost of employing a teacher will rise from 30% to 37% in September 2019 because of the increase in the employer contribution to the Teacher Pension Scheme from 16.4% to around 23.5%. This is a tax on jobs which will force colleges and other education institutions to find other ways to cut the teacher pay bill. The two immediate causes of this increase are:

- the cut in the discount rate used to value the scheme's notional assets and long-term liabilities
- a badly designed cost-cap mechanism. We are writing separately to HM Treasury's public-sector pensions team on this point.

23. The longer-term cause is the collective decision in 2011 to reform the scheme's rules in a way that did not reduce long-run costs sufficiently. The net impact on the education system is a shift in resources away from pay towards pensions. Across public sector pension schemes, total contributions will rise by £4 billion a year from 2019-20. The government has promised to return £1.25 billion a year to the NHS for the next 4 years via the funding settlement announced in June 2018. A similar sum should be returned to the DfE for the same period to protect colleges and other state-funded institutions. DFE has promised to protect schools and colleges but there is no information on the amount available, what it will cover, which institutions will be eligible and how long the funds will last.

24. Colleges of all types have been TPS employers for decades and are required by law to offer membership to their teaching staff. The employer contribution cost increase amounts to an average of 2% of college income in 2019-20 (an estimated £140 million), taking total employer costs to 7% of income. If no funding is on offer, the increase will completely wipe out any surplus that colleges expected to make in 2019-20 and put many in deficit. Colleges will need to find other savings to avoid banking covenant breaches. Those Colleges with Treasury-approved restructuring loans will need to make savings beyond that deemed sensible in the original Transaction Unit negotiation.

25. Collectively the cost increase will hit colleges very hard at just the point where the government needs the sector to invest more to deliver DfE's top two priorities (securing the best teachers and reforming technical education).

26. There is a good precedent for government to provide funding for TPS employers to deal with the unforeseen costs of a discount rate reduction. This is what happened in 2003. We can provide more details on request. As well as this short-term action, HM Treasury should commission a new review of public sector pension schemes - a new Hutton review - to lay the ground for reforms in the early 2020s that will make them sustainable for the long-term.

Recommendation three: Maintain adult education budget spending at £1.5 billion in the 2018-19 financial year

27. The adult education budget was fixed at £1.5 billion a year between 2016-17 and 2019-20 but there have and will be underspends in the last three academic years (2015-16, 2016-17, 2017-18). This is not surprising. There has been no change in funding rates for adult education to deal with inflation since 2009 and a significant number of existing activity was declared out of bounds for funding with no firm plan for its replacement. This plan now exists in 2018-19 through the extension of fee remission to those on low incomes, thus correcting one of the flaws in the funding rules identified by the Institute for Fiscal Studies in their recent review of education spending. ESFA has also made a long overdue change to the tolerance rules which removes some of the false precision in the existing system.

28. There is a need for a longer-term adult education and skills strategy which should be drawn up by DFE on a collaborative basis. More funding for this new skills strategy will become available in December 2020 when the UK's participation in the European Social Fund (ESF) ends and a Shared Prosperity Fund is created. The economic dislocation associated with Brexit, automation, social care reform and changing world trade patterns mean that HM Treasury should plan for an increase in the adult education and skills budget in the next spending review rather than a further reduction. That is an issue for the long-term.

29. In the short-term, DFE should redirect any underspend that arises in the 2017-18 academic year to fund those colleges who over-delivered in that year (up to a maximum of 3%) with any surplus being used to provide a funding increase in 2018-19.

Recommendation Four: Guarantee the training budget for apprentices in small companies

30. Fifteen months on from the introduction of the apprenticeship levy, there have been some successes and some areas where improvements are needed. The successes include the collection of £2.3 billion to support skills, the robust operation of the Digital Apprenticeship Service and the engagement of more employers in training apprentices. There are, however, some significant problems which result from the scale of the reforms. Taking a year-on-year comparison, there has been a fall of about 30% in the number of apprenticeship starts since

May 2017. Although the levy and the public-sector targets have generated new interest in apprenticeships, many large employers appear to have taken a wait-and-see approach. There have also been significant shifts in the characteristics of apprenticeships. Around 60% of new starts are at advanced level or above. The average age of apprentices is rising, representing a withdrawal of opportunities for 16-to-18-year-olds.

31. Putting employers in control of spending has some benefits but the economy and jobs are changing. There is risk that training funds are being used on current staffing needs rather than future skills. The slow response from levy-payers and the large volume of rule changes contributed to the 2017-18 underspend. There is likely to be another underspend in 2018-19 but there is also the risk that levy-payers will begin to ramp up their activity to ensure they do not lose the use of the money[xxi]. This would squeeze money available for everything else. ESFA was forced to cut non-levy allocations in summer 2017 to avoid penalties for overspending and may have to do so again if demand picks up. Many of the most valuable aspects of the apprenticeship programme involve small employers and it is not right that this has to be run by ESFA as a swing-budget to use whatever is left over from the levy. The Association of Employment and Learning Providers has made a sensible proposal for a fixed budget for non-levied apprenticeships. We encourage HM Treasury to give this careful consideration while also considering transferring the levy-funded part of the budget to annually managed expenditure.

