

Mind the Gap

Funding Adults in Further and Higher Education

January 2008



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**National
Skills Forum**

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1. Foreword



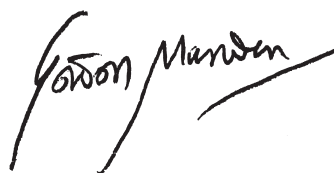
The past year has witnessed a sustained awareness of the need to up-skill and re-skill the adult population in light of the increasingly older profile of the UK workforce and in view of Leitch's ambitious targets. The National Skills Forum and Associate Parliamentary Skills group have played a critical role in heightening this awareness. The growing convergence between the FE and HE sectors and an increasing expenditure on adult skills are welcome developments in this crucial area, but there is still a debate to be had concerning the adequacy of existing provision for adult learners.

In March 2007 we published a policy paper *Adult Training: Focus and Funding in the Context of Changing UK Demographics* which, through consultation with over 65 stakeholders, produced a number of recommendations to improve training for adults in the UK. Funding emerged as one of the five dominant themes. It became increasingly clear that more needs to be done to clarify and standardise the funding available for adults wishing to study vocational education.

Mind the Gap: Funding Adults in Further and Higher Education marks the next stage in this debate. Mick Fletcher's comparison of the two funding systems and conclusions provided the basis for interviews with our parliamentarians in which it became apparent that there was a fundamental inequality in policy for adults wishing to study in FE compared to those wishing to study in HE. This needs to be addressed. The current basis on which much funding is predicated is no longer 'fit for purpose' in a world in which adults need to be able to dip in and out of study or study part-time whilst managing other commitments such as children or dependents.

A number of recommendations have been made here by Parliamentary colleagues, not least a single and unified funding system across the two sectors based on common principles and entitlements. We will be highlighting these issues in and out of Parliament to ensure these proposals inform the current policy dialogue and open debate continues to flourish. We are encouraged that Bill Rammell, Minister of State for Lifelong Learning, Further and Higher Education will be joining us for the research launch, and will provide a response to this report. This underlines the strong focus Government is now giving to adult learners and skills.

I am particularly grateful to City & Guilds for their constant support in this area and for sponsoring this research and for their continued involvement in the Associate Parliamentary Skills Group and National Skills Forum in our shared aim of improving education, training and skills in the UK.

A handwritten signature in black ink that reads "Gordon Marsden". The signature is written in a cursive, flowing style.

Gordon Marsden MP
Chair
Associate Parliamentary Skills Group

2. Introduction



The HE lobby is hugely influential and has argued persuasively and successfully for high levels of investment in the sector. If England is to remain at the forefront of innovation and creativity we need to continue to provide public funding at a level that will keep our universities at the cutting edge.

But the really significant differences in the way all other forms of post-16 learning are treated as described in Mick Fletcher's paper *Funding Adult Learners in FE and HE*, are a matter of great concern. The FE sector has often been described as the poor relation, but Mick's paper demonstrates just how inequitably it is treated in comparison with its more affluent cousin. FE is the engine room of the economy and you might expect to find more equity in the system.

During the course of the research that has led to this report John Denham addressed one of the issues which Mick had highlighted, namely that the principle of 'firstness' (funding only the first qualification at any particular level) would henceforth apply to all degree programmes as well. There was an immediate and predictable protest from academics who have graphically described the damage that they think this policy change will cause. Not one of them has acknowledged that it does at least provide some consistency across the whole post-16 learning cohort, or indeed that any damage might have been inflicted on adult FE by firstness.

Some of the difference seems to be based on history, but it is difficult to ignore the role that culture is likely to have had on the way the government has regarded the different parts of the system. We believe it is time to reappraise objectively whether differences in behaviour are for a purpose, and whether these differences are to the benefit or the detriment of the overall system and England (within UK plc) in particular.

What is clear from this report is that some of our legislators were not aware of the extent of the different treatment meted out to those undertaking programmes in the different sectors. To that extent it has already served a purpose, but I sincerely hope that the report will ignite a debate that involves more people, both within Parliament and beyond. I firmly believe that FE and HE are both hugely important but that we should not blindly endorse a system that favours one so disproportionately over the other.

I am most grateful to Mick Fletcher for his initial paper that raised some of these issues. I would also like to thank the Associate Parliamentary Skills Group for its support, and we are indebted to those members of both Houses who gave their time to the interviews that were carried out. Finally, I should acknowledge the work of Katherine Chapman and Flora Alexander, without whom there would have been no report to publish.

A handwritten signature in black ink, appearing to read 'Keith Brooker', written over a light blue grid background.

Keith Brooker
Acting Director-General
City & Guilds

3. Executive Summary

In summer 2007 the education consultant Mick Fletcher wrote a paper, *Funding Adult Learners in FE and HE*, comparing the arrangements for supporting adult learners in the further and higher education sectors. Mick Fletcher identified differences between the funding systems which may warrant review, both in terms of funding for institutions and student support. In *Mind the Gap: Funding Adults in FE and HE*, the National Skills Forum has canvassed the views of parliamentarians on Mick Fletcher's general conclusions, through a series of 30-45 minute interviews with cross-party MPs and peers. The majority of parliamentarians agreed that there is an overall bias in the funding system towards adult learners studying in the higher education sector. There was general consensus that funding for further education institutions (FEIs) should allow for greater freedom to innovate, similar to the HE sector, and that the funding systems for student support need to be fundamentally reviewed to ensure that adult learners across FE and HE receive support on the same basis. Below is a table summarising the key recommendations from parliamentarians:

Funding Institutions:

- Although there is some justification for state control of the eligibility for funding of FE qualifications in order to accommodate national economic need, the FE sector would benefit from greater freedom for institutions to develop unique qualifications in response to local demand.
- The overlap between FE and HE has been increasing in recent years. This is welcome and will help to democratise access to education. FEIs and HEIs will need to collaborate closely in order to deliver provision suitable for all types of adult learners.
- The loss of non-priority provision in FE despite learner demand, especially for older learners and adult returners, is to the detriment of adult education. This should be reviewed and, if necessary, more funds be made available to FEIs for access and entry level provision for adult learners.
- The principle of introducing more competition into the FE sector is generally welcome providing there is a level playing field between FE colleges and private providers with regard to regulation. In certain circumstances, it may be preferable to support failing colleges from within the FE sector rather than automatically create competition.
- The use of success in completion rates to inform funding calculations should be standardised across the FE and HE sectors.
- FE colleges should have greater freedom to be creative with provision where there is deviation from planned activity, as in the HE sector.

Funding Adult Learners:

- HE students receive preferential levels of student support compared to FE and this is not justifiable. Student support levels should be rebalanced to ensure that those most in need, including part-time learners, receive public funds regardless of whether they study in FE or HE.
- The system of loans needs to be revised to allow adult learners entering further education access to the equivalent types of loans as adults studying in higher education.
- It is not justifiable that childcare support is less generous for adult learners in FE than in HE. The system of childcare support needs to be reviewed across the board to target adults most in need.
- It is not justifiable that there are differences in the types of financial support available to disabled adults in FE and HE. Support for disabled adult learners should be the same in both the HE and FE sectors.
- A new, single financial support system for adult learners studying in either the FE or HE sector should be explored based on common principles and entitlements. This needs to be flexible and it should allow for 'credits' of learning to be taken up at any stage of an individual's life.

