ASSOCIATION OF COLLEGES

March 2020 Budget

AoC's Spring Budget recommendations

7 February 2020 (v2)

Introduction

I am pleased to present our March 2020 Budget submission on behalf of colleges in England. Colleges are transformational for people, communities, places and employers. They help people make the most of their talents and ambitions. They drive social mobility. They help businesses improve productivity and drive economic growth. They are rooted in their communities and drive tolerance and well-being. Colleges provide academic, technical and professional education for 685,000 young people aged 16 to 18 and 1.4 million adults (including 314,000 apprentices).

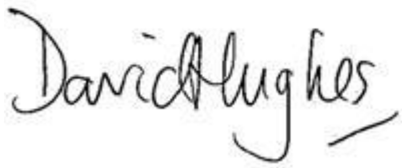
Despite their considerable reach and impact, colleges have suffered a decade of neglect, with substantial funding reductions and confused policies. These have resulted in a drastic drop in learning opportunities for adults (from 4.7 million enrolments per year to 2.2 million); only 15 hours of teaching for young people compared with more than 25 in most OECD countries; and, teachers in colleges being paid about 20% less than teachers in schools.

After making great efficiencies over the last decade, there is a strong consensus now that colleges need major investment to put them in a position to help people and businesses in all parts of the country to prosper. Colleges have a central role in achieving a variety of ambitions, including expanding the NHS, building more houses, achieving net zero carbon emissions and securing export markets.

This paper sets out several recommendations for the March 2020 budget but we have been realistic in recognising that many policy issues are yet to be resolved so soon after the general election. Because of that we have reserved many of our suggestions for consideration as part of the 2020 spending review and include those in this document. For both the Budget and the Spending review we believe there are two fundamental priorities:

- first, government needs to ensure that funding levels support the job it is asking colleges to perform. The funding rates we have asked for are the result of careful analysis. They would support colleges to pay staff more fairly, offer students more teaching hours, invest in buildings and equipment and to innovate.
- second, there needs to be a whole system reform to develop a positive and accountable environment within which colleges can thrive. This will require simpler regulation and funding, more collaboration, clearer roles for colleges, schools and universities and support to engage employers more effectively as partners.

Our country needs to ensure that every young person has the start in life they deserve and an education to match OECD competitors. We need many more adults to upskill and retrain in the skills they'll need for the future. Employers need help to improve productivity. Colleges are ready and willing to step up to deliver all of that, but they need the resources and support to achieve it.



David Hughes, Chief Executive
Association of Colleges
7 February 2020

March 2020 budget

1. The Chancellor of the Exchequer will be presenting the government's budget to Parliament on 11 March 2020. HM Treasury has invited budget suggestions by 7 February 2020. This will be the first budget after the general election. The Conservative party manifesto promises new fiscal targets for the government and some tax and spending plans for the country. AoC has five recommendations for the budget and a longer list of issues for the spending review that will follow. We thought it helpful to set out the issues together to help HM Treasury and the Department for Education with their work.

2. The people of Britain face big changes in the next few years and whilst there are opportunities for some to prosper, there is also the risk of more people being left behind. AoC believes that HM Treasury and DfE should be working on a fresh approach to education spending to spread this prosperity, to maximise opportunities and to help the country onto a more sustainable path for the future. Our recommendations for the March 2020 budget are listed below:

March 2020 budget

HM Treasury should:

1. Confirm the £400 million spending increase allocated to 16-18 education while maintaining the adult education and apprenticeship spending in real terms in 2020-1.
2. Fund the extension of the pupil premium to support 16 to 18-year-olds from September 2020.
3. Outline the 2021-2 budgets and remits for the National Skills Fund and college capital programme so that realistic plans can be made in 2020. There is a case to focus the NSF on higher technical education in colleges and for the capital fund to support technology/specialism equipment as well as building refurbishment.
4. Ensure that the Shared Prosperity Fund is available in 2021 to support people in left-behind places.
5. Support the Department for Education with its further education reform plans so that the Post 18 Review recommendations can be implemented and the oversight arrangements for colleges simplified.

3. Our recommendations for the spending review cover a longer period, perhaps as part of a ten-year education funding plan along the lines recommended by the Education Committee[i]:

2020 spending review

1. The government should support every young person to achieve their potential

1.1. DfE should continue to increase funding rates in 2021-2 and beyond. Rates should rise above the rate of inflation towards a £5,000 rate for 16, 17 and 18-year-olds. This would allow colleges to increase student hours, to increase pay to levels needed to retain and recruit expert staff and to support investment in equipment and technology. There are 1.1 million young people who would benefit from this decision.

1.2. Treasury should maintain TPS employer contribution funding for colleges for the rest of the current valuation period (2021-22 and 2022-23).

1.3 DfE should move towards a rational basis for funding at different age groups. This might involve consolidating the TPS employer contribution grant that it currently pays to schools and colleges and the teacher pay grant it just pays to schools.

1.4. Government should extend the support offered by the pupil premium to all 16-to-18- year-olds from disadvantaged families on the same basis as the existing pre-16 premium to help close post-16 attainment gaps.

1.5. HM Treasury should work with DfE to ensure that 100,000 more funded places are available by 2024-5 to ensure that with a rising population of young people, nobody is turned away from education or training

1.6. Government should ensure that funding for apprenticeship training is guaranteed for the 25,000 young people a year who start apprenticeships at 16.

1.7. DfE should reform the funding of post-16 high needs, including considering block funding of places in colleges where that would best meet student needs.

1.8. Treasury should make capacity and capital funding available to all new T-level providers on similar terms to the 2020 providers.

1.9. DfE should embark on a targeted programme of reviews of school sixth forms to remove uneconomic and lower quality provision.

