

Initial Outcomes of the Funding Aspects of the Demand-led Systems Consultation

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Background and introduction

- 1 The consultation document 'Delivering world-class skills in a demand-led system' was published at the beginning of the year. The consultation asked questions about how we implement the White Paper's commitments and respond to the Leitch Review. Part of the consultation covered proposals for developing funding arrangements to support the wider demand-led system changes outlined in the document. The consultation closed on 30 March 2007.
- 2 In support of the consultation, 19 events were held jointly with DfES for colleges, schools with sixth forms and providers. Two events were also held for the voluntary and community sector and local authorities. In total, over 1,200 delegates attended the various events.
- 3 388 written responses to the consultation were received and these are currently being analysed by the DfES Consultation Unit.

Purpose

- 4 This paper sets out:
 - The initial responses to the funding proposals in the consultation document
 - Outlines the process for handling the issues that need to be resolved and the decisions on handling; and
 - A timetable for implementing the demand-led funding models for 2008/09.
- 5 The consultation responses to the questions on planning, commissioning and qualification reform will be taken into account as part of the development of the demand-led system.

Recommendation

- 6 National Council are asked to:
- Discuss the key messages from the funding aspects of the consultation (paragraphs 7 to 16)
 - Note that these messages need to be treated with caution until a full analysis has been completed
 - Note the process for handling issues and decisions (paragraphs 17 to 23)
 - Note the timetable for implementing the demand-led funding models (paragraph 24).

Key messages from the consultation

16-18 Model

- 7 There was strong support for a **common** 16-18 model for colleges, schools and providers.
- 8 A large majority of respondents supported strategic commissioning **without** in-year adjustment /end-year reconciliation as meeting the objectives of the FE White Paper. Respondents felt that this option would enable institutions to plan effectively to meet the entitlement for learners; provide predictability of budgets; be less bureaucratic; and facilitate negotiation of changes to meet learners needs through the annual business cycle. Respondents emphasised that introducing in-year /end-year adjustment of budgets would make institutions more risk-averse at a time when a major drive is required to engage 'hard-to-reach' young people.
- 9 The majority of respondents thought that 16-18 apprenticeships should fit within the 16-18 model. Respondents stressed that apprenticeships should be seen as part of the broader 16-18 offer, contributing to the 14-19 entitlement for learners. The overall 16-18 budget should be used to plan the right balance of general education and diplomas in schools, colleges and providers and apprenticeships in each area. However, there was a recognition that using the 16-18 model would result in different approaches between 16-18 and 19-25 apprenticeships which could create difficulties for employers and providers – the CBI, for example, favoured the employer-responsive model for all apprenticeships. There would be difficulties in applying respondents' preferred 16-18 option without in-year /end-year adjustment to providers in a contract relationship with the LSC (as opposed to the grant-in-aid /grant relationship between the LSC and colleges and local authorities /schools). In addition, modelling indicates that applying the 16-18 funding formula to work-based apprenticeships would result in a high degree of variation from current budgets which would require transitional protection over a number of years.

Adult Learner-responsive Model

- 10 For the adult learner-responsive model, an overwhelming majority preferred funding adjustments, linked to mid /end-year reconciliation, to involve a tolerance, rather than a reduced rate.
- 11 A large majority wanted additional funding to be available for shorter courses, to take account of the fixed costs associated with setting up and administering courses.
- 12 A number of comments were received on proposals for learner accounts, which will be summarised for the final report.

Employer-responsive Model

- 13 Under half of respondents agreed with the scope of the employer-responsive model as outlined in the consultation document. There was concern that the scope should be defined carefully in the light of experience of Train to Gain. Some respondents felt that it would be premature to extend the scope of the employer-responsive model until Train to Gain had been evaluated.
- 14 There was support for the technical details of proposals: the majority wanted a disadvantage element included in the funding formula.
- 15 A large majority agreed each of the following: that reviews should be undertaken twice a year or more frequently; applying an area uplift based on location of delivery rather than location of provider; that payments should be made monthly; and that 25 per cent of funding should be paid on achievement.

