DOCUMENT RESUME

ED 427 170 CE 078 034

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TITLE	That's the Way the Money Goes. Further Education Funding in England in the Next 12 Months.
INSTITUTION	Further Education Development Agency, London (England).
ISSN	ISSN-1364-6869
PUB DATE	1998-10-00
NOTE	13p.
AVAILABLE FROM	FEDA Information Centre, Citadel Place, Tinworth Street, London SE11 5EH, England, United Kingdom; e-mail: publications@feda.at.uk
PUB TYPE	Collected Works - Serials (022) -- Numerical/Quantitative Data (110) -- Reports - Research (143)
JOURNAL CIT	FEDA Bulletin; v2 n6 1998
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	*Adult Programs; Budgets; *Cost Effectiveness; *Educational Finance; Enrollment; Expenditures; Federal Aid; Financial Policy; *Financial Support; Foreign Countries; Government School Relationship; *Lifelong Learning; Postsecondary Education; Program Costs; Public Policy; Tables (Data); *Technical Institutes; Vocational Education
IDENTIFIERS	*England; Learning Society

ABSTRACT

Expenditures on further education (FE) in England were examined as part of the Comprehensive Spending Review (CSR), which was a zero-based budgeting exercise performed by the Labour government for a 3-year period covering 1999-2002. The CSR increased total FE funding by 7% in 1999-2000. When the anticipated 5% increase in FE enrollments and inflation are factored in, however, FE colleges will be required to make efficiency gains of 1%. Extra money will be linked to targets. Growth, efficiency, and increased achieved were concluded to be the three likely main targets for FE. Decisions on funding beyond 2000 will be shaped by the government's lifelong learning policies. According to the 1998 green paper "Learning Age," those policies will center around two flagship projects: the Individual Learning Accounts and University for Industry projects. Public financial support for adults will be targeted toward the following goals: bringing back those adults who stopped learning after school, addressing particular shortages, widening disadvantaged adults' access to education, and enabling individuals to choose the best method of learning for them. National pilots of new education maintenance allowances were planned for 1999-2000. (Contains 10 tables.) (MN)

FEDA Further Education Development Agency

bulletin

Volume 2 Number 6

ISSN 1364 6869

That's the way the money goes

Further education funding in England in the next 12 months

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October 1998 £3.50

Contents

This paper has been commissioned by FEDA as part of its programme of research, publications and events on further education funding. It is intended to provide a comprehensive summary of the many major issues affecting FE funding in England at the current time. An update is planned for early in the New Year, as is a companion bulletin highlighting specific issues affecting FE in Wales.

FEDA will be publishing a number of reports this autumn which both assess the impact of the funding methodologies used in England and Wales and look to the future. Among the topics covered are the effects of convergence, franchising and tariff farming on college provision. New themes examined include the potential role of regional bodies in FE funding and the possible impact of Individual Learning Accounts.

FEDA is continuing to invest in the examination of funding issues through its research programme 'Funding for the Future'. Key topics for 1998/9 will be an assessment of the rate of return to individuals from investing in FE and an investigation with FEFC(E) of how funding might be linked to a unitised curriculum.

Ursula Howard
Director, External Relations and Learning Development

This bulletin reports on key recent developments in further education funding and highlights some milestones for the next 12 months.

The starting point is the government's public spending plans, which were outlined in the Comprehensive Spending Review. This was published in July 1998 and sets out spending plans for the next three years. Further education colleges depend on public funds for more than 80% of their income, which makes it particularly important to track the effect of Treasury decisions and forecasts through the system.

Section 2 considers some of the financial implications of the government's lifelong learning policy. The policy framework was set out in the *Learning Age* Green Paper which was published in March 1998 and has been subject to an extensive consultation. This consultation finished in July 1998 with decisions expected in autumn 1998. These decisions and the development of the flagship initiatives (University for Industry and Individual Learning Accounts) will be of crucial importance for further education.

Student support for further education is considered in Section 3, which compares the various reports on the issue (the Kennedy, Lane and Select Committees) to identify the key financial issues. After more than a decade of neglect, there are moves towards setting national standards for further education student support with pilot schemes for 16–18 year olds taking effect in September 1999.

The final section considers the changes to FEFC(E) funding. A widening participation factor is being introduced in 1998/9, based on postcodes and money allocated according to FEFC(E) plans rather than college bids. In 1999/2000 there could be further changes but the signs are that these will be limited. The Fundamental Review Group is due to report in October but is unlikely to recommend radical changes.

Further education funding is currently characterised by strong pressures for change and strong pressures for continuity. The forces for change derive from a new and more directive policy agenda. The forces for continuity derive from a consensus, within the sector at least, that the current methodology can cope with all foreseeable policy changes. Whether it can, remains to be seen.

The Comprehensive Spending Review

Introduction

The Comprehensive Spending Review (CSR) is the Labour Government's zero-based budgeting exercise for a three-year period covering 1999–2000, 2000–1 and 2001–2. The process has taken a whole year and has involved 30 departmental reviews and 6 cross-departmental reviews.

The outcome is a set of spending totals for the three-year period, which confirms government department budgets for the period starting 1 April 1999. It is important to remember that the government financial year runs from April to March, even though colleges account from August to July. The three years covered by the CSR are described in Table 1.