2. Unleashing Britain's potential by levelling up skills

2.1 HM Treasury should increase overall spending on skills: so that it keeps ahead of inflation, the growth in the working-age population, greater employer demand resulting from lower EU migration and the desirability of levelling up achievements by people and in places that are bypassed by large employer apprenticeship spending.

2.2 DfE should develop a plan for the National Skills Fund which focuses on higher technical education in colleges to ensure that they are used in all parts of the country and for economically valuable skills.

2.3 Government should develop and publish a statement which sets out the purposes of apprenticeship funding to explain how they will be used to assist new labour market entrants develop skills for careers and not just their current jobs. This statement should be accompanied by more information about where funds are currently spent and by whom.

2.4 Treasury and DfE should implement changes to the funding of degree apprentices and take necessary action to protect apprenticeships which equip new entrants for careers and not just their current jobs.

2.5 The adult education budget should be increased to support more low paid workers, to ensure more people take up the digital skills entitlement and to avert skills shortages at a time when migration rules are changing.

2.6 The new Shared Prosperity Fund should be targeted at left behind areas where economic activity is lower, and unemployment is higher. The overall aim should focus on using skills to improve economic performance by helping people into work, by retraining those in sectors affected by automation and economic change and by providing support to businesses to adapt.

3. Capital funding and spending

3.1. There should be a substantial five-year capital plan for further education. This should include the £2 billion earmarked for upgrading the estate but also include sufficient funds to provide new places, to invest in IT and to both protect and develop specialist and hyper-specialist provision.

3.2. Treasury and DfE should review the capital financing requirements of education in the 2020s including the option of opening up PWLB loans to both academies and colleges as an alternative to 100% capital grants for the former and reliance on a vanishing commercial loan market for the latter.

3.3. Government should provide funding for technical equipment to develop digital skills and to support wide-spread use of technology in teaching and learning.

Support every young person to achieve their potential

Funding rates

1. The government announced a 7% increase in the 16-to-18 education budget in the 2020-1 Spending Round. DfE is using these funds to increase the full-time base rate to £4,188 and to target money on high cost programmes, high value courses, English and maths, resits and workforce development. This is a helpful start, but it does not go nearly far enough. There has been a seven-year period in which rates were not increased at all. The national funding rate for 16 and 17-year-olds has been fixed at £4,000 since 2013. DfE cut the 18year-old rate by 17.5% in 2014[ii] and has made no allowance for inflation or other costs loaded onto institutions.

2. 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 cut 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. Colleges already have a 3% vacancy rate for teachers (compared to a 1% rate in secondary schools[iii]) with specific challenges recruiting staff with engineering, construction, maths and digital/IT specialisms.

3. This under-investment results in under-achievement by the country's young people compared to their potential. At a time when more and more jobs require education at Level 3 and above, only 60% of young people reach this level by age 19 and 15% don't even reach Level 2. England's schools and colleges supply a strong flow of young people with the right qualifications to enter university, but their maths and foreign language skills fall short of those in our competitor countries. There is insufficient focus on digital skills. Meanwhile OECD reports that the UK performs poorly (28th out of 33 OECD countries) on intermediate professional and technical skills – a motive for DfE's post 16 skills plan and the introduction of T-levels.

4. The 16-to-18 funding squeeze has happened at a time of rising and unavoidable cost pressures. Colleges invariably spend more than 60% of their budgets on teaching, lecturing and support staff and have struggled to afford pay rises given higher pension contributions and other obligations. Employer contributions to the teacher pension scheme have risen from 14.1% in 2015 to 23.7% in 2020 and, while Treasury has provided funding for part of the increase up until March 2021, there is no clarity on what happens after that. The government needs a financially sustainable college sector and needs to avoid undermining the investment it has recently made to restructure colleges as well as ensuring colleges can recruit and retain the teachers they need.

5. The country's need for high-quality education of its 16-to-18-year-olds is currently undermined by the differential approach taken to pre and post 16 funding. DfE is

guaranteeing minimum secondary pupil funding at £5,000 and schoolteacher starting salaries at £30,000. This will increase the upward pressure on post-16 costs but there is a 24% drop in funding per student once students reach the age of 16[iv]. 11-to-18 schools use higher pre-16 funding to support their sixth forms[v]. Colleges do not have this option so have had to find other efficiencies.

6. We have the following recommendations on 16-to-18 funding rates to address the issues we have identified.

16-to-18 Funding rates

March 2020 budget

Treasury should confirm the £400 million spending increase allocated to 16-18 education while maintaining the adult education and apprenticeship spending in real terms in 2020-1.

2020 spending review

Recommendation 1.1.

DfE should continue to increase funding rates in 2021-2 and beyond. Rates should rise in line above the rate of inflation towards a £5,000 rate for 16, 17 and 18-year-olds. This would allow colleges to increase student hours, to increase pay to levels needed to retain expert staff and to support investment in equipment and technology. There are 1.1 million young people who would benefit from this decision

Recommendation 1.2.

Treasury should maintain TPS employer contribution funding for colleges for the rest of the current valuation period (2021-22 and 2022-23).

Recommendation 1.3.

DfE should move towards a rational basis for funding at different age groups. This might involve consolidating the TPS employer contribution grant[vi] that it currently pays to schools and colleges and the teacher pay grant it just pays schools[vii].

Supporting disadvantaged young people

7. Education funding leaves young people from poorer families behind once they reach the age of 16. The squeeze on funding in the 2010s has limited access to education for young people at a time when the relative child poverty rate is at a

record 34%[viii]. The Social Mobility Commission has noted a gap between the young people who stay in school sixth forms (who on average, are better off) and those who move to college or apprenticeships[ix]. 8% of sixth formers in schools were on free school meals at 16 compared to 16% of those in colleges. Despite this DfE's funding policies protect and prioritise school sixth forms over other places of study[x]. These decisions have further consequences for the most disadvantaged young people. Just 35% of those who were on Free School Meals (FSM) at 16 achieve Level 3 by age 19[xi].

