July 2015 Budget

A submission from the Association of Colleges: 5 June 2015

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Background

The Association of Colleges represents and promotes the 332 colleges in England. There are 226 further education (FE) and 81 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.

This submission covers issues within the remit of the Department for Education (DfE) and the Department for Business, Innovation and Skills (BIS) but we considered it helpful to present the information in a single document. We have 12 recommendations for HM Treasury to consider.

Summary

Our twelve recommendations are as follows:

Implementing spending reductions

1. The new Government was elected on the basis of a manifesto that contained firm promises on public spending. The in-year budget review announcement on 4th June 2015 confirms the Treasury's intention to act quickly. We have concerns about the impact of spending reductions but also about their timing because of the impact on the recruitment of students and apprentices and the employment of specialist staff. Government has an interest in a strong college network and should also consider a modernisation fund to support the transitions that are needed in the system including curriculum change, apprenticeship expansion and a growth in private funding.

Education and training for 16 to 19-year-olds

2. Any reductions in the funding rates for the education of 16 to 19-year-olds to below £4,000 for full-time students or the total funding per student (taking into account weightings) will cause significant damage to the quality of sixth form education, to student choice and to institutional viability. This would be particularly challenging given the 8% reduction in cash funding per pupil in the last four years and the 22% funding dip at 16.

3. At a time when the population is due to fall by 8% and in order to eliminate the number of people who drop out of earning or learning at age 16, there is a strong economic case for maintaining 16 to 19-year-old student numbers.

4. Increasing the number of 16 to 19-year-olds who achieve English and maths at Level 2 (GCSE equivalent) is a major challenge which will require continuing funding for the additional teaching and education-sector wide action to maintain the supply of maths teachers. Bursaries to attract maths teachers will be needed until 2020.

5. A different approach to the organisation of education for 16 to 19-year-olds is needed to improve value for money. This includes higher quality thresholds for new sixth forms and a process that supports rationalisation (including a clear process to close uneconomic institutions). At the same time, a change in approach is also needed to achieve the goal of a university technical college near every city.

6. A review of government rules should be carried out to allow colleges to make savings and improve their efficiency. A number of current rules such

as pension arrangements and VAT rules prevent colleges from being able to be more efficient and affect the education for 16 to 19-year-olds.

Further and higher education for those aged 19 and over

7. The target to increase apprenticeship numbers to 3 million over the next five years will need:

- strong project management
- better careers advice for young people
- action to complete qualification reform
- careful introduction of new funding arrangements and
- requirements for higher employer contributions to training.

Above all, it will require more, effective and enhanced employer engagement.

8. Early consideration should be given to extending 24+ Advanced Learning Loans to those aged 19 who are taking a wider range of courses to ensure there is support for part-time workers, the self-employed, career changers and those returning to work after having children. A flexible labour market needs a flexible skills system. Apprenticeships have a role but tackling skills shortages and improving productivity requires a wider approach.

9. Budgets that have already been allocated should be reviewed and consolidated to allow money earmarked for employer ownership pilots which have not delivered on their original promise (but which provide useful innovation) to be redirected to areas of more pressing need.

10. The devolution deals are an opportunity to explore issues in further detail and could assist colleges in responding to local needs of their communities. However, care should be taken to ensure colleges' self-governing status is not compromised. A more productive outlook may be to develop an English version of outcome agreements.

11. A wider review should be considered of the interaction between further and higher education student support. This includes:

- extending the categories of people eligible for maintenance support
- continuing the switch from HE maintenance grants to loans from 2016 onwards

- starting work on a system of education accounts including a lifetime loan allocation.

12. A more coherent government policy is needed to ensure colleges get the best use of their buildings and facilities including being able to release resources from past investments.

Section One: Public spending

1. The Prime Minister and Chancellor of the Exchequer have confirmed the Government's intention to implement the manifesto presented by the Conservative party at the May 2015 election. The manifesto includes a promise to make public spending reductions between 2015 and 2018. Combined with promises to protect various services, this implies substantial cuts to those budgets that are not specifically protected. This submission will examine various post-16 education budgets in detail but we have some general comments on the scale and timing of any reductions.

2. **Importance of government funding**: In several areas of post-16 education, there is no scope to raise income from private sources to compensate for reductions in government spending. Some public services (for example universities, social housing and transport) have offset reductions in government income by raising fees. Cuts to budgets for sixth form education or for the training of unemployed people cause reductions in quality and can cease this type of provision. There is no option to raise fees to compensate.

3. **Colleges as employers:** The majority of spending by colleges is on permanently employed staff. Public spending reductions have a direct consequence for the number of people they employ and the amount they are paid. In some towns, the college is the third or fourth largest employer. Pay cuts and redundancies make it harder to recruit staff with new skills to meet new challenges, for example maths or engineering teachers.

4. **5% rise in cost of employing a teacher**: Decisions made by the previous coalition government in relation to the Teachers Pension Scheme and National Insurance will make it 5% more expensive to employ teaching staff in 2015-16. Colleges need a 5% efficiency improvement to simply stand still.

5. **Almost 20% of costs uncontrollable because of policy:** Colleges face a number of uncontrollable costs because of Government policy. Colleges have little scope to cut exam spending (2.5% of the income). They have no choice about what pension scheme to offer (meaning that around 10% of income is spent on employer contributions). They have a legacy of loan financing costs (another 2.5% of income – substantially higher in some institutions). They pay VAT on supplies and services but cannot recover input tax because of the education exemption (another 2.5% of income). Ofsted inspections hold colleges to account to standards which are expensive to maintain but at a time when funding is being cut.

6. **Need for early decisions on budgets:** Like universities and schools with sixth forms, colleges have a recruitment cycle for full-time students which runs for at least 6 months before courses start. Good decision-making about

education options and future careers takes time and involves legally binding offers. Last minute decisions by government put these at risk. Colleges have coped in the past with in-year reductions to budgets like those implied by the Chancellor's 4 June spending announcement but there are direct consequences for course quality and student satisfaction.

7. **Gaps in financial recovery arrangements:** Colleges have strong management and an effective system of financial regulation but a rising number are financially weak (15% of FE colleges, 10% of sixth form colleges). The FE Commissioner has prompted some effective recoveries but there is no obvious strategy for colleges with very high debts or small, non-viable institutions with no obvious merger partner. There is no legislation to close a college without the government picking up the liabilities. LGPS pension liabilities alone amount to £2 billion on a going basis. Closure liabilities would be much higher - perhaps more than £5 billion.

8. **Confidence:** strong and effective college system is a fundamental component of an effective further education system. Colleges in England have a key role to:

- improve the transition from secondary school into work (sometimes via university);
- to ensure that young people earn and learn;
- to provide the off-the-job training for more apprentices
- to help businesses by meeting their skills needs at all levels

The majority of colleges have shown they can cope with the change ahead but Government decisions need to maintain confidence in the whole system and also to avoid jeopardising the self-governing status of colleges by inadvertently nationalising them.

9. **Modernisation fund**: A modernisation fund providing money on matched basis would help colleges restructure in a way that would support curriculum change, apprenticeship expansion and a shift to a new environment in which there is less government funding available.