Table 1 The years covered by the Comprehensive Spending Review

Year 1	1999/2000	1 April 1999 – 31 March 2000
Year 2	2000/1	1 April 2000 – 31 March 2001
Year 3	2001/2	1 April 2001 – 31 March 2002

The spending totals for 1998/9 were confirmed in November 1997. There will be no spending announcement in November 1998 because the CSR has replaced PES (the old Public Expenditure Settlement).

Economic context

The Comprehensive Spending Review is carried out within a context set by the Budget (March 1998) and the Treasury's forecasts. Key forecasts are set out in Table 2 below.

Social security is a major part of the annually managed expenditure total and accounts for 30% of total government spending. The government's forecast is that the increase in annually managed expenditure (social security, debt interest) will be held at 2.2%. This allows a larger increase of 3.2% in departmental expenditure and the even greater increases in health and education spending because of cuts in areas like defence and transport. This will enable the government to fulfil its pledges to redirect spending from welfare to services and to increase education's share of the gross domestic product (GDP).

If these forecasts are wrong, then the spending plans will need to be changed. What can go wrong was illustrated by the forecasting errors of the Conservative government in the late 1980s, which produced a situation in the early 1990s where tax income fell short of expectations and deficits increased. The new Labour government has learnt lessons from these errors but, nevertheless, might find itself in difficulties if an economic downturn resulted in lower tax income or more social security expenditure than forecast.

The government will keep a permanent watch on forecasts and has committed itself to review the CSR totals in 2000. This could change the Year 3 of the forecast in ways that are not currently predictable.

Table 2 Key assumptions in government economic policy

Measure	Forecast
gross domestic product (GDP)	increases by 4.6% a year in cash terms
inflation	2.5% a year (Bank of England is committed to delivering this)
GDP growth [= (a)/(b)]	increases by 2–2.25% a year
public debt	kept within 60% of GDP
government income (taxes)	increases by 2.6% a year in real terms
asset sales	worth £4bn a year
government spending	increases by 2.5% a year in real terms
annually managed expenditure (social security, debt interest)	increases by 2.2% a year in real terms
departmental expenditure totals	increases by 3.2% a year in real terms

Education spending totals

A key outcome of the CSR is an increase in the education spending total over the next three years of 5.9% a year. The figures presented in the review are summarised in Table 3 below.

There are gaps and uncertainties in the figures in five key areas:

1 The exact level of education spending depends on the complexities of local government budgets because schools are a local authority service. The DfEE has set out its expectations of local government spending on schools but this assumes that local authorities follow their lead about pay rises, cuts in other areas and council tax increases. Nevertheless, the DfEE will put great pressure on local authorities to ensure that the CSR increases are passed on to schools.

2 The Years 2 and 3 figures for FHE are absent. These totals (for 2000/1 and 2001/2) will be decided in the light of responses to the *Learning Age* Green Paper.

3 The Year 1 figures for spending in 1999/2000 on HE student support (grants, loans etc) account for £3 billion in 1998/9 and will steadily shift towards loans as a result of the abolition of HE maintenance grants, which starts taking effect in 1998. David Blunkett has stated that the additional loans expenditure in 1999/2000 will cost more than the savings on maintenance grants. (The *Times Higher Education Supplement*, 31 July 1998) but more detailed numbers are not yet available.

4 The impact of government capital accounting (the Resource Accounting and Budgeting initiative) will transfer students' loans to the government's new balance sheet in Year 3 (ie from 2000/1).

5 The plans for Years 1–3 (from 1999/2000) for the New Deal are excluded from the figures. In 1998/9, the New Deal provides an additional £910 million to the Education and Employment budget, distributed as follows:
- New Deal for Schools – £250 mil
- New Deal for 18–24s – £525 mil
- Other New Deals (25+, etc) – £135 mil

Information in all five areas is likely to come out in stages in the next six months.

A further area of uncertainty is how the target-setting process will work. A key theme of the CSR is that money will only be released by the Treasury to Departments that meet targets and modernise. For Education, this mainly means demonstrable improvements in standards but the government could also require evidence of progress in other areas – increased participation by adults, possibly even new contracts for teachers. It is not yet clear what these targets are but it is likely that the Treasury will give more details in the autumn.

Table 3 The Department for Education and Employment in the Comprehensive Spending Review

£bn England	**1998/9 £mil**	**1999/2000 £mil**	**2000/1 £mil**	**2001/2 £mil**	**Annual increase cash**	**Annual increase real**
FEFC(E)	3,093	3,313	*see* **2**	*see* **2**	7%	5%
HEFCE	3,542	)4,028	*see* **2**	*see* **2**	)7%	)5%
TTA	206	)	–	–	)	)
Student loans	1,141	)	–	–	)	)
Student awards	1,886	)4,801 *see* **2**	*see* **3**	*see* **3**	)20%	)17%
Other education	951	)	–	–	)	)
Education	**10,819**	**12,142**	**13,717**	**14,967**	**11%**	**9%**
Sure Start	0	84	184	184	–	–
Employment	3,347	3,247	3,394	3,461	1%	-1%
Total DfEE	**14,166**	**15,473**	**17,295**	**18,612**	**10%**	**7%**
LEA delegated	19,384	20,484	21,737	23,066	6%	3%
Total	**33,550**	**35,957**	**39,032**	**41,678**	**7%**	**5%**

Total UK education spending (£mil)						
Education	38,200	41,200	44,700	47,800	8%	5%

Note figures in **bold** refer to the numbered paragraphs in the above text.

