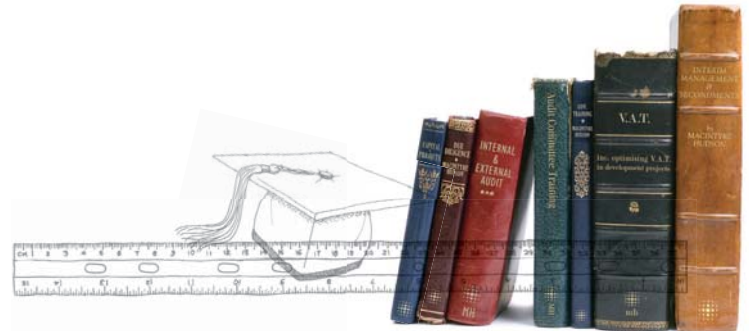




FE Digest

January/Winter 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 December 31 2009.

1. After the LSC..... the LEAs!

For new readers, a little history. Until 1992 FE colleges were a part of the local education service overseen by the Local Education Authorities (LEAs). The Further and Higher Education Act of 1992 changed all that: FE colleges became "independent" corporations. The colleges appointed their own auditors. Colleges received the majority of their funding through the Further Education Funding Council (FEFC). The FEFC was later replaced by the Learning and Skills Council (LSC).

The replacement of the LSC by the Young People's Learning Agency (YPLA) and the Skills Funding Agency (SFA) was brought in to effect following the passage of the Apprenticeships, Skills, Children and Learning Act 2009.

1.1 Future arrangements for 16-19 provision

Whilst the YPLA will be the funding body it becomes ever clearer that the **Local Authorities are to be at the heart of these arrangements**. A consultative document, entitled the National Commissioning Framework (NCF),

was published on 16 November 2009. The primary purpose of this Framework is to set out the mandatory elements associated with the planning, commissioning and quality assurance of education and training for:

- Young People aged 16-19
- People aged 19-25 for whom a learning assessment is in place
- People aged 10-18 in youth custody.

The document also sets out funding and payment systems.

It is made clear that the principle of devolving responsibility for 16-19 education to the local level, **together with the lead role of Local Authorities, does not form part of the consultation**. Those responding to the consultation are asked to answer a number of specific questions – although they may provide more general views on the Framework as a whole.

The consultation period ends on 5 February 2010.

It is intended that the final form of the Framework will be issued by the YPLA in April 2010. The arrangements for **funding various providers will come into force on 1 April 2010**; the arrangements for the **planning and commissioning of provision relate to the academic year 2011-12**.

The planning and commissioning arrangements, with the establishment of 43 sub-regional groups (SRGs) of linked Local Authorities (LAs) which will "provide a forum for LAs (150 of them) to work together" and Regional Planning Groups (RPGs)

which "bring together regional education and strategic skills agendas", seem very complex and bureaucratic.

A key principle underpinning the NCF is that the system should deliver Value for Money. It would appear that the outcomes of these arrangements will have to be very much better than those currently in place if the operation and cost of such arrangements is to be justified.

1.2 Local authority influence over other provision

But it seems that this influence of the Local Authorities does not stop with 16 to 19 provision. It emerged in October that Local Authorities will have a veto over (or sign-off) skills strategies devised by the nine Regional Development Agencies (RDAs), of which more in item (2). It would seem that this will require more collaboration, more of LAs and RDAs, "working together", and more time consuming bureaucracy.

And, in November, the Chair of the Local Government Association (LGA) made a bid for control of FE funding for adults up to the age of 25!

Of course, there is to be an election in the early part of 2010. The Conservative party does not agree with any of this. Should there be a change of government none of this may happen – or, at least, endure. The Tories would prefer, not a reversion to the controlling influence of LEAs but the replacement of the LSC by a Further Education Funding Council for England (FEFC) which would

act solely as a funding agency, not another planning body.

Now there's an idea!