Section Two: Education and training for 16 to 19-year-olds

Numbers of students and funding

10. There are two million young people aged 16 to 18 in England. The Department for Education (DfE) sets national policy and its Education Funding Agency (EFA) provides funding for their education and training. DfE

and EFA do not publish their 16-19 budget in one document but we estimate 16-18 spending in 2015-16includes the following items:

- £5.9 billion for education in colleges and schools
- £0.2 billion for financial support (mainly bursaries)
- £0.7 billion for apprenticeships

11. These funds support the education of 1.3 million young people aged 16 to 19 and the training of 130,000 apprentices in this age group. A wide range of organisations are involved in the 16 to 19 education system in England including:
    - 332 colleges (81 of whom are sixth form colleges)
    - 2,099 schools (academy, free and maintained)
    - 552 special schools and residential colleges
    - 282 commercial and charitable providers

    The tables that follow summarise student numbers in these four categories (as mentioned above) of organisation and the education funding they receive.

NUMBER OF 16-18 EDUCATION PLACES FUNDED BY EFA IN 2014-15[1]

Students	Number of institutions	16,17 Full Time	18 Full Time	Other	High Need	Total
Colleges	332	519,024	112,683	105,122	18,265	754,994
Schools	2,099	411,417	19,466	23,015	3,292	457,190
Special schools	552	2,617	45	518	13,692	16,872
Other	282	31,358	8,997	35,533	1,565	77,453
	3,265	964,416	141,091	164,188	36,814	1,306,509

FUNDING FOR 16 TO 18 YEAR-OLDS FOR THE 2014-15 ACADEMIC YEAR BY EFA

£ millions	Number of institutions	Programme	High Needs	Free meals & Bursary	Total
Colleges	332	3,372	110	133	3,616
Schools	2,099	2,057	20	43	2,120
Special schools	552	13	137	2	152
Other	282	278	9	16	305
	3,265	5,721	276	196	6,193

12. There are two million people in England aged 16 to 18 and, using the latest available figures (from the end of 2013):

[1] AoC analysis of EFA funding allocations for 2014-15. Maintained and academy schools including UTCs, Free schools and studio schools classified as “schools”. Maintained, non-maintained, academy and free school special schools classified as “special schools”. The other category includes private and charitable providers, universities and local authorities

- 81.2% are in education or Government funded training
- 11.1% are in work or training not funded by Government
- 7.6% are not in education, employment or training[2].

13. The population of 16 to 18 year olds fell by around 2% between 2013 and 2015 while the age of compulsory participation rose to the 17th birthday in September 2013 and to the 18th birthday in 2015[3]. In recent years government policy has maintained overall numbers of 16 to 19-year-old students and apprentices. This has helped the participation rate rise which is a positive development. Research on the lifetime effects of not being in education, employment and training suggests a cost to each individual in terms of lost income of between £105,000 and £370,000 and a cost to the taxpayer of between £56,000 and £156,000[4].

14. Over the next five years (from 2015 to 2020), ONS estimates that the population of 16 to 18 year olds will fall by around 125,000 (or 8%) to below 1,800,000. Numbers will then rise again by around 300,000 to 2,100,000 by 2025. There is therefore an opportunity for the government to maintain student and apprenticeship numbers at current levels and raise participation towards 100%. One of the foundations for a long-term economic plan is a strong 16-19 system to provide an effective transition from secondary school to work and university.

15. Aspirations of school pupils and their parents have risen even in the last few years. DfE's longitudinal study on young people recorded a significant change from a study carried out just six years earlier with 88% of 13 year olds expecting that they would stay in education after 16 and another 6% expecting to start an apprenticeships at that point[5]. Maintaining the drive to raise participation would bring substantial gains for the Government and society. The alternative approach of cutting places would leave the education system in a poor state to cope with expansion in the early 2020s.

Policy

16. DfE has ambitious goals for the 16-19 education system which are not clearly set out in one place, but which include the following:

    - raising standards in teaching and learning[6]

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2 Figures reported in NAO 16-18 participation, 2014

3 The Education and Skills Act 2008 raises the participation age between 2013 and 2015 from the 16th birthday to the 18th birthday

4 Research from York University reported in NAO 16-18 Participation, 2014

5 DFE "Longitudinal Study of Young People in England" https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/374649/RR388_-_Longitudinal_study_of_young_people_in_England_cohort_2__wave_1.pdf

6 DfE Importance of Teaching White Paper, November 2010

- reforming qualifications[7]
- encouraging a shift in what young people study (for example more students taking science and maths)
- closing social class gaps[8]
- increasing the number of young people in education and apprenticeships
- introducing innovation into the system via new institutions
- increasing the number of young people who achieve GCSE-standards in maths and English by the age of 18
- improving the assessment, funding and support of young people with special education needs[9]

17. Various policies have delivered these aims. There have been changes to qualifications, inspection and performance tables. DfE introduced a wide-ranging reform of vocational education following Alison Wolf's review published in 2011. This led to the introduction of study programmes and a new 16 to 19 funding formula[10]. Meanwhile a separate apprenticeship reform programme was started in 2012 following Doug Richard's review published in 2012[11]. Finally revenue and capital funding has been used to implement certain policies, for example supporting the creation of new institutions[12].

18. There are, however, a number of striking weaknesses in school and post-16 education[13]:

- <u>Inadequate achievement at age 16</u>: Only 59% of 16-year-olds achieve grade A*-C in GCSE English and maths[14] Many start adult life with insufficient command of the basic skills.

- <u>Progression is weak</u>: According to a recent estimate[15], as few as 30% of students taking Level 2 vocational courses progress to Level 3 courses. Careers information and advice arrangements are weak and exacerbate this situation[16].

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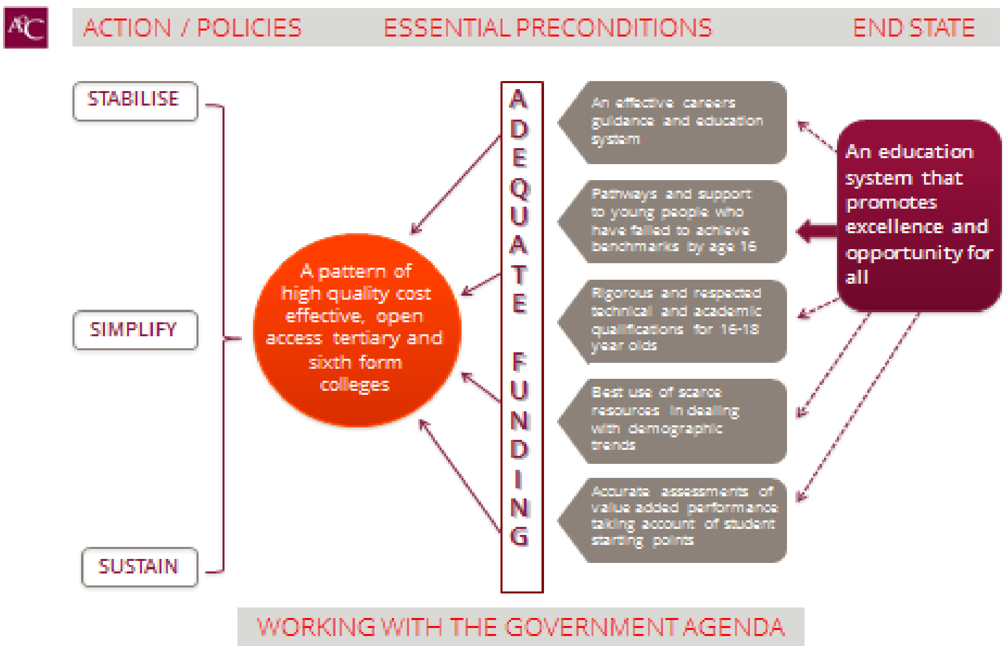
[7] DfE has consulted about reform of A-levels, GCSEs and vocational qualifications (eg Tech levels)
[8] Cabinet office social mobility indicators published in 2012 set targets for closing gaps in university entry between state and private school educated pupils
[9] The Children and Families Act 2014 overhauls the age 16 to 25 special education needs system
[10] DFE Wolf recommendations progress report, November 2013
[11] DFE/BIS The future of apprenticeships in England, October 2013
[12] New institutions have had capital funding, funds for start-up and support in their first couple of years. In 2014-15, EFA will be funding 12,643 16-18 year olds (less than 1% of 16-18 student population) in 93 UTCs, free schools and studio schools
[13] Chapters 4 and 5 of Tony Dolphin, Remember the Young Ones, IPPR, August 2014 summarises these issues
[14] DFE 2013 school performance tables
[15] Owen Corrigan, Policy Exchange, Technical Matters, January 2013
[16] Ofsted reported in September 2013 that only 12 of the 60 schools visited were ensuring students had sufficient information to consider a wide range of careers

- Large numbers not earning or learning by age 20: Large numbers of young people drop out of education or training between the ages of 16 and 20 without moving into full-time work.