Table 4 FEFC(E) funding following the Comprehensive Spending Review

FEFC(E) funding	1994/5	1995/6	1996/7	1997/8	1998/9	1999/2000
Total funds (£mil)	2,840	3,024	3,154	3,137	3,093	3,313
Increase per year (%)	5.1	6.5	4.2	-0.6	-1.4	7.1
Student numbers (FTE)	970	1,053	1,084	1,075	1,095	1,155
Increase per year (%)	6.4	8.5	2.9	-0.9	1.9	5.5
Inflation per year (%)	2.0	2.0	2.0	2.0	2.5	2.5
Efficiency gain per year (%)	3.3	3.9	0.7	1.7	5.9	1.0

Notes
- the source of the figures is the DfEE expenditure report (1998/9) and David Blunkett's CSR letter
- 1994/5, 1995/6 and 1996/7 funds include capital grant
- 1996/7 funds include £82mil Demand-Led Element (DLE), 1997/8 £65mil DLE
- 1998/9 and 1999/2000 funds exclude £20mil and £35mil employer contributions
- calculation of FTE student numbers increase assumes 1% efficiency gain and 5.5% inflation.

The CSR and further education

The further education sector has done relatively well out of the Comprehensive Spending Review but this will be at the price of recruiting more students and meeting other targets.

Key parts of the announcement are:

- an additional £220 million in DFEE grant to the FEFC in 1999/2000,which is a cash increase of 7.1% compared with 1998/9
- the assumption that employers will pay an additional £35 million in fees for FEFC-funded courses in 1999/2000
- a target of 150,000 additional students in FE
- the expectation of a 1% efficiency saving.

Total FEFC(E) funding

One important trend to look at in Table 4 is the overall level of FEFC(E) funding. This will increase by 7.1% in 1999/2000 as a result of the CSR but the increase follows two years of reducing funding.

Funding levels increased from 1994/5 to 1996/7 as a result of the Conservative government's growth plans but also because growth exceeded expectations – resulting in the Demand-Led Element row in January 1997. The Conservative government planned significant cuts for FE from 1997/8 onwards in its public spending settlements. These cuts were only partly moderated in 1998/9 by the additional £63 million put in by the incoming Labour government. Taking inflation into account, the additional cash in 1999/2000 almost brings FE back to its 1996/7 income levels but no more. Nevertheless it is a welcome step in the right direction.

Efficiency gains

The target of a 1% efficiency gain for FE for 1999/2000 comes after several years in which both the Conservative and Labour governments looked for bigger savings. This target matches the 1% efficiency target applied to higher education in 1998/9 and follows the Dearing Committee's conclusion that universities 'with their current organisation and approaches to teaching and learning' should be able to deliver 1% cost reductions each year (main report, p267).The seductive appeal of developments like the University for Industry (UfI) is that they may change teaching and learning to deliver greater efficiencies but for the moment, the 1% target holds for HE and FE. How it will be measured in FE is an important issue.

A key assumption in compiling Table 5 on the next page is that the 1% efficiency gain for 1999/2000 will be calculated on the basis of full-time equivalent (FTE) student numbers – as it has been up to now. Although FTEs are rarely used in communications between the FEFC(E) and colleges, the DfEE and FEFC(E) calculate FTEs to monitor FE growth.

On the basis of these assumptions, the planned increase in students of 150,000 in 1999/2000 translates into FTE growth of 60,000 or 5.5%.

The alternative way of measuring growth is to use funding units but these have been easier to increase than FTEs – as Table 5 shows.

Table 5 FTEs and funding units in FE

FEFC(E) funding	1994/5	1995/6	1996/7	1997/8	1998/9	1999/2000
Student numbers (FTE, '000s)	970	1,053	1,084	1,075	1,095	1,155
Index (1993/4=100)	106	116	119	118	120	127
Funding Units	145.5 mil	163.5 mil[1]	176 mil	174 mil	—	—
Index (1993/4=100)	114	127	137	137	—	—

Note 1: the increase of 1 million units is accounted for by tariff changes.

FE student numbers

The 5.5% growth comes after two years of relative stagnation in numbers. This level of growth was last achieved in 1995/6, when colleges had growth funding (the Demand-Led Element) and more freedom (eg franchising) than they have now. Recruiting 150,000 more students will not be a simple task.

Given constraints in these areas, the key to re-igniting growth may lie in the areas discussed in the rest of this paper:

- the Learning Age initiatives (UfI, Individual Learning Accounts)
- increased participation of 16 and 17 year olds (perhaps financed by new maintenance allowances)
- increased participation by adults (perhaps financed by a changed FEFC(E) funding method).

These are discussed in the following sections.

What next?

The Comprehensive Spending Review only gives headline figures for department spending totals from 1999 to 2002 and leaves it to individual government departments to make the detailed announcements. A major part of the DfEE's announcement will be related to its response to the *Learning Age* Green Paper but there are likely to be other announcements.

