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Rt Hon Ruth Kelly MP

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30 October 2005

Dear Chris

GRANT LETTER: 2006-07

This letter sets out my annual remit to the Council, in terms of the strategy and priorities that I look to the Council to pursue in allocating and monitoring grant for 2006-07. It builds on our announcements on 21 October, which set out the strategic direction for the post-16 learning and skills sector and the funding approach required to secure success.

I am grateful to the Council as a whole and to LSC staff for everything that you have achieved over the past year. Substantial progress has been made in delivering targets, reshaping the allocation of funds so that they better match national priorities, and introducing more sharply focussed business methods. Joint working with my Department has been an important development in these areas. But the challenges remain substantial. There is a great deal still to do if the learning and skills sector is to realise its full potential as an engine of economic progress and social reform. In the light of Andrew Foster's forthcoming report, the LSC's own Agenda for Change, and the review currently being conducted by Sandy Leitch, we shall need to work closely together over the next year to ensure that we carry forward a reform programme that will genuinely transform the performance and standing of the sector.

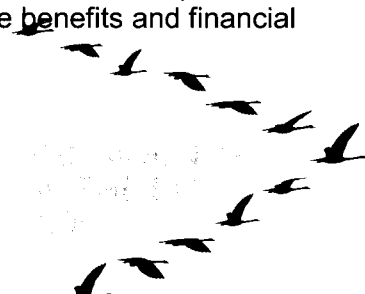
Key priorities for 2006-07

Our 14-19 and Skills White Papers published earlier this year set out the key priorities for post-14 education and training. We need a step-change improvement in the achievement and participation of young people, providing a stronger foundation for adult and working life. For adults, we need much higher achievement of basic skills and the platform of skills for employability at Level 2, with stronger progression to Level 3 and beyond. We need a real determination to change the way training is designed and delivered to meet the priorities of employers. In the Skills Strategy we set out the Government's intention to rebalance public and private contributions to the cost of learning, so that they better reflect the benefits and financial returns to learners and employers.

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The funding strategy that we have agreed with you for the next two years is driven by these priorities. It constitutes a radical change in our funding approach, and we will need to work closely together to ensure its successful implementation. It realigns resources to support the PSA targets (Annex A), Apprenticeships, and the roll-out of the National Employer Training Programme. The Council has an important role to play in helping to meet the Higher Education PSA target by securing greater progression to HE. At the same time, it supports access to education and training for disadvantaged adults through fee remission, learner support programmes, continuing investment in provision for those with learning difficulties and disabilities, and safeguarding funding for Personal and Community Development Learning.

We are broadly maintaining the overall public funding that the LSC will be able to allocate to support adult learning on average through to 2007-08. But the pattern of that learning will change. To meet our national priorities, we need to shift the pattern so that we provide longer and more expensive courses for adults, to equip them with the range of skills they need for employability and further progression to higher levels of training. As a consequence, the number of publicly funded places on shorter courses which do not lead to national qualifications is likely to fall by around 500,000 by 2007/08. But set against this, there will be a total increase of 274,000 full Level 2 places delivered through the National Employer Training Programme and mainstream FE, compared with 2005/06. So while maintaining the overall volume of adult training, we estimate there will be a net reduction in publicly-funded places of around 230,000 (about 6%). That will result in a total of some 3.5 million places available for adults by 2007/08. With your support we expect that this reduction can be offset by colleges and other providers offering a wider range of programmes at full cost. But we will need to work actively with colleges and other providers, as well as with employers and learners, to bring about the necessary change of culture, expectation and practice by all parties. That must be a priority for the forthcoming year.

We are aware of concerns about the need to protect a sufficient range of Return to Learn and 'stepping stone' provision, and also the need to sustain extensive opportunities for progression through to Level 3. I look to the Council in each region and locality to secure a corresponding breadth of education and training opportunities. Ufl **learn**direct has made good progress in developing Skills for Life programmes and remains an important provider of this type of provision.