Cross-cutting Themes

- 16 With regard to the cross-cutting themes in the consultation: there was support for proposals for a single system for learning difficulties and /or disabilities; there were no clear preferences for an approach to funding the Foundation Learning Tier; and there was support for 'transitional protection' to mitigate the effects of applying a new funding formula. This would limit the year on year changes arising from a different method of calculating funding, but not protect institutions against reductions in learner numbers.

Issues and Decision Handling

- 17 There are a range of issues that need to be resolved over the next two months in order that the new demand-led funding systems can be implemented in the academic year 2008/09 (LSC business cycle 2007/08).
- 18 These issues relate to the questions that the LSC/DfES consulted on in 'Delivering world-class skills in a demand-led system', as well as technical issues that have arisen from the consultation events and work on implementation of the demand-led funding systems.
- 19 Issues fall into three categories: issues to be put to Ministers; those that the LSC and DfES officials can resolve jointly; and technical issues that the LSC can resolve in consultation with its advisory groups.

- 20 Decisions that will require Ministerial submission include:
- Whether or not to reconcile 16-18 funding for public sector delivery partners
 - Whether 16-18 apprenticeships are funded using the 16-18 model or employer responsive model
 - The degree to which the three budgets are ring fenced or are flexible at the delivery partner level
 - The detailed implementation plan for bringing sixth forms into the new arrangements including the planning dialogue, the new formula, changes to the disadvantage factor, introduction of additional learning support, the data collection timetable and the interface with funding arrangements for 11-16 schools
 - The introduction of a single funding system for funding all provision for those with Additional Learning Support needs, those with Learning Difficulties and/or Disabilities in FE and those with Special Educational Needs in special schools for 2009/10
 - Principles of transitional protection arrangements.
 - Scope of the employer responsive model and budget.
- 21 The consultation process has highlighted the need to clarify the relationship between different modes of delivering learning and the funding models. Both the 16-18 and adult learner-responsive models are built around delivery in primarily in groups of learners (classrooms, workshops, learning centres), mainly on school, college or provider premises. The funding formula and rates reflect this mode of delivery. The employer model, however, has been developed around delivery in the workplace, using an 'activity-based' funding approach to take account of activities such as induction, support, portfolio-building and assessment. This approach is most closely aligned with apprenticeship delivery and Train to Gain services.
- 22 These considerations suggest that we should clarify that the '16-18' model describes arrangements that are most suited to school, college and provider-based provision. While 16-18 apprenticeships must be regarded as a key element of the 16-18 offer (part of the 14-19 entitlement) and budget that supports it, their mode of delivery is better suited to the employer-responsive funding method. A better way of describing our proposals would be as:
- a) A youth (16-18) budget, incorporating school /college /provider-based provision and employer-based provision and
 - b) An adult (19+) budget, again incorporating both college /provider-based and employer-based provision.
- 23 This will enable the funding mechanisms to be developed to suit the ways in which provision is delivered, while providing flexibility to use the budgets for young people and adults to support the most appropriate balance of provision. The diagram in Annex 1 illustrates this approach.

Timetable

24 The timetable for implementing the new demand-led funding systems for post-16 learners in academic year 2008/09 (business cycle 2007/08) is set out below. It covers the key milestones in the process of decision-making, planning and allocating funds for 2008/09.

Date	Activity
End March 2007	LSC/DfES demand-led system consultation ends
mid April 2007	Initial results from consultation
End April/May 2007	Report on outcomes of consultation Final options on demand-led funding system
End May 2007	DfES schools funding consultation ends
May/June 2007	Proposals to Ministers
June/July 2007	Ministerial decisions on schools/LSC funding systems from 2008/09 on basis of consultation and CSR settlement
September 2007	LSC publishes full details of post-16 funding system for 2008/09
October 2007	DfES 2008-09 Grant Letter LSC Annual Statement of Priorities
Autumn 2007	LSC holds initial discussions on learner volumes with schools, colleges and providers
April/May 2008	LSC issues final allocations and maximum contract values to colleges and providers
August 2008	2008/09 academic year begins New funding systems implemented

Paper creator Gaynor Field
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Developing the Funding Models