8. An effective way for DfE to level up achievement between 16 and 18 would be to introduce a post-16 premium to help close the attainment gap by identifying and supporting students from disadvantaged backgrounds. Inexplicably the pupil premium, which has focused investment in schools, stops at age 16. The Social Mobility Commission has recommended a post-16 student premium should be introduced at a rate of £500 a student on the same eligibility criteria as the pre-16 fund (receipt of free school meals)[xii]. An alternative approach would be to build on the approach being used for Level 3 students in 2020-1. DfE will be paying a £750 supplement for students on Level 3 courses who do not have English or maths at grade 4[xiii]. The distribution method is important but most important of all is what this would represent - a government decision to prioritise 150,000 disadvantaged young people.

9. We have the following recommendations on the post-16 premium to address the issues we have identified.

Post-16 premium

March 2020 budget

HM Treasury should fund the extension of the pupil premium to support 16-to-18-year-olds from September 2020.

2020 spending review

Recommendation 1.4.

Government should extend the support offered by the pupil premium to all 16-to-18-year-olds from disadvantaged families on the same basis as the existing pre-16 premium to help close post-16 attainment gaps.

Organising the 16-to-18 education system

10. With Treasury support, DfE should tackle a number of other issues in 16-to-18 education.

- **Participation**: The numbers of 16-to-18-year-olds in England will reach a low point in 2019 and will then rise by around 2% a year in the 2020s. The current participation rate might well rise from current levels (94% at age 16, 84% at age 17[xiv]). DfE does not publish projections for numbers in education in Year 12 and above (16, 17 and 18) but, assuming consistent participation rates, we estimate there will be 90,000 more young people in education by 2024-5 and even more later in the decade[xv]. If participation in education increased, even more places would be needed. There is a social and economic case for DfE to reduce numbers dropping out at 16 and 17 to ensure that no young person is left behind. The risk in not acting is that the young people with the worst GCSE performance (or no GCSEs at all) will not be in useful education or training.

- **Apprenticeships for young people:** The successes of the government's apprenticeship reform (greater employer involvement, new public service engagement and more apprentices on higher and degree-level standards) risk reducing opportunities for young people. Since 2017, the number of 16-to-18 -year-olds starting apprenticeships has fallen by around 15%[xvi] and there is a risk that they will come second best as funding becomes even tighter in the increasingly competitive apprenticeship training market. In all, 25,000 16-year-olds a year start apprenticeships[xvii]. DfE needs to act to ensure that young people, employers and colleges can be certain their apprenticeship training can be funded.

- **Support for 16-to-18-year-olds with high needs:** DfE allocates a single high needs block to local authorities within the Dedicated Schools Grant. Local authorities tend to put young people of school age first while micro-managing post-16 provision to control spending. There are around 18,000 young people with high needs in colleges. The typical FE college enrolls around 80 high needs students, negotiates with at least five councils individually on every single student and spends an increasing share of this budget on administration rather than education. AoC is working with LGA and NATSPEC to research post-16 high needs.

- **Technical education:** The government's post 16 skills plan has prompted detailed planning for T-levels. Around 50 providers will offer three subjects in 2020-1. There will be around 1,000 and 1,500 students in the first year, but numbers will rise in 2021 and 2020. 98 colleges will offer T-level subjects in 2021. Success in this programme will require continued funding via the revenue formula, for capital equipment and for student travel between now and 2024. Funding has been made available for the 2020 providers but not yet for the larger group starting in 2021. DfE needs to stick with its plan for a high quality effective academic and technical post-16 system with appropriate transition in order to see this grow over the following years.

- **Organisation of sixth forms:** At a time when resources in education are stretched, it is odd that DfE overlooks the fact that class sizes in school sixth forms average 11.5[xviii] and the offer in many is very narrow because of the small size of the cohort. Secondary schools use their pre-16 funding to cross-subsidise these smaller classes which represents a subsidy towards students from better-off families. There are many excellent school sixth forms but it is extraordinary that Regional School Commissioners, ESFA and councils tolerate so many small ones. In London alone (a city with excellent public transport), the Post-16 area reviews reported 221 sixth forms with fewer than 200 students[xix]. Half of 11-18 schools in the capital have non-viable sixth forms and hundreds more across the rest of England are wasting funds on small class sizes while limiting the educational offer. Small sixth forms focus on the most popular A-levels and on lower cost BTECs. Fewer students take science, languages, engineering and digital courses than would be the case if there were fewer, larger sixth forms.

11. We have the following recommendations on organising the 16-to-18 education system to address the issues we have identified.

Organising the 16-to-18 education **system 2020 spending review** Recommendation 1.5. HM Treasury should work with DfE to ensure that 100,000 more funded places are available by 2024-5 to ensure that with a rising population of young people, nobody is turned away from education or training. Recommendation 1.6. Government should ensure that funding for apprenticeship training is guaranteed for the 25,000+ young people a year who start apprenticeships at 16. Government should ensure that funding for apprenticeship training is guaranteed for the 25,000 young people a year who start apprenticeships at 16. Recommendation 1.7. DfE should reform the funding of post-16 high needs, including considering block funding of places in colleges where that would best meet student needs. Recommendation 1.8. Treasury should make capacity and capital funding available to all new T-level providers on similar terms to the 2020 providers.

Recommendation 1.9.

DfE should embark on a targeted programme of reviews of school sixth forms to remove, merge or introduce new partnerships for uneconomic and lower quality provision.