2. A skills strategy

In November 2009 the Department for Business, Innovation and Skills (BIS) produced a skills strategy in a form of a White Paper "Skills for Growth". Although said to renew the government's commitment to the Leitch Report for improving skill levels in the UK the strategy identifies new priorities and approaches in six key areas:

- **To promote the skills that matter for economic prosperity**
To this end the previous focus on Basic Skills and Level 2 qualifications, and the aim to give 50% of young people the opportunity of a University education, must be supplemented by a drive for more people to obtain an advanced vocational education and build a modern class of technician with higher level trade skills
- **To expand drastically the advanced apprenticeship system for young adults**
To this end as many as 35,000 additional advanced and higher level apprenticeships will be introduced and University Technical Colleges for 14-19 year olds will be established

FE Digest

January/Winter 2010

- **To ensure the skills system is both responsive to the demands of business and supports key sectors for growth**

To this end more funding will be focused on those sectors on which future growth and employment depends through the SFA, the UK Commission for Education and Skills (UKCES), Sector Skills Councils (SSCs), RDAs andLAs. RDAs, in particular, will be given a strategy-setting role

- **To empower all adults to equip themselves for future jobs**

To this end skills accounts for individual adults will be introduced

- **To increase the recognition of employers of the value of investing in the higher skills of their workforce**

- **To further improve the quality of provision in FE colleges (and other training institutions)**

To this end greater autonomy for colleges is envisaged (see later, item 5.2) but **funding for lower priority courses would be reduced.**

3. The views of others on skills provision

During the autumn other organisations published their views on the provision of skills training in the future – views which either reflect, or indeed may have influenced, the Skills White Paper.

3.1 The views of the CBI

In a paper “Reforming Skills Funding: Delivering Productive Results” by the Confederation of British Industry (CBI), published in November, the CBI considered that:

- Funding for courses which have no economically valuable output should be halved
- A fully market-led approach should operate whereby providers should simply (and only) draw down funding as employers enrol staff on courses
- Currently, the training demands of employers cannot be met effectively due to the bureaucratic nature of funding arrangements – a single conversation between employer and provider is required.

3.2 The views of UKCES

In October the UK Commission for Employment and Skills (UKCES) published a report “Towards Ambition 2020: Skills, Jobs, Growth”. It calls for the phasing out, or review of, all FE improvement organisations and quangos such as the Learning and Skills Improvement Service (LSIS), the work of Becta, Standards Verification UK and the self-financing of the Institute for Learning (IfL).

The cost of the “quality-improvement” quangos is estimated to be £130m per annum. The solution put forward by UKCES is to make **quality control and improvement user-led through the publication of information on student success rates and destination** – quite like the Framework for Excellence, in fact.

3.3 LSIS

The Learning and Skills Improvement Service (LSIS) seems alive to these issues, or at least to the need for it to change its role or mode of operation. David Collins, its Chief Executive and formerly President of the Association of Colleges (AoC), is conscious of the need to provide better value for money. To this end he aims to give 80% of its £97m budget to colleges and other training providers in the form of LSIS accounts which can be spent on programmes and services.

4. Adult basic skills

A recent BIS report states that targets for Adult Basic Skills programmes have been exceeded two years ahead of time. 2.8 million adults have achieved qualifications in literacy and numeracy.

Disappointingly, though, recent research has shown that **obtaining such qualifications has no measurable effect on the chances of an adult either to obtain a job or increase his/her earnings.** The programme costs £1 bn per annum.

Such Skills for Life programmes doubtless benefit adults in a number of other ways. However, given the priorities defined in the Skills Strategy White Paper, it would come as little surprise if the funding for such programmes came under pressure (see Item 5).

5. Skills investment strategy

Subsequent to the publication of the Skills White Paper the Department of Business, Innovation and Skills published

its Skills Investment Strategy which, although it reiterates some of the intentions of the White Paper, gives more detail on the operational approaches, anticipated funding and Learning Numbers for the years 2010-11 and 2011-12.