4. Table of Acronyms

| | | | |
|--------------|--|-------------|--|
| ADG | Adult Dependant's Grant | JCP | Jobcentre Plus |
| ALG | Adult Learning Grant | LSC | Learning and Skills Council |
| ALS | Additional Learner Support | LSDA | Learning and Skills Development Agency |
| CDL | Career Development Loan | LSF | Learner Support Fund |
| DCSF | Department for Children, Schools and Families | MP | Member of Parliament |
| DfES | Department for Education and Skills | NCVQ | National Council for Vocational Qualifications |
| DIUS | Department for Innovation, Universities and Skills | NVQ | National Vocational Qualification |
| DLSF | Discretionary Learner Support Fund | OFFA | Office for Fair Access |
| DSA | Disabled Students' Allowance | PCDL | Personal and Community Development Learning |
| ESOL | English as a Second or Other Language | PLA | Parents' Learning Allowance |
| FE | Further Education | PSA | Public Service Agreement |
| FEFC | Further Education Funding Council | PT | Part-Time |
| FEI | Further Education Institution | QAA | Quality Assurance Agency |
| FT | Full-Time | QCA | Qualifications and Curriculum Authority |
| FTE | Full-Time Equivalent | QIA | Quality Improvement Agency |
| GCSE | General Certificate of Secondary Education | RDA | Regional Development Agency |
| GLH | Guided Learning Hours | SCAA | School Curriculum and Assessment Authority |
| GNVQ | General National Vocational Qualifications | SSC | Sector Skills Council |
| HE | Higher Education | SLC | Student Loans Company |
| HEFCE | Higher Education Funding Council for England | SLN | Standard Learner Number |
| HEI | Higher Education Institution | TEC | Training and Enterprise Council |
| IAG | Information, Advice and Guidance | WBL | Work-Based Learning |
| IMD | Index of Multiple Deprivation | | |

PART B. Current Funding Arrangements for Adult Learners in FE and HE

5. Funding Further Education Institutions

5.1. Learning and Skills Council

The Learning and Skills Council (LSC) is a non-departmental public body established in 2001 replacing the Training and Enterprise Councils (TEC) and the Further Education Funding Council (FEFC) and exists to improve the skills of young people and adults in England. It oversees the planning and funding of all post-16 learning (including learner support) except that provided in universities. The Learning and Skills Council operates both nationally and locally to facilitate improvements in further education, work-based training, school sixth forms, workforce development, adult and community learning, Information, Advice and Guidance (IAG) for young adults, and education business links. As well as a national office, there are nine regional offices. The LSC works closely with Regional Development Agencies (RDAs) to ensure that regional economic priorities as well as national priorities are met.

The LSC is currently undergoing a process of restructuring so that it operates more responsively and on a regional basis following the Further Education and Training Act (October 2007) and the proposals in the Government's response to the Leitch Review of Skills, *World Class Skills: Implementing the Leitch Review of Skills in England* (July 2007). The Government is currently consulting on the best way forward in re-shaping the post-19 skills landscape, including funding systems.

Over the next three years total Government spending on learning and skills will rise to £12.4 billion a year in 2010/11. From 2010/2011 funding for 16 to 19-year-olds in schools and colleges will transfer from the LSC to local authorities, which represents about two-thirds of the LSC's existing budget. Overall, the Department for Innovation, Universities and Skills (DIUS) total funding for LSC spending for adult skills and apprenticeships will increase to £4.8 billion a year by 2011, this will enable an increase in spending of 17 per cent on adult learning, including funds for an additional 30,000 adult apprenticeships.

5.2. Other Organisations

5.2.1. Sector Skills Councils

Sector Skills Councils (SSCs) were set up in 2004 to provide a new voice for employers to express skills priorities in their sector and to provide the main vehicle for employers to influence skills policy. They are employer-led, independent organisations, licensed by the Secretary of State for Innovation, Universities and Skills. Government proposals in *World Class Skills* include empowering SSCs to 'approve' which vocational qualifications are fit for purpose and advising which should

receive public funding from the LSC. This process is being piloted from October 2007 to July 2008.

5.2.2. Train to Gain

Train to Gain was officially launched in September 2006 and aims to engage businesses in training who have not done so in the past using trained skills brokers. Train to Gain funding is available to training providers (including colleges) on a contestable basis, based on providers' abilities to deliver high quality, flexible training to employers and employees. Train to Gain funding is targeted towards courses leading to Skills for Life numeracy and literacy qualifications, full level 2 qualifications (5 GCSEs or equivalent) and, from 2008/09, level 3 qualifications

(3 A-levels, NVQ level 3 or equivalent). The constraint on programmes eligible for funding is designed to reflect an appropriate shared investment between the state and the employer.

5.2.3. Qualifications and Curriculum Authority

The Qualifications and Curriculum Authority (QCA) is a non-departmental public body sponsored by the Department for Children, Schools and Families (DCSF) which maintains and develops the national curriculum and associated assessments, tests and examinations as well as accrediting qualifications in colleges and at work. The QCA also regulates awarding

bodies and exams to ensure they are fit for purpose. The QCA was formed in October 1997 through a merger of the National Council for Vocational Qualifications (NCVQ) and the School Curriculum and Assessment Authority (SCAA). With the possible extension of the power of Sector Skills Councils to 'approve' qualifications, Government envisages that the QCA will increasingly focus its regulatory activity at the level of the overall system and the awarding organisation rather than the individual qualification.

5.2.4. Quality Improvement Agency

The Quality Improvement Agency (QIA) is a non-departmental public body and the successor to the Learning and Skills Development Agency (LSDA) with the aim of improving performance across the learning and skills sector. It received Government funding to support and advise FE colleges and training providers on how to improve performance in the FE sector.

In November 2007 it was announced that the QIA and the Centre of Excellence in Leadership (CEL) is to be taken over by a new sector-owned organisation. The new organisation will be dedicated to supporting the further education system that employers and learners need and will be formed by April 2008, following consultation with colleges, providers and stakeholders.

6. Funding Higher Education Institutions

6.1. Higher Education Funding Council for England

The Higher Education Funding Council for England (HEFCE) is a non-departmental public body, set up by the Government in the 1992 Further and Higher Education Act. This Act created one funding body for universities and polytechnics. HEFCE distributes public money for teaching and research to universities and higher education colleges in England. The Council also plays a key role in ensuring accountability and promoting good practice to support the development of higher education. HEFCE monitors the financial and managerial health of universities and ensures the quality of teaching is assessed through the Quality Assurance Agency.

The Government's Leitch Implementation Plan emphasised the need for HE to work more closely with employers. The Government has asked that HEFCE support an additional 5,000 employer co-funded student places in 2008-09 and annually until 2010-11 and work

with employers and SSCs to prioritise programmes of work-based learning. To this end, the Government has recently announced new funding to HEFCE, rising to at least £50 million a year by 2010-11. The Government is currently encouraging market reforms in HE including reducing barriers for private providers to have degree-awarding powers and through changes enabled by the FE and Training Act to allow colleges to award their own foundation degrees.

6.2. Office for Fair Access

The Office for Fair Access (OFFA) is an independent non-departmental public body with the power to regulate higher education institutions' right to charge variable fees. It aims to promote and safeguard fair access to higher education for under-represented groups through Access Agreements in light of the introduction of variable tuition fees in 2006-07. OFFA also has a role in identifying and disseminating good practice and advice connected with access to higher education.

6.3. Quality Assurance Agency

The Quality Assurance Agency (QAA) was established in 1997 and provides an integrated quality assurance service for higher education institutions in the UK. The QAA is contracted by HEFCE to devise and implement quality assurance methods in higher education. The QAA's role also includes providing advice to the Minister for Higher Education when institutions make applications for the grant of taught degree-awarding powers, research degree-awarding powers and university title.

7. Financial Support for Adult Learners in Further Education

7.1. Career Development Loans

Career Development Loans (CDLs) are deferred repayment bank loans of up to £8,000, from Barclays Bank, the Co-operative Bank and the Royal Bank of Scotland, to assist with the costs of vocational learning. CDLs can be used to fund up to two years of learning plus up to one year's practical work experience where it forms part of the course, and can be used to cover not only course fees but other course costs such as childcare, travel, equipment, and living expenses. They are offered to those aged 18 or over who are enrolled on any full-time, part-time or distance learning vocational courses (that is, one that leads to an occupation, trade or profession) such as NVQs, City & Guilds courses and vocational postgraduate courses. The bank determines the eligibility of applicants including if they will be able to repay the loan. The Government pays the interest on the loans while the learners are on their courses and for up to one month afterwards, following which the loan is repaid to the bank over an agreed period at a fixed rate of interest (regardless of income).