Unleashing Britain’s potential by levelling up skills

12. The government was elected on a manifesto with an ambitious agenda to make Britain the best place to start and grow a business, to foster innovation, to support working families, to revive our towns, to support rural life and coastal communities, to fix the immigration system, strengthen the NHS, make the country safer, deliver the housing people need and fight climate change. Improving skills is a common element to the plans in all these areas. For the government to achieve these different aims, businesses and public services across the economy will need more people with the right skills. The government also wants to level up skills in every part of the country. Doing this will improve the attractiveness of places for investment which, in turn, will spread prosperity and help more people improve their lives. Annex A sets out the skills implications of the Conservative manifesto.

13. The government has specific plans for a National Skills Fund, a college capital programme and a Shared Prosperity Fund. Designed in the right way, these policies will contribute to the task of improving skills but they are more likely to make a difference if there are clear long-term plans. A few months ago, the Education Secretary expressed an ambition that the UK should overtake Germany by 2029 in the opportunities for those taking technical routes. There is a real value in a ten-year goal to organise efforts because it could help lift people away from immediate concerns while providing clear direction for decisions about course development and capital investment. A stronger technical education and skills system can help boost productivity by ensuring the right people are available with the right skills in the right places, at the right time.

14. The skills system in England has many strengths including strong institutions, good systems for measuring and improving performance plus flexibility in adapting learning and training content to economic need. There are some significant challenges which government needs to address to make progress with its plans:

- **Low and unequal participation:** Participation in adult education and training has fallen at all qualification levels (below degree level). The number of adults taking a funded non-apprenticeship course has fallen by two-thirds. Only one in three adults self-report any participation in learning (the lowest level in 22 years). Participation in basic English and maths provision is falling[xx]. Meanwhile the number studying higher and intermediate technical courses is lower than desirable given current skills shortages and those that can be predicted given retirements and economic change. Those who do participate are far more likely to be well-educated and better off. The poorest adults with the lowest qualification levels are the least likely to access adult training despite being the group who might benefit most.

- **Apprenticeship provision shifting towards the already qualified:** The government's main reform policy for skills has been apprenticeship reform. This has brought disruptive change and has put larger employers much more in control of how public funds are used. More employers are engaged but have tended to do what they have always done – spend the largest share of training funds on managers and professionals. There is a lack of public information about apprenticeship training trends but clear evidence of growth in high cost degree apprenticeships, in mid-career manager apprentices and in money being spent on professional roles located in the biggest cities (for example accountancy apprenticeships[xxi]). Obligations previously covered by tuition fees have been shifted onto the apprenticeship budget. There is evidence that many employers have focused on current needs over the future as well as the needs of existing staff over new recruits. This leaves too many apprentices as passengers in the decision. It is an act of faith to assume that this will always be in the interest of the apprentice and a good use of scarce public resource.

- **Doubts about the sustainability of apprenticeship funding:** After two years of underspending, officials are struggling to keep spending within budget in 2019-20 and are only doing so by imposing controls on non-levy allocations[xxii]. Many colleges ran out of funds for new starts in small employers towards the end of 2019 so now must hope that they can help the companies on their waiting list via the new pilot that ESFA has introduced. This has affected their ability to meet demand from both employers and young people, particularly in vital sectors such as construction, engineering and leisure.

Budgets for skills and funding policies

15. There are 2.2 million full and part-time adult students receiving £2.3 billion of public funding compared to over £8 billion committed in student loan write-offs and teaching grant to support 1.2 million undergraduate students[xxiii]. Annual public funding per university student averages £6,600 compared to £1,050 for adults in further education The Independent Panel for the Post-18 review described this as a large under-investment in skills given the sector's importance for the country's future economic success.

16. The budgets for adult education and skills are also fragmented. In addition to the £1.3 billion allocated to the adult education budget, there is £440 million in advanced learner loans[xxiv], £200 million in European Social Funds[xxv], and £40 million in National Retraining Scheme

spending deployed across three different projects. On top of this, there is £2.3 billion for apprentices from age 16 upwards.

17. Recent experience of the apprenticeship levy and student loans show employers tend to use available funds on better qualified people and students usually default to full degree learning. Given control of apprenticeship funds, employers have chosen apprenticeships at higher level, degree level and above. There are rising numbers taking degree apprenticeships. Given that these are multi-year programmes, this will create escalating pressure on the apprenticeship budget.

18. The experience of student loans confirms the way in which the education and employment market shifts funds to higher level courses. Offered income-contingent student loans, individuals have enrolled at degree level and on postgraduate courses but have spurned FE loans except for a limited range of courses where there is a clear personal gain.

19. Government also needs to consider ways in which the skills system can support skills for new jobs or for jobs where there is expected to be major expansion. Policy now relies on existing employers to determine need and to train the people needed to meet this need. Policy in future needs to identify ways to over-train to meet escalating demand, whether this is for new health professionals, for specific construction skills, to make use of artificial intelligence or for the changes resulting from climate change plans.

20. HM Treasury, DfE and other departments needs to work up detailed budget plans in the 2020 spending review but should consider increasing overall spending on skills: so that it keeps ahead of inflation, the growth in the working-age population, greater employer demand resulting from lower EU migration and the desirability of levelling up achievements by people and in places that are being bypassed by large employer apprenticeship spending.

National Skills Fund

21. The Conservative manifesto promised a National Skills Fund with £600 million a year in revenue funding. The manifesto promised wide consultation over the design but suggested at least two uses for the fund. One element would be match funding for individuals and SMEs for high-quality education and training and the second element would be money for further strategic investment in skills. The National Skills Fund is a great opportunity, but it will be necessary to ensure it does not add to complexity. The Treasury should consider carefully how to align funding currently allocated for the National Retraining Scheme with the new National Skills Fund. There is also an urgent need to transfer the money collected each year via the Skills Immigration Charge into the skills system. Colleges should have a central role in using these funds because this would be a way for government to ensure that they are used in all parts of the country and for economically valuable skills. The Post 18 review recommends that higher technical

education by developed in colleges. DfE could agree a plan up front with college leaders and then hold them to account for their performance.