5.1 Funding levels

The document makes the point that progress on the improvement of the nation’s skills base will have to be achieved against “a much tighter fiscal environment”. It draws attention to the **commitment to make a £340m of efficiency savings across FE and Skills for the financial year 2010-11.** However, despite the need to make these savings **the intention is for spending on adult skills to increase by 3%.**

In particular,

- The overall increase in the Adult Learner Responsive budget between 2009-10 and 2010-11 is 1.7%
- The total **Employer Responsive budget increases by 5%**
- The budget line for Skills for Life within both the Adult Learner Responsive budget and the Employer Responsive budget is **planned to decrease** by approximately 5%
- Within the Adult Learner Responsive budget substantial increases are planned for Full Level 2, Full Level 3 and Level 4 provision of 11.9%, 12.6% and 9.4% respectively
- The Train to Gain budget line increases by 6.2% with by far the **largest increase (13.5%) planned for Full Level 3 programmes.**

But note, though, that **funding rates** for Adult Learner

FE Digest

January/Winter 2010

Responsive provision are to be **reduced by 3%**.

5.2 College management of this funding

Considerable emphasis is put upon rewarding Colleges and other training institutions which "continue to improve the quality and relevance of training" provided. This will mean "greater budget and monitoring flexibility" for the majority of Colleges.

Thus, although specific figures have been allocated to the different budget lines, **substantial virement will be possible for most:**

- **Outstanding Colleges** will be permitted to vire "between budget streams where this is responding to meeting national delivery priorities", and
- All, except new or poorly performing colleges, will be free to vire **within (although not between) Adult Learner Responsive budgets.**

5.3 Funding arrangements

The management of funding allocations by the SFA appears reasonably uncomplicated: Account Management Teams will be based around the country, each responsible for a caseload of colleges. The intention seems to be for one account manager to deal with the whole of a college's FSA Funding provision and performance review.

6. Funding and the September guarantee

Many colleges reported an increase in demand for places in September 2009 due to the impact of the recession on the job

market. Some enrolled students in excess of their target number – an understandable response to the Government's "September guarantee" of a college place for all 16 and 17 year-olds who want one. However, the LSC announced in October that **only those institutions which had exceeded their recruitment targets by 10% or more would be eligible for extra funding.**

Some help in meeting the September Guarantee came though in the Pre-Budget Report (PBR) in December – although for next year, 2010-11, when an additional £200m will be allocated.

Funding for 16-19 places in general is set to rise by 0.9%.

7. Addressing future funding constraints

A paper entitled "Protecting Services to Students by Targeting Cuts and Embracing Efficiency", commissioned by the 157 Group of Colleges, identifies areas, other than those within colleges themselves, where efficiencies could be made which could prevent, or restrict, cuts to front-line services. The paper calls for:

- Reductions in the cost of FE intermediary bodies and quangos such as Becta or LSIS
- Reductions in the administrative costs of the LSC, YPLA and SFA to the level of the former FEFC
- A review of the collaborative arrangements for the achievement of the 16-19 Diploma
- The achievement of economies of scale by reorganising schools' sixth forms and reducing their funding levels to those of FE Colleges.

Given the Government's intentions to protect "schools" funding, as expressed in the PBR, the possibility of achieving savings from this last source must be doubtful.

8. Pressure on fee income

It seems that these times of funding constraints may well bring with them a demand for **colleges to further increase their fee income.** Chris Humphries, the Chief Executive of UKCES, has drawn attention to the fact that the fee income collected by colleges is far smaller than institutions regarded as comparable in other countries. Such institutions in the United States, Australia, Canada received 20-40% of their turnover from employers, but Mr Humphries estimates a level of only 2-3% in UK colleges. He considers that **colleges should concentrate of increasing fee income rather than complaining about funding cuts.**

But, of course, colleges in the UK have a substantial commitment to the education of 16-19 year olds, to whom no fee may be charged. And the subsidised arrangements for training through Train to Gain may also militate against the achievement of a substantial increase in fee income from employers.