7.2. Adult Learning Grants

Adult Learning Grants (ALGs) of £30 per week are offered to adults on low incomes in priority areas aged at least 19 who want to study a full-time course leading to a first level 2 qualification or first full level 3 qualification. The Grant is intended to assist with the costs of books, equipment and travel. Following the national roll out, the LSC has set a target of 17,500 adults receiving the ALG by the end of the 2007/08 academic year and expects to exceed that target.

7.3. Discretionary Learner Support Funds

Discretionary Learner Support Funds are available in colleges and school sixth forms for those over the age of 16 studying an LSC funded programme of learning. The funds are prioritised for those who face financial hardship and can be used to help with financial hardship and emergencies, childcare costs (for Ofsted-registered childcare), accommodation costs (for those who have to study beyond daily travelling distance), travel costs and essential course-related equipment, materials and field trips. Colleges determine priority groups and amounts awarded and common priority groups are: economically disadvantaged; students who are disabled, mentally ill or have learning difficulties; those aged over 19 who do not have a level 2 qualification; students who have been in care or on probation; young parents; or others considered 'at risk'.

7.4. Care to Learn Scheme

For adults under 20 with one or more child studying for any course which receives some public funding (including non-qualification bearing courses), the Care to Learn Scheme can provide up to £160 per child per week for childcare and travel costs (£175 in London). The childcare provider used must be registered with Ofsted. For those aged over 20, financial support can be available from discretionary Learner Support Funds (above).

7.5. Additional Learning Support for Disabled Students

FE colleges receive money to pay for the extra learning support needed by disabled students or students with learning difficulties. The amounts and rates of financial support available to disabled adults are discretionary and are determined by individual FE institutions.

7.6. Skills Accounts

Following recommendations in the Leitch Report, the Government is introducing Skills Accounts to give individual adult learners greater control and choice over their learning. The concept will be piloted in the form of Learner Accounts from autumn 2007 to 2008 and based on evidence from these pilots, the Government plans to roll out new Skills Accounts over the period 2010-2011.

8. Financial Support for Adult Learners in Higher Education

8.1. Student Loans Company

In the HE sector, student support is issued by Student Finance Direct, a service managed by the Student Loans Company (SLC). The SLC is a non-departmental public body established to deliver financial support to eligible students pursuing higher education and to pay to higher education institutions the public contribution towards tuition fees for England, Wales and Northern Ireland.

Student Loans are divided into student loans for fees and for maintenance. Student loans for fees are fixed amounts that cover any amount up to the full amount charged for tuition fees (up to £3,145 in 2008/2009). The maintenance loan is designed to cover accommodation costs and other living expenses and is income-assessed, although learners can apply for 75 per cent regardless of household income. Students must begin to pay back the loan from the April after completing the course and when they are earning over £15,000. The amount payable is nine per cent of earnings over £15,000 (in monthly or weekly instalments) and interest is linked to the rate of inflation.

8.2. Maintenance Grant

The Maintenance grant helps higher education students, in particular those from poorer backgrounds, with their general living costs whilst they study (up to £2,765 in England and Wales for 2007/08). The Maintenance Grant is income dependent and £1,230 is substituted for maintenance loan, meaning that the amount eligible to be received from student loans is reduced. Certain groups of students entering higher education (single parents and students with certain disabilities) are eligible for Special Support Grants which are the same as maintenance grants except that no part of it is substituted with the student loan.

Part-time students are entitled to a fee grant (up to £1,125 in 2007/08) and some help with course costs (up to £250 in 2007/08) providing study is at a rate of 50% or more of a full-time equivalent course. Universities and colleges currently decide how much fees are for part-time courses.

8.3. Childcare Grant

The Childcare Grant is an income-assessed reimbursement of potentially 85% of childcare costs for students in higher education (up to £148.75 a week for one child and £255 for two or more). The Childcare Grant replaces the childcare element of the Working Tax Credit for those who would get it from HM Revenue and Customs were they not students. Students are entitled to 85% of actual costs subject to a cap which is dependent on whether the student has one or two or more children.

8.4. Parents' Learning Allowance

The Parents' Learning Allowance (PLA) is income-assessed and designed to help pay for course-related costs such as books, materials and travel. The PLA is available on top of any standard student finance including the childcare grant. The maximum rate of PLA in 2007/08 is £1,435.

8.5. Adult Dependant's Grant

The Adult Dependant's Grant (ADG) is an income-assessed grant for full-time higher education students who have financial dependants over the age of 18. The maximum amount for eligible students in 2007-08 was £2,510, subject to assessment of the household income and the dependant's income.

8.6. Disabled Student Allowances

Disabled Students' Allowances (DSAs) are grants to help meet the extra course costs higher education students can face as a direct result of a disability, mental health condition or specific learning difficulty including the costs of specialist equipment, non-medical helpers and travel costs. DSAs are non-household-income assessed, do not have to be repaid and are additional to the standard student finance package. They are available to full-time, part-time (providing study is 50% of the full-time equivalent) and postgraduate students (subject to a limit of £5,780).

PART C. Funding Adult Learners in FE and HE by Mick Fletcher

Executive Summary

1. This report seeks to compare the arrangements for supporting adult learners in the FE and HE sectors.
Its purpose is to identify differences in treatment which may warrant review.
2. Any comparison needs to take into account the different characteristics of FE and HE learners. Those in the HE sector are much more likely to be young and to study full time.
3. The differences between sectors overlap with different treatment for full and part time students. Full time students in HE are treated more favourably than part timers in HE or full timers in FE.
4. There are differences in the way in which institutional funding is planned and delivered. Questions need to be asked about:
 - Why there is greater external control over the eligibility for funding of FE qualifications and why it is proposed to extend such control further.
 - Why market forces as expressed through learner choice is the guiding planning principle in HE but increasingly downplayed in FE.
 - Why institutional stability should be considered as more important in the HE sector than in FE.
 - The different approaches to the treatment of success in the two funding formulae.
 - Why the funding of FE should be linked so much more tightly to performance than in HE.
5. There are differences in the support that individual learners are entitled to. Questions need to be asked about:
 - Why loans are not available to full time adult students in FE on the favourable terms enjoyed by full time adult students in HE
 - Why most HE financial support takes the form of entitlements whereas most FE support is discretionary.
 - Why repeating study at the same level increasingly bars FE learners from support whereas no such general principle operates in HE.¹
 - Why the level of support with childcare is more generous for HE students than FE given that costs are equal.
 - Why disabled adults in HE are entitled to control their own support budgets while similar adults in FE are not.
 - Why the overall level of support for adults in HE is so much greater than for adults in FE in comparable circumstances.

¹ Since this paper was written (July 2007) the Secretary of State has written to HEFCE asking them to phase out funding in respect of students studying at an equivalent or lower level than the qualifications they currently hold. See p.22.

1. Introduction

The aim of this paper is to compare and contrast two systems for funding the learning of adults operated by the same government department. It compares the arrangements for planning and funding adult learning in the further education system (FE)² with the arrangements for adult learning in the higher education sector (HE). In broad terms FE refers to programmes of study up to and including level 3 (GCE A level) whereas HE refers to programmes that are above level 3 (degrees or their equivalent).

It is recognised that both sectors are more complex than this. There are some level 4 programmes that do not count as HE and are treated as part of further education. There is also provision for adults below level 3 that is not in FE colleges. HE includes a substantial amount of research and post-graduate study while the FE system provides education and training for those aged 16-19. References to FE and HE in this paper however should be taken to mean courses for adults below degree level and courses of undergraduate study respectively. The analysis is confined to England, though reference is made to practice in the other home nations where appropriate.

