



a simplified FE and skills funding system and methodology

TUC submission to the government consultation

Introduction

The TUC welcomes the opportunity to comment on the government's consultation on making the FE and skills funding system for post-19 learners simpler and more effective. It should be noted that the TUC submission to the *Skills for Sustainable Growth* consultation contains a great deal more detail on a wide range of policy areas that are inextricably linked to the proposals in this consultation to deliver an effective and equitable funding system. In particular, the TUC is of the view that the policy issues highlighted below are of paramount importance and that any resulting reforms to the funding system should be assessed against their capacity for delivering on these policy priorities.

Ministers have rightly emphasised the social, as well as economic, role that learning plays. Nowhere is this more evident than in promoting equality. Investing in skills can play a very large part in reducing inequalities in relation to gender, disability, race, age and other areas. Low pay and unemployment is often a result of lack of skill and is disproportionately concentrated within already disadvantaged groups in society. The government has in particular expressed concern about the position of women and BME workers and we look forward to a skills strategy which prioritises reducing inequality, as well as raising national competitiveness.

The TUC remains concerned that a sharp reduction in investment in skills by the government as a result of the forthcoming spending review will further damage prospects of a viable economic recovery in the near future and will also deprive the most vulnerable in society of the opportunity to develop their skills in a very tough labour market. It is therefore essential that the right to request time to train is open to all employees and that existing 'skills entitlements' enshrined in legislation are preserved to ensure that the most vulnerable in our society can access skills development. In addition, any shortfall in government spending on skills must be compensated for by an active strategy to increase business investment and this must involve consideration of all policy levers, including a proactive procurement policy and a commitment to test out other levers such as occupational licences to practice.

The commitment to build a skills system that is driven by the informed choices of learners as well as employers is welcome. There is a real opportunity to use Lifelong Learning Accounts to empower many more people, with the support of unions where appropriate, to access learning and skills both on an individual and collective basis. Furthermore, at a time when there will be less public subsidy for learning and skills at the workplace there needs to be frameworks in place which encourage co-investment in learning by employers, employees and providers, as well as the state. This co-investment could be in the form of both cash and in-kind contributions and could build on the collective learning funds initiative that unionlearn, with the support of BIS, have been trialling in the North West and East Midlands to test different models of making learning both affordable and accessible.

There is also an urgent need for government to align a strategic approach on skills with an active industrial policy so that we can build the skilled workforce that we need for growth areas, especially in key areas such as the low carbon sector. The funding system therefore needs to be able to support the development of skills needed for new and expanding parts of the economy which cannot be met simply by depending on individual or employer demand.

The consultation questions

Q1. We welcome views on whether these are the right principles for a streamlined FE and Skills system - are there any others?

Q2. We welcome views on whether there are other areas of the wider FE and skills system that should be focussed on to simplify systems and processes and reduce burden?

There is much to welcome in the principles that are set out for a reformed funding system and stakeholders will support the majority of them. However, one area where we believe the framework of principles is lacking is relating to the crucial role of skills in promoting greater equality and diversity, social cohesion and social mobility (e.g. this could be rectified by expanding on the existing principle relating to ‘what society and the economy need’).

There is also a danger that the emphasis placed on ‘putting trust in colleges and training organisations’ and a ‘market driven system’ means that there is not enough of a focus on the need for the funding system to deliver on national priorities. For example, there is a general consensus that the three existing ‘skills entitlements’ that are enshrined in legislation are focused on those groups in society that should be prioritised for receipt of full funding to achieve a certain skill level. There also needs to be a balance between giving greater freedom for providers to meet local need and the capacity of the system to support other national priorities, such as supporting workforce skills for new and expanding parts of the economy.

There also remain concerns that the divide between the funding system that applies to young people and the system which applies to ‘post-19 learners’ is increasingly anachronistic. At the same time there are justifiable criticisms about the disconnect between the skills funding system, the HE funding system, and the funding of training via other funding streams (e.g. DWP and Jobcentre Plus). At the heart of this debate is the need for all these different funding systems to facilitate progression by ensuring that individuals are empowered to access the appropriate funding that they are eligible for at the right time in order to support their progression up the skills ladder.