32. In the medium term, we encourage the government to maintain the levy but to formally drop the target to secure 3 million apprentices to ensure that larger amounts of money can be used to ensure higher quality training. Current funding levels work out at an average of £1,500. Alongside this, the government should consider cutting funding for apprentices over the age of 25 taking standards at Level 4 and above and redirecting the funds to younger apprentices on advanced levels. The National Retraining Scheme should pick up the slack.

Recommendation Five: Set up a higher technical education development fund

33. The Post-18 education and funding review panel will not complete their report until December 2018 and the government will not make its response until spring 2019 but there is a clear case for action to develop the higher technical education to offer as an alternative to the full-time residential university model that is so dominant in the English system. DfE should therefore set up a Higher Technical Development Fund to start the work in developing a stronger national route to allow students to move from Level 3 to Levels 4 and 5 up to degree level study at Levels 6 or 7 where this is professionally or occupationally relevant or necessary[xxii]. DfE should ask OfS to use its validation powers to designate a single university or awarding body to validate programmes. The programmes themselves should be designed locally by colleges with employers but have national recognition. These new qualifications would sit alongside the powers of universities and some colleges to develop and accredit their own qualifications[xxiii].

34. One lesson from the recent past is that there are start-up costs associated with employing people to design new qualifications and teaching materials and it takes time to build up the income to cover these costs because enrolments are generally low to start with. The Government will need to bridge this financial gap if it wishes to develop a proper alternative to the existing system.

Recommendation Six: Provide capital funding for technical equipment in spring 2019

35. Colleges spend considerable sums on advanced machinery, laboratory equipment, workshops and vehicles but are under financial pressure to improve their operating surpluses and conserve cash. Total capital investment has fallen from £1.5 billion in 2009-10 to around £0.3 billion now – a fall of 80%. This is directly attributable to the reductions in direct capital funding for colleges and the withdrawal of private finance.

36. The distribution of government capital funding in education is haphazard. DfE plans to spend £4 billion on school capital in 2018-19 and just £200 million for further education. The department works hard to help schools access capital funds but very difficult for colleges to do likewise. DfE's Condition Improvement Fund and formula funds for maintenance go only to schools and sixth form colleges and universities but not FE colleges. Much of the capital funding passed by DfE to Local Enterprise Partnerships will be spent on other priorities because there are unrealistic expectations about private finance. Meanwhile much of the £80 million allocated for Institutes of Technology will not be used before March 2019 because of the lengthy application process. There is no funding for equipment. The consequences are ageing buildings, obsolete equipment in some areas and outdated computers[xxiv]. This does not bode well for the technical education reforms.

37. There is a longer-term case for a capital strategy to support the technical education reforms and to deal with a higher future post-16 population but there is a short-term case to redistribute funds to support colleges with equipment and purpose-built facilities.

Recommendation Seven: Standardise the ESFA payment profile to colleges

38. Colleges hold fluctuating cash balances throughout the year. In their last full year-end accounts, they held £1 billion at 31 July 2017, which represented an average of 75 cash days[xxv]. 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. The situation for many colleges has deteriorated since summer 2017 as a result of near-zero operating margins and the slow payment of apprenticeship funding. In addition, ESFA underpays colleges each spring, between January and March. ESFA pays colleges different amounts of money each month with a shortfall of 6% each March. The most common month

where colleges run short of cash is March. ESFA's predecessors used to bring forward grant payments to support colleges in these cases but the application process for exceptional financial support is now very onerous. From next year, advances will no longer be made and there is a threat that ESFA will call in an insolvency practitioner where a college runs out of cash. To avoid unnecessary costs and disruption in March 2019, ESFA should adjust the payment profile and bring it into line with that used for schools and academies – a simple 1/12th payment each month.

Recommendation Eight: Extend the restructuring facility for a year

39. The government has provided useful support to colleges involved in mergers and debt restructuring as a result of area reviews. The support has been targeted on a small number of cases and involves very high transaction costs. There have been 51 mergers since the start of area reviews and the majority of colleges have had to self-fund the costs apart from transition grants worth £100,000. The support for complex mergers involving the Restructuring Facility amounted to £124 million in loans by 31 March 2018 and a total estimated commitment of £300 million by 31 March 2019. These are large sums but they have mainly been used to repay unsustainable debt. This debt was taken on in the past to secure government capital grants and, more recently, to secure savings in response to funding cuts.