Lord Mandleon has announced a review of FE Fees policy with the expectation that businesses, as the beneficiaries of skilled personnel, will bear more of the cost.

The review group is to be chaired by Chris Banks, Chairman of the LSC.

9. Examination fees

The sums which colleges have to devote to meeting examination costs has been noted in a number of editions of the Digest. Most recently, in July 2008, the Digest referred to increases in examination fees, the overall cost borne by colleges in meeting these fees and **the possibility of such fees being capped.**

Originally the regulator, Ofqual, would simply have been required to set out the reasons for a capping of any examination fees, whatever those reasons may be. However, the Children's Minister, Baroness Morgan, declared recently that Ofqual can now impose a cap only if it can show such action is **necessary to achieve Value for Money.**

The view of one examination Board, that the capping of fees could stifle innovation, seems (or seemed) to have won the day. However, somewhat confusingly, Kevin Brennan, the FE Minister, has subsequently been reported as saying that the Government and Ofqual would **crack down on examination fees as funding gets tighter.**

We shall see.

10. News of the 14-19 diploma

10.1 Entrance to higher education

Recent editions of the Digest have noted some problems which have been encountered during the development and introduction of the new 14-19 Diploma. One of these difficulties has been its acceptability as an entrance qualification to higher education (HE). These difficulties seem, if any-thing, to have increased in recent months.

FE Digest

January/Winter 2010

Firstly, it has transpired that many Higher Education Institutions (HEIs) are demanding an A level pass in addition to the completion of the Diploma as an entrance requirement. Apparently, as reported by Sue Betts the Director of Linking London Lifelong Learning Network, some pupils are not being allowed to fulfil this additional requirement. Iain Wright, the 14-19 Education Minister, has said that "no student should be denied the option of going to University because they cannot sit A Levels alongside Diplomas".

One suspects that the non-availability of A level as part of the Diploma programme is either logistical, giving the collaborative operational arrangements required for the delivery of diploma programmes, or a result of the assumption that the Diploma was to be **an alternative to A levels**.

Secondly, HE is facing substantial funding cuts. Many of the top universities seem inclined to reduce student places rather than the unit of resource. Therefore, competition for entry would increase. Under such circumstances the tendency may well be for a university to stick with the entrance qualifications it knows.

10.2 Student entitlement

The entitlement of students to follow any one of the full range of Diploma programmes has also caused concern of late.

This entitlement is enshrined in the Education Inspections Act 2006. Accordingly, by 2013, all 14-16 year olds have an entitlement to pursue any of the 14 "lines of learning" and all 16-

19 year-olds access to all 17 lines. LEAs, presumably, will be required to secure such access.

Given the present requirements regarding the delivery of these programmes, and the limited up-take by students, **it is hard to believe that this will be achievable in any cost-efficient way.**

11. Membership of the institute for learning

Membership of the Institute of Learning (IfL) constitutes a Licence to Practice for lecturers. As a part of these arrangements lecturers are required to register records of their mandatory 30 hours of continuing professional development (CPD) over the previous year. The original deadline for the completion for these records was 31 August 2009. By this time only 59% of the 188,000 eligible staff had registered. The deadline was extended to 31 December 2009.

The ultimate sanction if staff failed to comply would be the withdrawal of their Licence.

12. The sector of the future

12.1 The manifestos

The Association of Colleges (AoC) and the 157 Group of Colleges, the nature of which was referred to in the Digest of April 2007, have been issuing their so-called manifestos: lists of developments which they believe should happen, might happen or wish would happen, and which they hope an incoming Government will adopt.

To pick out a few points:

The 157 group

- Wish to see a reduction in bureaucracy and the removal of (some) quangos
- Believe that the Local Authority commissioning methodology should be reviewed
- Is concerned that colleges will fare less well than schools or universities under the forthcoming funding constraints
- Believe that colleges should seek to become the polytechnics of the future.