There is also a need to maintain a degree of stability among the college and provider network as large scale reforms implemented without due regard for this will have an adverse impact on the end user, i.e. individuals and employers. At the same time it would be welcome if the framework of principles made some reference to the vital role of the college and provider workforce and the need to

ensure that the reforms to the funding system equally empower them to deliver high quality learning provision to individuals and employers.

Q3. We welcome views on the benefits of extending the current approach to a single post-19 funding stream and whether there are alternative models to consider.

Q4. Would a funding envelope covering the Spending Review period support improved delivery and performance - if so to what extent?

The TUC is broadly supportive of the move to have a single post-19 budget but with a number of caveats. Firstly, we agree with the proposals in the consultation document that the budgets for provision funded through other government departments, such as the Offender Learning and Skills Service and ESF, should remain outside any single budget.

Secondly, we are of the view that the government should retain a separate Adult Safeguarded Learning budget in order to maintain a degree of protection for Adult and Community Learning (ACL) provision outside the QCF. Whilst it cannot be taken as read that ACL provision would automatically reduce if it was integrated into a single budget, the TUC believes that there is a strong likelihood that this would be the outcome. The TUC is also concerned that even within a safeguarded budget ACL provision could be ‘crowded out’ by further widening the remit of this funding stream (e.g. via further incorporation of uncertificated Skills for Life provision).

Setting out a funding envelope covering the Spending Review period would support improved delivery and performance in the sector but only if colleges and providers were convinced that this was a genuine attempt by government to set funding parameters that enabled the sector to plan provision and set priorities (e.g. planning the cost of meeting individual demand generated by ‘skills entitlements’ whilst also meeting the wider learning and skills needs of the local economy and community). The TUC is also partly wary of government setting in stone substantial spending cuts in the post-19 budget over a 3-year period as this gives little room for manoeuvre if changed circumstances (e.g. faster than anticipated economic growth or intense social pressures) provide a strong case for ameliorating the spending reductions.

Q5. We welcome views on how the sector should take the lead in determining the funding allocated for LSIS and the broad parameters of how this is spent.

The TUC supports the role that LSIS currently plays in facilitating improvement support for colleges and providers and we are also in favour of the proposal in the consultation that a significant proportion of LSIS funding should be part of mainstream participation for post-19 provision and top-sliced. However, there would be a need to ensure that the LSIS Council properly reflects the make-up of all parts of the sector so that it truly represents all constituents when making

decisions about the funding and direction of sector-led approaches on improvement support.

Q6. We welcome views on how we can ensure the funding system supports the sector in responding to the needs of the most disadvantaged.

There are key aspects of the existing funding system that supports the sector in responding to the needs of the most disadvantaged, in particular the full fee remission granted to certain groups and also the ‘skills entitlements’ that provide fully funded provision for individuals who have not previously acquired Skills for Life and/or Level 2 qualifications. The TUC strongly supports retaining these features of the existing funding system in order to ensure that the most disadvantaged and vulnerable are safeguarded from any forthcoming reduction in government spending on FE and skills. There is a balance between introducing further incentives in the funding system to give greater support to the most disadvantaged and the resulting complexities that may arise out of this.

However, the TUC’s view is that considering the current economic context and the real risk of further increases in unemployment, there is a case for considering other incentives to ensure that the sector is responding adequately to the priority of helping unemployed people to acquire the necessary skills to help them back into work. However, we would be wary about the use of a blunt ‘job outcome’ payment system as experience has shown that this can lead to some perverse outcomes, including providers ‘creaming off’ the most job-ready candidates and also outcome payments being triggered by individuals gaining very short-term employment. Any job outcome payment system would need to be based on the achievement of sustainable employment and with safeguards in place to incentivise providers to cater for unemployed people facing the greatest barriers to work.

Q7. We welcome views on whether the approach to public subsidy should be differentiated.

Q8. We welcome views on whether employers should be accommodated through different measures within the funding system based on their size.

The TUC supports the aim of ensuring that the funding system provides better clarity about what the state will pay for and what the contribution of employers and individuals should be. As highlighted above, we are calling for the government to retain the existing skills entitlements so that all adults can access fully-funded provision for Skills for Life and first Level 2 qualifications and young people can do likewise for Level 3 qualifications. We also believe that there may be cases for moderating the fee level (e.g. the government needs to assess how it can support priority sectors, such as low-carbon, where market failure is a key challenge holding back the rapid development of a skilled workforce).

In principle we support any measures aimed at preventing deadweight and reducing government funding going to employers – especially the largest employers - who would have trained their staff in any case. We therefore agree that there is a case for considering a banded fee system based on enterprise size but with some key caveats. One being the need to widen awareness among eligible employees of how they could use their individual skills entitlements outside the workplace so that disadvantaged workers in large organisations are not ‘shut out’ of the skills system. The other key challenge would be to prevent any such banded system resulting in increased bureaucracy.

Q9. We welcome views on the practical implications of taking into account the need for optimising co-investment and the need for simplification.

The TUC submission to the *Skills for Sustainable Growth* consultation sets out our thinking on how development of the regulatory system in various ways and the use of Lifelong Learning Accounts could do much to optimise co-investment in skills, especially at the workplace level. In addition, we agree that there is a need to move to a system where employer contributions are largely secured in advance and also that these contributions should be in cash. However, it has to be recognised that there will be challenges in shifting the sector away from a culture where in many circumstances there was little incentive for colleges and providers to collect all the fees that they were due. On this basis the TUC believes that the introduction of any new system should be trialled and evaluated before being fully implemented. For example, there needs to be a clear appreciation of whether certain types of employers need additional support over the short-term to help them move to a funding system along these lines.

In relation to individuals the TUC has major concerns about the impact of asking them to provide significant upfront payments for courses which will not be fully-funded as all the evidence shows that this would create a major barrier to take-up, especially in the current economic climate. The Banks Review has proposed using a more flexible form of Career Development Loans as a means of enabling more individuals in these circumstances to pay for their contribution after they have completed their course to overcome this barrier to take-up. However, the TUC remains concerned that commercial loans of this kind, even with new flexibilities, would have a number of drawbacks (including excluding applicants with a poor credit rating) and that this policy area therefore needs to be given much more careful consideration. At the very minimum the government should be considering the principles of the model used in HE where: subsidised loans are made available to those who otherwise could not afford fee payments; individuals do not make any repayments to the state until they have achieved a certain earnings threshold; and, the level of resulting repayments are directly linked to the level of their earnings (i.e. they are income-contingent).

Q10. We welcome your views on streamlining the way in which we currently support learners' additional needs including what (if any) aspects of current arrangements should remain.

The TUC supports the proposal that there needs to be a much more coherent approach to learner support and that the three options listed in the consultation document could build on elements of the existing system (i.e. full fee remission, Adult Learning Grant, hardship funds and support funds for people with learning difficulties and disabilities). It is also imperative that policy makers address the fact that there needs to be a clearer framework of learner support that meets additional needs so that an individual can be assured of receiving a minimum package of support regardless of their geographical location or the college/provider that they are registering with. This would require a much greater degree of standardisation of these support funds and a clear policy direction from government that such an approach was required of all institutions, whilst also allowing some local flexibility (e.g. to support greater support for transport costs in rural areas).

Q11. We welcome views on targeting funding where it will have the most impact; what elements of the Qualification and Credit Framework should be eligible for funding and why?

The TUC has supported the move to introduce the QCF on the basis that it will empower more individuals to acquire qualifications in 'bite-sized' chunks, an approach which especially helps employees to build up qualifications. On this basis, in principle we support the move to funding units within the QCF. However, we also accept that this is not a straightforward process and that there is a risk of losing many of the advantages of the current rate-setting system by moving too rapidly in this direction. In particular there is a danger of squeezing out valuable learning which is not in a large enough 'chunk' to merit QCF payment. We therefore recommend that the government gives careful consideration to how to apply the funding of units and trials and evaluates the impact of this in order to manage the transition.

Q12. We welcome views on the benefits of moving to a more price-driven system; including how we would mitigate against the risk of focusing too much on a single outcome at the expense of the quality and relevance of the learner experience.

The TUC would not support the move to setting rates by competitive bid as this would undermine the quality of provision due to providers competing on price and cutting back on integral features of the current funding system (e.g. meeting the needs of the most disadvantaged learners). Any cost savings that government would achieve by moving to a more price-driven system would be more than offset by the detrimental impact on the quality of provision for the individual learner.

Q13. Are there any other barriers to the sector delivering more efficiently and effectively?