40. The process of restructuring colleges has proved to be more complicated than was anticipated when area reviews started in 2015. Colleges have found it takes more time than expected to satisfy their banks, resolve pension issues and navigate rules devised by Ofsted, the Home Office and ESFA. In addition, applications to the Restructuring Fund take more time and money than necessary because of the complexity of the documentation and the fact that there are several layers of sign-off. Despite this, there have been 50 mergers, many of which have been self-funded by the colleges involved. The financial outlook for the sector has deteriorated and there is currently a rush to the door to secure restructuring loans before the 31 March 2019 closedown. This creates a risk of hasty decisions, unnecessarily high transaction costs and additional bank loan breakage fees. Some colleges will miss the deadline. The Treasury and DfE have a shared interest in securing a strong college sector. To avoid points of weakness, the Treasury should extend the restructuring facility for a year to 31 March 2020.

Association of Colleges
28 September 2018

Footnotes

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[i] Following the latest mergers on 1 August 2018, there are 266 college corporations of whom 61 are sixth form colleges
[ii] Public spending on education as a share of GDP is expected to fall from 4.4% in 2017-18 to 3.9% by 2021-22[ii]. OBR predicts spending will stay below 4% of GDP throughout the 2020s. During the early years of the 2000s, spending was 5% of GDP and rose during the financial crisis to a peak at 5.8%
[iii] Calculations from Institute for Fiscal Studies data available on their website to supplement their 2018 Annual Report on Education Spending in England
[iv] Centre for Progressive Policy (2018) "The Data Deficit. Why a lack of information undermines the UK skills system"
[v] AoC calculations from Department for Education (DfE) statistics on achievement at age 16 and 19
[vi] OECD Education at a Glance, 2018
[vii] The Coalition government introduced the Pupil Premium in 2011 but confined it to pupils aged 5 to 16. There was no assessment or discussion on the needs of 16-to 18-year olds. Back in 2011, DFE was not the sponsoring department for colleges. There is no clear justification for stopping the pupil premium once a young person moves from Year 11 to Year 12. Around 150,000 of Year 11 pupils qualify for the support but no-one in Years 12 or 13 does. This is a disadvantaged group of young people and there are areas of concern about their progress. The numbers not in education employment and training has risen while the numbers of 18 year olds from low participation neighbourhoods entering higher education is falling.
[viii] Colleges enrol the majority of 16-to-18 year olds in education covered by the English and maths funding condition but report a financial loss on their GCSE resit provision which they need to cross-subsidise from funding made available for academic and technical education.
[ix] AoC's paper for the Post 18 Review "2030 and beyond" available on the AoC website makes this case in more detail
[x] Calculations from consolidated college accounts for 2016-17, analysed in more detail in AoC's 2018 report on College Finances published September 2018
[xi] DfE latest 16-18 participation statistics report a fall in 50,000 (4%) in the number of 16-to-18 year-olds in full-time education from 1,375,000 in autumn 2015 to 1,325,000 in autumn 2017, Table 3
[xii] FE college enrolments of 16-to-18-year-olds in autumn 2017 fell by 15,000 (2.9%) to 515,000 (an average of 2,488 per college). This results in a 2.3% fall in 16 to 18 funding in 2018-19. Funding per 16 to 18 student changes each year based on the funding formula. Sixth form college enrolments of 16-to-18-year-olds fell by 600 (0.6%) to 122,000 (an average of 1,450 per college).
[xiii] AoC's Apprenticeship and College Finance Survey, January 2018 suggests a 9% fall in the number of apprenticeships in training in colleges in 2017-18. Apprentices take more than 12 months to complete programmes so the fall in starts this year feeds through to a fall in income next year
[xiv] AoC estimates based on Apprenticeship and College Finance Survey, January 2018
[xv] CPI has risen by 7.1% between 2013 Q1 and 2018 Q1 and is expected by Bank of England to rise by more than 2% in 2019 and 2020
[xvi] The Technical and Further Education Act 2017 extends commercial insolvency laws to colleges and allows the Education Secretary to appoint a special administrator to take over an insolvent college
[xvii] AoC's 2018 report on College Finances published September 2018 analyses current finance trends in the sector
[xviii] SFCA Costing the Sixth Form Curriculum, March 2015, Part 2 for international comparisons.

[xix] http://www.bbc.co.uk/news/education-33847860.
[xx] CBI Pearson Skills Survey 2016
[xxi] Levy paying employers have access to funds they pay into their accounts for 24 months on a rolling basis
[xxii] Previous programmes in this area (higher nationals, foundation degrees) often stopped at Level 5.
[xxiii] The Higher Education and Research Act 2017 introduces changes to the validation arrangements which may allow more colleges (in addition to the current group of seven) to secure degree awarding powers and to use them more widely
[xxiv] The 72 Colleges responding to AoC's IT and Digital Technology Survey in August 2018 reported that 33% of their digital devices will be obsolete by 2020 and that 36% of the devices in use are more than five years old
[xxv]AoC 2018 report on college finances has more information on this