The purpose of the paper is not to establish whether one system is 'better' than the other in any absolute sense. The analysis is intended however to highlight anomalies and inconsistencies of treatment that may suggest the need for change. The establishment of the Department for Innovation, Universities and Skills (DIUS) makes it particularly appropriate that such a comparison is undertaken at this time.

This paper is confined to planning and funding. There are many differences between the two sectors that are not dealt with here. There are for

example differing arrangements for quality control and the maintenance of academic standards. There are different provisions relating to governance or the appointment of staff. These important issues are only dealt with in so far as they affect the planning and funding system.

The comparison of funding covers two main areas; the funding of institutions and the funding of individuals. The former relates primarily to the roles of the Higher Education Funding Council for England (HEFCE) and the Learning and Skills Council (LSC) though it necessarily touches on the work of other bodies as well. Funding is interpreted broadly to cover the arrangements for planning and prioritising provision as well as funding rates. Support for individuals concerns the grants and loans distributed via the LSC and the student loans company (SLC) but also fee remission and the way in which disabled learners receive additional help.

Finally funding in both sectors is the subject of change, more frequently in the FE sector than in HE though the method for funding HE teaching is currently under review. This paper reflects the position at the beginning of August 2007.

Context

Before considering the funding systems it will be useful briefly to compare the characteristics of the sectors under consideration. The following summary is derived from the HEFCE and LSC grant letters for 2007/08 and the statistical first releases for FE. It is intended to be a general guide so the figures are very rounded and approximate. One of the aims of the report is to assess how far differences in treatment between sectors are really differences in the treatment of full and part time students.

The summary shows that the composition of the FE and HE systems is quite different. In general terms there are around 1.5 million undergraduates compared with 3 million adults studying FE in colleges with a further 1.2 million adults in the wider FE system. Most HE students are full time however and those studying part time tend to be on substantial programmes, so 1.5 million HE students convert into 1.1 million FTEs. In contrast only around 160,000 adults in FE are on full time programmes and many part time programmes are very small; the 3 million FE enrolments therefore represent only 630,000 FTEs.

It is more difficult to estimate an FTE total for the whole FE system. The numbers of adults on full time FE programmes outside colleges (i.e. in PCDL, WBL or Train to Gain) is negligible so we can be confident that over 4 million of the 4.2 million enrolments are part time. If we extrapolate from the FE data then there are perhaps 830,000 FTEs in the system as a whole.

Finally the age profile of FE and HE learners is very different. Two thirds of full time first degree entrants are aged under 21 and 85% under 30, although part time HE students tend to be older than full timers. While a high proportion of full time learners in FE are also young – half are under 25 – only 20 % of part time adult learners fall in the same age category.

² Following the approach of the Foster Report the term FE system refers to all providers funded by LSC to deliver further education, whereas FE sector refers simply to colleges.

Table 1 Simplified Summary of HE and FE Numbers

| | Adults in HE (undergraduates) | Adults in FE Colleges | Adults in FE System |
|-----------------------------------|----------------------------------|---------------------------|---------------------------|
| 19+ Enrolments | 1,500,000 | 3,000,000 | 4,200,000 |
| Full time | 950,000 | 160,000 | 160,000 |
| Part time | 550,000 | 2,840,000 | 4,040,000 |
| 19 + FTEs | 1,140,000 | 630,000 | (830,000) |
| Revenue Funding - teaching | £4,300 million | £1,900 million | £2,840 million |
| Revenue funding - student support | £5,110 million ³ | £295 million ⁴ | £330 million ⁵ |

2. Funding Institutions

The public funding for HE in England is provided through the Higher Education Funding Council for England (HEFCE)⁶ which funds HE provision whether it takes place in HE institutions (Universities and Colleges of HE) or FE colleges. The Learning and Skills Council⁷ funds FE provision, whether it takes place in FE colleges or HEIs, and increasingly in other forms of organisation as well.

This contrasts, for example with the approach in Scotland where the Scottish Funding Council for FE funds both the FE and HE work of colleges and its counterpart for HE funds all the work at Scottish universities.

Both HEFCE and LSC do more than fund the teaching of adult learners. A large part of HEFCE funding relates to the research role of universities. This is not considered further here because there is no comparable activity in the FE sector. For the same reason no specific attention is paid to the large proportion of LSC funding that is currently⁸ devoted to

learners aged 16-19. There is however a considerable area of overlap in that both institutions fund learning opportunities for people over the age of 18⁹.

A comparison of funding systems needs to consider a number of separate features. Specifically it needs to consider:

- *Eligibility* - the question of who and what can be funded
- *Planning and Priorities* – how is it decided what will be funded
- *Allocations* - how much of any activity will be funded in any year
- *Rates* – how much funding is given for any activity
- *Profiling* - how are payments made to institutions
- *Reconciliation* – what happens when performance departs from plans

There are significant differences between the treatment of FE and HE in respect of each of these areas for reasons that are not always clear.

Eligibility

The rules for eligibility relate to both individuals (who is entitled to be supported from public funds) and provision (what activities can public funds be used to support). The arrangements for determining eligibility are similar in the two sectors and to some extent symmetrical. In relation to individuals neither funding body is able to fund provision for pupils of school age; nor to use public funds to support learning for students who do not meet home or EU residency requirements set by central government. In relation to provision the LSC cannot fund HE and HEFCE cannot fund FE; and neither can fund, for example, courses of driving instruction.

At the level of detail however there are important differences. In the HE sector universities and colleges play a large part in determining what is fundable. HEFCE can fund any higher education programme offered by a designated¹⁰ HE institution and it is for the institution

³ Includes the cash cost of fee and maintenance loans, maintenance grants and bursaries.

⁴ Includes CDLs, LSF, Childcare Funds, ALG and Fee remission.

⁵ If wage compensation in Train to Gain is included.

⁶ A general description of HEFCE entitled 'Who we are and what we do' is available at http://www.hefce.ac.uk/pubs/hefce/2007/07%5F16/07_16.pdf.

⁷ A general description of the LSC and its roles is available at [http://www.lsc.gov.uk/aboutus/](http://www.lsc.gov.uk/aboutus/http://www.lsc.gov.uk/aboutus/).

⁸ It is planned that all of these funds except the funding for 16-19 apprenticeships will transfer to local authorities from 2010 or 2011.

⁹ HEFCE funds provision for a small number of 17 year olds undertaking HE courses but this is very much an exception.

¹⁰ Designation means that it has been awarded a charter by the privy council allowing it to award degrees or diplomas of higher education.

to determine whether it constitutes an HE programme¹¹. FE by contrast is much more externally regulated. Colleges in the main offer qualifications designed and validated by independent awarding bodies, and both the qualifications and their developers are regulated by the Qualifications and Curriculum Authority (QCA)¹² on behalf of government.

Controlling the eligibility of programmes is increasingly seen as an important way of managing the FE sector. The LSC recently determined for example that very short courses (under 9 hours) would no longer attract funding; and that courses such as Health and Safety or Food Hygiene, that served to help employers meet their statutory obligations, would no longer be eligible for public support. The Leitch Review went further and proposed that Sector Skills Councils (SSCs) should determine which qualifications should be eligible for public funding – a view that has received support from DIUS in the Implementation Plan published in July 2007¹³.

The FE Bill 2007 proposes to give colleges the power to award foundation degrees, and confirms their right to design and offer their own qualifications. To some extent therefore this reduces the difference between the sectors, though programme eligibility in FE will continue to be subject to the regulation of both QCA and SSCs.

Planning and Priorities

There is a key difference between HEFCE and LSC in respect of planning. HEFCE is a funding body whereas LSC was constituted from the outset as a planning and funding body. In this it differs from its predecessor the Further Education Funding Council (FEFC) or indeed from the Funding Councils in Scotland.