Details of the funding allocation, and associated volume and output assumptions are set out at Annex B. Through the joint DfES/LSC Performance Forum, a more detailed delivery plan will need to be agreed reflecting those assumptions. It will of course remain essential that the Council manages its budgets well and continues to secure further improvements in efficiency and value for money.

14-19 Learning:

I welcome the Council's progress to date in supporting the 14-19 agenda. The publication of '14-19 Education and Skills' marked the start of a new phase of work on 14-19 reform, moving from pathfinder activity to systematic national implementation of agreed policy. I have three priorities for this phase of work: delivering improvements in achievement for young people in the system now, including our age 19 attainment targets and Apprenticeship completions target; reforming qualifications and curriculum, including Key Stage 3, the functional skills and specialised Diplomas; and securing delivery on the ground, in particular of the new national entitlement. The Council's contribution to the first and third of these priorities is particularly important, and the implementation plan we are publishing later this autumn will make clear the further actions I expect the Council to take as part of a delivery strategy. This will require the Council to collaborate effectively with other key partners and with local authorities. As you know, we said in the Schools White Paper that in some areas, local authorities and local LSCs have begun to develop increasingly effective ways to strengthen their partnership, including by examining the use of pooled budgets. We will encourage some pilots to explore the potential of this approach. The aim would be to improve outcomes for 14-19 year olds and I would like the

Council to make progress with such pilots this year.

16-19 organisational developments, including the creation of new 16-19 Academies and sixth form colleges, the implementation of school sixth form 'presumption' arrangements and new 16-19 competitions, will be key mechanisms for attracting new providers into the market. The aim is to boost participation rates, raise the quality of vocational provision and extend choice to learners. Securing active employer engagement will also be important.

Maximising attainment of Level 2 by age 19 is crucial. I look to the Council to prioritise delivering its contribution to the agreed joint action plan to achieve the target. We also need a determined drive to improve successful completion of Apprenticeships, and progression between Young Apprenticeships, E2E, Apprenticeships and Foundation Degrees. The Council must continue to support disadvantaged young people, including through the delivery of Education Maintenance Allowances to new cohorts of eligible young people and unwaged trainees from April 2006, by helping to take forward the Activity and Learning Agreement pilots for those 16-17 year olds Not in Education Employment or Training or in jobs without training, and by contributing to the new 're-engagement programme' for 14-16 year olds.

Skills:

Through the Skills Alliance we have agreed 12 priorities for implementing the Skills Strategy. In delivering them the Council must accelerate progress on the adult PSA targets through roll-out of the Level 2 entitlement and the National Employer Training Programme (NETP), taking forward work on the joint Action Plan linked to action on Level 2 at 19. NETP must be implemented in a way that makes a reality of the demand-led principle, putting employers in a position where they choose the design and delivery of training to meet their needs and the funding follows that decision. In delivering this programme, the LSC must ensure that it is reaching hard to reach employers and minimising deadweight. As part of NETP, the Council will need to work with Regional Skills Partnerships, Sector Skills Councils and others to establish an employer-led system, supported by high quality impartial brokers integrated with the wider business support service. The programme will begin in the 20 pilot areas in April 2006 and extend to the rest of the country from August 2006. The Council will also pilot in two regions the NETP offer on Level 3. The Council's National Employer Service should be enhanced to offer a comparable service for large employers.

Progress on Skills for Life must be sustained. Responsibility for funding, procurement and contracting of Basic Skills and ESOL for Jobcentre Plus customers will transfer to the Council from 2006-07. I would like the Council to review the basis for future funding of ESOL programmes to ensure that available funds are well targeted. Continued work with Jobcentre Plus to tackle barriers between welfare and sustainable employment will be key to many of our objectives on equality of opportunity in training and jobs. The Council should look to push ahead with reform of the planning and funding of learning for personal and community development, and with the implementation of the new Offender Learning and Skills Service.