Apprenticeships

22. Government has put employers in a central decision-making role but needs to act to ensure there is money where it is needed most. There is a wider public interest in ensuring that apprenticeships are focused on new labour market entrants and on training for a career not just for a current job.

23. Treasury and DfE should start by publishing more information on where the money is being spent and who is using existing funds and by developing a statement which sets out the purpose for apprenticeship funding.

24. Government should consider the Post 18 review recommendations that there should be rule changes so that there are common equivalent and lower qualification rules across all programmes at level 6 and above[xxvi]. This would imply new restrictions on the ability of employers to claim funding for degree apprentices in non-STEM courses for those already qualified at degree level. Another approach would be to transfer responsibility for apprenticeships at level 6 to the higher education system regulated by the Office for Students. Other options to control the budget might involve reducing the training credit for levy paying employers from 110% to below 100%[xxvii]. 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.

Adult education budget

25. The adult education budget is focused mainly on basic and intermediate skills and is partly devolved to eight mayors and combined authorities. Whether this is so in future depends in part on what is decided with the National Skills Fund (see above) but there is a clear need to increase numbers of lower paid workers on courses and numbers taking the new digital skills entitlement. DfE and the combined authorities should increase the funding rates for all courses to reverse the freeze on rates which has been in place for a decade. The rate should then be increased annually in line with education inflation while considering higher increases for economically valuable courses.

26. There will be particular need in early 2020s to develop new places at level 2 to support progression into apprenticeships and to increase training activity at level 2 to fill skills gaps previously covered by inward EU migration[xxviii]. Finally, the adult education budget also has a role in supporting integration through the English Language. Fluency in English helps people find work, ensures people can participate in community life and reduces the risk of loneliness, segregation and

exploitation. Data from the 2011 Census showed that 844,000 people living in England (1.6% of all residents) did not speak English well or at all.[xxix]

Shared Prosperity Fund

27. For the last three decades, UK government agencies have used European Union regional and social funds to tackle regional inequalities. Colleges have used these funds to help retrain and improve the skills of hundreds of thousands of people. The stop-start nature of government procurement[xxx] and the complexity of the rules has made it hard for colleges to use the money as effectively as they could do. The UK government will continue to participate in the European Social Fund until December 2020 but has not yet confirmed what will happen afterwards. Contracts let by DFE typically run until July 2021.

28. Exit from the EU requires a fresh look at the priorities but should not result in any reduction in spending because this would widen existing social and economic divisions. The new Shared Prosperity Fund should be targeted at left behind areas where economic activity is lower and unemployment is higher. There is some overlap with the Towns Fund, which is currently open to bids from 101 towns, almost all of which have a college. The overall aim should focus on using skills to improve economic performance by helping people into work, by retraining those in sectors affected by economic change and by providing support to businesses to adapt. The administration of funds could be much simpler if managed as part of other programmes.

Unleashing Britain's potential by levelling up skills

March 2020 budget

HM Treasury should outline the 2021-2 budgets and remits for the National Skills Fund and college capital programme so that realistic plans can be made in 2020. There is a case to focus the NSF on higher technical education in colleges and for the capital fund to support technology/specialism equipment as well as building refurbishment.

HM Treasury should ensure that the Shared Prosperity Fund is available from January 2021 to support people in left-behind places.

2020 spending review

Recommendation 2.1.

HM Treasury should increase overall spending on skills: so that it keeps ahead of inflation, the growth in the working-age population, greater employer demand resulting from lower EU migration and the desirability of levelling up achievements by people and in places that are bypassed by large employer apprenticeship spending.

Recommendation 2.2.

DfE should develop a plan for the National Skills Fund which focuses on higher technical education in colleges to ensure that they are used in all parts of the country and for economically valuable skills.

Recommendation 2.3.

Government should develop and publish a statement which sets out the purposes of apprenticeship funding to explain how they will be used to assist new labour market entrants develop skills for careers and not just their current jobs. This statement should be accompanied by more information about where funds are currently spent and by whom.

Recommendation 2.4.

Treasury and DfE should implement changes to the funding of degree apprentices and take necessary action to protect apprenticeships which equip new entrants for careers and not just their current jobs.

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The adult education budget should be increased to support more low paid workers, to ensure more people take up the digital skills entitlement and to avert skills shortages at a time when migration rules are changing.

Recommendation 2.6.

The new Shared Prosperity Fund should be targeted at left behind areas where economic activity is lower, and unemployment is higher. The overall aim should focus on using skills to improve economic performance by helping people into work, by retraining those in sectors affected by automation and economic change and by providing support to businesses to adapt.

Capital funding and spending

29. Colleges need suitable buildings, workshop space, machinery, IT and equipment to teach high quality academic and technical courses but the pressure to conserve cash and an ill-considered approach to capital funding has resulted in an 80% reduction in capital spending to £300 million a year[xxxi]. This is directly attributable to the reductions in direct capital funding and the withdrawal of private finance, which is partly (but not entirely) a symptom of college financial weakness.

