2020-1 spending round

16 August 2019

1. This paper sets out the priorities the Chancellor of the Exchequer should address in the September spending review. The accelerated exercise to ensure government departments know their 2020-1 budgets by September offers a great opportunity for the Chancellor to honour his own, and the Prime Minister's promises to start to address the long term lack of investment in colleges. Their promises recognised the vital roles that colleges play in delivering key economic and social outcomes.[i] Our asks across the full remit of colleges is for a one-off injection of £1,114m in revenue and £240m in capital to start to address the relative neglect colleges have suffered from.

2. This one-year review needs to be followed by work on a fresh approach to education spending to tackle the big economic and social challenges which education, skills and training can assist with. We published a paper in July setting out some recommendations for the longer-term[ii]. In this paper we make 10 recommendations for the 2020-1 spending round and have provided indicative costs for a 12-month period for the period running from August 2020 to July 2021.

Fair and effective funding for 16-to-18 education

Recommendation 1: Increase 16-to-18 funding. Additional cost: £450 million

3. Department for Education (DfE) has fixed the national funding rate for 16-and-17-year-olds at £4,000 since 2013 and made no allowance for inflation or other costs loaded onto institutions. The main losers have been young people. Classes in England only run for 15 hours a week compared to more than 26 in high performing systems abroad. Course choices have been reduced with high cost and lower demand courses losing out, to stay within budget, particularly in science and languages. Meanwhile college teachers are paid an average of £7,000 a year less than their counterparts in schools which has resulted in high turnover and recruitment difficulties in important subjects like maths, engineering and construction.

4. There is only one way to ensure that colleges and schools can continue to deliver a high quality, internationally competitive education for 16-to-18-year-olds. This is to raise the funding rate towards a level that covers the full costs of broad and deep programmes, including college pay and pensions. We assess that the national 16-18 base rate (in current money) should be £5,000 not £4,000. For 2020-1, DfE should take a number of steps:

- Pay: Introduce a College Pay Grant at the same value as the current school sixth form teacher pay grant so that colleges can make a 5% pay rise[iii];
- Teacher pensions: Roll-forward the Teacher Pension Scheme Employer Contribution grant introduced in 2019-20[iv]. This is essential to keep college finances on an even keel;
- Teaching hours: Increase the 16-to-18 base rate by 5% to support an increase in student teaching hours, support and wider personal development opportunities in 2020-1 as the first step towards paying the full rate.

Recommendation 2: Fund 18-year-olds to complete their courses. One-year cost: £94 million

5. DfE cuts the funding for 18-year-olds in education by £700 to a national base rate of £3,300. The independent Post-18 review panel could not find any evidence to justify this policy. The majority of these young people are catching up and are effectively third years. Only two-thirds of young people reach Level 2 standard (5 GCSEs including English and maths at grade 4 or above) by age 16 which is the reason why there are 100,000 18-year -olds taking technical courses at Level 2 and 3. DfE is designing the new T-levels on the assumption that they will often take 3 years to complete. The same principle and funding rate should apply across all parts of 16-to-18 education.

Recommendation 3: A student premium for those aged 16 to 19. One-year cost £80 million

6. The Pupil Premium (for ages 3 to 15) has helped close the attainment gap in that age range by identifying pupils from disadvantaged backgrounds. With a total of £2.5 billion a year focused on their needs. Inexplicably, the premium stops at age 16[v] which leaves disadvantaged young people at risk. The Social Mobility Commission has recommended a post-16 student premium for those in receipt of free school meals[vi]. We support this concept but believe an alternative approach would be to pay a £750 supplement for students who do not have English or maths at grade 4. This would be a simple and powerful way to target resources and is in line with the plans for T Level students, so it would be consistent with current policy as well.

Recommendation 4: The start of a ten year education funding plan. No cost in 2020-1

7. The September spending round is an accelerated exercise focused on a 12 month period but DfE needs to start work now on the years that follow. There are three long-term issues:

    - T-Levels and higher technical: The government's skill plan will really come alive in 2021-2 because there will be 10 T-Level subjects on offer in more than 70 colleges. Success will require continued funding via the revenue formula, for capital equipment and for student travel between now and

2024 at which point the collective plan should be for a high quality effective academic and technical post-16 system with appropriate transition and progression to higher technical levels.

- Rising numbers: Treasury and DfE need to plan for future growth in student numbers. The young population is rising but other factors could drive the participation rate up even further from current levels (94% at age 16, 84% at age 17[vii]). There is a looming shortage of apprenticeship places for young people[viii] and migration trends, as well as a possible recession in 2020 or later (given a 33% probability by the Bank of England for 2020[ix]), could have an impact which the post-16 education system should be preparing for.
- Rates and costs: There is a long overdue need for DfE to review its pre and post-16 funding rates. As a default, DfE should increase all rates in line with a measure of education inflation but should work towards a rational basis for each age group. The 24% drop at 16 is indefensible and unprecedented in any other competitor nations.

8. DfE should address these long-term issues by starting work on a ten-year education funding plan along the lines recommended by the Education Select Committee[x].