Another way of making the same point is that HEFCE funds providers whereas LSC seeks to fund provision. HEFCE tends to see its role as supporting providers' plans; LSC sees its role more as one of steering providers' plans. There is no HEFCE equivalent of the LSC document 'A Framework for Managing the Balance and Mix of Provision'¹⁴ which advises its staff on how to align provider plans with regional and national priorities.

Both LSC and HEFCE are funded by DIUS and receive an annual grant letter which sets out the sums of money available to them together with guidance on government priorities. They are similar in structure but with some subtle and important differences. The October 2006 letter to LSC refers explicitly to two PSA targets containing five sub targets and a further two key indicators with the blunt instruction "I expect the Council to lead on these targets". There is no explicit reference in the HE letter for 2007/8 directing HEFCE to targets.

The language differs between the two documents¹⁵. There is little in the LSC grant letter that is as subtle as "I hope you will consider whether you can further support the sector in its plans to establish a national credit framework" or "I hope you will continue to take action to increase the number of Foundation Degree enrolments"¹⁶. There is nothing in the HEFCE letter that is quite as peremptory as "The Council must continue to increase its emphasis on funding full level 2 qualifications" or "Work must also begin to prepare for the new apprenticeship entitlement"¹⁷.

This is not to say that the priorities in the HEFCE letter are ignored by the Council or by institutions. The evidence is that they take them seriously; and moreover both parties are aware that the

government has the power to be very directive if it wishes. It is for example a condition of funding to HEFCE that it will require institutions to have a Fair Access Agreement if they are to be allowed to charge the current maximum fees. It is however clear that HEIs are seen as partners in determining the pattern of HE provision whereas increasingly FEIs are seen as agents implementing government policy.

Allocations

The sums allocated to HEIs reflect their plans and performance which in turn are based on the demand by students for the courses that they offer. It is therefore demand-led, though not perhaps in the way that the word has come to be used in the FE sector. HEFCE does not seek to influence the mix of provision at providers through the basic allocation process, but seeks to influence the direction of change by its management of funding for growth. In 2006/07 and 2007/08 an additional 30,000 student places were allocated against priorities identified by the government and other stakeholders.

Prior to 2005/06 HEFCE allocated growth funding through a bidding process. This however was felt to be inefficient in that time spent on bids that proved unsuccessful was wasted. It was changed therefore to a system of planned growth with two components – strategic growth and managed growth. The former element allocated additional student numbers to institutions where there had already been major investment agreed to improve capacity; the latter was based on regional plans agreed by all HEIs in the region together with other stakeholders.

In the FE sector by contrast the allocation process has been used to

11 There is an element of external regulation in that HEIs are accountable to the QAA for the quality of their provision.

12 For a summary of the regulatory role of QCA see http://www.qca.org.uk/qca_335.aspx.

13 The Leitch Review of Skills and the Implementation Plan are both available at <http://www.dius.gov.uk/publications/publications-leitchreview.htm>.

14 See http://readingroom.lsc.gov.uk/lsc/National/A_Framework_for_Managing_the_Balance_and_Mix_of_Provision_200708_23Feb2007.pdf.

15 The language reflects the fact that the power of the Secretary of State to direct HEFCE is strongly restricted by the 1992 FHE Act.

16 See HEFCE grant letter 2007/08 at <http://www.hefce.ac.uk/news/HEFCE/2007/grant/default.htm>.

17 See LSC grant letter 2007/08 at <http://www.lsc.gov.uk/aboutus/grantletters/>.

reduce provision in areas deemed low priority as well as increase it in areas the government wants to grow. Thus 'other provision' – courses that fall outside the national qualifications framework - has been significantly reduced despite the fact that it continued to attract learners. At the same time a limited number of priority categories such as courses leading to a 'full level 2 qualification' or approved language, literacy and numeracy qualifications have been allocated increased numbers.

The proposals for change set out in the LSC funding consultation *Delivering World-class Skills in a Demand-led System*¹⁸ envisage the extension of a market based approach to the allocations process. Where new provision is felt by LSC to be needed, or where a provider is deemed to have performed poorly in an area and has therefore had its allocation of funding reduced, a competition will be held to determine who will deliver it. An explicit intention of this approach is to allow new providers, including private

sector providers, to compete to enter the market. Whereas for HEFCE (and as is also true for policy on schools funding) maintaining the stability of institutional budgets is held to be a major policy objective, in the adult FE sector instability is seen as a price worth paying for the benefits of increased competition.

Rates

In both FE and HE the price that is paid by the funding council for an activity is intended broadly to reflect the average cost incurred by providers in delivering good quality provision. The approach taken by HEFCE is more broad brush than that used by the LSC, but the most recent review of the funding method suggests that it may move closer to the latter's practice. In other countries (e.g. FE in Northern Ireland) or at other times (e.g. WBL in the 1990s) price signals have been used as a way to incentivise providers to change what they offer. At the current time both funding bodies intend their pricing regimes to be neutral in their effect.

The basic funding formula is the same in both FE and HE. The agreed level of student numbers for an institution is multiplied by a series of weights that reflect the relative costs of different activities, students or institutions and the weighted numbers are multiplied by a standard level of resource to produce a cash total. Institutions receive this as a block grant and are not required to spend it in the same way that it is earned; indeed in HE they are specifically warned not to do so.

The table below shows a high level comparison of the cost factors taken into account in the respective formulae. It needs to be treated with care since there are some factors that HEFCE recognises through a weight which LSC takes into account through a more precise calculation of student numbers. There is nevertheless a high degree of overlap between the elements included in the two approaches.¹⁹

Table 2 Comparison of Elements in Funding Formulae

| Item | HE Formula | FE Formula |
|--------------------|------------------------|--------------|
| Subject type | YES | YES |
| Specialist College | YES | temporarily |
| Small institution | YES | NO |
| London Weighting | YES | YES |
| Disadvantage | Separate WP allocation | YES |
| Success rates | NO ²⁰ | YES |
| Part time students | YES | In FTE count |
| Long courses | YES | In FTE count |
| Employer links | YES | NO |
| Historic buildings | YES (but phasing out) | NO |

It is probable that HEFCE recognises the costs of small and specialist institutions in its method because the differences in institutional scale in the HE sector are proportionately greater than in FE. On the other hand, and for a similar reason, the LSC method is much more fine-grained in respect of the treatment of part time students. Although the LSC no longer funds courses of fewer than nine hours in length there are many that are under 20 hours in total and at the other extreme many that are over 1000.

18 The document is available at <http://readingroom.lsc.gov.uk/lsc/National/nat-deliveringworldclassskills-jan07.pdf>.

19 From 2008/09 the LSC will combine the programme weighting factors, area cost factors, success rates and disadvantage factors in a single provider factor. 20 HEFCE only counts for funding purposes students who have completed their planned learning goals which in some circumstances is equivalent to linking funding to success.

The LSC calculates total student loading in terms of guided learning hours (GLH); broadly speaking the amount of teaching time required for each student. From 2008/09 this will be expressed as a Standard Learner Number (SLN) by dividing GLH by 450 (and with a cap so that no individual will be able to count as more than 1.75 however big their course.) The SLN is much the same as the Full Time Equivalent (FTE) student calculation that HEFCE uses but more finely calculated. Full time students in FE

will generate different SLNs depending on how many hours per week they are taught and over how many weeks.

HEFCE counts all full time students as 1 FTE and asks institutions to convert part time students to FTEs by comparing their learning activity with that of a full time student. A sandwich student on a year out simply counts as 0.5. HEFCE attach a 25% weighting to full time students on courses of over 45 weeks in any one year but do not distinguish between 45 and, say, 48.

HEFCE defines four broad groups of subjects which are seen as requiring different levels of resource. These four price groups and their associated weights are shown in the table below. The range of costs is wider than that encountered in FE. Even if clinical medicine, for which there is no direct comparator is excluded the ratio of 1.7:1 for laboratory based subjects as compared with classroom activities is (with the exception of agriculture) greater than the corresponding relativity in FE.