The best summary of the DfEE's budget will be in its Departmental Report, which is likely to be published in March 1999 when the 1999/2000 estimates are voted by Parliament. Government departments have published Departmental Reports each March for several years but the format may change this year as a result of the target-setting process with the Treasury. Departments will have to report on their targets and, in due course, on their progress against them

The impact of the CSR on individual colleges will depend mainly on how the FEFC(E) allocates the money that it has been given. The continued drive for efficiency and the renewed drive for growth and higher standards are likely to be its main financial objectives with colleges being pushed both to recruit more students and to increase their pass rates. The FEFC(E) will achieve these aims via its funding method – a subject covered in more detail in section 4.

Key points for colleges about the Comprehensive Spending Review

- The spending review increases total FE funding by 7% in 1999/2000 but the student number growth is likely to be 5%.Taking inflation into account, colleges are expected to make efficiency gains of 1%. Colleges are also expected to increase fee income collected from employers.
- The spending review will link extra money to targets. The three main targets for FE are likely to be growth, efficiency and increased achievement.

Funding the Learning Age

Decisions on funding beyond the year 2000 will be shaped by the government's lifelong learning policies. Some of these policies were set out in the *Learning Age* Green Paper, published in March 1998, but more details will be published in autumn 1998, in response to the consultation which ended in July 1998. There are two flagship projects (Individual Learning Accounts and University for Industry) but there are also a number of detailed initiatives.

Priorities for public funding

The *Learning Age* Green Paper identifies six priorities for public funding, which were put for consultation. These are set out in Table 6.

Table 6 Suggested priorities for public funding, proposed in the *Learning Age* Green Paper

1 basic skills – courses free at any age
2 16–18 full-time education – free
3 young people in work – government shares part of cost with employers
4 higher education – government shares part of cost with students
5 postgraduate – government makes some contribution
6 adults in need – some government help.

public financial support for adults will be targeted on:

- bringing back those who stopped learning after school
- addressing particular shortages
- widening access to disadvantaged
- enabling individuals to choose best method of learning.

A noticeable gap in these priorities is the part-time education for working adults that is the mainstay of much FE provision. One consequence of the need to prioritise public funding could well be an increase in fees charged to adult students who are not taking courses in priority areas. FE fees get very little attention and even less coverage in official figures but the typical vocational evening course costs the student £1 per hour and receives £3 per hour in FEFC(E) funding.

The FE sector in England only earns about £300 million in tuition fee income on all types of courses and an estimated £150 million on FEFC(E)-funded ones. The average tuition fee charged on FEFC(E)-funded courses in 1994/5 was £195 – a figure that probably excludes exam, registration and the occasional material fees. It is unlikely that average fees have increased much since 1994/5 because inflation-linked increases in some colleges have been matched by fee reductions in others designed to attract students.

If there is a policy of targeting public subsidy on a more limited range of courses or adults, then colleges may have to face the challenge of increasing fees.

Individual Learning Accounts

An important commitment in the Green Paper is that a national system of Individual Learning Accounts will be in place by 1 April 2000 and that 1 million adults will have accounts by the year 2002. The new accounts will be owned by individuals but will be supported by contributions from employers and the government. The government is committed to providing £150 each to support one million accounts, on condition that the account holder contributes £25. The current expectation is that the £150 million will come from Training and Enterprise Council (TEC) funds, though it remains to be seen whether their reserves of £280 million can genuinely be used for this purpose. Members of the new University for Industry (UfI) will be encouraged to open accounts.

There are few details about Individual Learning Accounts in the Green Paper, but there has been a great deal of work behind the scenes since spring 1998. Twelve TEC pilot projects started in June 1998 with the support of £2 million from the DfEE.

A pathfinder prospectus and a national advertising campaign are scheduled for autumn 1998. There will be a limited release of 100,000 accounts in April 1999. Although the technical and organisational issues relating to learning accounts are huge, the government's commitment to making them work is also great. The long-term plan for individual learning accounts involves the issue of smart cards for account holders, use of tax relief to encourage saving for learning and links between the new accounts and individual savings accounts.

An issue to watch in the next 12 months is the degree to which public funds are routed through the new learning account system. FEDA will shortly be publishing a paper commissioned from Geoff Stanton which explores some of the issues this could raise.

University for Industry

The University for Industry (UfI) is a major initiative of the Learning Age and is intended to be both a new organisation and a new type of organisation. It will have members rather than students. It will act as a broker of learning rather than a provider. It will refer enquirers to other organisations and it will make intensive use of information and communications technology in the conduct of its business.

The national launch of the UfI is scheduled for autumn 1999, with a national advertising campaign planned for spring 1999. The UfI has four target areas: basic skills, information and communications technology (ICT), training in skill shortage areas and small businesses. To support the UfI's operations £15 million has been allocated in 1998/9 and £50 million in 1999/2000. This expenditure is designated for 'overheads, launch marketing, product commissioning, website development, membership systems and other one-off costs'. The plan is for the UfI to become self-financing very quickly – with a major source of income likely to be franchise fees paid by its partner organisations. UfI will take over Learning Direct in 1999. Learning Direct is a national advice and guidance service that will cost £3.1 million in 1998/9 – a cost of £6 per caller.