- Mismatches in higher education: Around 40% of 18 year olds progress to higher education but despite three years study and high levels of graduate employment, there is substantial underemployment.

19. We believe it would be helpful for DfE to conceptualise and explain the links between different policies and the ultimate objectives as we have done in the following diagram



Funding changes

20. DfE has introduced reforms to the systems for 16 to 18-year-olds' education and training at the same time as it reduced spending from £7.7 billion in 2009-10 to an estimated £6.8 billion in 2015-16[17] . This was a direct consequence of the 2010 spending review settlement agreed by HM Treasury and DfE and further savings agreed in the 2013 spending review. The table below lists the ways in which DfE and the Education Funding Agency (EFA) has implemented these savings[18]:

[17] AoC paper on College Funding and Finance, May 2014; NAO report on 16-18 participation, September 2014
[18] Table compiled by AoC from successive EFA funding letters

Spending increases	Spending reductions
• Funding for additional 16 to 18-year-old students recruited by institutions • Funding for new institutions • Additional funding of £150 million for disadvantaged students (2011)	• No funding for inflation since 2008 apart from a 2% rise in funding rates in 2013 • Funded teaching hours cut by 84 hours per student (about £500 million saving) • Cuts in school funding rates (c £150 mil) • EMAs replaced by bursaries (c £300 mil) • Removal of funding for short courses (2013) • 17.5% reduction in funding for 18 year olds on full-time courses (about £100 million)

21. DfE's new 16 to 18 funding formula has resulted in a shift towards full-time study above 540 hours; a reduction in part-time study and the greater use of work experience as an alternative to qualifications. The college response to funding reforms cannot be disentangled from the impact of reducing funding per student. The biggest issue is the removal of the entitlement funding from 2011 onwards. This has contributed to year-on-year reductions in income. Cash funding per student has reduced by around 8% since 2010-11[19]. This has forced colleges to find efficiencies where they can, some of which have consequences for other policies. The response of colleges includes:

- Reductions in student contact time and increases in class sizes: There is no systematic data on this but recent research from Sixth Form Colleges Association (SFCA) on sixth form colleges reports a planned 5% reduction in contact time between 2010 (to 18 hours a week) and a 15% increase in the student/teaching staff ratio (to 21). While English sixth form students have average student contact time of less than 20 hours a week, their counterparts in Sweden, Canada, Singapore and Shanghai are taught for between 25 and 30 hours a week[20].

- The closure of courses: A recent survey reports 22% of sixth form colleges closing STEM courses and 38% dropping foreign languages. AoC is doing work on FE and tertiary college A Level provision. We estimate that 40 colleges have dropped A Level courses in the last four years[21].

[19] AoC calculations from successive funding surveys
[20] SFCA Costing the Sixth Form Curriculum, March 2015, Part 3 for recent staffing trends in England and Part 2 for international comparisions
[21] http://www.sixthformcolleges.org/sites/default/files/160614%20SFCA%20Funding%20Impact%20Survey%20FINAL.pdf reports

- Unsustainable strategies: Many colleges and schools have a strategy of increasing student numbers to maintain overall income at a time of reducing funding. This is possible for the more popular institutions but has resulted in pressure on others and will, in time, lead to sixth form closures (including in new institutions when their transitional start-up funding has run out). There are also signs that schools are holding onto more 16 year olds for their own sixth forms but that an increasing number leave at the age of 17 to study elsewhere[22].

- Pay squeeze: Colleges have taken a tough line on staff pay with increases offered by FE colleges below what has been offered in schools[23]. Despite efforts to make careers in FE attractive, the pay restraint has had consequences for recruiting and retaining staff in some key areas, including maths, computing and engineering. Recent work for HM Treasury confirms that colleges have significant challenges in retaining maths teachers[24]

22. The reductions in spending on education for 16 to 18-year-olds have been more severe than in secondary education for 11 to 16 year olds and have opened a gap which means that funding drops by about 22% when a young person moves from Year 11 to Year 12[25]. Schools have retained sixth forms by subsidising them from their pre-16 budgets which is unlikely to be sustainable[26].

Staff costs

23. Education is staff-intensive and the proportion of income spent on directly employed people is around 60-65% in colleges, 75% in academies and an average of 80% in maintained schools. AoC acts as the employer's organisation for colleges and discusses pay and employment issues with trade unions in a Joint National Council but the final decision on pay rests with college governing bodies. Colleges have continued to make small pay increases every year but have made offers below 1% for the last six years (ie since 2008). Despite the economic recovery and the fall in employment, it is possible that many colleges will be unable to make any pay increase in 2015. This has a number of consequences:

[22] Information taken from reports from principals about September 2014 enrolment. This is not a new issue Alison Wolf's report from 2011 (page 39) reported that 18% of those who stayed in education left at age 17
[23] Information from AoC's role as an employers' organisation on behalf of colleges
[24] Unpublished research for HM Treasury for an FE spend project
[25] Joint ASCL/AoC/SFCA letter http://www.sixthformcolleges.org/sites/default/files/2014_post-16_funding_letter_and_report.pdf
[26] 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

- Teaching staff pay in colleges will continue to fall further behind comparable levels in schools and universities. ONS figures for 2013 suggest FE teacher pay is about 5% less than secondary school teacher pay and 28% below HE teacher pay[27]. Pay settlements in schools and universities were higher in 2014 and are likely to be higher again in 2015.

- Colleges will find it harder to reshape their workforces and to recruit staff with new skills in an environment of continued pay restraint.

Teacher and support staff pensions

24. The forthcoming rise in employer contributions to the Teachers' Pension Scheme (TPS) added to National Insurance increases will result in tens of thousands of education job losses in 2015-16.The TPS employer contribution rate rises from 14.1% to 16.48% on 1 September 2015 with 0.08% of the rate being a levy to cover scheme administration. A few months later, in April 2016, employer and employee national insurance will rise in education as part of the wider reforms to the state pension. The standard employer contribution will rise from 10.4% to 13.8%. The combined impact of this change and higher employer contributions will be a 5% supplement on the cost of employing a teacher in 2015-16.

25. These additional costs are a direct result of a series of recent government decisions on pensions taken with insufficient regard for costs:

    - <u>Poor scheme design</u>: DfE's proposals for TPS assumed a total scheme cost of 21.7% which implied an employer rate of 12.1%[28]. The actuarial valuation completed in spring 2014 confirmed that the new TPS was more expensive than previously forecast with a scheme cost over the next ten years of 26%.

    - <u>Obstacles to further reform</u>: The Coalition government's 2013 Public Service Pensions Act includes a 25 year restriction on changes to scheme design[29].

    - <u>State pension improvement:</u> The short-term costs of the Coalition government's state pension reforms and care cost cap which take

[27] 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
[28] Information from provisional final agreement for Teacher Pension Scheme, 2012
[29] Section 22 of the 2013 Public Service Pensions Act prevents any changes to public service pension scheme design, to member contribution rates or to benefit accruals unless government has consulted those affected with a view to reaching agreement with them

effect in 2016 were largely met via the removal of national insurance contracting out for the 5 million public service staff[30].

26. Colleges anticipate some benefits in the long term from the Coalition government's reforms to the Teacher Pension Scheme and to the state pension scheme but the failure to properly assess costs has a serious effect on 2015-16 budgets. It is important that public spending decisions in DFE take account of this fact and also that future decisions on pensions and national insurance are properly costed.

27. College involvement with the Local Government Pension Scheme causes an additional set of issues. Colleges are required by law to make membership available. This makes it more expensive to employ support staff. In addition colleges are saddled with debts relating to past, present and future service from which there is no exit. We estimate that it would cost as much as £5 billion to buy out the LGPS debt.

Efficiency

28. Efficiency in education is typically achieved by:

- reducing the costs of staff, services and supplies;
- increasing teaching contact hours;
- reducing the student hours;
- increasing the average class/group size.

29. Colleges have explored all of these options in recent years but face some constraints in certain areas. If pay costs are reduced too far, this has consequences for recruiting and retaining teachers. Colleges have taken decisions to increase teaching contact hours and reduce student hours where possible but this can put quality at risk. EFA funding rules also make it necessary to maintain student hours in order to maintain income although this still leaves full-time taught hours of 540 a year significantly below comparable levels in other OECD countries[31]. This leaves average class or group size as an obvious area where 16 to 18 education could make efficiencies. There are subjects and work-based areas where group sizes are small because they are valuable specialisms or where there are health and safety considerations related to supervision. This does not excuse the low average class sizes in many school sixth forms where there are less than ten students.

[30] The 2013 budget reports higher public spending on care costs and state pensions from 2016-17 onwards balanced by higher national insurance revenues from public service employers and employees
[31] 540 hours a year is equivalent to a three-day week of 5 hours a day

30. Current VAT legislation acts as an obstacle to college efficiency in two ways. Education is VAT-exempt. This means that colleges face a tax of 20% on any service they contract out and thus acts as a disincentive to do so. Colleges are unable to reclaim VAT in the way that schools can which leads to an absurd situation in the case of 16 to 19 free schools who can claim VAT and sixth form colleges who can't. The VAT take from colleges is worth about 2.5% of income which requires them to be significantly more efficient. VAT rules also make it prohibitively expensive for colleges to open newly built 16 to 18 facilities for community use[32]. Colleges can make use of their facilities for their own students but the restrictive nature of the VAT concession is that they cannot generate additional income to employ specialist staff to enhance provision.

31. Exam fees cost colleges more than £200 million and are effectively an uncontrollable cost. Students, parents, employers and universities all have an interest in qualifications but colleges are forced to overpay.

Capital funding

32. DfE shares responsibility with BIS for providing buildings and facilities for the education and training of 16 to 18-year-olds:

- DfE is responsible for the revenue funding of 100% of the costs of 100% of the students and apprentices in the system but only has responsibility for the capital funding issues in schools and sixth form colleges (together accounting for only 50% of 16 to 18 year old students)[33]. DfE relies indirectly on the ability of FE colleges to generate money from their own resources, banks and LEPs and on the ability of training providers to secure private funds.

- Capital funding for 16 to 18 education has been made available via a series of one-year budgets in small amounts which has not aided longer-term planning and which has been cut back significantly in the last 12 months[34]. Meanwhile DfE has provided 100% capital grants to 93 new free schools, studio schools and University Technical Colleges in which, in 2014-15, account for just 12,000 students.

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[32] Construction costs for new buildings used predominantly by under 19 year olds are VAT exempt but there is a risk that HMRC will charge VAT retrospectively if they consider the buildings are being used for a business use even if this is a small percentage of total activity

[33] DfE is responsible for capital funding for DfE-sponsored institutions (ie schools of all types and sixth form colleges but not FE colleges or private training providers

[34] There have been four DfE capital funding rounds for sixth form colleges, three of which were one year only

- There is an obvious short-term priority to provide school places but, by 2019, there will be a rise in numbers which requires planning now[35].

- 1,180 school sixth forms have fewer than 100 students[36]. Most schools with small sixth forms will be sharing of facilities with pre-16 pupils. This means there is a lack of dedicated space for post-16 study beyond classrooms.

33. Recent experience in colleges shows that purpose-built 16 to 19 facilities are popular with students (even when full), allow effective timetabling, support large and efficient class sizes, include specialist facilities and provide opportunities for students to take combinations of subjects. We recognise that school places are a priority but we consider that there could be major efficiencies through concentrating 16 to 18 teaching facilities.

34. It is time to reconsider the 10 year DfE policy in favour of small sixth forms. In addition to the 93 new institutions, as many as 200 schools have acquired sixth forms[37]. Research by ASCL suggests that the minimum size for a sustainable A Level sixth form is around 250 students and that an average funding level of £4,500 per student implies a break-even class size of 18 in order to preserve a curriculum of 18 subjects[38].

University technical colleges

35. DfE has supported the opening of 30 University Technical Colleges (UTCs) in the last five years. The Conservative manifesto included a promise that there will be a UTC within reach of every city. The process for developing UTCs in recent years has been driven by the Baker Dearing Trust and has involved a model invented in 2009 by Labour Government ministers. UTCs are legally and independent academy. They are tightly bound into the UTC network which sets its own rules. This fixed model has some disadvantages. Unlike FE colleges and sixth form colleges, UTCs and academies are part of the public sector and are subject to the same accounting, admissions and legal controls as other nationalised organisations. Increasing the number of UTCs and making them a more sustainable part of the education system may require a different approach. At current funding levels, a free standing UTC has a maximum of 800 students. This implies a turnover of less than £3 million. UTCs miss out on economies of scale yet the DFE and Baker Dearing Trust requires them to offer a full GCSE curriculum, two specialist areas and a longer teaching day. It might be more effective for a UTC to operate as a

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[35] DfE does not publish pupil number forecasts for the 16 to 18 age group but secondary school pupil number projections suggest a rise in 16 year olds after 2018
[36] Statistics on numbers of schools with sixth forms of fewer than 100 pupils supplied by DfE
[37] AoC estimates from EFA funding allocation data
[38] Work by Stephan Jungnitz reported in ASCL Leader Magazine, November 2013

department of an existing university or college rather than as a free-standing entity.

English and maths

36. Colleges have re-designed their courses for 16 to 19 year olds in line with new study programme requirements and this includes maths and English for those who did not obtain grade C at age 16. In 2014-15, there were 250,000 young people on EFA funded courses who did not did not have maths at grade C and 275,000 who did not have English. The majority of 16 to 18 year olds in the "compulsory maths and English" category are in colleges because they are the main providers but also because schools with sixth forms lose around half of their students between Year 11 and Year 13. AoC surveys report that more than 40% of college students were in this compulsory maths and English category in 2013-14 which creates a major challenge. 90% of colleges timetable the subject on a cross-college basis while 30% report staff shortages. There are wider issues in terms of the supply of Maths teachers to education because of the economic recovery, the increased appetite for mathematical skills in a range of sectors and the growing demand in secondary schools as result of the increased pupil numbers and the greater teaching time needed for the new GCSEs. BIS has made a £30 million investment in the further education maths workforce but the money ran out in March 2015.