There is potential to extend the use of new technology in the sector to reduce the bureaucratic burden associated with data collection and more consideration needs to be given to this area. There is also a need for government to give more consideration to the potential of e-learning/distance learning within the sector, for example, by looking at developing an ‘open university’ model that would widen learning opportunities for a greater mass of people. Trade unions have pioneered the use of e-learning strategies both for employees gaining new skills and union reps undertaking training and there is evidence to suggest that this remains an untapped means of widening participation.

Q14. We welcome views on whether there are alternative approaches that could be considered (including maintaining the status quo) which meet the principles of simplification and value for money; if so, how might they work?

The TUC would favour maintaining the status quo on the grounds that overall it has a number of advantages over the proposed options in the consultation paper. The ‘learner characteristics’ option would make the planning of provision very complicated and would generate a significant bureaucratic burden whilst the ‘qualification size’ option does not adequately account for other important inputs.

Q15. We welcome views on how this might be achieved, and whether its benefits would justify the change

Whilst we recognise the advantages of a single set of programme weightings across all post-19 provision, there are dangers that this simplification process could have an adverse impact on the funding of certain sector subject areas that have distinctive attributes which would make it difficult to apply a standard weighting.

Q16. Should there be a different approach to setting rates for post 19 Apprenticeships?

The TUC agrees with the proposal in the consultation document that there should be a different approach to setting rates for post 19 Apprenticeships on the basis that this provision is very different to other training programmes. It is welcome that the co-funding model will continued to be used as employers benefit greatly from this provision, both during the actual apprenticeship and following completion if the apprentice remains with the employer (as most aspire to do). As the consultation document emphasises, it is imperative that there is coherence between the 16-18 and post-19 apprenticeship funding arrangements.

Q17. We welcome views on whether there are other elements of the provider factor that could be removed / simplified in light of the proposed approach to allocations, rates and funding?

It is clearly in the interests of all concerned to ensure that all elements of the funding package are reviewed at regular intervals so that the various uplifts and weightings linked to the provider factor are genuinely reflecting the current state of play. Removal or simplification of some of these elements should be assessed against a number of criteria, especially transparency.

Q18. We welcome views on the options – including how we could use the approach to marginal funding to reward good performance in delivering quality outcomes in response to learner and employer needs.

The TUC supports the first option in the consultation document on the grounds that the second option - the ‘core and marginal funding’ model - contains an element of price competition that is likely to generate a number of negative outcomes, including undermining provision for the most disadvantaged learners.

Q19. Should some areas of provision and/or types of provider be exempt from minimum contract levels?

Q20. We welcome views on what the “right” minimum level might be.

Q21. We welcome views on the risks of greater sub-contracting, what can we and the sector do to minimise those.

There clearly is a balance between the costs of administering the large number of contracts that the Skills Funding Agency is currently responsible for and the risks of greater sub-contracting. We believe that there are risks to setting a minimum contract level where Third Sector providers that deliver specialist programmes for disadvantaged groups would move onto a sub-contracted basis which, in some cases, could be disadvantageous. From this perspective we propose that a minimum contract level in the region of £500,000 would be an appropriate level and any move beyond that should be tested very carefully. We are also of the view that local authorities and universities should be exempt from this requirement on the grounds that their involvement in the sector is crucial and that they would not fit within the sub-contracted model. Minimising the risks of sub-contracting will largely be achieved by ensuring that the Skills Funding Agency puts in place all the necessary procedures and guidance (including model contracts) designed to achieve this end.

Q22. Do you think it would be reasonable to expect this information to be publicly available on a monthly or quarterly basis?

Q23. We welcome views on the extent to which the proposals in this document help to reduce the burden of data collection? Are there other areas that need attention?

Q24. We welcome views on whether there are other changes that would promote simplification and better value for money.

We believe that quarterly reporting would more than deliver the required benefits. There is even a case for an annual return (although this would depend on an assessment of the balance between the need for regular data to address accountability issues and the move to reduce the burden of data collection). There is a general consensus that the Individual Learner Record is too complicated and changes to this could reduce the burden of data collection.

Q25. We welcome views on the existing aspects of the audit approach that would need to be included in a framework for use by external auditors? Are there alternative approaches to build on existing practice?

The TUC supports a review of the audit approach and a move to putting more reliance on the external auditing of colleges, local authorities and universities. The principle should be of reducing the burden of audit where providers can show they operate to high levels of good practice, i.e., ‘earned autonomy’.