A major area of UfI development is being funded by the European Social Fund ADAPT programme. In 1998 and 1999 £150 million will be allocated to projects that develop the UfI concept – though the ultimate link between these projects and the UfI organisation remains unclear. The FEFC(E) provided some capital funding for UfI-related projects in 1998/9.

A strategic issue for the FE sector will be the extent to which it can work with the UfI to meet ambitious growth targets.

Partnership funding

A major theme of the new government's approach to the public sector is partnership between organisations to meet common aims. Partnership is seen as more effective than re-organisation or institutional change. Funding to support collaboration in the planning of post-16 education and training now comes from the FE Collaboration Fund, which has £28 million allocated to it in 1998/9. The Collaboration Fund replaces the Competitiveness and Development Funds and has two streams: one to encourage rationalisation and mergers; the other to address local and regional skills shortages. These will be identified with the help of the sub-regional groupings established to advise on the old Competitiveness fund.

Other funding to support partnerships comes from the FEFCE's Widening Participation fund, which allocated £1 million to ten partnerships in autumn 1997 and which will allocate £1 million more this autumn. The Higher Education Funding Council for England (HEFCE) have followed this lead with their own widening participation fund, holding £2 million in 1998/9. Partnerships to widen participation in HE are likely to involve FE colleges as partners.

The drive to develop partnerships involving FE was confirmed in a FEFC circular (98/23), issued in July 1998. The current agenda of the local strategic partnerships is planning but it is possible that they will acquire staff and executive functions transferred from elsewhere. Student support is the most likely candidate for this at present.

Skills funding

The introduction to the *Learning Age* Green Paper quotes the Prime Minister as saying 'education is the best economic policy that we have'. The thinking behind using education as an economic policy is that better education will improve skills and so improve competitiveness but also that it will attack the causes of social exclusion and so reduce public spending on welfare and crime prevention. The Conservative government focused on the first part of this agenda – relating to skills – and the Labour government has now made the connection between improving skills and tackling social exclusion. Its flagship measure for implementing this policy is the New Deal for the unemployed, to which it has committed £3 billion between 1998 and 2001.

A Skills Taskforce was established early in 1998 to co-ordinate government work on improving skills, which is expected to include liaison with the new Regional Development Agencies (RDAs). These start work in April 1999 and have the responsibility of developing regional economic and regional skills strategies. RDAs will quickly become key players through their influence on regeneration and regional European funding.

The commitment to deal with skills shortages crosses many government departments. Treasury ministers and officials frequently take an interest in the issue and found £90 million in the March 1998 budget for a skills training package, which included £60 million for 120 IT centres of excellence and £30 million for Year 2000 bug training. TECs lead most of the partnerships but many FE colleges are involved as partners

A challenge for the FE sector in the next 12 months will be meeting the increased expectations about skills within the context of a tight funding and qualifications framework.

Qualifications and funding

The Learning Age emphasises the importance of raising standards. This results in a number of policies for FE including a new National Training Organisation (NTO), encouragement of initial lecturer training, target-setting by the FEFC(E) and colleges, and action to deal with colleges that fail to meet targets. The standards-raising agenda also involves changes to qualifications but, to a large extent, the current changes are a follow-through of policies started under the previous administration.

The Qualifications and Curriculum Authority (QCA) started work in autumn 1997 and has an annual budget of £72 million. This covers the National Curriculum as well as development work on post-14 qualifications. These include key skills awards, entry level awards and a rolling review of vocational qualifications carried out with the assistance of NTOs.

QCA is currently developing policies on the external accreditation of qualifications because it has extensive powers given to it in the 1997 Education Act. Section 37 of the Act says that public funding cannot be claimed for qualifications vetoed by QCA. Up to now, the DfEE has taken decisions on qualifications and FE funding via the Schedule 2(a) list. The DFEE handled this process in such a way that up to 500 qualifications were removed in March 1998 and have been reinstated since. The reinstatement of three scuba diving qualifications onto Schedule 2(a) in June 1998 means that FE's long-running diving question may not yet have been answered.

Progress remains slow in the creation of an overarching qualification structure (a signature qualification) for further education despite considerable pressure. The FEFC(E) is, however, introducing a pilot scheme in 1998/9 to test unit-based funding in response to criticisms about the inflexibility of the FE curriculum. The *Learning Age* Green Paper and the government's *Qualifying for Success* consultation make clear that the current qualification structure will remain in place for some time to come.

What next?

The government will make a number of announcements this autumn 1998 about the Learning Age, which will include the results of the consultation and its own response to them. One way of assessing the degree of commitment to the various programmes will be the level of funding they attract.

A good place to follow up any of these initiatives is the DfEE's internet site (www.dfee.gov.uk) or its Public Enquiry Unit (0171 925 5555).

Key points about the Learning Age

- Colleges need to watch the details of the government's decisions on the Learning Age. Any proposal to target public funding could reduce the subsidy to part-time education and require colleges to increase fees to compensate.
- There is a commitment to a national system of individual learning accounts by April 2000. This is likely to make learning accounts an important channel for public funding and tax subsidies for learning but it could also be linked with the need for increased contributions from individuals.
- The University for Industry is due to start operating in autumn 1999 and could take several roles in relation to college – including referral of enquiries, franchising of students, distributor of funds and local competitor.
- The case for further education is increasingly being linked to the government's desire to raise skills.