The Council must continue to work closely with Sector Skills Councils to deliver the priorities in Sector Skills Agreements, and to launch the first National Skills Academies by September 2006. The Centres of Vocational Excellence programme will need to be extended and enhanced so that it links closely with the National Skills Academies, providing networks of specialist excellence in each sector, driven by the needs of employers.

FE reform:

I welcome the lead that the Council has taken to develop its Agenda for Change. It is vital to link this work to forthcoming recommendations from the Foster Review, and the Leitch Review of Skills. Working together, we must connect those various strands into a coherent, integrated reform programme. I look to the Council to continue its efforts to reduce bureaucracy across

the sector, especially in funding and management information.

Success for all:

The Council must maintain its clear focus on raising standards in teaching and learning, working with the Department through the Success for All strategy, and developing new measures and targets which will secure further improvements. I expect the Council to work closely with the new Quality Improvement Agency (QIA) to address priorities linked to the Skills and 14-19 Strategies. The QIA will take on the role of developing a Quality Improvement Strategy for the sector. The Council should continue to work with the Centre for Excellence in Leadership and with Lifelong Learning UK to secure progress in leadership development and approaches to teaching and learning.

I attach particular importance to strong financial and performance management. That must include a more robust and rapid approach to driving out poor quality, so that unsatisfactory provision is removed from the sector as quickly as possible and by 2008 at the latest using contestability to bring in new providers. It must also include rapid action to address the improvement of provision that is currently only satisfactory, as well as action to support the achievement of excellence. Strong performance management must also apply to the Council's own activities, with clear identification and follow up action where local LSCs need to improve.

Equality and Diversity:

This remains integral to all Council activities. We must implement our reform programme so that it delivers greater equality for all. I look to the Council to continue to tackle inequalities in the delivery system, to promote equality through the 14-19 and Skills strategies and through support for communities, and to further develop equality and diversity success measures.

Conclusion

We have a challenging agenda ahead to establish a sector that has much more credibility with employers, is more confident of its role and purpose, is demonstrably achieving high performance, with a more diversified funding base reflecting growing contributions from learners and employers. The Council will need to work increasingly closely with partners to secure these aims. I welcome the changes that you are planning to make to your own internal structure. These will increase the Council's impact at all levels, and help secure the transformation needed to the wider post-16 education and training sector. I look to you to ensure that delivery and the reputation of the Council are not compromised by the change process. I look forward to working with you to deliver the reforms needed to secure a high-achieving, cost-effective post-16 learning system which meets the skill needs of this country well into the 21st century.

Yours ever
Ruth

RUTH KELLY

Annex A

KEY TARGETS

The relevant PSA Targets are:

All young people to reach age 19 ready for skilled employment or higher education.

This is made up of three distinct elements:

- By 2008, 60% of those aged 16 achieve the equivalent of 5 GCSEs (at Grades A* to C); and in all schools at least 20% of pupils achieve this standard by 2004, rising to 25% by 2006 and 30% by 2008.
- Increase the proportion of 19 year olds who achieve at least level 2 by 3 percentage points between 2004 and 2006, and a further 2 percentage points between 2006 and 2008, and increasing the proportion of young people who achieve level 3.
- Reduce the proportion of young people not in education, training or employment by 2 percentage points by 2010.

I expect the Council to take a leading role on the second and third of these, working through the Attainment at 19 Programme Board, and work with local authorities and Connexions through children's trusts. I also expect the Council to work towards the aspiration to increase participation in post compulsory education of 17 year olds from 75% to 90% over the next ten years (14-19 White Paper, February 2005).

Tackle the adult skills gap: increase the number of adults with the skills required for employability and progression to higher levels of training through:

Improving the basic skill levels of 2.25 million adults between the launch of *Skills for Life* in 2001 and 2010, with a milestone of 1.5 million in 2007; and

Reducing by at least 40% the number of adults in the workforce who lack NVQ 2 or equivalent qualifications by 2010. Working towards this, one million adults in the workforce to achieve level 2 between 2003 and 2006.

I expect the Council to lead on these targets.

