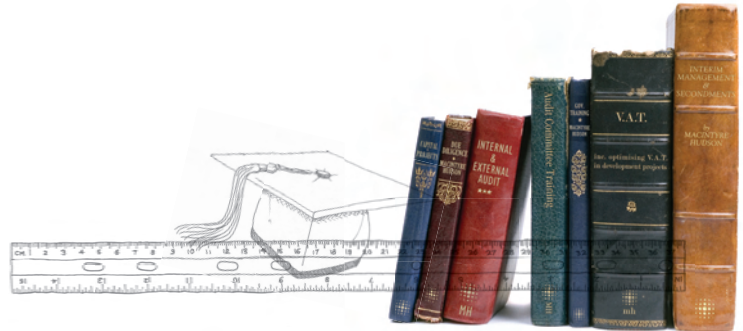




# FE Digest

## April/Spring 2010



FE Digest is an occasional review of press articles and other documents. Its purpose is to advise MH staff of current issues of importance or interest which may affect their work. It is also circulated to MH clients for their interest. **This edition makes reference to publications up to March 31 2010.**

### 1. Funding 2010-11

The Adult Skills budget is composed of two parts: The Adult Learner Responsive and the Employer Learner Responsive elements.

#### 1.1 The Adult Learner Responsive budget

The January edition of Digest outlined the Government's Skills Investment Strategy, together with anticipated funding for 2010-11 and 2011-12. Although £340m of efficiency savings were to be required during 2010-11 there was a **declared intention for spending on adult skills to increase by 3%.**

The increase in the Adult Learner Responsive (ALR) element of the Skills Funding Agency (SFA) budget between 2009-10 and 2010-11 was to be 1.7%, although it was conceded that there would be a minimum of a 3% reduction in funding rates. However, the funding statements which arrived in colleges in late January 2010 revealed **reductions in funding of between 10% and 25%**; a survey of 147 colleges showed

an average cut of 16% with a total reduction in funding of £191m.

These are dramatic cuts which, in the light of the Strategy Document, were not to be expected. How could a 1.7% increase in total funding result in such enormous reductions for individual colleges? Does anyone really know the full story? But the fact that £340m of "efficiency savings" represents 19% of the total budget presumably provides at least part of the answer.

#### 1.2 16-19 funding

Hard on the heels of the Skills Investment Strategy has come the 16-19 Investment Strategy. This document states that:

- Investment in education and training for young people will **rise to nearly £8.5bn in 2010-11**
- Account has been taken of the additional learner numbers accommodated during 2009-10 when determining funding for 2010-11
- Base rates for 2010-11 will be set at 2009-10 levels
- There will be **real terms increases of 0.9%** for 2011-12 and 2012-13
- This additional investment brings with it **an obligation to obtain best Value for Money**; the Young Peoples Learning Agency (YPLA) will work with Local Authorities (LAs) and providers to **achieve efficiencies in 2011-12 and 2012-13.**

- The **£8.5bn includes** £7.5bn for learning places, £677m for learner support and **a contribution to..... efficiency savings.**

At least this final point seems clear.

Whatever funding finally arrives in colleges **there will be effective cuts.** With funding rates for 2010-11 held at 2009-10 levels increases in costs due to inflation, together with increasing staff costs, will have to be accommodated.

### 2. Implications of funding reductions

#### 2.1 For provision

Cuts on the scale of the ALR allocations will inevitably lead to the closure of courses, perhaps whole groups of courses. In turn, such closures could also lead to a significant change in the balance of work within a college, perhaps changing its character.

#### 2.2 Staffing levels

The closure of courses evidently removes the need for staff to teach them. Redundancies seem inevitable. The Chief Executive of the Association of Colleges (AoC) has stated that the **sector is facing 7,000 redundancies.**

Such a possibility seems to have been recognised by the Learning Skills Council (LSC) – it has put aside money to help colleges embarking on major restructuring or mergers.

### 3. Other funding threats

The Higher Education (HE) sector has been suffering its own funding cuts – a total of £915m between 2010 and 2013. Or at least that was the position until the Budget on March 24 allocated an **additional £250m** to HEIs for student places and £305m in all.