Student support changes

Further education student support has been complex and confused since before incorporation but it has only recently received government attention. The Comprehensive Spending Review announcement included three significant pieces of information:

- there would be national pilots of new education maintenance allowances (EMAs) for 16–18 year olds in 1999/2000
- these allowances would be means-tested and would depend on student attendance
- if they proved successful, they would form the basis for a reform of 16–18 child benefit.

These could be far-reaching changes to further education student support, which follow the changes to higher education student support announced in July 1997.

HE student support

There are three major changes to higher education student support that take effect in 1998/9:

- Means-tested tuition fees of up to £1,000 will be charged to new higher education students. This is expected to raise £130 million in 1998/9, increasing to £230 million in 1999/2000.
- Maintenance grants will be progressively phased out, with reduced grants being paid to new 1998/9 students and no grant being paid to them in 1999/2000. Continuing students will get maintenance grants until the end of their courses. This will save £100 million in 1998/9 and greater amounts in future years.
- Student loans are being increased to compensate for the abolition of the grant, will be paid termly and will be income contingent when it comes to repayment (i.e. graduates with lower incomes have longer to repay). More than £1 billion of HE student loans are given each year – a sum which will increase from 1998/9 and which will be capitalised in the year 2000/1 as a result of the Resource and Budgeting (RAB) initiative.

These changes will follow the Teaching and Higher Education Act 1998 which only became law in July 1998. Section 23 of the Act replaces the existing powers for local education authorities to make discretionary awards with a more general power for the Secretary of State to make grants or loans. There are transitional provisions which allow local government to make discretionary awards in 1998/9 but these end in 1999/2000 by which time the DfEE has promised to introduce revised arrangements for access funds and for supporting dance and drama students.

The administration of student support is also in a transitional phases. with the Student Loans company taking a greater role and local government a smaller one. Local government will continue to means test higher education students until the year 2000. The DfEE is reviewing arrangements for 2000/1 and beyond – it could do the job but both the Student Loans Company and the University and Colleges Admissions Service (UCAS) also want it.

The Act also creates important reserve powers for the DfEE, including the power to impose conditions on the Higher Education Funding Council (HEFC) to prevent top-up fees. Universities or colleges charging fees over £1,000 to home HE students could have grant withheld as a consequence.

However, the important implication of the HE changes for FE is not so much the changes to the law or administration but that it has put the whole issue of student support into play.

Once the government changed HE student support to make middle class students pay more, then it could not easily stand aside from the job of addressing the student support issues in further education.

Kennedy Committee

Further education student support was firmly put on the agenda by the FEFCE's Committee on Widening Participation (the Kennedy Committee), which reported in July 1997 (*Learning Works*), with recommendations that the government:

- undertake a major review of the issue
- introduce principles of transparency and fairness to financial support for learners throughout post-16 education.

This was widely interpreted as an attack on the FE/HE inequity and there were stories of the report being buried by lobbies of vice-chancellors. Although within weeks the issue was submerged by the row over the Dearing report and HE changes (see above), it did not go away and acquired increasing prominence in college lobbying.

Lane Committee

Within six months of the Kennedy report and to help it form policy, the Government appointed a Further Education Advisory Group on Student Support, with Graham Lane as chair (the Lane Committee). This started work in December 1997 and did not officially publish its report until June 1998, though it is believed to have finished its work in March 1998. The Lane Committee report makes three main recommendations:

- the DFEE should set national minimum entitlements for 16–19 year olds and for adults (over 19). These are listed in Table 7 and are costed at £400 million
- the DFEE should fund these entitlements from existing student support budgets (eg part of the post-16 Education SSA) but put in additional money. The budget should be paid out in a ring-fenced specific grant
- the administration of student support should be carried out locally, by local partnerships of LEAs, colleges, schools and others.

Table 7 Lane Committee proposals: minimum entitlements for FE students

Proposed minimum entitlements	Cost (£mil)
16,17,18 year olds	
no tuition fees for those studying full-time	0[1]
no tuition fees for those studying part-time	5
no exam or registration fees	55
transport costs for those on low income or living more than three miles from nearest appropriate course	60
education allowance (max. £300 a year) where family is on benefit or low incomes and student studies full-time	50
access fund support (currently restricted to 19+)	15[2]
sub-total	**185**
19 year olds and over	
no tuition fees for those on benefit	0[1]
no tuition fees for those on low incomes	45
no exam or registration fees for those with remitted fees	25
transport costs for those living more than three miles from nearest appropriate course	35
education allowance for those on benefit or low incomes	50
increased access funds	30[2]
lodging allowance for longer distance courses	20
sub-total	**215**

Notes 1: fee remission already funded out by FEFC(E) funding
2: in addition to the £9mil allocated in 1998/9.

The Lane Committee report was published in late June 1998 and had a consultation period ending 30 September 1998. The distribution of money between different priorities (eg transport or maintenance, under 19s or over 19s) is an essentially political one. A more significant question is whether the funds are available in the first place. In responding to the consultation the government will have to balance the clarity and equity of a uniform national entitlement to support with its concern to focus on the most needy.