Skills and productivity

Recommendation 5: A larger adult education budget to support retraining, improve skills and develop lifelong learning. One-year cost £250 million

9. There is a pressing need to boost productivity in the UK, to improve English, maths and digital skills, to tackle shortages in technical skills and to support individuals to retrain where they face economic and technological change. On top of this, Brexit increases the need to support adults to improve their chances to progress into the higher skilled jobs which employers are already finding hard to fill. With migration of skilled and semi-skilled people slowing and the minimum wage planned to rise, colleges are central to preparing people to benefit from new job opportunities and ensuring they are productive when they secure them.

10. The welcome focus on apprenticeships helps but is far from sufficient. Increasingly, apprenticeship funding is focused on current staff rather than new recruits and for older, higher-skilled staff rather than young people and numbers have dropped since the levy was introduced.[xi].

11. Outside of apprenticeships, the total budget has been cut in inflation-adjusted money by more than 40% over the last ten years and funding rates fixed. It is no surprise that adult learning numbers have halved, meaning more than a million fewer learning opportunities every year for people to access. That needs to change.

12. The 2020-1 spending round should be used to signal a change via a one-off increase in the adult education budget to offer adults across the country more and better opportunities to improve their skills and enhance their chances of gaining higher paid work. Half of the current budget is devolved to the eight mayors, so a boost to this budget would leverage their leadership in reaching more adults and enhancing productivity.[xii]

13. Any increase to the adult education budget would help more adults in priority areas including:

- the new digital skills entitlement that comes into effect in 2020
- additional English courses for those who speak other languages
- support for enrolment by low paid workers
- new places at level 2 to support progression into apprenticeships
- training and skills in hard to recruit sectors, particularly those which rely on migrant labour paid below the new wage threshold which comes into effect in 2021[xiii]
- providing training for those engaged through the National Retraining Scheme.

14. The boost in the adult education budget is needed to increase the numbers of people supported, but DfE and the combined authorities should also increase the funding rates for all courses in line with education inflation while considering higher increases for economically valuable courses.

Recommendation 6: A longer-term basis for funding adult education. No cost in 2020-1

15. While the short-term action for September should be a boost to the adult skills system and the power of mayors to deal with challenges, there is the need for a longer-term plan. DfE cannot do this alone but will need to work with colleges, councils, employers, other government departments (Ministry of Housing Communities and Local Government, Department for Business Energy and Industrial Strategy) and others. The aim should be to develop a new Lifelong Learning Strategy with a long time horizon but to work through the funding issues. At the very minimum the adult education budget needs to increase in line with inflation, the size of the working-age population and some measure of economic need. With apprenticeships as the main vehicle for training full-time workers; the Adult Education Budget (AEB) should be focused on those who are part-time, self-employed, not-in-work or needing to retrain whilst in work.

16. In some cases core funding from the AEB needs to be supplemented by fees and the adult student loan system, but the advanced learner loans impact needs to be evaluated fully. And having established the overall funding plan, DfE needs to evaluate how devolution is working and learn lessons quickly about how to maximise the impact. Whatever happens DfE should start work on a new AEB funding formula with the aim that growth funds be directed more to lower funded areas (including towns in coastal areas, and away from the big cities).

Recommendation 7: Apprenticeship funding reform. One-year cost £200 million

17. Government should urgently increase funding for non-levy employers and for young people. The non-levy budget should increase by £200 million and all 16-to-18 year olds should be funded through the education budget to guarantee their training opportunities. This would address the urgent need as many colleges expect to run out of funds early in autumn 2019 meaning that they will start turning away requests from small companies and 16-to-18-year-olds, many of whom are taking courses in priority sectors such as construction, engineering and leisure.

18. The decisions about apprenticeships are likely to be controversial so Treasury and DfE should start by publishing more information on where and who is using existing funds. The increase in degree apprenticeship numbers is a concern because these involve high costs and because it appears that obligations previously covered by tuition fees have been shifted onto the apprenticeship budget. It would seem more appropriate for apprenticeships at level 6 and above to be funded from the higher education teaching budget, regulated by the Office for Students and operated with the same rules on equivalent and lower qualifications as loan-supported programmes. Transferring degree apprenticeships out of the levy fund might not be sufficient on its own to avert an overspend. Other options in the next few years could include an increase in the levy rate from 0.5% to 0.6% and a restriction in the training credit for levy paying employers from 110% to 90%. Whatever happens, DfE needs to ensure that apprentices in small companies taking economically valuable courses should continue to be funded following the transfer of activity to the Digital Apprenticeship Service.

Recommendation 8: A development fund for higher technical education. One-year cost £40 million

19. There are long-term benefits for individuals, employers and the country if more people can take an improved set of level 4 to 5 qualifications. For this to happen, government needs to enhance the funding offer to students and help colleges to develop the capacity, capability and demand.

20. For students, it would be simple to offer the same tuition fee cap, student finance rules and teaching grant funding as offered for degree-level study. For colleges there needs to be a modest fund to support set-up costs which preceed the relevant income because enrolments take time to build. The Government will need to bridge this financial gap if it wishes to develop a proper alternative to the existing system.