Many FE colleges provide HE teaching in collaboration with a university or other Higher Education Institutions (HEIs) through franchise agreements. In the light of their own funding difficulties some HEIs may be inclined to re-think such arrangements. This work is worth an estimated £400m to FE colleges for the teaching of 170,000 students. Moves by the AoC to achieve more direct funding to FE colleges for HE work, that is funding which is not received through a collaborative agreement with an HEI, must surely be optimistic at this time. Franchise agreements involve a funding "top-slice" for the HEI to cover administrative costs. Therefore, any transfer of funding directly to the FE college must surely mean a further reduction in funding for the HE sector.

The recent funding allocations to FE colleges by HEFCE may, at first sight, appear to contradict this view. These allocations show an increase of 2.2% in the teaching grant, to nearly £196m, for all colleges with increases of almost 5% for the largest earners.

# FE Digest

April/Spring 2010

These figures certainly reflect the scale of the HE operation in some colleges. But these are allocations to colleges already directly funded by HEFCE for their HE work. They do not reflect a transfer of funding from the franchising HEIs into the FE colleges.

## 4. Increased staff costs

A recommendation for a pay award of 1.5% for 2009-10 led to a ballot for strike action among members of the University and College Union (UCU). The ballot was lost.

Implementation of this recommended increase will still represent a significant extra cost to colleges at a time when a major income stream, the ALR allocation, is being reduced.

## 5. Funding of capital projects

### 5.1 Projects for 16-19 year olds

The disappointments and financial problems associated with the collapse of the Building Colleges for the Future (BCF) programme have been noted in previous editions of the Digest.

However, the LSC has announced **conditional approval for six further projects**, two in schools, which will increase the number of places available to 16-19 year olds.

### 5.2 Compensation relating to cancelled building projects

It seems that there is still £210m of funding available from the original BCF programme. Colleges are said to be keen

for this to be released to facilitate the completion of a substantial number of small refurbishments across a wide range of institutions. However, the Treasury is apparently reluctant to release this funding until the result of a judicial review, associated with a claim by one college for the planning and preparation costs associated with a project which could not proceed, is known.

The LSC has stated that it would **only provide support for those colleges which encountered financial difficulties** due to the planning costs of colleges which were cancelled, or deferred. In this respect £34m has been made available to 41 colleges – but this represents only 20% of the costs incurred by all colleges for projects which could not proceed.

## 6. Examination costs

FE Digest has referred in the past to the costs borne by colleges in respect of examination entries. College estimates suggest that these costs have increased in total from £100m in 2000-01 to £200m last year. The underlying cause seems to be an increase in the number of accredited qualifications during this period from 2,771 to 9,708, much of it associated with the Government's wish that more learning should be accredited.

## 7. Skill, vocational education and training

### 7.1 Train to gain and related issues

The **Employer Responsive element** of the SFA budget for 2010-11 indicated a larger increase (5%) than the 1.7% of the ALR component. Within this (apparent) 5.0% increase is a 6.2% increase in funding for Train to Gain. This extra funding could be taken as a vote of confidence in the effectiveness of the Train to Gain initiative. But not everyone is happy with it.

The House of Commons Public Accounts Committee (PAC) has criticised the cost effectiveness of the brokerage system which forms part of the Train to Gain arrangements. They noted that the unit cost of "engagement" with an employer, which may or may not result in any training actually taking place, is £810. The unit cost of training is £970.

Further, only 20% of Train to Gain learners derive from these brokerage arrangements, against a recruitment target of 30%. However, the LSC considers that some 25% of "engagements" result in referral to non-Train to Gain programmes.

The PAC report calls for a **reduction in the size and scope of the brokerage service**.

A report by the Think Tank Policy Exchange refers to a number of concerns it has about skills training in the UK, including Train to Gain arrangements. It considers that:

- The Government's skills policy is too concerned with qualification targets, is too qualification driven, rather than with the skills which employers need
- Train to Gain simply subsidises training which employers would have done anyway.

The report calls for:

- The dropping of qualification targets, as set out in the Leitch Report on skills
- The abolition of Train to Gain
- The abolition of the distinction between ALR funding (most of which goes to colleges) and employer-responsive funding
- The introduction of learning accounts, which would give FE and other providers the freedom to plan and provide locally
- Funding to be made available to encourage some employers to develop an in-house training capacity of their own.