The Lane Committee recommends that existing FEFC(E), LEA and college student support budgets are combined to fund the minimum entitlement but DfEE figures quoted by the Education Select Committee show that the total support for FE students (discretionary awards, grants, access funds) totalled £89 million in 1997/8 (para 80). This leaves a gap of more than £300 million to be filled from new sources. It would be possible to fund one part of the entitlement (no exam or registration fees for those with fee remission) simply by preventing colleges charging them – but this would take out £100 million from college budgets and hit the college with the poorest students hardest.

This funding gap makes it likely that the Lane Committee's recommendations will only be partly implemented – perhaps the administrative changes but not the minimum entitlements.

Select Committee

One way of bridging the funding gap was suggested by the Education and Employment Select Committee, which reported in early June 1998. The Select Committee asked few questions on student support but it took enough evidence to conclude that FE student support needed reform. It recommended that this reform should be funded by the abolition of Child Benefit for 16–18 year olds in full-time education, transferring an estimated £600 million from the Social Security budget and from parents to the Education budget and students.

The Select Committee recommended that:

- means-tested student support grants are paid to full-time 16, 17 or 18 year old students
- means-tested maintenance loans are available to students taking full-time, work-related courses, with the loans organised in a way that keeps them off the Public Sector Borrowing Requirement (PSBR).

No figures were given in the official report but, at its publication, the then Chair, Margaret Hodge, suggested a sum of £30 per week for the grant. This is much more than the figure in the Lane Committee but whereas the Lane figures assumed that the parent supports the student, Margaret Hodge assumed that they don't.

The Lane Committee calculated that 183,000 16–18 year olds would be eligible for assistance because they or their families were on benefit or low income but this figure is confined to FE students only. There will be an estimated 1,838,000 16, 17 and 18 year olds in the UK in 1998/9. Assuming that 40% of them (735,000) were eligible for a full £30 per week for 40 weeks implies a cost of £882 million a year. A holiday allowance or partial grants for other students will bring this cost to over £1 billion.

One proposal that a Labour government would want to avoid is a situation where savings on such an allowance were funded by lack of take-up by the non-participants. The Social Exclusion Unit started work in July 1998 on the 160,000 16–18 year olds in 'status zero',who are neither in education, training or work. Some of this non-participation is explained by the 96,000 teenage pregnancies but the Unit is likely to find a variety of causes and a fog of confusion about *who* should *pay* for *what* in the transition from school to adulthood.

The government's social exclusion agenda is likely to take priority over college concerns in the framing of the new 16–18 allowance.

16–18 Education Maintenance Allowance

There is little information as yet on the planned 16–18 Education Maintenance Allowance beyond what was announced in the Comprehensive Spending Review (CSR). The fact that the schemes start in 1999/2000 as pilots suggests that there will be a chance for local organisations to bid to run schemes – perhaps as partnerships of local authorities, schools, FE colleges and others. The funding of the pilots is likely to be complicated because of the involvement of several organisations and systems. There will be geographical issues if students want to travel across boundaries and there is a chance that the new national pilots will have more restrictive rules than some local authority awards – particularly if the support is linked to including the excluded.

After years of inaction, further education student support is finally receiving attention at the highest level.

What next?

The new HE student support arrangements take effect from September 1998 and will be closely monitored to ascertain the impact on students anduniversities. Changes to HE fees, grants and loans are outlined in DfEE award circular letters (ACLs) which accompany regulations made under legislation.

There will be an announcement in autumn 1998 about arrangements which will replace local authority discretionary awards and how much money will be transferred from LEA budgets to the new bodies responsible for FE student support. This could include an announcement about the 16–18 education maintenance pilots which will start from September 1999, about changes to access funds and about support for dance and drama students.

Key points for colleges about student support

- Changes to higher education fees, grants and loans create a radically new environment for universities in 1998/9 – students will have to pay more; central government will control more. The FE sector is likely to experience moves to take it in a similar direction, which could result in more detailed regulation in certain areas, for example fee policies.
- Further education student support has become a political issue but the potential cost exceeds £1 billion, just for 16–18 year olds. The pilots for a 16–18 educational maintenance allowance will indicate the government's thinking in this area.
- New arrangements will be announced to administer some aspects of financial support for students in FE. Colleges are likely to be more closely involved with both policy-making and administration.

FEFC(E) funding

It is clichéd to say that the Further Education Funding Council's funding method is complex but it is also true. Six different official reports in the last two years have suggested it be simplified but its complexity is partly a result of the attempt to be responsive. Helena Kennedy told the Select Committee that it had 'that Heath Robinson quality about it that, if you actually pull certain levers, you can make it work' (para 44). This quality will be needed to respond to the changing external requirements discussed earlier.

The three main ways in which this change will be mediated in the next 12 months are:

- the consultation on the Fundamental Review of the Funding Method
- the decisions on the 1999/2000 funding method and funding tariff
- planning for 2000/1 and beyond.

First it is worth summarising the changes that have taken place in 1998/9.

What's new in 1998/9

The FEFC(E) have made major changes to the funding method for 1998/9 in response to the agenda set by the new Labour Government. Table 8 summarises the changes and the continuities.