30. The distribution of government capital funding in education is haphazard. DfE plans to spend £4 billion on school capital in 2018-19 and just £200 million for further education[xxxii], the vast majority of which is for new institutions or new buildings. Some FE colleges have secured useful grants from the Local growth fund administered by Mayoral combined authorities or Local Enterprise Partnerships or via the Institute of Technology programme but there have been unrealistic expectations and the process has been a bit of a lottery. DfE works hard to help schools access capital funds but has neglected colleges. Schools and sixth form colleges receive £22 per 16-to-18-year olds via the Devolved Formula Capital allocation (with £115 if the building is in poor condition, i.e. categories C or D). There is no equivalent allocation for FE colleges even though they educate more than 500,000 16-to-18-year-olds. The total formula-based grant budget for schools is £1 billion in 2019-20. There is £100 million for universities. Meanwhile there is a £38 million budget for building and equipment in the 50 2020 T-level providers but restricted specifically to T-level students.

31. Government's long-standing assumption on college capital funding is that colleges can raise their own funds to supplement public grants. This has become increasingly difficult. Some colleges have sold property as part of campus re-organisation but this is a one-off option. Most colleges are not able to make the margins needed at current funding rates to service loans for capital investment. The banks themselves have changed their approach to the sector. Two banks (Barclays and Lloyds) accounted for 90% of loans to colleges in 2015. Both banks have reduced new lending, have spent college loan repayments elsewhere and have worked with ESFA to reduce unsustainable debts to more manageable levels. However, government restructurings have generally left either bank holding a continuing loan to avoid accusations of a bailout. This may have left the sector in a worse position. The incumbent lenders are reluctant, but their presence is an obstacle to new entrants. Several colleges have found that their local authority – using PWLB funds – is their only long-term lending option. It might be more efficient to allow colleges direct access to the PWLB, while perhaps putting academies on the same basis.

32. A growing number of students are required to learn or train in ageing buildings, obsolete equipment and outdated technology. The Conservative manifesto promised a new £2 billion fund (over five years) to upgrade the college estate starting in 2021. This is a positive development but it takes time to plan capital

works so HM Treasury should outline the 2021-2 budget as soon as possible so that realistic plans can be made in the rest of this year.

33. Decision-making on capital funding needs to address the need for technology. One of the consequences of financial weakness has been that many colleges have struggled to maintain investment in their IT infrastructure. This means that many colleges have old hardware and dated software. An injection of capital is needed to put this right to ensure that students have the best resources and up to date operating environments.

34. DfE planning also needs to anticipate rising 16-to-18 student numbers, changing demand associated with technical education plans and possible school sixth form rationalization. Closing or merging school sixth forms, university technical colleges and studio schools would produce revenue and capital savings while improving quality and choice of courses.[xxxiii]. There is considerable duplication and there have been cases where DfE's school team has spent time trying to find new sponsors for a weak academy trust rather than seek a solution involving the college next door. DfE should also consider the case for augmenting existing FE colleges to create a strong national network of high quality technical and professional provision.

35. The independent Post-18 review panel said that "competition between providers has an important role to play in creating choice for students" but that on its own a market "cannot deliver a full spectrum of social, economic and cultural benefits" and "with no steer from government, the outcome is likely to be haphazard"[xxxiv]. As in the health service where there is universal provision sitting alongside specialist facilities at different levels (including regional and national centres) so, in post-16 education, there should be a concerted effort to identify, protect or develop specialist and hyper-specialist provision alongside the standard courses necessary in all communities. There is no shortage of sixth forms offering the most popular A-level subjects but there is a need to ensure there is capacity to support key industrial sectors.

Capital funding and spending

March 2020 budget

HM Treasury should outline the 2021-2 budgets and remits for the college capital programme so that realistic plans can be made in 2020. There is a case for the capital fund to support technology/specialism equipment as well as building refurbishment.

2020 spending review

Recommendation 3.1.

There should be a substantial five-year capital plan for further education including the £2 billion identified to upgrade the estate, funds to secure new places and invest in IT, and budgets to protect and develop specialist and hyper-specialist provision.

Recommendation 3.2.

Treasury and DfE should review the capital financing requirements of education in the 2020s including the option of opening up PWLB loans to both academies and colleges as an alternative to 100% capital grants for the former and reliance on a vanishing commercial loan market for the latter.

Recommendation 3.3.

Government should provide funding for technical equipment to develop digital skills and to support wide-spread use of technology in teaching and learning.

Making the system work better

36. The government's plans require a step change in technical education and in skills provision across the whole country. There are over-lapping and complementary programmes which have similar requirements whether providing specialist training off-the-job for apprenticeships, teaching for T levels or new courses supported by the National Skills Fund. The best approach would be to organise delivery locally via existing trusted colleges, utilising the physical and human resources that colleges have to the full – across T Levels and wider 16 to 18, apprenticeships and all the adult skills needs. This will also help build even more coherent and deep relationships with the hundreds of employers each college already works with.

37. This would be a different approach to the one taken by DfE over the last fifteen years which has been wedded to policies that has tried to encourage innovation and competition by establishing many new institutions. 1,500 apprenticeship training providers, 400 new school sixth forms and 50 new university technical colleges have secured funding but at a time of limited budgets this has stretched resources and led to many notable failures:

- More institutions offering provision has resulted in an overall narrower choice of subjects for students. The curriculum in all sectors and types (academic, technical and vocational) has narrowed to focus on cheaper and more popular courses. Capacity for specialist and hyper-specialist FE has been reduced or does not exist.

- Duplication of institutions has resulted in more money spent on management, administration and support services.

- Good quality education and training involves high fixed costs associated with employing staff on permanent contracts with job security and running courses in good quality facilities with the right equipment. Despite what is known about costs, all funding systems are managed in a way that is unpredictable and short-term.

- The lowering of entry barriers has resulted in lower operating margins and fewer funds for reinvestment.

- Students and employers face a confused and fragmented system which is difficult to navigate.

- The various funders struggle to keep control of funds and use tightly written funding rules, qualification approval, detailed audit and a complex set of rates to control public funds. In recent funding audits, auditors checked compliance against 300 different rules. There is forensic regulation of inputs and very little on outcomes or impact.