### 7.2 The recruitment of apprentices

Just as there have been long-running concerns over the brokerage arrangements for Train to Gain the effectiveness of the National Apprenticeship Service (NAS) in recruiting apprentices is being questioned. The "vacancy matching" on-line service operated by the NAS advertises approximately 4,000 new vacancies each month. But on NAS figures a total of only 6,000 people have started apprenticeships, by use of this service, since it commenced one year ago.

# FE Digest

April/Spring 2010

240,000 people started apprenticeships in 2008-09. Presumably most approached, or responded directly to, an employer. Perhaps, or even probably, some were facilitated through FE colleges.

Expenditure on the service has been £15.7m. However, it is “early days”.

## 7.3 National employers' skills survey

The UK Commission for Employment and Skills (UKCES) has conducted a survey of 8,000 employers. It found that:

- Nearly 20% of employers considered they had staff whose skills were inadequate for them to do their jobs proficiently
- The number of employees with such a skills deficit has risen by 400,000 since 2005
- Only 61% of employers were aware of Train to Gain; only 10% had taken advantage of it – largely those associated with large companies.

These findings of themselves do not mean that no good training has occurred. The nature of peoples' jobs may have changed and both staff and employers may be more conscious of training needs. But it does surely mean that there is much still to be done. **The market for colleges (and other training providers) should be buoyant.**

## 8. University technical schools

**8.1** Future developments in the provision of vocational education include the establishment of University Technical Schools (UTCs). The intention is that these schools would be sponsored by a university or FE college and provide vocational/technical education for 14-19 year olds. The first of these schools, sponsored by Aston University, is to open in Birmingham in 2012. Approximately fifteen UTCs are now in the early planning stages.

Students will take the new 14-19 Diplomas. But, each UTC will focus on only two versions of the Diploma, thus avoiding the logistical and financial difficulties associated with the present arrangements whereby each pupil in each school is to have access to all 14 (17 for 16 year olds) lines of study.

The driver of this initiative is Lord Baker, a former Education Secretary. It appears to have the support of all political parties.

Many colleges will already be considering the possible impact of such developments on their course offer and arrangements.

## 9. The 14-19 diploma

In recent years FE Digest has regularly noted the development and introduction of a new 14-19 Diploma in schools and colleges. It is probably fair to say that progress has met with some difficulties. The events of recent months have been no different.

### 9.1 The views of Sir Mike Thomlinson

In 2004 Sir Mike Thomlinson chaired a committee which recommended the introduction of an over-arching Diploma, a course which would be followed by most 14-19 year olds. These diplomas would remove once and for all the divide between a vocational and an academic education.

The Government hoped that the Diploma would become the qualification of choice. It was assumed (or feared) that the Diploma would replace GCSE and A Level examinations. However, and to the dismay of many, the Government decided to allow GCSE and A Levels to be offered along-side the Diploma and introduced “academic” Diplomas to rival A Levels.

In February Sir Mike Thomlinson expressed views which dealt a blow to these arrangements. He stated that the academic standard of the “academic” Diplomas could not match the academic standard of A Level courses. He considered it impossible, given the current structure of the Diploma and the teaching time allocated. The total teaching time allocated to the “academic” Diplomas would be no more than for a standard A Level programme – **but the Diploma had extra elements to be completed. They required the knowledge to be applied.** Something would have to give – possibly, or probably, the level of knowledge, content, concept and understanding expected in the A Level. And this would concern the universities. It would make it more difficult for holders of the Diploma to enter higher education.

### 9.2 The views of Ofqual

The examinations regulator, Ofqual, has recently reviewed three of the 14 Diplomas. It found that some of the assessments were not of an adequate standard.

### 9.3 The views of teachers

A study by Ipsos Mori, commissioned by Ofqual, observed that:

- 37% of teachers knew “nothing” or “not very much” about Diplomas
- 79% of teachers believed that university admission officers would regard the Diploma as inferior to A Level.

### 9.4 Student numbers

An EOA survey of 400 state secondary schools and 62 independent schools showed that:

- 356 would be offering the Diploma in 2010-11 but that
- Of the 356, the likely up-take by students was described as “a lot” by 19; “a little” by 255 and **not at all by 82.**  
i.e. 23% of schools offering the Diploma expected no takers!