Table 3 HEFCE Price Groups

| Price Group | Description | Weight |
|-------------|--|--------|
| A | Clinical medicine, dental and veterinary science | 4 |
| B | Laboratory subjects (science, engineering etc.) | 1.7 |
| C | Subjects with a studio or laboratory element | 1.3 |
| D | All other subjects | 1.0 |

LSC divides the activities it funds into six groups and applies weights referred to as programme weightings.

Table 4 LSC Programme Weights

| Programme | Examples | Weight |
|--------------|--------------------------------------|--------|
| A | Humanities, Classroom based subjects | 1.0 |
| B | Science, Sports | 1.12 |
| C | Catering, Engineering, Construction | 1.3 |
| D | Print, Bakery | 1.6 |
| E | Agriculture | 1.72 |
| Basic Skills | Language, Literacy and Numeracy | 1.4 |

The LSC and HEFCE both allocate funds to reflect the extra costs of recruiting and retaining disadvantaged students. The LSC does so as part of its general formula, providing an uplift for each student who comes from a ward identified as being particularly disadvantaged. HEFCE makes a similar calculation, though it uses indices of educational underachievement to define disadvantage rather than the Index of Multiple Deprivation²¹, and it distributes

an additional allocation rather than including a factor in the main calculation. In practice LSC probably allocates a larger sum for disadvantaged learners but does so in a way that depresses the average unit of resource for other students.

The two systems appear to differ most markedly in relation to the treatment of retention and success. HEFCE allocates additional funds for improving the

retention of full time students as part of its widening participation strategy, focussing funding on categories of student known to be at risk; LSC reduces institutional funding in proportion to the numbers of learners who drop out. The difference is not as stark as it may seem however because HEFCE does not include in the general funding calculation any students who do not complete their planned programme in any one year.²²

21 The IMD is used by the government to assess the overall level of disadvantage in an area and is built up from several indices relating to income, housing, health etc. as well as educational disadvantage.

22 HEFCE has recently decided in the light of consultation to base funding on modules completed by any students who drop out, making the system much more like FE.

LSC reduces the funding of institutions in proportion to the numbers who fail to achieve their learning goals; 10% of the funding for each learner is dependent on their success in examinations or its equivalent. There is no equivalent calculation in the HE formula.

The final element in both formulae is the fee assumption. The interlinked issues of fees, loans and fee remission are dealt with more fully in Section 3 - Funding Individuals - but it needs to be noted here that both funding bodies deduct from their estimate of the total resources needed by an institution an assumed level of fee contribution. In 2006/07 the HEFCE assumption was £1200 for all full time undergraduates (and £1200 per FTE for part time undergraduates) which amounted to 32.5% of the group D rate. The corresponding figure for LSC was 32.5% of the unweighted base rate which works out at £837 for a full time learner on a 450 GLH programme (i.e. the minimum size of a full time full year course). LSC policy is to raise the fee assumption, for those who pay fees²³, to 50% of the base rate by 2010. HE fees for full time undergraduates in 2006/07 were capped at £3000.

Profiling

Having calculated the amount of public funding to be allocated to an institution a decision has to be made about how and when to pay it. In principle the funding could all be handed over at the beginning of the year, or after the year end or at intervals throughout the year. In practice both HEFCE and LSC have sought to make a regular pattern of monthly payments to their institutions that reflects in broad terms the pattern of expenditure they incur. The process is known as profiling. The major exception to this has been the pattern of payments in respect of fee income from the Student Loan Company which used to be paid in full in February but from this year will be paid in two instalments in February and in May.

The funding consultation issued by LSC and DfES in January 2007²⁴ proposes to depart from this system for funding adult FE (though not for provision for younger learners) It is envisaged in the paper that payments should only be made after adult learners have enrolled at an institution, monthly and in arrears. The stated reason is to make institutions more sensitive to demand.

Reconciliation

Both funding bodies check that the numbers and types of students recruited at each institution do not diverge significantly from the planned numbers on which funding was based. If they do there is the potential to vary funding either in the current or subsequent years.

The HE system gives institutions considerable flexibility to vary recruitment patterns as long as the overall weighted volume of activity is achieved. Institutions can vary the balance of recruitment between full and part time students and between price groups, though HEFCE sets minimum numbers for students on some medical and dental courses. There is a 5% tolerance band; that is as long as weighted numbers are within 5% of the planned figure no action is taken. If recruitment varies by more than that amount action is taken. Additionally where an institution has received funding for growth it is set a target in terms of overall FTE students; if that target is missed the additional funding is reduced.

The approach to reconciliation in the FE sector changed in 2006/07 to a system more akin to that operated in HE but it is now planned to change back again in 2008/09. Until 2006/07 the funding for all colleges depended on a detailed calculation of the numbers and characteristics of learners recruited and the programmes they followed. Since the funding calculation involves a reduction in funding for the percentage of students who do not achieve examination success it was not possible for a college to know its budget for any year in detail until well after the year end. This has recently been replaced for most colleges by an approach termed plan-led funding. The aim was to introduce greater predictability into college budgets (and thereby the overall LSC budget) by breaking the detailed link between funding and learner numbers. As long as institutions used their best endeavours to deliver the planned programme, and reported significant variations at an early date, there was intended to be no claw-back of funds. Variations in performance would be reflected in future plans. The Demand led funding consultation however proposes that for adult FE (though not for 16-19 provision) there will once again be arrangements for detailed reconciliation with claw back of funds for underperformance both after the year end and in year.

23 Students on means tested benefits and their dependents do not have to pay fees; and some courses such as basic skills are free to all learners.

24 'Delivering World-class Skills in a Demand-led System' op cit.

3. Funding Individuals

In addition to providing funding for institutions the government provides financial support directly to individuals. It does so through a mixture of grants and loans, and through fee concessions. It is not possible to make a watertight distinction between funding institutions and funding individuals since a payment to a college to allow fee remission for a learner could be categorised under either. Nevertheless at a practical level it is possible to identify a set of policies that are focussed around the costs that individuals incur when studying as opposed to the costs incurred by colleges and universities. Within each sector provision is different for full and part time students; more markedly so in higher education.

Fees and fee remission

Universities and colleges set their fees within a framework of government regulation. In the HE sector the government has been concerned to limit the fees charged to full time undergraduates; the maximum fee in 2006/07 was £3000 per year. In the FE sector on the other hand it has been concerned to increase the level of fees charged to 50% of the basic cost and to limit fee remission to centrally defined categories. A full time Access to HE programme will therefore attract fees of £1,144 in 2007/08 rising to a little over £1,500 at current prices by the time the policy is fully implemented. In HE, institutions are only allowed to charge the maximum fee if they have in place

a 'fair access' agreement that provides support for poorer students. In FE, colleges are told that the use of Learner Support Funds to pay fees should be a very exceptional arrangement.²⁵

The table below sets out a comparison of the fees assumed in the two sectors alongside the basic resource rate for different types of provision. The figures do not include the uplifts for student or institutional characteristics and therefore slightly overstate the percentage contributed by fee payers. In both cases the level of fee charged or assumed represents a lower proportion of the cost of workshop or laboratory based programmes than of classroom based activities.

Table 5 Resource Rates, Fees and Fee Percentages

| HE Funding 2006/07 | | | | |
|--------------------|--------|-------------|-------------|---------------|
| Price Group | Rate | Maximum Fee | Assumed Fee | Assumed Fee % |
| A | 14,884 | 3000 | 1200 | 8.08 |
| B | 6,326 | 3000 | 1200 | 18.97 |
| C | 4837 | 3000 | 1200 | 24.81 |
| D | 3721 | 3000 | 1200 | 32.25 |
| FE Funding 2006/07 | | | | |
| A | 2576 | n.a. | 837.20 | 32.50 |
| B | 2885 | n.a. | 837.20 | 29.01 |
| C | 3349 | n.a. | 837.20 | 24.99 |
| D | 4122 | n.a. | 837.20 | 20.31 |
| E | 4431 | n.a. | 837.20 | 18.89 |
| Basic Skills | 3852 | n.a. | 0 | 0 |

Since 2006 most full time undergraduate students in HE have not had to pay up-front tuition fees. The arrangements for student loans mean that the cost of tuition, as well as living expenses can be borrowed and repaid after graduation.