Table 8 Changes and continuities in FEFC(E) funding method 1998/9

What changes in 1998/9

- new convergence target for FE colleges – £16.20 ALF by year 2000/1
- new funding allocation mechanism, involving planning not bidding
- widening participation factor based on postcodes (0–5% weighting)
- specific grants included in funding for basic skills and 16–18 enrolment
- increased London weighting (for one year only)
- more qualifications individually listed (units set, regardless of hours)
- measures to make employers pay more for franchising
- increased access funds.

What stays the same in 1998/9

- Units, Tariff, ALFs ISRs, Qualaims[1], complex funding formulae.

Notes 1: Qualaims is short for qualification aims and is used by FEFC to describe a student's programme.

For a simplified account of how the FEFC(E) methodology works, see the forthcoming *Rough guide to FE funding* by David Atkinson, FEDA.

Fundamental review, stage 2

The FEFC(E)'s fundamental review started in September 1996, moved to Stage 2 in March 1997 and reported finally in September 1998. Regional consultation conferences are being held in October 1998.

The Review group comprises senior FEFC(E) officers and college managers who, it might be argued, have a shared interest in preserving existing budgets and existing systems. Whether this is true or not, the recommendations support the status quo with modifications to meet new demands. Table 9 sets out the key recommendations:

Table 9 Fundamental Review Group recommendations

1999/2000

- funds to support quality improvement and increased achievement
- reduction in unit values for employer-sponsored provision
- definition of acceptable ranges of units per FTE.

2000 and beyond

- definition of a 16–18 curriculum entitlement so that it can be funded
- moves towards the introduction of unit-based funding
- further work on value-added funding
- more consideration given to funding of distance learning in light of UfI
- possible regional factors in light of RDA role
- implementation of new, easier-to-use Funding Program
- consideration of using prior achievements as indicators of deprivation for 16–18 year olds.

No changes to fundamentals

- units, Tariff, ALFs, ISRs, Qualaims, funding decisions made nationally.

Decisions on the 1999/2000 funding method

The FEFC(E) Council takes final decisions within the FEFC(E) and meets every six weeks. It will take advice on funding from the Fundamental Review group and also from the Tariff Committee. Many of the Fundamental Review group's recommendations will be implemented through tariff changes but some key decisions (eg on the allocation mechanism) remain with the FEFC(E) Council.

It is likely in view of precedent and current government instructions that the 1999/2000 funding method will include a number of significant changes in addition to those set out above in Table 9. Table 10 sets out the likely changes.

Table 10 Likely changes to the FEFC(E) tariff and allocation for 1999/2000

- same convergence policy, perhaps with a higher target
- new growth mechanism to meet the new 1999/2000 target
- steps to improve achievement, with direct funding incentives
- adjustments to college targets to transfer HNC/D funding to HEFC
- guidance on additional support to standardise practice
- changes to some cost-weighting factors
- revisions to London weighting and consideration of a sparsity weighting
- changes to Access funds, following student support changes.

Planning for 2000/1 and beyond

Five years after incorporation, the FEFC(E) has marshalled a consensus to support the funding status quo. Key principles in this consensus are:

- Further education is a **national system**; the tariff should fully reflect all the costs and circumstances of further education and convergence of funding should aim towards a single national ALF.
- **Fairness** is more important than simplicity.
- Current funding systems are **sufficiently responsive** to respond to future changes, including those set out in *The Learning Age*.
- Necessary changes to the funding method should be implemented **via the tariff** (which can be changed quickly) rather than to the building blocks of the method because these require costly software changes. In exceptional cases (as with widening participation), changes can be made to the building blocks of the funding method but in other areas (eg unitisation, 16–18 entitlement), change will be for the long term – if at all.
- Abuses of the funding method are best handled through **closer and faster monitoring** rather than detailed regulation.

These principles are likely to define the ways in which the funding method is adjusted to deal with the challenges listed earlier in this paper and the recommendations of the Fundamental Review group for 2000/1.

A different approach is only likely to prevail if there is more radical change at national level – for example to the structure of the FEFC(E) or in response to some major change that cannot be foreseen at present. Neither looks likely but only fools believe in certain futures.

What next?

FEFC(E) circulars in the next six months will report progress on the decisions for 1999/2000 and beyond. The Fundamental Review circular came out at the end of September 1998; a tariff review circular is likely to come out in November 1998 and the main funding instructions for 1999/2000 are due by Christmas – though the FEFC(E)'s funding bible may not be out until Easter 1999. Further guidance on franchising is planned by Christmas. The FEFC(E) Council News is likely to be a good place to follow key decisions.

These documents are generally available in the backrooms of FE college libraries but are not currently available via the Internet.

Key points for colleges about FEFC(E) funding

- FEFC(E) funding will continue to change in 1999/2000 and beyond and may become even more complicated as the FEFC(E) and its Committees seek to respond to new initiatives and to prevent abuses.
- The main areas of change for 1999/2000 will be a new growth mechanism, incentives for improving achievement and continuing adjustments to the tariff to support policy objectives, including widening participation and making employers pay.

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Published by **FEDA**
Feedback and orders should be directed to **FEDA Information Centre, Citadel Place, Tinworth Street, London SE11 5EH**
Tel: 0171 840 5400 Fax: 0171 840 5401 e-mail: publications@feda.ac.uk Registered with the Charity Commissioners
Editor **Jenny Rhys** Designer **Dave Shaw** Printed by **Blackmore Ltd, Shaftesbury, Dorset**

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