### 9.5 Funding arrangements

Nevertheless, the 16-19 Investment Strategy promises that the funding methodology and allocations process will provide for **an uplift of 10% for all learners undertaking a 14-19 Diploma.**

Readers in colleges will have much greater understanding than we of the nature and operation of Diploma programmes. However, it seems more and more likely that the original concept of the Diploma is failing to take hold and will be discarded. It does not take a great deal of imagination to see it becoming merely a different vocational qualification offered in different (university/technical?) schools, and colleges.

# FE Digest

April/Spring 2010

## 10. Declaration of CPD

The January 2010 edition of Digest referred to the low completion rate by college staff of their records of continuing professional development (CPD) for the previous year. It noted that the ultimate sanction for a failure to comply was withdrawal of their Licence to Practice.

However, the Institute for Learning (IfL) has decided that such staff will not face serious sanctions this year: Letters of advice will be sent to those who have not declared and this will be noted on their IfL record.

## 11. Fit notes not sick notes

From 6 April 2010 the Social Security and Statutory Sick Pay (SSP) Amendment Regulations 2010 come into force, whereby the traditional "Doctors Certificate" will be replaced with a "Statement of Fitness for Work".

The intention is to focus on what the employees **will be able to do at work rather than what they cannot**. The new fit note system will mean GPs can advise that the employee is either:

- Unfit for work; or
- May be fit for work

If the doctor decides that an employee may be fit to work they will also be able to suggest means of helping an employee back to work such as:

- A phased return to work
- Flexible working
- Amended duties
- Workplace adaptations.

The changes will enable doctors to provide more information on the employee's condition and in turn allow employers to understand how they can reduce the obstacles for an employee to returning to work, thus encouraging fewer employees to be "signed off" work.

The forms are designed to give information that will allow employers to facilitate conversations regarding a return to work and the premise is that, as a result of open discussions and possible outlined adjustments, employees will return to work earlier and this will in effect reduce unnecessary sickness absence.

The obligation to pay SSP and to make reasonable adjustments under the Disability Discrimination Act 1995 will not change. The "maybe" fit note will still be issued from day 8 of incapacity. However; **the maximum length of sign-off for sickness has been reduced from six months to three months.**

The information on the form is still advice and is not binding on the employer. This allows for some flexibility for employers if they are unable to adhere to the adjustments suggested. If the employer cannot support the adjustments suggested by the GP then the statement should be used as if the doctor had advised that the employee was not "fit for work"

Overall the "maybe" fit note could be a useful aid to employee discussion and consultation but should not be used by employers to pressurise employees back to work before they are ready. In reality though **there has been scepticism regarding the fit note system** because of a potential perceived inability for

the system to truly encourage employees back to work.

Employers are worried that a GP's lack of occupational training will not allow them to be able to effectively advise on what adjustments could be made to allow the employee to return to work.

Significant sick absence reductions will however indicate the true worth of the new system in the future.

## 12. Transition to YPLA, LAs and SFA

The January 2010 edition of the Digest summarised the roles of the Young People's Learning Agency (YPLA), the Local Authorities (LAs) and Skills Funding Agency (SFA) when the LSC is replaced. The re-emergence of the influence of the LAs was noted.

That edition of the Digest also referred to the publication of a consultative document, the National Commissioning Framework (NCF), which described the anticipated arrangements for the planning and commission of 16-19 educational provision in the immediate future.

In response to this consultation the Local Government Association (LGA) has drawn attention to the fact that:

- Local authorities will wish to review the pattern and cost effectiveness of provision for 16-19 year olds and that
- Whilst there is a legislative framework in place for changing the pattern of provision in schools no such framework exists in respect of **largely autonomous**

**providers such as colleges.**

The LGA paper notes that "it is not clear what powers the Local Authority or the YPLA would have **"to make a change to a college"**!"

## 13. Responses to the cuts and the financial future

Many view the cuts referred to in item (1) as just the beginning. The accommodation of such funding constraints will require significant responses. Some actions might relate to familiar matters associated with the control of costs or increasing income – although perhaps pursued more aggressively. Some might involve a more fundamental way of working and some be quite revolutionary in nature.

Various individuals and organisations have made suggestions in recent months. Some of these views are summarised very briefly below:

- The Director General of the UK Commission for Employment and Skills (UKCES) is sympathetic to the view that **any organisation can absorb a 10% cut** and maintain services at the same level.