38. At the same time as setting overall plans and budgets for post-16 education and training, DfE also needs to work out how it can build on the strengths of schools, colleges and universities as well as non-profit and community providers. By investing in colleges, the government will be able to offer every community institutions whose staff have strong industry links and whose equipment and facilities are up to date. Strong and confident institutions can take calculated risks with new programmes and new technology. They can offer better routes to progression and flexible re-training opportunities. They offer an efficient investment in capital which can be used for many types of education and skills.

39. This will require a change of approach in terms of funding. There should be greater use of grants to allow colleges to build necessary capacity in the priorities for every place, supporting the industrial strategy. Grant-funding allows more of a partnership with colleges to stimulate demand, invest in quality, develop long-term plans with employers and invest in the best equipment and facilities.

40. A new strategic relationship would also allow the government to support workforce development and capital – buildings, equipment and new technology where it is introducing new policy or priorities. With better funding rates, colleges would be able to invest adequately in their own staff, buildings, equipment and IT in the same ways that all thriving businesses do.

41. More work is also needed to streamline regulation and support the right balance between accountability and innovation. Several issues should be tackled:

- **Intervention**: DfE assigns a lot of people and spends a lot of money on intervention with about 75 colleges in early or formal intervention (30% of the total). There is no clear view from government about how colleges should improve their finances and there is insufficient support to help achieve that. It is not obvious that outsiders (who make brief visits to colleges) have better solutions for improving the finances of a specific college than the governing bodies and leaders who devote much more time working on its problems. The balance between intervention and support needs to be re-visited with more current leaders given the time to improve, rather than the default being to remove leaders as soon as a problem emerges.

- **Regulating college as if they are universities**: OfS regulates and funds 168 colleges on its register but along with its designated bodies (QAA, HESA), duplicates the work of FE funding agencies and regulators (ESFA, Ofsted, IFATE). This results in confusion, duplication and excessive costs. Those taking higher technical courses in colleges generally pay lower fees but a larger amount per student both in absolute and percentage terms is being spent on administration and compliance.

- **Neglecting colleges because of the priority given to schools:** DFE and its agencies fund programmes and regulate organisations ranging from early years to adult education but the schools-first philosophy means that there are around 25 ways in which the department protects and supports schools but not colleges. This protects inefficiency in schools but also deprives college students of benefits their institutions ought to be able to access. The intervention arrangements work in parallel with the eight Regional Schools Commissioners working separately from the FE commissioner and with unnecessary obstacles placed in the way of transferring assets (for example closed buildings) between the two institutions.

- **Funding colleges on a transactional basis**: Colleges are also subject to an apprenticeship funding regime designed essentially for for-profit providers. This means that colleges which generally provide high-cost, high quality apprenticeships to small companies and to younger apprentices struggle to maintain provision.

- **Withholding payment from colleges each springtime**: Colleges hold fluctuating cash balances throughout the year. The uncertainties associated with running further education in England means that colleges hold more cash than they would need to if the environment was more predictable. ESFA underpays colleges each spring, between January and

March. ESFA pays colleges different amounts of money each month with a shortfall of 6% each March. Bank overdrafts are no longer available, so some colleges are resorting to alternative lenders to make up the shortfall. ESFA should adjust the payment profile and bring it into line with that used for schools and academies – a simple 1/12th payment each month.

42. If there is time in the Parliamentary calendar for legislation, there might be a case for DfE to redesign the regulatory regime so that it funds and regulates colleges as colleges rather than as something they are not. In doing this it could have a clear strategy to support colleges to thrive and introduce a new, more appropriate accountability, support and intervention regime which looks to the long term and focuses on the place-making, productivity and lifelong learning ambitions which colleges can lead.

Making the system better

March 2020 budget

HM Treasury should support the Department for Education with its further education reform plans so that the Post 18 review recommendations can be implemented and the oversight arrangements for colleges simplified.

Other tax and spending measures

43. There are some other issues where HM Treasury or government department decision-making could make a difference in a positive way:

- **Pension taxation:** Ministers have recognised that they need to tackle the taper problem in pensions taxation which has resulted in consultants and GPs turning down additional work. Similar issues and penalties have resulted in senior college staff turning down promotions and in principals retiring earlier than they might otherwise have done.

- **Public sector pension reform:** The Ministry of Housing Communities and Local Government consulted on a pragmatic proposal in Summer 2019 to allow more flexibility in the pension arrangements for colleges and universities regarding the Local Government Pension Scheme[xxxv]. Whatever happens with this reform, the rising costs of public sector pension schemes have already taken college employer contributions above 20% of salary for all staff. The current LGPS valuations are resulting in significant cost increases for some colleges which will take effect from April 2020. There is a clear risk that the rectification necessary to deal with the McCloud judgement will take costs higher in the next valuation (2022 in LPGS, 2023 in TPS).

- **VAT in education:** HM Treasury may now be able to make changes to VAT which were previously difficult because of UK membership of the European Union. The differing treatment of sixth form college corporations and sixth form college academies in the VAT refund scheme exemplifies the absurdity of the current rules but there is also a case for adjustments in more detailed areas, for example the issues raised in the St Brendan College case where a college had to go to the VAT tribunal to prove that a new building was self-standing and should be eligible for zero rating. All of this is important because it takes funding away from some students simply because of their choice of institution.