In FE the arrangement in most cases is for tuition fees to be paid before the course starts. When fees were lower, and when fees for full time adult learners were substantially remitted by colleges this may have been of little consequence.

As colleges are pressed to withdraw locally determined concessions, and fees for full time courses rise toward £1,500 per year, the matter becomes of greater moment.

²⁵ See the Discretionary LSF Guidance for 2007/08.

Loans

Full time undergraduate students are eligible to take out loans to cover the cost of fees on advantageous terms. They do not have to be repaid until the student has graduated and is earning more than £15,000 per year; they are written off if not repaid within 25 years and interest is only charged at a rate that reflects inflation – in effect they are interest free. The value of the loan is limited to the fees charged which in 2006/07 were capped at £3000 per year.

Full time HE students are also able to take out loans to cover their living expenses while studying on the same terms. The maximum amount varies depending on where a student lives and where they study but in 2006/07 was between £3000 and £6000.

In the FE sector the only loans available are Career Development Loans (CDL) offered through a limited number of commercial banks. The government meets the interest payments during the period of study, but thereafter the loans and interest accruing must be repaid irrespective of earnings. There is no entitlement to a CDL; banks make a commercial judgement as to whether the applicant presents an acceptable risk.

The difference between the two systems is illustrated by the level of public expenditure devoted to each. This can be calculated in two ways; the total value of loan support given to individuals; or the long run cost to the state of providing the loan. This latter is a smaller figure given that most loans will be paid back although it has to also take into account the cost of interest payments until the debt is paid.

The total value of the HE loan arrangements to recipients is at least £3

billion per year²⁶ though Mark Corney of MC Consultancy estimates, on the basis of answers to Parliamentary Questions, that the total for 2007/08 is much closer to £4 billion²⁷. The cost to the taxpayer is less, with estimates varying between 25% and 40% of the total value. Whichever figure is chosen however it dwarfs the value of CDLs, the proportion of which that relates to FE is around £20 million.

Grants

Around 50% of full time undergraduate students are able to get support with their living costs through the Maintenance Grant scheme introduced in 2006. Changes announced in July 2007 will mean that around a third of all full time undergraduates will be able to get a full grant and a third a partial grant from 2008/09. It is a means tested scheme that currently provides £2,700 per year for those from households earning less than £17,500; the amount of support reduces as income increases and falls to zero for income over £37,425. The scheme replaces the less generous system of means tested HE grants. Overall the budget for HE student support other than through loans is in the region of £1 billion²⁸. Part time students as well as full time students are able to access grant support through Fee Grants and Course Grants.

In the FE system some full time learners are able to access Adult Learning Grants, being rolled out nationally in 2007 at a total cost of £35 million. The grants are means tested but can provide up to £30 per week for someone studying full time at a college, and are expected to benefit 18,000 learners. The entitlement to grant support is restricted however; the course must be one that leads to a qualification defined by the government as a "full level 2" or "full level 3"; and the individual must be studying for their "first full" qualification at that level.

There is no similar requirement to demonstrate "firstness" for full time HE students though there is for part time students.²⁹

Students in FE can benefit from fee remission if they are in receipt of certain means tested benefits or study certain courses, though these latter concessions are circumscribed by regulation. Courses of basic skills are free if they lead to approved qualifications. To benefit from the new level 3 entitlement however an individual needs to be under the age of 25, to be studying a 'full' level 3 qualification and not to hold a qualification at level 3 or above. Colleges also have the power to remit fees for other reasons but government policy currently seeks to minimise the use of this power. The cost of approved fee concessions is in the region of £140 million per year.

Childcare Support

Full time HE students with dependent children are able to get support with the costs of childcare through the Childcare Grant. The scheme only applies if the children are with a registered childcare provider; and it is means tested. The maximum sums payable (in 2006/07) were £148.75 per week for one child and £255 per week for two or more.

There is no entitlement to support with childcare costs for adult learners in the FE sector, although those under 19 have an entitlement through the Care to Learn scheme which parallels the HE childcare grant. Support for adults in FE is made available through the Discretionary Learner Support Funds managed by colleges, but these funds are limited and the average level of funding provided is lower than the other schemes. Recent research for the LSC³⁰ suggests that the average payment is between £30 and £60 per week.

26 Statistical first release from the Student Loans Company 01/2007 quotes £2,954 million.

27 Made up of £2.74 billion maintenance and £1.06 billion fee loan.

28 Quoted by MC Consultancy on the basis of parliamentary questions.

29 Since this paper was written the Secretary of State has written to HEFCE asking them to phase out funding in respect of students studying at an equivalent or lower level than the qualifications they currently hold. See the letter from John Denham at <http://www.hefce.ac.uk/news/hefce/2007>

30 HEFCE_letterELQ.pdf. HEFCE is currently consulting about how this might be done.

Hardship Funds

Adult FE students are also able to apply for support from the Discretionary Learner Support Funds (DLSF) to cover general hardship; the key items covered are tuition and examination fees, books and equipment and travel costs. The sums involved are relatively modest – probably less than £150 per person per year,³¹ and the overall total is in the region of £100 million. Colleges are told by DIUS that support with the payment of

fees from DLSF should be an exceptional arrangement requiring justification to local LSC staff.

The nearest equivalent support in the HE sector is that provided through institutions bursary funds. HEIs are required to have a scheme of support for students from low income backgrounds; if they charge the maximum fee of £3000 (most do) they have, as a minimum, to pay a bursary of £300 to anyone receiving

the maximum maintenance grant of £2,700. Most pay considerably more. The Office for Fair Access estimates that 400,000 poor students benefited from £300 million in bursaries in 2006/07

The Level of Financial Support

The table below summarises the level of financial support made available to adults in the two sectors.

Table 6 Financial Support Summary

| Category | Type of Support | HE ³² | FE |
|--------------|-------------------------|------------------|--------------|
| Fees | Fee Loans | £1060 million | |
| | Fee Grant | £160 million | |
| | Fee remission | | £140 million |
| Maintenance | Maintenance Loans | £2,740 million | £20 million |
| | Maintenance Grants | £800 million | £35 million |
| Hardship | Institutional Bursaries | £300 million | |
| | Hardship & Childcare | £50 | £100 million |
| TOTAL | | £5,110 million | £295 million |
| Total £ /FTE | | £4482 | £468 |

Support for Disabled Students

In HE support for disabled students is provided through Disabled Students' Allowances (DSAs). These are grants paid to the student and can cover the costs of specialist equipment (up to £4,795 in total) the provision of a non-medical helper (up to £20,000 per year from 2007/08) and a general allowance of up to £1605 each year. The grants do not depend on income.

Adults studying in FE can expect to get similar help through the arrangements for Additional Learning Support (ALS). It also does not depend on income and is potentially more generous as there is no specified limit to the funding for any one person. The major difference is that the HE scheme provides a cash resource to the individual whereas the FE scheme provides services in kind. There are developing arrangements which seek to give disabled learners more control of the budgets provided for their support in FE but they are not widespread.

³¹ Ecotec op cit.

³² This excludes the extra £400 million announced by the Secretary of State in July 2007.