He considers that colleges should increase fee income and that, excluding 16-19 provision, if they did this to the level of many other countries, they would raise more than £1bn. Things would then look very different.

Many in colleges believe the advent of Train to Gain has led to an **expectation of free training which is hindering attempts to increase fee income**. The review of fees policy being undertaken

# FE Digest

April/Spring 2010

by Chris Banks may have something to say on this matter.

But a report by KPMG suggests that **colleges face (public) funding cuts of 20%** over the next three years and that unless other funding streams can compensate for this loss (together, presumably, with as many efficiency gains as possible) **colleges will struggle**.

- The Chief Executive of Becta has recommended that colleges should seek to make savings by outsourcing

more of their central and administrative services. However, colleges may be understandably cautious to engage in such arrangements in respect of their essential and sensitive systems.

- Much of the college estate is still in need of refurbishment. In the light of the collapse of the BCF programme some colleges are said to be considering some form of sale and lease-back arrangement of their sites and buildings. However, the uncertainty of the revenue streams required

to pay for the leases appears to be a concern for some.

- And the “revolutionary” idea comes from Eversheds, the law firm, in a report commissioned by the 157 Group of Colleges.

One of the key suggestions in the report is for colleges to **convert from a corporation to a company structure**. Their view is that this would bring additional freedoms and flexibility of action. Accordingly, a college might act as a parent company, running a number of separate businesses or the college may

form one part of the business of an overarching company.

Ian Pryce, Vice Chair of the 157 Group, is quoted as saying that “our sector has many world-class colleges that..... will not want to be constrained by current corporate structures if this jeopardises their competitiveness”.

We shall doubtless hear more of some of these considerations in the months and years ahead. At the very least though, more mergers and fewer colleges seems certain.

## How to contact us

email: [info@mhllp.co.uk](mailto:info@mhllp.co.uk)

web: [www.macintyreHUDSON.co.uk](http://www.macintyreHUDSON.co.uk)

### London City

Tel: 020 7429 4100  
Fax: 020 7248 8939

Rakesh Shaunak  
Senior Principal  
[rakesh.shaunak@mhllp.co.uk](mailto:rakesh.shaunak@mhllp.co.uk)

David Morris  
Director of Education  
[david.morris@mhllp.co.uk](mailto:david.morris@mhllp.co.uk)

### Chelmsford

Tel: 01245 353 177  
Fax: 01245 252 877

Jonathan Cope  
Principal  
[jonathan.cope@mhllp.co.uk](mailto:jonathan.cope@mhllp.co.uk)

Lisa Barling  
Principal  
[lisa.barling@mhllp.co.uk](mailto:lisa.barling@mhllp.co.uk)

### High Wycombe

Tel: 01494 441 226  
Fax: 01494 465 591

Bianca Silva  
Principal  
[bianca.silva@mhllp.co.uk](mailto:bianca.silva@mhllp.co.uk)

### Northampton

Tel: 01604 624 011  
Fax: 01604 230 079

Elaine Olson-Williams  
Principal  
[elaine.olson-williams@mhllp.co.uk](mailto:elaine.olson-williams@mhllp.co.uk)

This publication is designed for information purposes only. Whilst every effort has been made to provide accurate and up to date information, it is recommended that you consult us before taking or refraining from taking action based on matters discussed. MacIntyre Hudson is the trading name of MacIntyre Hudson LLP, a limited liability partnership, registered in England. Registered number: OC312313. Registered office: 201 Silbury Boulevard, Milton Keynes MK9 1LZ, where a list of Principals' names is available for inspection. Represented at Bedford, Chelmsford, High Wycombe, Leicester, London EC4 and N20, Milton Keynes, Northampton, Peterborough and Rochester. UK member of Morison International with independent member firms worldwide. Registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. Principals acting as administrators or administrative receivers contract as agents and without personal liability. MacIntyre Hudson Corporate Finance Ltd is authorised and regulated by the Financial Services Authority (FSA). Financial advice is provided in association with Carrwood MacIntyre which is an independent advisory firm and is a trading name of LighthouseCarrwood which is an appointed representative of LighthouseXpress Limited which is authorised and regulated by the FSA. Further information and links to the respective regulators can be found via our website [www.macintyreHUDSON.co.uk/information.html](http://www.macintyreHUDSON.co.uk/information.html) © 2010 MacIntyre Hudson. All rights reserved.