Annex One: Skills and the Conservative manifesto

Promise	**The contribution from skills**
Making Britain the best place to start and grow a business	An apprenticeship system focused on skills improvement which is also financially viable, and which involves more planning to develop specialist provision and to ensure equal access
Supporting working families	Sustaining the UK's high rate of employment will require people to keep their skills up-to-date and to retrain where necessary
Fostering innovation	Supporting knowledge transfer to small business by building capacity for this work in colleges, via an innovation fund
Reviving our towns	There is a college in almost every one of the 101 towns on the Towns Fund longlist. Stronger technical education and college-based youth facilities to give young people a better future
Support rural life and coastal communities	Technical skills delivered by colleges to support the agricultural and marine sectors through the changes associated with Brexit and automation
Fix the immigration system	Some businesses and some sectors will need to change their recruitment and training behaviour to adapt to the new points-based system. This will allow the government to prioritise people with higher skills who can make the biggest contribution

Strengthen the NHS	Apprenticeships have a growing role in helping the NHS grow and support its workforce of 1.4 million people
Make the country safer	Crime reduction requires a direct response from the police and justice system but also requires a longer-term effort to ensure that more young people feel part of their communities and have influence over their future through education opportunities which meet their needs
Deliver the housing people need	More home-grown construction workers will be needed to construct and adapt more homes.
A transport revolution	More smart ticketing focused on young people would help access opportunities and do so by bus, train and bike rather than car
Unleash innovation	Supporting knowledge transfer to small business by an innovation fund for colleges
Strengthen our Union	A new four nations approach to further education
Protect our democracy	Ensure that 18-year-olds are well educated at the point they get full citizenship rights and the right to vote
Promote British values	Develop political literacy and active citizenship e.g. in partnership with the National Citizen Service
Fight climate change and protect the environment	More technically qualified people will be needed to deliver the physical change, but education will have a wider role in changing behaviour and fostering the necessary innovation
Increase trade and prosperity	Capitalise on international demand for UK vocational education and training by encouraging student exchanges and making it easier for colleges to educate international students

End notes

[i] Education Committee, A ten-year plan for school and college funding, July 2019

[ii] The Independent Panel for the Review of Post 18 Education and Funding could find no justification for this decision to reduce funding rates for 18-year-olds, Page 132

[iii] Comparison of AoC's College Workforce Survey and DfE evidence to School Teacher Pay Review Body

[iv] Note from AoC https://www.aoc.co.uk/news/funding-drops-24-when-young-person-moves-sixth-form

[v] DfE does not require 11-18 schools to account for their 16+ provision separately but the higher pre-16 funding rates and higher average group sizes allow secondary schools with sixth forms to cover their central and overhead costs from the core pre-16 school leaving the sixth form operating on a marginal cost basis.

[vi] 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

[vii] 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

[viii] Social Metrics Commission, Measuring Poverty, 2019

[ix] Social Mobility Commission State of the Nation Report 2019

[x] Note from AoC https://www.aoc.co.uk/news/22-ways-in-which-dfe-prioritises-schools-over-colleges

[xi] DFE statistics, Level 2 and 3 attainment by age 19

[xii] Social Mobility Commission State of the Nation Report 2019

[xiii] The Level 3 resit funds were included in the Treasury's £400 million September spending round 16-18 package. It is worth noting that most students taking GCSE English and maths resits are on level 2 courses

[xiv] DfE 16 to 18 participation statistics

[xv] AoC estimates made by combining DfE's pupil number projections (which stop at age 16) with DfE 16-18 participation statistics. A more sophisticated analysis would consider propensity to stay in education by demographic characteristic and educational achievement, trends and forecasts for these characteristics and the impact of apprenticeship changes on participation in education. Despite having full responsibility for education at all levels since 2016, DfE restricts its forecasts to the core school population

[xvi] Learning and Work Institute "Bridging the Gap, next steps for the apprenticeship levy" 2019

[xvii] DFE apprenticeship statistics

[xviii] Statistics provided to AoC by DFE officials in reply to a question about DfE's School Statistics which report class sizes for 11-18 schools, but which do not differentiate between pre and post 16 provision

[xix] Figures reported in four different Post 16 area review reports for London

[xx] Learning and Work Institute "Adult participation" 2019

[xxi] It is plausible that the vast majority of the 20,000 chartered accountancy students will shift towards the apprenticeship route to offset the levy payments made by their employers, including the big 4 firms

[xxii] ESFA issued fixed contracts for non-levy training covering the period from January 2018 to March 2020

[xxiii] The Independent Panel for the Review of Post 18 Education and Funding, Page 5

[xxiv] ESFA sets a budget for advanced learner loans which means that there are effectively number controls on this part of the DFE loan book

[xxv] The budget for ESF is unclear. ESFA reported £200 million in EU income in its 2017-18 financial statements

[xxvi] The Independent Panel for the Review of Post 18 Education and Funding, Chapter 5

[xxvii] Learning and Work Institute "Bridging the Gap, next steps for the apprenticeship levy" 2019 summarises some options

[xxviii] The Migration Advisory Committee's January 2020 report estimates that a £25,600 salary and Level 3 qualification threshold would have excluded 73% of EEA migrants who came between 2004 and 2018. Page 166-170. The government has not yet confirmed its Points based system plans and it is impossible to predict how employers or people will respond but it is fair to assume some friction in the job market at Level 2

[xxix] Data from British Future "Speaking Up, the case for universal fluency in English" 2019

[xxx] Activity on ESF contracts has typically reached a peak in the 5th and 6th years of the programme (for example in 2013 and 2014). There was a delay in issuing tenders in the most recent programme which meant that activity did not restart in earnest until 2017

[xxxi] AoC estimates from consolidated college accounts available on the AoC accounting website. See AoC report on college finance for more information

[xxxii] 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

[xxxiii] Costings assume that the fund would support 20% of the 16-to-18 student number growth at an average cost of £15,000 a new place

[xxxiv] The Independent Panel for the Review of Post 18 Education and Funding, Page 9

xxxv MHCLG consultation, May 2019 https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk