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## ABSTRACT

This document, which is intended for senior staff at the United Kingdom's further education (FE) colleges, examines the content and possible impact of recent government proposals to change how school sixth forms are funded. The following are among the topics discussed in sections 1-8: (1) reasons underlying the talk about change; (2) existing funding policies for the entry and on-programme phases and funding related to learners' achievements; (3) lessons schools can learn from FE (retention, achievement, and guidance; tariff farming; narrowing participation); (4) lessons schools can learn from the pilot schemes run by various local education authorities (LEAs); (5) implications of a new approach for LEAs; (6) two possible ways funds for school sixth forms could be decided (LEAs would continue to decide funding or the Learning and Skills Council would fund LEAs); (7) a possible model for a new approach and case studies illustrating the model's impact at three hypothetical schools; and (8) ways schools can best meet the challenge of funding reform (implications for senior management teams and governors, implications for school practice, implications for parents and students). Appended are spreadsheets showing the calculations underpinning the figures provided in the case studies. (MN)



# Contents

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Introduction and overview	<b>1</b>
1. Why is there talk of change?	<b>2</b>
2. How are FE colleges funded?	<b>3</b>
3. What might schools learn from further education?	<b>5</b>
4. What can schools learn from the pilot schemes?	<b>6</b>
5. What might a new approach mean?	<b>7</b>
6. School sixth form funding: a consultation paper	<b>8</b>
7. How might a new approach work?	<b>8</b>
8. How can schools best meet the challenge?	<b>10</b>
9. Where can I find out more?	<b>13</b>
The authors	<b>14</b>
Appendix	<b>14</b>

# Introduction and overview

**T**he Secretary of State for Education and Employment is currently consulting about proposals to change the way in which school sixth forms are funded. The proposals were set out in a White Paper published by the Department for Education and Employment (DfEE) *Learning to succeed: a new framework for post-16 learning. School sixth form funding: a consultation paper* and more detail is given in a later paper on post-16 funding and allocation.<sup>1</sup>

The consultation is part of a larger set of proposals to reform the planning and funding of all post-16 provision other than higher education. Although the main impact will be felt by FE colleges and training and enterprise councils (TECs), there are several implications for schools. This report seeks to identify those implications and to examine the government's proposals to amend the way in which schools are funded for their sixth form work.

The White Paper proposals are not new. There has been talk in government circles for some years about changing the arrangements for the education and training of young people aged 16–19.

In particular, the DfEE has looked at the arrangements for funding provision for this age group and at the different approaches used to fund schools, colleges and TECs.

The buzz words have been 'convergence' or 'convergence of funding principles'. There is talk of setting a level playing field for institutions. An important element in this thinking is the view that the public funding available to support a young person should be roughly the same irrespective of where they choose to learn. It should be based on the same principles whether they choose to pursue their studies in the school sixth form, at an FE college, or via a work-based training programme such as a Modern Apprenticeship supported through a TEC.

Another strand in government thinking is that the different sectors of post-16 education and training should learn from each other's experience. There have been several innovations in how colleges are resourced during the past six years, and it makes sense to ask whether any of the lessons learned are applicable to schools. Current thinking is that several features of the FE methodology merit serious consideration.<sup>2</sup>

As well as explaining the proposals, this report is intended to help senior staff in schools to follow the debate about funding and to think about the possible implications for their work. It aims to set out in straightforward terms what the ideas are, where they come from and what their impact might be on a typical school. The scale of changes for sixth forms could be as significant as the introduction of local management of schools (LMS). Those concerned with managing schools and, in particular, people aspiring to school leadership in the next decade need to take this debate very seriously.

# 1. Why is there talk of change?

## LMS and Fair Funding

Any changes to the funding arrangements for schools need to be set in the context of a wider policy agenda. The Government is committed to increasing the proportion of school budgets that is delegated to institutions. It sees this as strengthening local control and accountability. Although there are changes in emphasis, the process that began with schemes of Local Financial Management under the Conservatives, is being taken forward as the Fair Funding<sup>3</sup> system under Labour. Schools are being given greater say over how their money is spent. This brings opportunities, but it also forces schools to make difficult choices.

The changes are not unique to schools. They are part of a trend across large parts of the public sector. In the health service, for example, decisions about the best use of resources are increasingly being delegated to hospitals and doctors. Neither are the changes unique to the UK. They are part of an international trend to move away from managing services through large public authorities and towards local management and accountability. This trend is not likely to go away.

## The costs of 16–19 education

The DfEE has, for several years, been carrying out an examination of the costs of education and training for 16–19-year-olds in England.<sup>4</sup> The research seeks to compare the costs to the public purse of delivering comparable qualifications through schools, FE colleges and work-based training. The difficulties in making valid comparisons are acknowledged. Schools, colleges and private training providers differ in their missions, their intake and the range of programmes they provide. It only makes sense to compare their costs across a limited range of the programmes they provide. Nevertheless, reasonably reliable estimates have been made by DfEE.

These show that for 1996–97 the costs of delivering a programme of three A-levels varied between £7380 in maintained schools and £5910 in sixth form colleges, with FE colleges in between

at £6250. The former grant-maintained schools appear to have been a little more expensive at £7630. The cost of achieving a Level 3 NVQ through work-based training is more difficult to compare (because of the cost of trainees' allowances, for example), but a figure of £8900 has been calculated.

The important point to note is not the precise figures, but the fact that the Government has invested considerable time in this work. Policy is not made on the basis of costs alone, but a consideration of costs will undoubtedly influence policy. To illustrate its significance, if the average cost of educating more than 100 000 sixth formers studying three A-levels were to be reduced by £1000 each, the saving to the Chancellor of the Exchequer would be £100 million. This is too big a sum for the Chancellor to ignore.

## Funding FE colleges and sixth form colleges

The approach to funding introduced by the Further Education Funding Council (FEFC) in England in 1994 (and the similar arrangements introduced by the Welsh Funding Council) has been well regarded, both within the sector and by informed commentators. Concerns have been expressed about the total level of funding available to colleges, but to a far lesser extent about the mechanism for distributing them to institutions. A review group of colleges set up by the FEFC to look at possible changes to the approach reported in November 1998. It recommended no fundamental change to the methodology.<sup>5</sup>

The Education and Employment Select Committee, which looked at further education during 1997–98, came to a similar conclusion. The report stated:

*We believe that the principles of the FEFC approach, including the emphasis on student guidance, retention and achievement should underpin any common approach to funding criteria rather than the principles of the SSA system currently used to fund school sixth forms.<sup>6</sup>*

Among the reasons for coming to this conclusion was the widely held view that the FEFC approach to funding has helped improve student achievement. Institutions that are successful in raising achievement, can see a reward for their efforts.

## Sixth form funding pilot schemes

During 1997–98, the DfEE worked with a group of local education authorities (LEAs) on a series of pilot studies exploring new approaches to funding school sixth forms. A report on the pilots was

published in July 1998.<sup>7</sup> The aims of the pilots included supporting good practice in raising retention and achievement. An important conclusion of the group was that funding mechanisms have a role in raising standards. The report was circulated to LEAs for information, and they were encouraged by the Government to undertake further exploratory work. An immediate practical outcome was the drafting of the Fair Funding regulations in a way that makes further innovation possible.

### **Learning to succeed**

In June 1999, the Government published a White Paper called *Learning to succeed: a new framework for post-16 learning*. It aims to raise the standard of provision for post-16 learners, and covers all institutions dealing with post-16 learning outside the university sector. Its central proposals include the replacement of the FEFC and the network of TECs with a national Learning and Skills Council (LSC). The national council will work through approximately 60 local LSCs. Both the national and local councils will be overseen by boards on which users – employers and community representatives – are in the majority.

The White Paper contains specific proposals concerning sixth form funding (see Section 6). The funding review is not the only way in which the proposals touch on the schools sector. Other proposals include:

- Establishment of a common inspectorate for all full-time students aged 16–19 under Ofsted
- Changes to the provision of support and guidance for young people through the Connexions strategy, which will create a network of personal advisers
- A central role for local Learning Partnerships, which will advise on strategies to raise the participation of young people
- The transfer of responsibility for adult and community education from local education authorities to the Learning and Skills Council.

## **2. How are FE colleges funded?**

### **Entry, on-programme and achievement**

Current approaches to funding further education in both England and Wales distinguish three phases of a learning programme.

- **The entry phase** concerns activities that take place before, and at the start of a programme: guidance about courses on offer, enrolment and induction.
- **The on-programme phase** covers the main body of activity supporting learning; teaching, but also continuing guidance and pastoral support.
- The final phase relates to learners' **achievements**.

Each of these phases attracts a distinct element of funding. The college budget is built up from the allocations for each phase for every student enrolled. Although the budget is built up in this way, the college does not have to spend it in the same pattern. It receives a single cash sum to spend as it determines.

### **Entry phase**

The resources provided for the entry phase represent around 5% of the total for a full-time student. At current rates, an A-level student would earn the college about £140. The entry payment is triggered only once; the amount is the same whether a student is following a one-year or two-year programme, on the grounds that recruiting and guiding a student onto the right course requires roughly the same resources, irrespective of course length.

As indicated above, there is no requirement on colleges to spend the money earned by the entry phase on that activity alone. Nor do colleges have to restrict their expenditure to what they are allocated for that phase. In practice, however, they tend to take note of the allocation mechanism in their internal decisions. Those responsible for recruitment and guidance will have a good idea of how much the phase earns, and will use the information to argue their case. Similarly, a resource manager can use the same information as a basis for limiting claims.

The net effect has been that while colleges are free to spend as they like, the allocation mechanism gives a very clear structure that most follow.

### **On-programme phase**

The bulk of the resources in the FE model are allocated to the on-programme phase. This is complex in further education because FE courses can differ greatly in size, from full-time programmes over two years to short courses of as little as 10 hours. In the school context, it is much more straightforward. A full-time programme of three A-levels in a college will earn around £2850 per year and Advanced GNVQ programmes the same amount. This sum covers the basic examination classes and the normal enrichment programme provided to a greater or lesser extent in most institutions.

On-programme funds are paid in three termly instalments. They are paid only for as long as a student remains on the programme. There are three key census dates throughout the year; further payments stop if a student has ceased to attend at any date.

### **Achievement phase**

Funding for the achievement phase depends on students' success in attaining their primary learning goal; usually passing the relevant exams. About 5% of the total funding for a full-time student depends on this factor. The payment is slightly higher where the student's achievement is relevant to the Government's national training targets. A-levels and GNVQ both count in this respect.

There are arguments, from time to time, about whether students who leave early to take up a good job might be said equally to have achieved. However, for the moment, the Government is clear that examination passes are what counts. Successful achievement by students can have another financial benefit (as well as reflecting well in the league tables). If a student achieves early, the whole of the on-programme element is paid, even though the student might have left before the relevant census date. This is likely to be of greater significance in colleges, where able adults might accelerate through programmes, but it is worth contemplating what it might mean in schools.

### **High-cost courses**

One reason for the complexity of FE funding is that colleges deal with a very wide range of provision, with substantial variation in costs. At one extreme are courses that depend on very expensive machinery, or where health and safety considerations put strict limits on group size. The use of chainsaws

in practical forestry work is a graphic example. At the other extreme are classroom-based activities, which can take place in large part in lecture theatres or study centres, and are relatively cheap to run. To accommodate these variables, all courses are assigned to one of five bands. A cost-weighting factor is applied to reflect the average cost of each of the different types of provision. Determining the weightings for each band, and assigning courses to bands is carried out by the tariff committee, composed of a representative group of colleges with a neutral chairperson.

Schools are unlikely to offer programmes such as agriculture or engineering, which fall in the higher bands. There are, however, differences between the humanities on the one hand, and science, IT, and craft, design and technology on the other, which could appropriately be recognised.

### **Funding an entitlement curriculum**

The FE funding methodology was introduced following the incorporation of FE and sixth form colleges in 1993. Since then fears have been expressed by some sixth form colleges that the methodology could lead to a narrowing of the curriculum. The methodology funds qualifications rather than 'the whole student' and provides incentives for students to be taught for the minimum period necessary. Some colleges have used the system imaginatively to retain strong programmes of enrichment, but others have lost out.

The Government has expressed concern at the relatively low number of teaching hours per week that full-time students receive in England, compared with students from other countries.

The FEFC has taken advantage of the curriculum reforms set out in Curriculum 2000 to propose changes in the way that full-time students under age 19 are funded from September 2000. The details were set out in FEFC Circular 99/33 *Curriculum 2000: funding for full-time 16–19-year-olds*, which was sent to both head teachers and colleges. Guidance was then issued in FEFC Circular 99/54 *Revised funding methodology for 2000/01 including Curriculum 2000*.

Under the new approach full-time students aged 16–19 are entitled to a complementary programme of key skills, enrichment and tutorial support. This package will be funded at the same rate as one A-level. Additional resources will be provided to support more demanding programmes, but the rate of increase will taper off for programmes larger than five AS-levels plus the key skills entitlement.

### 3. What might schools learn from further education?

#### **Positive messages: retention, achievement, guidance**

It is widely accepted in the FE sector that the funding methodology has worked reasonably well and, in most respects, has produced greater equity between institutions than former arrangements. Colleges in general do not want to see substantial change; their support is echoed by government and the parliamentary Select Committee. In particular those involved with the FEFC approach seem to value the tripartite approach to funding and the recognition of unavoidable differences in costs through the tariff.<sup>8</sup> The methodology is credited with having helped colleges improve student performance by focusing clearly on retention and achievement. It is worth noting in this respect that colleges see the termly payment of the on-programme element as the most important factor. The relatively small proportion of funding linked to successful outcomes is seen as less important.

The incentive to focus on retention and success is not in conflict with educational objectives. It supports what good teachers would want to do anyway, and gives those who are passionate about raising standards an additional argument for highlighting it as an issue. To that extent, the methodology can be seen as going with the grain.

The methodology is also credited with giving a clear message to colleges about the importance of

high-quality guidance on entry. From the perspective of maximising funding, it is worth spending time on this stage, because students who are appropriately placed on a course are more likely to stay and succeed. Staying and succeeding is what most good teachers want. Once again, the financial pressure reinforces good practice.

#### **Concerns: tariff farming, narrowing participation**

The FE methodology is not without problems. Complexity is perhaps the major problem – the funding guidance for 1999–2000 had grown to 100 pages by mid-February 1999. It is, it must be said, in large part a reflection of the complexity of further education and need not translate into the school context. There are, however, some potential negative features that schools need to contemplate.

An emphasis on succeeding always entails a risk that institutions will play safe and not enrol candidates who are less likely to succeed than the average. A less extreme version of the same phenomenon is to limit aspirations – enrolling students on courses where they are very likely to succeed, but which may not stretch and develop them. There is probably rather more scope for the latter in further education than in schools because of the range of both provision and students.

The recent report of the Skills Task Force<sup>9</sup> suggests that the level of funding related to output in work-based training should be reduced to the levels prevailing in the FE sector. The experience of TECs has been that very high levels of output-related funding can have a distorting effect on the practice of institutions.

The complexity of certain aspects of the FE formula has led some institutions to focus rather too much energy on trying to arrange the curriculum in ways that maximise funding rather than meet students' needs. The practice has become known as 'tariff farming' or 'unit farming'. The proposed changes to the way full-time students are funded should help eliminate this practice.

# 4. What can schools learn from the pilot schemes?

**P**ilot schemes run by a variety of LEAs have produced a very mixed set of results. Twenty-eight authorities were involved, but most have not managed to produce a live scheme as part of their LMS formula funding. The outstanding exception is East Sussex.

Many of the authorities experienced significant difficulties in implementing a scheme. Only 21 LEAs provided written summaries of their work, often highlighting concerns over such issues as:

- Reluctance of schools to accept formula funding which resulted in authorities running shadow or desk top exercises only
- Numbers of special needs students
- Rural matters, such as transport costs
- Quality of data analysis and comparisons between sixth forms
- Fears over possible losers and the need for transitional arrangements
- Threat to small sixth forms and minority subjects.

Few of the authorities seem to have followed through their pilot work to live schemes. However, some good practice may have been identified, such as the need for good quality data and sound communication of principles underlying such an

initiative. Although not explicit, a degree of fear exists about the possible imposition of an FE-style funding formula. Head teachers may be concerned over a possible threat to the sixth form sector, and elected members see a hidden agenda centred on further challenges to LEAs.

## The East Sussex approach

Since April 1997, East Sussex LEA has funded sixth forms using a three-stage model similar to the FE formula. Funding is linked to curriculum units calculated as follows:

Stage	Requirement	Units
Entry	Registration as a sixth former, induction	1
On-programme	A-level course	6
	AS-level	3
	GNVQ Advanced or Intermediate	15
	GCSE new course	3
	GCSE retake course	2
	Non-examination course, including PE, RE, PSE	3
Achievement	Achievement of qualification: 5% of funding retained (paid in October after examination results are known)	—

Although this is a simple scheme, and does not use detailed auditing, it is having an effect on student recruitment and course planning. An interesting aspect of the formula is the limit of 24 on-programme units. Because of the influence the East Sussex scheme has had on DfEE thinking, we are using a very similar model in our numerical modelling and case studies (see Section 7).

## 5. What might a new approach mean?

**O**ne notable feature of pilot school comments is the number of references made to the needs of particular groups of learners and specific features of communities. Rural transport, the numbers of special needs students, the wealth of extracurricular activities, and shared community use of facilities have all been identified by schools and are all real factors. It must be remembered, however, that these features were never funded separately under any LMS scheme.

LEAs that did not produce working schemes often cited problems of data collection and use of statistics. There is great variation in the quality and use of school financial systems. Most schools are not in a position to calculate the costs of any sixth form course, and there is often hidden cross-subsidisation from other key stages. Small sixth form groups are often defended on the grounds

of enriching the curriculum or even seen as a loss leader for sixth form viability. Without some basic cost information, rational decisions are more difficult to make. It seems clear that schools and LEAs will need to develop more sophisticated financial management information systems.

Valid concerns have been raised over the way funding changes may be implemented. There is clearly a need for full consultation with LEAs over the particular needs in each area. There is great concern over who may win or lose. East Sussex developed its pilot by continual involvement of a steering group of heads and heads of sixth forms; ownership of the funding changes remained with practitioners, and was not imposed from outside.

### The next steps

Some LEAs are continuing to develop pilot projects, although the consultation group has not met since October 1998. Those that have gone live are having to reconsider their formulae in the light of the new curriculum being introduced in September 2000, as completing up to five AS-levels in Year 12 (lower sixth) and fewer A-levels in Year 13 (upper sixth) alters the basis of most schemes.

The pilot scheme work has been significantly overtaken by events, particularly the publication of *Learning to succeed. School sixth form funding: a consultation paper*. Nevertheless, some features of the pilots seem likely to influence the shape of the arrangements.

## 6. School sixth form funding: a consultation paper

The Government plans to introduce the new arrangements for the Learning and Skills Council in April 2001, together with a new funding formula (*Learning to succeed*). The consultation process suggested two possible ways in which funds for school sixth forms would be decided:

- **Option A** LEAs would continue to decide the funding in respect of each school sixth form, using the present system. However, annual guidance would be given by the Secretary of State on issues such as weighting of courses and comparability across all 16–19 providers.
- **Option B** The Learning and Skills Council would fund LEAs, guided by the Secretary of State. There would be a national formula, but distribution would remain with LEAs. Schools would not have to deal with two separate funding sources.

In the consultation paper, the Government points out that there is already considerable support for change. In responding to the post-16 consultation in April, representatives of local authorities suggested that it would be acceptable to route school sixth form funding through a national council 'as long as changes were not rushed through'. The Secondary Heads Association recognised that the current system was not only inequitable and incoherent, but also did not help raise participation.

In its proposals for implementing *Learning to succeed* the Government has adopted option B. The consultation papers are also clear on a number of safeguards for schools:

- Funds for pre-16 education are not affected.
- Schools will still be free to allocate money between pre-16 and post-16 provision.
- There should be no increase in audit burdens.
- Funding will not fall unless student numbers fall.

It seems inevitable that sixth forms will be subject to some kind of formula funding, driven by entry (including induction counselling), on-programme and achievement. The financial year 2000–01 could be the last one using the current system.

## 7. How might a new approach work?

### A possible model

To illustrate the possible impact of a changed approach to funding sixth forms, we have set out a methodology similar to the East Sussex scheme. As discussed in Section 4, this has become very influential and may well form the basis of any formula to be developed by the Learning and Skills Council. We make the following assumptions:

### Entry units

Registration, counselling and induction of all new sixth formers, including pastoral and other advice including UCAS, will earn one funding unit.

### On-programme units

Study of a recognised course could earn funding units as shown:

Course	Units
A-level	6
AS-level	3
GNVQ Advanced or Intermediate	15
GCSE courses	3
Non-examination courses, including PE, RE and PSE	3
Key skills	3

Funding will be earned in three instalments each complete school year and audited against the school roll.

### Achievement

5% of on-programme finance is retained until results known.

### An entitlement curriculum

We are also making the assumption that, as in the FE proposals, any full-time student can expect to be offered tutorial support, enrichment activities and key skills.

Each school would be required to predict numbers on course in February for the coming September, and a provisional budget would be allocated on this basis.

Only one-third of the annual budget would be allocated for the autumn term; an audit of students on courses would be completed in early November. This would determine the final budget for the year, but repeat audits in January and April would determine any reductions for students who drop out of courses.

For illustration purposes, we have derived some cost data from *The public funding costs of education and training for 16–19-year-olds in England 1996–97*, appropriately rounded and updated. We have, therefore, used £7830 as the cost of achieving three A-levels over two years. On the assumption that 90% of the total is available at school level the resources to be allocated for such a programme would be £7047.

A typical	Course	Units
A-level student would earn the following tariff each year:	Three A-level course	18
	Non-examination courses	3
	Key skills	3
	Entry (and continued support)	1
	Total units per year	25
Total units over two-year course		50

At present values 50 curriculum units would be worth £7047, or £140 per curriculum unit.

This unit value is then applied to all other courses. For example, each subject attracting a GCSE retake student would earn three units at £140; that is, it would be worth £420 to the school's budget.

## Case studies

To help schools assess the impact of a funding model along the lines suggested we have applied the model to three typical scenarios. The figures are set out in spreadsheets (see Appendix). They are also available on FEDAs website at [www.feda.ac.uk](http://www.feda.ac.uk)

### School A

School A is a traditional academic comprehensive school. It used to be a grammar school and has retained much of its reputation for excellence. It is one of the highest achievers in local league tables. It has flourishing A-level courses, a small number of retake students, and a modest number of GNVQ students at both Intermediate and Advanced level.

The school decides to expand its GNVQ provision, particularly encouraging weaker A-level students to consider a vocational course, perhaps with one A-level as well.

### Result

Although the strategy appears to succeed at the start of the year, an unfortunate side-effect is that the drop out rate from courses increases. The budget suffers

by around £13 000, even though the number of sixth formers on roll at the start of the year, the pass rate and all other data remain the same. As there are no savings (existing classes are just a bit smaller) this is a real loss to the school budget and will need to be drawn from the contingency fund.

### School B

School B is an inner city comprehensive, facing competition from the local FE college and schools on the edge of the city and outside the city. It has a small, struggling sixth form, with a limited range of A-levels in small classes. In recent years, however, it has built up an impressive range of GNVQ courses and is proud of its success at GCSE retakes.

The school decides to respond to the new arrangements by pushing most of its existing intake to do three levels, rather than the two A-level course that many had settled for previously. It also puts in place a much-improved system of student guidance and monitoring, so that its retention rate improves dramatically with a reduction in the percentage of students dropping out each year (10% to 5%). The pass rate also improves significantly.

### Result

An improvement of around £28 000 occurs in the budget, even though the same number of students stay on in the sixth form. As the existing sixth form tutors have been able to complete the guidance work, and no extra staff are needed, this budget improvement is a real bonus to the school. It has occurred because small classes are now a reasonable size.

### School C

School C is a rural comprehensive with little local competition from any other institutions. It aims to provide a wide range of post-16 courses. However, there is great variation in set size and, in recent years, an increased number of students have switched to vocational courses at a college 20 miles away (which now provides subsidised transport).

The school decides to make a major effort to retain more students on GNVQ courses, greatly improving its marketing effort and stressing the problems and wasted time involved in travelling to college.

### Result

Twenty extra students stay at school to do GNVQ. Five of them are doing an A-level as well, and many also take the opportunity to retake a GCSE. Improved counselling of students also improves retention and pass rates. There is a dramatic improvement of over £63 000 in the budget – sufficient to pay for two extra staff needed for the GNVQ provision and GCSE, and to equip a classroom with workstations for the Business GNVQ course.

## Winners and losers

Although the details of any new scheme are still unknown, the general shape of the likely arrangements are clear. It is probable that the funding of school sixth forms will move over time towards the kind of model outlined above. On that basis, it is also relatively simple to identify who will be the winners and losers in the new system. The winners will be those who pay careful attention to four key features: retention rates, pass rates, course mix and maximising learning.

- **Retention rates** It will be important not just to recruit students but to keep them on course. Institutions that have significant numbers of students dropping out of courses will suffer a financial penalty as well as a negative impact on their position in the league tables. Retention can be influenced by factors including good guidance at the outset, careful monitoring, and a rapid response to emerging problems.
- **Pass rates** Schools will have an added incentive to ensure that pupils perform well in the exams for which they are entered. As with retention this depends on the quality of both teaching during a course and selection and guidance at the outset.
- **Course mix** The recruitment, retention and ultimate success of students is affected by the curriculum that is available. Students are more likely to stay and succeed if the course offered matches their ability and expectations. In some cases this may be possible only through increased use of collaborative arrangements.
- **Maximising learning** There will be clear incentives to offer programmes that stretch all students. This will be driven in part by funding, and in part by a clearer specification of the entitlement of a full-time learner.

# 8. How can schools best meet the challenge?

## Implications for senior management teams and governors

To date, few schools consider the sixth form as a discrete budget heading. Income to the school LMS budget is all rolled into the one formula, and expenditure decisions are made across all key stages. This practice is largely historic, but also reflects the inexperience of most teaching staff with budgeting systems. (Some schools now have professional bursars who exercise financial control, but few feel able to pay the salary needed to employ someone who has great strategic experience.)

In any new environment, sixth form students will be seen directly as income generators and the way that income is spent put under increasing scrutiny. Senior staff and governors who sit on the school finance committee are likely to face issues such as:

- Cross-subsidisation of sixth form and lower school courses
- Losses and profits on different courses
- Extracurricular activities and pastoral support
- Student success and failure
- Competition or collaboration with other providers.

## Cross-subsidisation of sixth form and lower school courses

If small classes exist in the sixth form, then some courses are being financed by larger classes elsewhere. A school might have 20 in an A-level English class and 17 doing Business Studies, but only three or four studying Music or German. Forty-four A-level students across those four courses may be seen as an average of 11 per course and regarded as a reasonable group size. Indeed, many LEAs have historically made assumptions of group sizes in the 10–15 range, and senior staff would usually regard a set of 10 or more as viable.

However, many schools with smaller sixth forms subsidise small classes by having larger classes in key stages 3 and 4. The Government's proposals

will still allow schools to 'deploy money flexibly' this way, but 'within a transparent system' (*School sixth form funding*, 4-8). Schools should know what such decisions mean based on proper financial analysis of course costs across the whole school (see below).

### **Losses and profits on different courses**

The concept arises of individual courses being counted as a loss or a profit on the school budget. Few schools are likely to define departments as cost centres. It would be possible to do so as long as overheads were apportioned properly, but devoting too much time to allocating overheads risks distracting attention from the essential relationship – between income and costs.

Some schools may have governors who work in enterprises in which activities are broken down into business units with discrete profit/loss accounts. Although such a practice may seem alien to the education sector, it can lead to better use of resources. For example, the cost of professional time could be considered in depth. Is it sensible for someone on a professional salary to spend time doing photocopying or sorting out filing cabinets? A school might be able to function better with slightly fewer teachers but more clerical workers, each concentrating on tasks suited to their training.

### **Extracurricular activities and pastoral support**

Many sixth forms claim that they continue to provide opportunities for a wide range of enrichment activities – sport, drama and music, clubs and societies of all kinds – that other types of provider might not offer. These may not be recognised in full in any sixth form formula, and questions could be raised about where the money is coming from.

However, it is possible to view such activities as loss leaders, helping to attract entrants to the school at age 11. A flourishing school orchestra or well-publicised sporting success can help guarantee consistently high rolls, thus underpinning the whole school budget. In simple business terms, spending some of the school budget on high-profile activities and events may be a wise investment.

### **Student success and failure**

Successful completion of courses will improve not just a school's league table performance, but its budget. The implication is that students should make the best possible decisions about course choice and be counselled not to give up without recognition of some achievement. Analysis of data regarding choices, drop-out rates, and relative performance across subjects will become as intense as the current overall league table position.

### **Competition or collaboration with other providers**

One solution to issues raised may be collaboration with neighbouring schools or colleges. Various models already exist:

- The local FE college may provide most of the vocational courses, leaving schools to provide A-levels and GCSE retakes.
- Schools may specialise in certain subjects, agreeing with neighbours which subjects are studied at each centre.
- A sixth form college may be created, leaving schools as key stage 3 and 4 providers only.
- A sixth form centre may cater for most full-time 16–19-year-olds on A-level or GNVQ courses.

Such models are likely to save all schools and colleges some money by cutting the number of small classes across the local provision, although the logistics of timetables and transport between sites may raise serious problems.

The alternative is competition, but the market model is unlikely to reach the perfect market envisaged in economics theory in most areas; there will simply not be enough customers available to generate enough competitive businesses. In any event, public service markets seem to take many years to reach any kind of stability, which takes teachers and parents far beyond any acceptable timescale in children's lives.

The existence of a new funding regime, which will put a value on each sixth former, is likely to raise numerous questions for those responsible for the direction of all post-16 education. Strategic thinking needs to begin in every institution.

### **Implications for school practice: a 10-point plan**

Successful sixth forms in the future may be those that have seen early enough the implications of the new regime, and have taken action to maximise their own advantage. They should be considering the following ten points:

- Reconsidering the school's vision
- Improving financial management
- More detailed budgeting
- Reviewing option systems
- Improving the use of student and pupil data
- Investing in counselling for GCSE to post-16 transfer
- Updating the school's marketing strategy
- Considering how to recognise enrichment activities
- Investing in staff development
- Communicating with teaching staff and parents.

### **Reconsidering the school's vision**

A school should have a clear vision that can lead to a decision over possible collaboration with other schools. Is your school 'the premier provider of A-level courses in North Exshire'? Or does it 'meet the educational needs of all local 16–19-year-olds in Metrotown'? Or perhaps it wants to 'provide academic excellence and vocational opportunity for all'? Many schools have such statements in their prospectuses. Although the content is sometimes vague, the better ones do give a clear sense of where the school is going, and this can lead to good strategic thinking.

### **Improving financial management**

Schools should consider whether there is a need to strengthen financial management, perhaps through the appointment of a financial manager who will be a member of the senior management team. Full use of modern accounting and financial management software could be valuable.

### **More detailed budgeting**

Separating the budget into key stages 3 and 4 headings as well as post-16 could enable schools to make better choices over set sizes and option systems, and justify decisions to the new funding authority, parents and governors.

### **Reviewing option systems**

The mix of A-levels, retake GCSEs and GNVQs that students undertake will be critical in determining the sixth form budget. The basic guidance is that students should fill their time as much as possible and be placed on the level of course most appropriate to their abilities to maximise chances of success.

### **Improving the use of student and pupil data**

As well as analysis of examination results, information on retention rates and student performance through all key stages is vital for the best decision making. Many schools now make use of systems such as the ALIS and YELIS analysis provided by Newcastle University, which give sophisticated information on the chances of each pupil at GCSE and A-level for each subject, as well as generating comparisons of departmental performance.

### **Investing in counselling for GCSE to post-16 transfer**

The formula used in our model (see Section 7) shows the penalties that follow if a school does not give proper counselling or allows students to drop out of courses. It follows that investing a significant amount of staff time and/or using external counselling may be financially worthwhile as well as educationally sound. (School A's case study illustrates the effect of poor retention rates.)

### **Updating the school's marketing strategy**

Since the introduction of LMS and the more recent Fair Funding proposals (April 1999), all schools should have a clear marketing strategy. This should cover promotional activities and other aspects of marketing such as reviewing the product mix.

The financial stability of the school depends on the number of pupils and students in the classrooms. Some teachers and parents are sceptical about posh brochures or lavish entertainment at open evenings. Five extra sixth formers may provide £15 000, but incur very little marginal cost, far outweighing a typical marketing budget.

### **Considering how to recognise enrichment activities**

Some activities, such as drama or mini-enterprise schemes, may be suited to certification as an NVQ or part of a GNVQ. Extra funding may, therefore, be available, though schools should not distort their curriculum offer simply to attract funds.

### **Investing in staff development**

Senior staff should all understand how the school budget works. This may mean significant training provision. In particular, senior staff should attend any early meetings that plan and implement the local arms of the Learning and Skills Council, which will oversee all post-16 education and training from April 2001 and coordinate provision locally.

### **Communicating with teaching staff and parents**

Any significant change is likely to cause concerns. Unnecessary stress can result if people are not aware of the change and the reasons for decisions taken by school management. Early opportunities

should be taken to brief staff and parents on new developments. The school budget system should be considered as a possible subject for an INSET day.

## Implications for parents and students

In the immediate future, parents and students may notice little difference; but in the longer term post-16 provision may be characterised by:

- **A smaller number of larger institutions** as competition and tighter financial management puts the squeeze on small sixth forms and class sizes; this has been the experience of the FE sector since incorporation of colleges five years ago, with mergers continuing to occur
- **Sole (monopoly) providers of all post-16 courses** in an area, either as a result of competition or through collaborative schemes; this situation exists already in some rural areas
- **Increased collaboration between schools and between schools and colleges** as the best way to provide a rich curriculum offer that is cost effective
- **Improved counselling and guidance systems** providing the potential student with far more information, detailed taster courses, information evenings and individual help
- **Tougher rules of entry on to courses**, as few schools will take on any student just to have a go at a subject or qualification where success is deemed unlikely
- **Incentives to attend certain institutions**, which schools or colleges may consider worthwhile to sign up students, much as banks attract students to open accounts
- **Pressure to consider staying on at school**, some cases advertising the sixth form at an earlier stage than at present and increasing the marketing effort. (However, the Government is introducing its Connexions strategy, which hopes to provide all teenagers with a personal adviser who can give independent advice (see *Learning to succeed*).
- **An increase in the number of young people gaining recognised qualifications** as the Government reaches its National Learning Targets.

# 9. Where can I find out more?

## Notes

- <sup>1</sup> The papers are available from the DfEE website at [www.dfee.gov.uk/post16/](http://www.dfee.gov.uk/post16/)
- <sup>2</sup> The traffic is not all one way. FE colleges have recently been advised that 'as with schools the Secretary of State is not prepared to tolerate consistently poor performance'. Letter from R Dawe to D Melville, 8 December 1998.
- <sup>3</sup> DfEE. *Fair Funding: improving delegation to schools*. London: DfEE, 1998.
- <sup>4</sup> The most up-to-date document is *The public funding costs of education and training for 16-19-year-olds in England 1996/97*. London: DfEE, 1998.
- <sup>5</sup> FEFC. *Report of the stage 2 working group: a fundamental review of the funding methodology*. Coventry: FEFC, 1998.
- <sup>6</sup> Recommendation 15, *Education and employment Select Committee, sixth report, further education*, May 1998. See also comments about relative levels of funding in schools and further education (paragraph 75) and the level playing field (paragraph 98ff).
- <sup>7</sup> For a fuller explanation see Atkinson D, Fletcher M, Overton C. *Funding FE: a simple guide to the funding methodologies applied by the FEFC and the FEFCW*. London: FEDA, 1999. This gives a non-specialist introduction to the English and Welsh FE funding methodologies. For the complete picture refer to *How to apply for funding*, published by the FEFC together with the various circulars on the tariff. The FEFC website ([www.fefc.ac.uk](http://www.fefc.ac.uk)) gives access to most relevant documents.
- <sup>8</sup> See the evidence presented to the Select Committee or the survey of colleges by Taubman, Leney *et al.* *Learning funding*. London: University of London Institute of Education, 1998. In general colleges complain about the complexity of the mechanism and strongly resist any attempt to simplify it.
- <sup>9</sup> DfEE. *Towards a national skills agenda: first report of the National Skills Task Force*. London: DfEE, 1998.

## **Charles Boney**

Charles Boney is Head of Business Studies at Marlwood, a highly successful comprehensive school near Bristol. He has served as the chair of governors of an infant school, as teacher governor in his own school and is also a member of the Governing Council of Bristol University. He has 16 years' experience as an elected councillor, taking a special interest in financial performance, budget planning and monitoring.

## **Mick Fletcher**

Mick Fletcher leads FEDA's work on funding learning. He has worked closely with DfEE and the funding councils on approaches to funding FE institutions for more than 10 years, and led research projects investigating aspects of the methodology and training programmes for college managers. He is also currently researching arrangements for student financial support and individual learning accounts.

Mick joined FEDA from a local authority background, where he had responsibility for FE colleges, adult and community provision and government-funded training programmes for young people and adults.

**T**he spreadsheets on the following pages show the calculations that underpin the figures given in our case studies (see Section 7). We would stress again that:

- This is a possible model, designed to show the relationships. The blueprint for the new system does not exist.
- The changes describe what might happen when the new system is implemented. It does not show the impact of simply changing to the new system, since the Government has clearly said that schools that maintain numbers will not lose out by the change.

These spreadsheets are also available on the FEDA website, [www.feda.ac.uk](http://www.feda.ac.uk)

**Post-16 funding: financial model for new formula for sixth form funding | Case study: school A**

	Allocation of units	Students		Students	
		Year 1	Units	Year 2	Units
<b>Standard courses</b>					
Students on four A-level courses	24 units per student	20	480	20	480
Students on three A-level courses	18 units per student	150	2 700	120	2 160
Students on two A-level courses	12 units per student	10	120	10	120
GNVQ students	15 units per student	30	450	60	900
GCSE retake course (five subjects)	15 units per student	10	150	10	150
Entry and pastoral	One unit per student	220	220	220	220
Non-examination/key skills	Six units per student	220	1 320	220	1 320
	<b>Subtotal</b>		<b>5 440</b>		<b>5 350</b>
<b>Additional credits</b>		<b>Number</b>	<b>Units</b>	<b>Number</b>	<b>Units</b>
Total number of additional GCSEs taken (e.g. by a two A-level student retaking a GCSE)	Three units per subject total	20	60	20	60
Total number of additional A-levels taken (e.g. by a GNVQ student doing one A-level)	Six units per subject	15	90	30	180
	<b>Subtotal</b>		<b>5 590</b>		<b>5 590</b>
<b>Debits of units<sup>1</sup></b>		<b>%</b>	<b>Units</b>	<b>%</b>	<b>Units</b>
Students dropping out by Christmas	Units deleted from budget <sup>2</sup>	2	-74.5	4	-149.1
Students dropping out, Christmas to Easter	Units deleted from budget <sup>3</sup>	1	-18.6	2	-37.3
Students who fail to achieve pass	5% of units not paid	5	-14.0	5	-14.0
	<b>Total units<sup>4</sup></b>		<b>5 483</b>		<b>5 390</b>
	Unit value		× £140		× £140
	<b>Income for 220 sixth form students<sup>4</sup></b>		<b>£767 620</b>		<b>£754 600</b>
	<b>Income per student<sup>4</sup></b>		<b>£3 489</b>		<b>£3 430</b>

<sup>1</sup> All calculations to one decimal place

<sup>2</sup> This figure is derived by multiplying the percentage reduction by two-thirds for every student who drops out by Christmas

<sup>3</sup> This figure is derived by multiplying the percentage reduction by one-third for every student who drops out from Christmas to Easter

<sup>4</sup> Calculations are rounded to whole units and whole £s

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**Post-16 funding: financial model for new formula for sixth form funding | Case study: school B**

	Allocation of units	Students		Students	
		Year 1	Units	Year 2	Units
<b>Standard courses</b>					
	Students on four A-level courses	0	0	0	0
	Students on three A-level courses	30	540	50	900
	Students on two A-level courses	30	360	10	120
	GNVQ students	50	750	50	750
	GCSE retake course (five subjects)	20	300	20	300
	Entry and pastoral	130	130	130	130
	Non-examination/key skills	130	780	130	780
	<b>Subtotal</b>		<b>2 860</b>		<b>2 980</b>
<b>Additional credits</b>		<b>Number</b>	<b>Units</b>	<b>Number</b>	<b>Units</b>
	Total number of additional GCSEs taken (e.g. by a two A-level student retaking a GCSE)	50	150	50	150
	Total number of additional A-levels taken (e.g. by a GNVQ student doing one A-level)	10	60	10	60
	<b>Subtotal</b>		<b>3 070</b>		<b>3 190</b>
<b>Debits of units<sup>1</sup></b>		<b>%</b>	<b>Units</b>	<b>%</b>	<b>Units</b>
	Students dropping out by Christmas	5	-102.3	3	-63.8
	Students dropping out, Christmas to Easter	5	-51.2	2	-21.3
	Students who fail to achieve pass	20	-30.7	10	-16.0
	<b>Total units<sup>4</sup></b>		<b>2 886</b>		<b>3 089</b>
	Unit value		× £140		× £140
	<b>Income for 130 sixth form students<sup>4</sup></b>		<b>£404 040</b>		<b>£432 460</b>
	<b>Income per student<sup>4</sup></b>		<b>£3 108</b>		<b>£3 327</b>

<sup>1</sup> All calculations to one decimal place

<sup>2</sup> This figure is derived by multiplying the percentage reduction by two-thirds for every student who drops out by Christmas

<sup>3</sup> This figure is derived by multiplying the percentage reduction by one-third for every student who drops out from Christmas to Easter

<sup>4</sup> Calculations are rounded to whole units and whole £s

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**Post-16 funding: financial model for new formula for sixth form funding | Case study: school C**

	Allocation of units	Students		Students	
		Year 1	Units	Year 2	Units
<b>Standard courses</b>	Students on four A-level courses	5	120	5	120
	Students on three A-level courses	60	1 080	60	1 080
	Students on two A-level courses	20	240	20	240
	GNVQ students	20	300	40	600
	GCSE retake course (five subjects)	25	375	25	375
	Entry and pastoral	130	130	130	130
	Non-examination/key skills	130	780	130	780
	<b>Subtotal</b>		<b>3 025</b>		<b>3 325</b>
<b>Additional credits</b>		<b>Number</b>	<b>Units</b>	<b>Number</b>	<b>Units</b>
	Total number of additional GCSEs taken (e.g. by a two A-level student retaking a GCSE)	30	90	60	180
	Total number of additional A-levels taken (e.g. by a GNVQ student doing one A-level)	5	30	10	60
	<b>Subtotal</b>		<b>3 145</b>		<b>3 565</b>
<b>Debits of units<sup>1</sup></b>		<b>%</b>	<b>Units</b>	<b>%</b>	<b>Units</b>
	Students dropping out by Christmas	3	-62.9	2	-47.6
	Students dropping out, Christmas to Easter	2	-21.0	1	-11.9
	Students who fail to achieve pass	15	-23.6	10	-17.8
	<b>Total units<sup>4</sup></b>		<b>3 038</b>		<b>3 488</b>
	Unit value		× £140		× £140
	<b>Income for 130 sixth form students<sup>4</sup></b>		<b>£425 320</b>		<b>£488 320</b>
	<b>Income per student<sup>4</sup></b>		<b>£3 272</b>		<b>£3 756</b>

<sup>1</sup> All calculations to one decimal place

<sup>2</sup> This figure is derived by multiplying the percentage reduction by two-thirds for every student who drops out by Christmas

<sup>3</sup> This figure is derived by multiplying the percentage reduction by one-third for every student who drops out from Christmas to Easter

<sup>4</sup> Calculations are rounded to whole units and whole £s

**The Government's proposals to reform the planning and funding of all post-16 education will have a number of implications for school sixth forms that could be as far-reaching as the introduction of local management of schools. The challenge to sixth form funding aims to help senior school staff to follow the debate about funding and to assess the impact new funding arrangements could have on the school's budget.**

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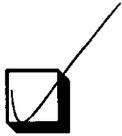


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