I also expect the Council to support the higher education sector to achieve the HE PSA participation target by encouraging many more young people from all backgrounds to gain the qualifications and aspiration for higher education.

In addition, I expect the LSC to lead on delivery of agreed key indicators, including:

- 75% more people to complete their apprenticeship in 2007/08 compared to 2002/03;
- An FE Learner Success Rate for 2007/08 of 76%.

LSC Budgets 2006-07 and 2007-08

Budget Line	2006-07 (£000s)	2007-08 (£000s)
A. PARTICIPATION	8,521,475	8,884,442
of which for planning purposes:		
School Sixth Forms (note 1)	1,871,098	1,910,437
16-19 FE (note 2)	2,863,200	3,026,800
Workbased Learning	1,080,325	1,108,225
19+ FE (includes LEA non-PCDL activity)	1,932,858	1,873,337
NETP/ETP (Train to Gain)	230,000	399,000
Personal and Community Development Learning (PCDL)	210,000	210,000
Learners with Learning Disabilities and/or Difficulties	157,662	181,311
Ufi/learnirect	176,332	175,332
B. LEARNER SUPPORT AND DEVELOPMENT (note 3)	704,785	728,018
of which for planning purposes:		
Learner Support Funds	198,249	208,609
14-19, Skills and Quality Reform	429,792	440,625
Capacity and Infrastructure	76,744	78,784
C. CAPITAL	468,800	595,800
D. ADMINISTRATION (note 4)	252,230	239,495
Total DEL Expenditure	9,947,290	10,447,755
E. AME EXPENDITURE (note 5)	511,000	529,000
Grand Total (note 6)	10,458,290	10,976,755

Note 1 - Subject to the announcement on the Minimum Funding Guarantee later in the year. The Department will confirm the amounts required from this line to fund pupils in Academies in 2006/07 and 2007/08 in due course.

Note 2 - Subject to the announcement on the Minimum Funding Guarantee later in the year.

Note 3 - Block B includes £12.5m for the Union Learning Fund in 2006-07, of which £1m relates to support for capital development. It is assumed that no less than this amount will be spent through the Fund.

Note 4 - The Administration Budget includes cost of capital and depreciation. It also reflects some efficiency savings and will be reassessed when the results of the consultation on the LSC's Agenda for Change, particularly Theme 7, are finalised.

Note 5 - Expenditure in Annually Managed Expenditure (AME) represents the LSC budget for Education Maintenance Allowances.

Note 6 - The main funding blocks A-E above replace the previous five funding blocks set out in the 2004 Grant Letter. Funding cannot be vired into or out of Block C or into Block D, without Departmental approval. Funding can be vired between Blocks A & B and from Block D into Blocks A or B, providing neither the source budget or the receiving budget change by more than 5% of the Grant Letter total. A revised Financial Memorandum will be issued to reflect this. The subdivisions of blocks A and B are notional, but the Department will monitor LSC spending based on these planning assumptions. However, there are two exceptions: transfers of funding into or out of the subdivisions for School Sixth Forms, or out of the subdivision for the National Employer Training Programme will require formal Departmental approval. Funding cannot be transferred into or out of Annually Managed Expenditure (block E) in line with Parliamentary rules.

Planned Outputs/Volumes (Academic Year)

(Based on the latest assumptions of volumes discussed with the LSC)

Budget Line	Planned Outputs/Volumes	
	2006/07	2007/08
School Sixth Forms	378,225	384,655
16-19 FE	756,450	768,742
Workbased Learning	281,540	281,600
Adult Learning:		
• Skills for Life participants that contribute to the PSA target	426,000	426,000
• Learners participating on full Level 2 provision in FE	227,527	261,656
• NETP learner volumes*	314,000	398,000*
EMA	487,500	493,500

* Alongside skills for life provision, we expect the LSC to deliver through the NETP over 40,000 first full Level 2 achievements in 2006-07 and over 149,000 in 2007-08, and these will contribute to the adult Level 2 PSA target.