37. Since 2013-14, the funding formula has provided an additional payment of £480 for each student who is below either of the thresholds (and £960 for those below both). Timetabling maths and English for three hours a week each, plus providing time for work experience and tutorials, leaves only around 300 hours teaching time (10 hours a week) for the student's main qualification. However these various financial incentives are unlikely to be enough to achieve the longer-term goal of helping everyone reach the Level 2 maths and English standard by the age of 18.

Qualification reform

38. This year, schools and colleges will begin teaching a new set of A Levels. At the same time new GCSEs will be introduced in secondary schools and for those in sixth forms taking resits. DfE hopes that more institutions will be teaching a new 'Core Maths' qualification which is being piloted. Many colleges will also be preparing students for new vocational qualifications including Tech Levels (at level 3) which will count towards a new Tech Bacc and new Substantial Vocational Qualifications at Level 2. In recent years when new qualifications have been introduced, Government has offered support via a national qualification agency and in the form of staff development funds. This is not the case with this set of reforms which

means that institutions will pay for implementation out of their own funds and via the exam fees which they pay to awarding organisations. Colleges spend around 3% of the income on exam fees. There may be short-term savings for DfE, by not providing development funds, but there is a risk that implementation will not go to plan and qualifications and courses will need to be re-worked. If there are significant problems with assessment in 2017 or 2018, this could have knock-on effects for the progression of young people into higher education or employment[39].

Innovation

39. The 16 to 19 education sector is highly competitive. Student, parent and employer expectations are all as high as ever with less public tolerance for poor performance. Competition helps ensure that institutions are responsive but there is a risk that this creates a bias towards tried and tested approaches and subjects. There is an appetite in colleges for education innovation in some areas, for example:

- ways to use technology more effectively in teaching and learning.
- use of work experience and student enterprise companies.

40. There are, however, a number of obstacles to innovation. Current funding levels only allow modest surpluses and require high teaching loads. Government is flogging an existing teaching model while providing little space for an alternative to develop. Innovation is also held up by a fear of Ofsted and audit requirements. A small innovation budget to match fund and nudge desirable activity might act as a useful counter to these obstacles and help encourage new learning technology. Once set up, the fund could be used for other purposes, for example to develop capacity in maths and engineering or rationalise provision to cope with reducing public spending. There is a tendency within DfE to develop single budgets to tackle single issues. A more successful approach might be to hold a single innovation fund, to spend money from it on a match funding basis and to develop a common set of procedures to manage the money through each bidding round. HEFCE's Catalyst fund is one model for this but there have been other similar funds in further education[40].

Devolution

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[39] E. Maurin and S.McNally, LSE, Vive la Revolution, Long-term returns of 1968 to angry students, conclude that the one-off and temporary effects of an exam failure (in this case one that increased the number of students who passed) resulted in significant private returns to the generation who benefitted compared to those in the years immediately preceeding and immediately following.

[40] HEFCE's Catalyst fund was preceded by a Strategic Development Fund which had similar characteristics and which acted as a catch-all for development activity

41. There is a Government-wide commitment to devolution but care should be taken with education for 16 to 19-year-olds. Labour Government plans made in 2008 would have devolved the budget to a patchwork of ad hoc sub-regional groups. Around 35% of college students travel across a boundary. An alternative option would be to devolve funding to the 39 local enterprise partnerships, but they are still at the start-up phase and have overlapping boundaries[41]. Many devolution proposals discuss the alternative of devolution to combined authorities but, as yet, these only cover five major metropolitan areas so would not be a comprehensive solution[42]. The 16 to 19 budget cannot be seen in isolation from school funding (which has become increasingly centralised) and funding for those over the age of 19 which is now mainly routed via the Student Loans Company. AoC has produced a discussion paper which explores devolution of skills policy issues in more detail.[43]

Recommendations

42. We have five suggestions for the Budget on the education of 16 to 19-year-olds:

- Any reductions in the funding rates for the education of 16 to 19-year-olds below £4,000 for full-time students or the total funding per student (taking into account weightings) will cause significant damage to the quality of sixth form education, student choice and institutional viability given the 8% reduction in cash funding per student in the last four years and the 22% funding dip at 16.

- There is a strong economic case for maintaining 16 to 19 year old student numbers at a time when the population is due to fall by 8% in order to eliminate numbers who drop out of earning and learning at 16.

- Raising the number of 16 to 19 year olds achieving English and maths to Level 2 (GCSE equivalent) is a major challenge which will require continuing funding for the additional teaching and education-sector wide action to maintain the supply of maths teachers. Bursaries to attract maths teachers will be needed until 2020.

- A different approach is needed to the organisation of education for 16 to 19-year-olds to improve value for money including higher quality thresholds for new sixth forms and a process that supports rationalisation (including a clear process to close uneconomic

[41] Around 10% of the population of England lives in an area covered by more than one LEP
[42] Greater Manchester, Liverpool city region, West Yorkshire, Sheffield City region, North East
[43] https://www.aoc.co.uk/news/devolution-skills-policy-and-budgets-some-practical-issues

institutions). At the same time, a different approach is needed to achieve the goal of a University Technical College near every city.

- There needs to be a review of rules that make it harder for colleges to make savings and improve their efficiency including pension arrangements, VAT rules and the overemphasis on qualifications.

Section Two: Further and higher education for those aged 19 and over

43. Colleges have always served people of all ages but, since 2007, have had to deal with two Government departments whose responsibility for education is divided by age. The issues we have highlighted earlier in this paper in looking at 16 to 19 education also apply to education and training for those over 19. This section doesn't duplicate issues but covers new ground specifically within the BIS remit.

Challenges

44. There are some significant national challenges for England's recovering economy:

- **Employment** - Although there are record numbers of people in work, there are also substantial numbers who are self-employed or work part-time who might prefer full-time work and, in addition, there are nearly 1.8 million people who are unemployed[44].

- **Skills Shortages** - There is evidence that skills shortages are increasing[45] and there is a risk that employers in growing sectors have not sufficiently changed their hiring practices to move away from migrant workers. There is an urgent need to build more houses but there is a shortage of skilled construction workers[46]

- **Productivity** – Productivity levels are no higher than they were eight years ago and are below levels in competitor countries. Low productivity is considered by many economists (including the Governor of the Bank of England) to be a major factor in determining future economic growth[47]

- **STEM skills** - The numbers of people entering the workforce with science, technology, engineering and maths (STEM) skills is insufficient and there are looming shortages because of an ageing workforce and because of the industrialisation of service jobs[48]. Fewer than 10% of engineers in the UK are women compared to more than 30% in countries such as Sweden, Poland and Turkey. Gender segregation probably exacerbates skills shortages.[49]

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[44]ONS Labour Market Statistics for employment and self employment figures
[45] Prince's Trust report, *The Skills Crunch*, August 2014
[46] "Shortage of builders hobbles UK housing ambitions. FT 3 February 2015
[47] Bank of England governor Mark Carney inflation report speech, May 2015
[48] BIS, Professor John Perkins Review of Engineering Skills, February 2014
[49] BIS, Professor John Perkins Review of Engineering Skills, February 2014

- **Workplace training** - The amount of training at work appears to have fallen by 50% over the last 15 years and employer spending has been in decline since 2005[50]. Countries like Australia and Germany have many more apprentices at Level 3 than England.[51]

45. There is firm evidence that a better educated and skilled workforce provides a strong foundation for sustainable economic growth. The issue is widely recognised by policy makers and commentators but has not yet led to the right action.