The AoC notes that colleges should be able to enrol 14-16 year-olds as their own full-time students and that the Higher Education Funding Council for England (HEFCE) should fund more colleges directly for the higher education provision which they deliver.

But is one group of colleges, known as FE colleges, really going to extend its reach and remit from 14-16 year olds to university students? Reports of individual institutions attempting such a widely embracing role do not suggest that this is an obvious way forward. A number of FE colleges have merged with, or were taken over by, universities in recent years. A recent Ofsted review of four of the institutions suggests that these developments have not been a huge success. And as noted in the previous addition of the Digest a recent survey showed (unsurprisingly) a lower level of student satisfaction among HE students studying in FE Colleges compared with those in universities.

Perhaps, once again, FE colleges,

either collectively or individually, will have to decide what they really are and what they want to be.

12.2 The future of sixth form colleges

Colleges which are actively engaged in defining their future at the moment are the Sixth Form Colleges.

The Apprenticeships, Skills, Children and Learning Act gave Sixth Form Colleges a new statutory designation. Colleges, any colleges, will be able to apply to be designated as Sixth Form Colleges if 80% of their work is with 16-19 year olds.

Many of the issues already discussed in this edition of the Digest will affect existing Sixth Form Colleges differentially. Not all colleges, currently known as Sixth Form Colleges, will necessarily apply to be so designated – although it is to be expected that the "80% figure" has been carefully judged.

13. "Lennartz" VAT accounting arrangements removed with immediate effect

A decision in December 2009 by the ECJ has resulted in "Lennartz" VAT accounting arrangements being withdrawn in the UK with immediate effect. The case has confirmed that there is no right to an initial recovery of VAT on assets which will be used for a non-business purpose.

In applying the decision, HMRC issued a Brief on 22 January 2010 outlining that Lennartz will

FE Digest

January/Winter 2010

only be available in the following specific limited circumstances:

- The asset is partly used for making taxable supplies which would give a right to VAT recovery; and
- They are also used in part for the private purposes of the trader or his staff, or exceptionally, for other uses wholly outside the taxpayers business.

From 22 January 2010 where Lennartz cannot be applied an adjustment to restrict VAT

recovery must be made at the outset to reflect non-business use.

Many FE colleges and Charities will be affected by this decision and should review their VAT position on capital construction projects. HMRC have stated that it will permit taxpayers to continue to use Lennartz where they have commenced such arrangements, provided that they "honour the full on-going commitment to account for output tax". Alternatively, such arrangements may be unwound subject to agreement with HMRC.

For taxpayers about to embark on such capital expenditure HMRC will consider continued use of Lennartz where there is a binding commitment for projects on the understanding that Lennartz is available.

Much remains to be resolved in this change to policy. If you are affected by this decision and want to discuss next steps please contact Alison Horner our VAT Director, on 01604 624011 or email alison.horner@mhllp.co.uk.

How to contact us

email: info@mhllp.co.uk web: www.macintyreHUDSON.co.uk

London City

Tel: 020 7429 4100
Fax: 020 7248 8939

Rakesh Shaunak
Senior Principal
rakesh.sh aunak@mhllp.co.uk

David Morris
Director of Education
david.morris@mhllp.co.uk

Chelmsford

Tel: 01245 353 177
Fax: 01245 252 877

Jonathan Cope
Principal
jonathan.cope@mhllp.co.uk

Lisa Waghorn
Principal
lisa.waghorn@mhllp.co.uk

High Wycombe

Tel: 01494 441 226
Fax: 01494 465 591

Bianca Silva
Principal
bianca.silva@mhllp.co.uk

Milton Keynes

Tel: 01908 662 255
Fax: 01908 678 247

Elaine Olson-Williams
Principal
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 CPA Associates International with representative 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. Further information and links to the respective regulators can be found via our website www.macintyreHUDSON.co.uk/information.html 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 LighthouseExpress Limited which is authorised and regulated by the FSA. © 2010 MacIntyre Hudson. All rights reserved.