Recommendation 9: A new capital budget. One-year cost £240 million

21. Colleges need suitable buildings, workshop space, machinery and equipment to teach high quality academic and technical courses but the pressure to conserve

cash in colleges and lack of government investment has resulted in an 80% reduction in capital spending across the college sector to only £300 million a year[xiv]. DfE plans to spend £4 billion on school buildings in 2019-20 and will hand out capital grants to universities but has reserved just £200 million for further education, almost all of which is for new buildings[xv].

22. Ageing buildings, obsolete equipment and outdated computers do not bode well for the future, so what is needed first is a capital strategy to support the technical education reforms including the introduction of T-Levels and higher technical levels; that help all colleges extend the lives of their buildings; that support expansion of 16-to-18 student numbers; and, that provide the buildings and IT infrastructure for high quality courses

A new strategic relationship

Recommendation 10: Regulating to protect students and employers while maximising impact. No cost

23. Treasury and DfE should work together in the 2020-1 spending round to increase spending on further education and training but also to ensure that the money allocated has the biggest impact possible. Urgent work is needed to develop a more strategic relationship between colleges and government which recognises the vital role colleges play across so many government economic and social priorities. Funding will help colleges play a bigger part in their communities, supporting better social mobility, economic growth and improved productivity.

24. There is also need for a thorough review of the support and accountability system for colleges. There are obvious concerns about the sustainability of colleges because a small number have run out of money and the National Audit Office and a forthcoming DfE review[xvi] will both be looking at the oversight of the college sector. These reviews should lead to a streamlined and more effective regulatory environment for colleges, which recognises how to get the best balance between freedoms and accountabilities. Colleges spend a growing and disproportionate share of their budgets on administration and compliance and account for themselves to two different parts of the Education and Skills Funding Agency (ESFA), to the Office for Student (OfS), to Ofsted, to local enterprise partnerships and combined authorities, to the Home Office, to lenders, pension funds and any other funding organisation. Some complexity is unavoidable but there is a case for the DfE group to consider whether there are ways to focus regulation more clearly on activities that benefit students and employers, to cut compliance costs and to place simpler duties on college governing bodies to account for the public investment they receive.

Association of Colleges
16 August 2019

Notes

[i] Chancellor of Exchequer statement on HM Treasury section of www.gov.uk, 8 August 2019
[ii] AoC Spending review 2019 paper available from www.aoc.co.uk, 8 July 2019
[iii] DfE provided a Teacher pay grant in 2018-9 and 2019-20 to schools with sixth forms which is equivalent to around £140 on the national rate for a full year and which helped schools fund pay rises of 2% and 2.75%. There was no equivalent for colleges hence the widening gap in pay levels
[iv] DfE's new teacher pension scheme employer contribution grant covers the cost of the increase in pension contributions from 16.48% to 23.68%. The grant is paid on a different basis to schools and colleges. The rate for 16-18 students in schools is equivalent to £200 on the national rate for a full year
[v] The pupil premium started in 2011 at a time when DfE was only partly responsible for 16-to-18 education
[vi] Social Mobility Commission State of the Nation Report 2019
[vii] DfE 16 to 18 participation statistics
[viii] There will be gaps in apprenticeship provision for young people in the next 24 months because there are restrictions on funds for training in small employers and because some sectors do not have standards at Level 2, for example plastering or business administration.
[ix] Bank of England inflation report, August 2019. Brexit is a factor but so is the slowdown in global trade. Participation of 16 and 17 year olds rose in previous recessions in the late 2000s and early 1990s
[x] Education Committee, A ten-year plan for school and college funding, July 2019
[xi] NAO Apprenticeships Programme reports that cost per apprentice since 2017 has been double the expected level - at £9,000 rather than £4,500 - mainly as a result of employer use of higher-level standards
[xii] DfE has allocated £631 million (48%) from adult education budget to the Greater London Authority and six Mayoral Combined Authorities out of a total programme fund of £1,288 million for the 2019-20 academic year
[xiii] The Home Office paper on the UK's future skill based immigration system published in December 2018 assumed Brexit would happen in 2019 and that new rules would take effect in 2021 and later requiring those coming to the UK for work of more than 12 months to be taking jobs requiring skills at Level 3 and above and to be paying £30,000 or more. The Migration Advisory Committee is reviewing the salary threshold and the new Prime Minister has talked about a points-based system but no-one is proposing any reduction to the skills threshold below Level 3. The Home Office estimates that 750,000 EU nationals currently fill roles below the proposed pay and skills thresholds. Replacing them implies job change, automation or newly training people
[xiv] AoC estimates from consolidated college accounts available on the AoC accounting website. See AoC report on college finance for more information
[xv] DFE Main 2019-20 estimates memorandum reports £4.4 billion in school capital spending alongside £0.2 billion for further education (£120 million of which was transferred to MHCLG for distribution via Local Enterprise Partnerships and £112 million of which was for Institutes of Technology
[xvi] Speech from Skills Minister, Ann Milton, to AoC spring conference in May 2019 promised an external review of systems within DfE so that problems with financial management are identified at the earliest possible stage