46. England has many world-class universities and a strong research base but only 43% of those leaving education participate in higher education[52]. The university system is built on a residential, full-time model with students taking three years to get a degree. This is an expensive way for young people to prepare for the future, particularly as the tuition and maintenance costs are now loaded onto graduates. Full-time higher education students can now expect to graduate with an average debt of £44,000[53]. Compounding the problem, there is a mismatch between the courses taken and jobs available which means that there are pockets of graduate unemployment of many graduates in non-graduate occupations[54]. Financial support for graduates to take postgraduate courses is restricted while the equivalent or lower qualification policy has restricted opportunities to change careers later in life.

47. Alternatives to full-time degree study in England are diminishing, there are declining numbers of part-time students[55] and a weak higher skills system[56]. People who have not started a university course find there are fewer alternatives than there were in the past in England or they would find elsewhere (for example the USA, South Korea or Ireland). The numbers of 20-29 year olds in learning is low compared to the OECD average[57].

48. The reduction in adult learning opportunities is apparent at all levels in education with a loss of more than a million publicly funded adult learning

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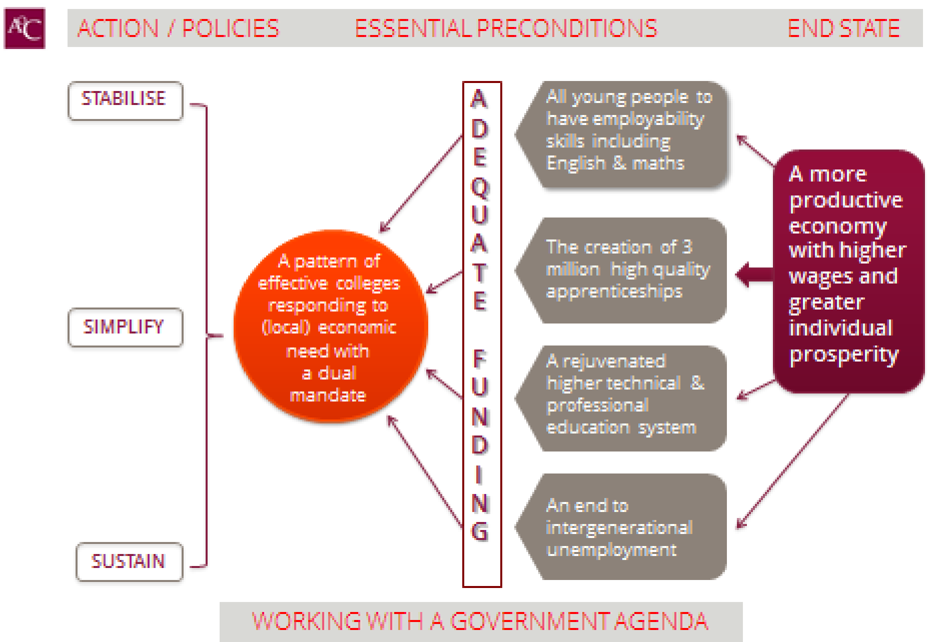
[50] Green, F., Felstead, A., Gallie, D., Inanc, H. and Jewson, N. (2013) *What Has Been Happening to the Training of British Workers?,* Centre for Learning and Life Chances in Knowledge Economies and Societies, http://www.llakes.org
[51] Boston Consulting Group "Towards a real revolution in apprenticeships" 2013
[52] The higher education participation ratio for those aged 18 to 30 is 43%, BIS statistics, August 2014
[53] IFS Payback Time? Student debt and loan repayments, April 2014
[54] Laura Gardiner, CESI, Totaling Hidden Talent, March 2014, estimates that there are 295,000 graduates under the age of 25 in non-graduate occupations. ONS estimated that 38% of graduates are in non-graduate occupations five years after graduation
[55] HEFCE report on higher education trends, March 2014
[56] OECD country report skills beyond school in England, September 2014
[57] OECD Education at a Glance, 2014

places in recent years[58]. This reduction started ten years ago. Under the Labour Government, the amount expected to be paid by the student (known as the 'fee assumption') rose from 25% to 50% of the course cost. This was so Government spending could be focused on national qualification targets (full Level 2 qualifications) and shifted to workplace learning (known as *Train to Gain*)[59]. Under the Coalition, the overall adult learning budget was cut and a 100% fee assumption introduced for those aged 24 or over taking Level 3 courses. Fees have risen in response to the loss of funding but the impact has been a reduction in the number of students..

49. We believe that a new approach to post-19 education and skills needs to be developed which we summarise in this diagram[60].



58 Calculations from SFA official statistics on further education participation

59 FE White Paper, March 2006 set out the plan to increase the fee assumption from 25% in 2004-5 to 50% by 2010-11

60 NAO's report on 16-18 participation reports an 8% reduction in spending between 2010-11 and 2013-14

Policy

50. There are a number of different, and occasionally contradictory, reform plans underway in the adult learning and skills system. These include:

- Routing the £1.5 billion apprenticeship budget (currently spent on 16 to 19 year old and adult apprentices) to a new system in which employers pay directly for apprenticeship training but at a discounted price.

- Reforming the content of apprenticeship qualifications via a series of employer-based pilots known as trailblazers[61] which may, in due course, replace all existing apprenticeship frameworks. By July 2015 there will be almost 300 new trailblazer qualifications but there is very little match with existing frameworks.

- Increasing the number of traineeships for 16 to 24-year-olds which has involved small adjustments to the funding system in 2015-16 but which are not yet fully embedded either in systems or in DWP practice.[62]

- Making income-contingent loans available to all courses above Level 2 taken by people over the age of 19 in 2016, with the possibility that loans will become the only funding route outside those covered by the existing full entitlements[63].

- Giving local enterprise partnerships a stronger role in allocating skills funding which are currently being tested in pilots in three parts of the country[64].

51. There are good arguments both for securing more business involvement and building the role of local government in publicly funded training but these are not policies that can be pursued simultaneously without adding significant complexity to the system and putting existing capacity at risk. Given the reduction in public spending, it is also not sensible to hand budgets over to businesses or to councils without securing co-investment.

Apprenticeships

52. There has been a revival in apprenticeships in recent years which has provided a firmer route from education to work and has helped supply skills and raise productivity. NAO estimated in 2012 that apprenticeships deliver

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[61] BIS Future of Apprentices in England, Guidance for Trailblazers, July 2014
[62] BIS Traineeship Funding Reform, Funding Consultation, June 2014
[63] BIS Future Development of Further Education Loans Consultation, June 2014
[64] Skills Funding Statement summarises the Skills Funding Incentive Payments on Page 28

£18 of economic benefit for each £1 of public investment or £4.70 total benefits per £1 total costs[65]. Earlier BIS research estimated that advanced level apprentices earn between £77,000 and £117,000 over their lifetime compared to lower level qualifications. Apprenticeship numbers have also risen to a point where there have been more than 1.5 million starts since 2010. After significant recent growth, apprenticeship numbers slowed in 2013-14. The number of under 19 year old apprentices rose 5% to 117,800 but the number of 19 to 24 year olds fell by 3% to 156,900 and the number of 24+ apprentices fell by 29% from 222,200 to 157,700[66]. The reduction in the number of adult apprentices reflects the funding changes for those aged over 24 but also results from measures to improve quality, for example by introducing minimum length of apprenticeships. There is a good case to continue to focus on quality improvement by increasing numbers of advanced and higher level apprenticeships and by developing pre-apprenticeship alternatives at lower qualification levels.

53. The Government's new priority is to secure three million apprenticeships between 2015 and 2020. This is in addition to plans to improve quality, increase employer involvement and develop new funding approaches. There is a risk desirable goals will fall short because of weak implementation. BIS is exploring options for routing funding via employers. Dividing funding, which is currently directed to colleges and other training providers, among a much larger number of employers would lose economies of scale and risks destroying training capacity. There is no evidence that this would really increase employer spending. Government will need to work quickly to meet a 2017 deadline for implementation but also very carefully to ensure that the IT and the rules work.

54. The trailblazer initiative involves a different risk which is that well-organised large employers will design apprenticeships mainly for their own benefit (including for their supply chains). The disruptive nature of trailblazers will bring innovation to apprenticeship design, which may be helpful in involving new employers, but (as with the employer ownership pilot experiment) it is unclear that this can be scaled up in a sustainable manner. 48% of apprentices in 2013-14 fit within just five frameworks (Health and Social Care, Management, Business Administration, Hospitality and Catering and Customer Services)[67]. These are high volume, relatively low cost courses. The current trailblazer plans would only partially replace these frameworks. The development process assumes that coherent employer groups can be assembled for every part of the economy. This is not a valid assumption for more generic skills.

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[65] NAO Estimating the Economic Benefits of Apprenticeships, February 2012
[66] SFA statistical first release, October 2014
[67] SFA data on apprenticeships by framework 2013-14

55. The Government is to create a Youth Allowance to replace the Jobseeker's Allowance for 18 to 21-year-olds. It will last six months, after which young people will have to start an apprenticeship, traineeship or 'community work'. The Allowance will need to take account of the fact that businesses are not likely to be willing to employ someone who has been unemployed for months. This is why a pre-apprenticeship system will be particularly crucial in providing the soft skills

Devolution

56. Devolution of power from government in London is a necessary part of energising politicial and economic activity in England. The Conservative Government devolved power to colleges twenty years ago when it incorporated them and college governing bodies already both represent local stakeholders and work with them for the benefit of students, employers and communities. College self-government established by the 1992 Further and Higher Education Act is an essential factor in ensuring that colleges stay flexible in meeting these needs and can balance the different priorities in an efficient way. This is true for colleges just as it is true for universities and academies. Although we do not support the majority of changes made to further education in Scotland, we think the introduction of 'outcome agreements' is worthy of consideration in England. These could be agreed between colleges and LEPs for example, in ensuring that there is an open discussion about how priorities are balanced and local needs are met.

Funding policies

57. BIS is responsible for overall policy towards further and higher education for people aged 19 or over but passes responsibility for managing the budget to the SFA. The budget in 2015-16[68]includes:

- £2.9 billion revenue funding for adult further education and skills which pays for more than two million students including large numbers of apprentices, jobseekers and people looking to acquire basic skills plus education of prisoners and new initiatives like the employer ownership of skills programme[69].

- £0.4 billion in student loans for those aged 24 and over on advanced courses.

- £0.4 billion budget for capital.

[68] BIS grant letter to SFA, February 2015
[69]The Employer Ownership of Skills asked employers to 'develop proposals that raise skills, create jobs, and drive enterprise and economic growth' and was supported by Government funding www.bis.gov.uk

58. Like other departments, BIS has had to make spending cuts in the last few years which has resulted in a 35% reduction in spending via the core adult skills budget between 2009 and 2015 with total spending falling from £3 billion to £2 billion[70]. Meanwhile BIS ministers have chosen to protect or increase spending in other areas. Key decisions on the skills budget have had the following impact:

- Funding within the adult skills budget has been directed to fund adult apprenticeships and unemployed people referred by Jobcentreplus under skills conditionality[71] rules introduced in 2012.

- Entitlements have been maintained which means that funding is also directed on 100% fee remission for people who receive benefits or who are taking courses at the lowest qualification levels[72].

- Decisions to protect specific programmes have focused spending reductions on the adult skills budget including reductions of up to 24% to adult further education in the 2015-16 academic year. The budgets which have been maintained in terms of cash include community learning, offender learning and financial support for individuals (for example childcare)[73].

- Money has also been earmarked for new initiatives like employer ownership of skills which have, so far, had very low take-up[74].

- The introduction of income-contingent loans for advanced level courses taken by those aged 24 and over has involved a budget transfer. This has protected the spending on this group (but routed it via the Student Loan Company).

59. The 35% reduction in spending via the adult skills budget between 2009 and 2015 and the shift in spending towards priority and protected areas has created stark choices in areas where colleges wish to maintain adult learning and skills training. Government funds are squeezed so the only choice is to try to use fee income to cover the costs. This is not easy either with individuals or employers. Adult students find it difficult to pay the full costs

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[70] AoC calculation comparing 2014 Skills funding statement with prior year comparatives in 2010-11 SFA accounts
[71] Skills Conditionality Toolkit, SFA and JCP, July 2011
[72] Page 18 of the Skills Funding Statement, 2013 to 2016 lists seven groups who attract full SFA funding
[73] Successive skills funding statements report budgets for community learning, offender learning and adult financial support which are broadly consistent in cash terms
[74] SFA reported 23,400 Employer Ownership starts between August 2012 and April 2014, Statistical First Release June 2014

of courses, particularly after a seven year period in which living standards have been squeezed[75]. Employers feel similarly pressurised and feel that they discharge their obligation to apprentices by paying them the minimum wage or above. Employers do not expect to pay for training in addition to this[76] which means that the expansion of adult apprenticeships has been funded almost entirely from the £1.5 billion spent by DfE and BIS.

60. The focus in the next couple of years will be on apprenticeships but consideration also needs to be given to ensuring training is available to those working part-time or for those whose employer will not provide them with an apprenticeship. For example, these people might be seeking a career change or returning to work after having children. This is why we are asking the Government to consider extending 24+ Advanced Learning Loans to those aged 21 and over and also to those over 24 taking a wider range of courses to help colleges provide this cohort with courses and qualifications..

Efficiency

61. In the last two years, BIS and SFA has driven a number of changes in the 19+ funding system including:

- Introduction of a new funding formula in 2013 which removes some of the clutter from the calculations and reduces the number of funding rates from a specific amount for each qualification (all 14,000 or so) to a simple five-by-six table[77].
- Introduction of a new process for approving qualifications as eligible for funding and removing 2,000 from funding approval in 2013 while offering an alternative route for new courses which respond to employer or community need ("the innovation code")[78].
- Reduced funding per individual and a 32% reduction in funding per qualification in just two years[79]
- Reducing the number of SFA staff from 1,500 to less than 900 over the last four years and redirecting their efforts to support new programmes, maintaining system operation and intervention.

[75] Resolution Foundation, Priced Out, August 2014
[76] BIS Research Paper 161, Employer responses to Funding Reform, March 2014 provides interview evidence on this.
[77] SFA A Streamlined Funding System for Adult Skills, August 2013
[78] SFA, Qualifications Information Guide 2014 to 2015, August 2014
[79] BIS, Average funding per course in BIS-funded adult education, July 2014 reports average funding per qualification falling from £991 in 2010-11 to £678 in 2012-13 which is the same level as in 2005-6

62. The efforts to simplify the funding system or to create new funding routes (for example employer ownership pilots or trailblazers) keep running up against the barrier created by a minimum set of rules which apply to all parts of skills funding. These include assurance on public funds, eligibility, quality controls on organisations and courses, collecting official statistics, compliance with tax and EU rules and the providing access to people regardless of background, protected characteristic or need.

63. Given the continuing need to improve efficiency, there are further areas where reform is needed:

- There are substantial compliance costs which, NAO estimated in 2012, amount to 3.6% of Government funding to colleges spent on the administration of funding, qualifications and quality assurance and that this implied costs of £250 million in the system as a whole (£150 million in colleges)[80]. The measures taken by the SFA in the last two years have made the system clearer but have not reduced the funding compliance or data collection burden. Colleges and providers can never rely on their income for students aged 19 and over more than a few months ahead. Among other things, this creates incentives to sub-contract activity and to employ staff on short notice periods.

- There are several different national funding agencies and systems covering fairly similar education and training activities offered to people from the age of 16 including SFA, EFA, HEFCE and DWP.

- The new SFA formula introduced in 2013 rewards the accumulation of qualifications rather than broad and balanced programmes which help people move out of unemployment or acquire new skills linked to employment need. Qualifications still drive further education and skills funding[81] and contribute to a situation where colleges spend 2.5% of their income on exam fees.

- There are almost 1,000 SFA-funded providers (including 300 colleges[82]) competing for diminishing budget with too little focus on, or incentives for, additional revenue from individuals, employers or elsewhere.

Efficiency

[80] NAO Reducing Bureaucracy in Further Education, January 2012
[81] SFA's formula assigns a cash value to each learning aim (mainly qualifications) taken
[82] Count taken from SFA's 2013-14 funding allocation list. There are 230 FE colleges. In addition many sixth form colleges have SFA allocations

64. Efficiency in the delivery of education and training for people aged 19 and over is achieved in the ways described earlier but with a slightly different emphasis. Faced with reductions in funding per student, colleges have reduced costs of staff, services and supplies. This has involved holding down pay, increasing staff contact hours and substituting less qualified instructors for lecturers where this can be done without significantly compromising quality.

Capital funding

65. Colleges need industry standard facilities to provide high quality education for young people, apprentices learning off the job and adults. Colleges received support from an SFA's capital programme between 2013 and 2015 which allocated just over £500 million to more than 150 FE college projects which total around £950 million in value[83]. This ended on 31 March 2015 and a number of colleges are busy completing projects for the September 2015 deadline. SFA'S capital budget for 2015-16 is £40 million is committed to national colleges. In its place is the Single Local Growth Fund routed via Local Enterprise Partnerships (LEPs). LEPs have earmarked support to a number of colleges but the process has been haphazard. Each LEP has used its own process for assessing and allocating funding which is inefficient and results in duplication given that college projects have plenty of similarities regardless of where they are built. The outcomes of the process involve an average project size and grant which is similar to the previously nationally run process but there have been short timescales, a lack of detail on the rules (eg assessment criteria, grant rate, evidence requirements etc) which resulted in re-working and arbitrary decisions), difficulties and delays in confirming grants; new requirements to demonstrate state aid compliance on a case-by-case basis and considerably worse payment terms on offer.

66. The involvement of colleges in local growth is right but it is not complete. Colleges operate in an environment of declining public spending and have changing requirements for buildings as a result of curriculum change, technology and apprenticeship development. Government could help colleges make better use of their buildings and this would bring benefits both in terms of releasing resources for new investment but also in bringing revenue savings.

Higher education funding

67. The Coalition Government introduced a major reform of the higher education funding system in 2012 which included reductions in teaching grants, increases in tuition fees, an increase in the maintenance support and

[83] SFA paper presented to AoC Capital Reference Group, March 2014

changes to student loan repayment. At the same time, there has been a gradual relaxation in the system of student number controls. This started with higher graded entrants in 2012 but has extended to all institutions in 2014 as long as they do not exceed a 6% limit. In 2015 there will be no student number controls. There is a risk that these reforms will result in more students paying £9,000 fees for courses in institutions in the middle and upper middle of the league tables. It is not obvious that a good reputation for attracting students is always built on a strong record in getting graduates into work. At the same time, BIS has made it possible for private higher education providers to access student loans at a higher rate of £6,000 though the initial de-regulation has been balanced by more recent controls.

68. There are three areas where reform would make sense:

- student loan savings measures to reduce the cost to government.
- action to make higher education more affordable and accessible for more students.
- a longer-term re-invention of student finance.

69. Student loan savings are needed because the current system involves an estimated £5.7 loan subsidy (RAB charge) on 2015-16 loans compared to a £1.7 billion budget for HEFCE's teaching grant and £1.6 billion in HE maintenance grants. The RAB charge is constructed using estimates of future student loan repayments, future graduate earnings and a discount rate which hasn't changed for a decade (2.2% + RPI) so it would be wrong to take hasty action. The recent experience of the high grade policy is that entry qualification is incomplete, inaccurate and subject to contested judgements so this option will only work if government can be confident about the accuracy of the available data and about the way in which it assesses qualification comparability. A different option might be a introduce differential tuition fee loan values as operates in the FE loan system or by asking graduates to repay loans faster or earlier (eg by reducing the repayment threshold or increasing the repayment rate).

70. A more immediate issue is to make higher education more affordable and accessible. The current full-time residential model means that people who can expect to be in work for more than 40 years are pushed down a one-shot expensive route. Education should run from age 20 to 70 not just from 18 to 24. To move the system in this direction, the Government should consider a lifetime loan allocation (say £60,000). It is also worth reviewing the way in which government allocates £5.5 billion in HE maintenance loans and £1.6 billion in HE maintenance grants. Current arrangements have the effect of supporting a residential HE model, subsidising urban property developers and causing a private HE boom in London. At the same time,

they do not target funds on the students or courses that government needs to support.

71. Government should also consider ways to make public service careers more affordable. Lots of careers have become graduate-only in the last 20 years in a drive to raise status but this happened when there wasn't a viable apprenticeship route and on the assumption that higher education always leads to graduate employment. The NHS is a particular case in point but the public services employ 5 million people in total and where careers are graduate only.

72. A longer term goal should be to align education and training for adults in England whether at university or college and regardless of level. This would be achieved, in part, by equalising student support arrangements via education accounts. This would fit naturally with a lifetime loan allowance. It may be time to merge the responsibility to fund this education, and the student loans which support it, into one new agency. The Higher Education Funding Council for England operates in complete isolation from the Skills Funding Agency, which despite its name, is now little more than an extension of the policy staff in the Department for Business, Innovation and Skills. This essential differentiation between policy construction and implementation is being lost with Ministers being drawn into detailed operational matters on a routine basis.

Recommendations

73. We have six suggestions for the Budget on further education for people aged 19 and over:

- The target to increase apprenticeship numbers to three million over the next five years will need strong project management, better careers advice for young people, action to complete qualification reform and careful introduction of new funding arrangements and requirements for higher employer contributions to training. Above all, it will be require more, better and deeper employer engagement

- Early consideration should be given to extending further education loans to those aged 19 and taking a wider range of courses to ensure there is support for part-time workers, the self-employed, career changers and those returning to work after having children. A flexible labour market needs a flexible skills system. Apprenticeships have a role but tackling skills shortages and improving productivity requires a wider approach.

- Budgets already allocated should be reviewed and consolidated to allow money earmarked for employer ownership pilots which have not delivered on their original promise to be redirected to areas of more pressing need.

- The devolution deals are an opportunity to explore issues in detail and assist colleges in responding to local needs of their communities. Care should be taken not to compromise college self-governing status. A more productive approach may be to develop an English version of outcome agreements.

- A wider review should be considered of the interaction between further and higher education student support including extending the categories of people eligible for maintenance support, for continuing the switch from HE maintenance grants to loans from 2016 onwards and starting work on a system of education accounts including a lifetime loan allocation.

- A more coherent policy is needed to ensure colleges can get the best use of their buildings and facilities including releasing resources from past investments.

Association of Colleges
5 June 2015