4. General Conclusions

As the preceding sections illustrate there are many readily observable differences between the sectors. The key question however is to establish how far the differences relate to substance rather than style; do they represent different principles in operation or are they merely alternative ways of accomplishing substantially the same task. The answer seems to be a mixture of both. The main differences in relation to institutional funding would appear to be as follows:

- In respect of eligibility for funding both sectors operate within a framework of government regulation which sets limits on who or what is fundable. Within that framework however HE institutions have considerable autonomy on what they can offer, whereas FE institutions are further regulated by intermediary bodies; and this control is planned to increase following the Leitch Review. It is not clear why an additional layer of control is needed in one sector and not the other.
- In HE the pattern of provision is substantially determined by the market as expressed through student choice; in the FE sector the government seeks much more strongly to steer provision towards its own targets and priorities. It is not clear why learner choice should be the guiding principle in one sector but a secondary factor in another.
- Maintaining the stability and predictability of institutional budgets seems to be a more important consideration in the HE sector than in FE, where recent policy has emphasised competitive bidding and the introduction of new providers. It is not clear why institutional stability should be a priority in one sector and not another.
- The determination of funding rates and the associated calculations are carried out at a greater level of detail for FE than HE. This is in part a recognition of the greater differentiation of provision within FE but is also consistent with a greater degree of external regulation in that sector. It is not clear why success rates should be an explicit part of the FE funding calculation but not the HE model.
- Although in both sectors budgets can be adjusted if planned activity does not happen, the HE sector allows institutions considerable margin for variation. The FE sector, having briefly moved towards the HE model is now set to move back to a very detailed link between funding and recruitment. It is not clear why there should be significantly greater tolerance of variations from planned activity in HE than in FE.

There are equally important differences in the way that financial support is made available to individuals:

- There is no equivalent in the FE sector to the income contingent loan arrangements available to full time HE students. CDLs are not an entitlement, are small scale, and attract a real rate of interest. It is not clear why loans are not available to full time FE students on the favourable terms enjoyed by full time undergraduates.
- FE operates a system of fee remission for which there is no exact parallel in HE. The nearest comparator is the system of grants which are more substantial than those in the FE sector. HE support is offered as an entitlement based on a means test. FE fee remission is currently an entitlement (but based on benefit status rather than income) and FE Learner Support Funds are discretionary. It is not clear why what is an entitlement in one sector should be discretionary in another.

- Support for grants and fee remission in FE is increasingly linked to priority categories of individuals and provision. Students are supported to achieve a “first” qualification at a given level. There is no general test of “firstness” for most HE support. It is not clear why repeating study at the same level should be treated differently between the two sectors.
- The arrangements for support with the costs of childcare are more generous in HE than in FE and are an entitlement whereas FE childcare funds are discretionary. Since childcare costs are the same for both FE and HE students it is not clear why the levels of support for the latter are more generous.
- Disabled learners in HE have an entitlement to an allowance with which to purchase support. Equivalent learners in FE may receive comparable support but in kind. It is not clear why adults in HE are able to control their budget for support whereas this is not the practice for adults in FE.

A final question to address is how far the differences described above are differences between sectors, and how far they simply reflect the different treatment of full and part time students. The answer seems to be that while there are differences according to mode of study they are overlaid by further differences that align with sector. Full time HE students are treated more generously than either full time FE students or part time HE students; but the latter still receive more favourable consideration than part timers in FE. The tables below summarise the position.

Table 7 Summary of Provision for Full-time Learners

| Adults in Higher Education | Adults in Further Education |
|--|---|
| Course provision based largely on learners choices operating in a competitive market | Course provision based increasingly on government priorities operating in a managed market. |
| Government restricts fees to a maximum figure and institutions must use some fee income to fund bursaries. | Government seeks to increase fees without a maximum figure and seeks to prevent institutions offering fee subsidies |
| Students are entitled to take out loans which are interest free and income contingent | Students can apply to commercial banks for mortgage style loans with a real rate of interest. |
| Most maintenance support based on entitlements; for example help with childcare, or fee loans and grants | Most maintenance support based on discretionary funds (LSF) which are inadequate to allow an entitlement |
| Entitlement to support depends primarily on a place in HE and family financial circumstances | Entitlements where they exist are linked to priority categories of learners and courses |

Table 8 – Summary of Provision for Part-time Learners

| Adults in Higher Education | Adults in Further Education |
|--|---|
| Course provision based largely on learners choices operating in a competitive market | Course provision based increasingly on government priorities operating in a managed market. |
| Institutions are left to determine fee rates | LSC policy is to increase fee rates by raising the fee assumption |
| Students entitled to fee grants based on household income | Students entitled to fee remission based mainly on benefit status |
| Students entitled to course grants based on household income | No entitlement to support with maintenance costs |
| Students entitled to Access to Learning Funds based on income | Students can access discretionary LSF funding |
| Students can access additional fee support scheme | Colleges told that using LSF for fee support should be exceptional |

PART D. Parliament's Response and Recommendations

9. Research Process

To find out what parliamentarians thought about Mick Fletcher's findings, a series of 30-45 minute interviews were conducted based on Mick Fletcher's general conclusions with the following MPs and peers:

Tim Boswell MP, Co-Vice Chair, Associate Parliamentary Skills Group

David Chaytor MP, Children, Schools and Families Select Committee member

Jeff Ennis MP, former Education and Skills Select Committee member

Linda Gilroy MP, Secretary, All-Party Ageing and Older People Group

John Hayes MP, Conservative Shadow Minister for Vocational Education

Kelvin Hopkins MP, Co- Chair, All-Party Further Education and Lifelong Learning Group

Baroness Howe of Idlicote

Eric Joyce MP, PPS to Secretary of State for Business, Enterprise and Regulatory Reform and Chair, All-Party Education Group

Gordon Marsden MP, Chair, Associate Parliamentary Skills Group and Innovation, Universities and Skills Select Committee member

Baroness Morris of Yardley, former Secretary of State for Education and Skills

John Penrose MP, Co- Chair, All-Party Further Education and Lifelong Learning Group

Baroness Perry of Southwark

Bill Rammell MP, Minister of State, Lifelong Learning, Further and Higher Education

Barry Sheerman MP, Chair, Children, Schools and Families Select Committee

Angela C Smith MP, PPS to Minister of State, Department for Communities and Local Government

Baroness Sharp of Guildford, Liberal Democrat Spokesperson for Innovation, Universities and Skills in the House of Lords

Baroness Verma, Conservative Spokesperson for Innovation, Universities and Skills in the House of Lords

Stephen Williams MP, Liberal Democrat Shadow Minister for Schools

Phil Willis MP, Chair, Innovation, Universities and Skills Select Committee

Rob Wilson MP, Conservative Shadow Minister for Higher Education and Innovation, Universities and Skills Select Committee Member

Derek Wyatt MP, PPS to Minister of State, Department for Culture, Media and Sport

10. Parliamentarians' Comments and Recommendations

Parliamentarians' comments and recommendations fell into the following key categories. Each category contains a summary of comments and policy recommendations concerning the issues raised by Mick Fletcher.

Funding Institutions

10.1. Eligibility for Funding of Qualifications

Participants were asked about Fletcher's first key point; why there is greater external control over the eligibility for funding of FE qualifications and why another layer of control is set to be

added through the sector skills councils following Leitch's recommendation. Most participants felt that the FE sector should be given more freedom to innovate and respond to local demand, and that more flexibility was needed in the funding system regarding qualifications. There was general consensus that the role of central state planning should be kept to a minimum and that the intermediary bodies which exist in FE should be streamlined.

A number of parliamentarians strongly disagreed with the level of controls on FEIs concerning which qualifications are fundable, arguing that this restriction inhibits the ability of FE to respond to local demand and has a negative impact

on the sector overall. Many shared Rob Wilson's viewpoint that "FE needs freeing up and bureaucracy needs cutting through so colleges can innovate and develop brands and unique offerings responding to local circumstances. At the moment the sector is too dependent on Government funding". Phil Willis even suggested that HE "needed to be reigned in a bit" as so much public money is invested into higher education compared to further education.

John Hayes advocated fairly radical reform of the FE sector, stressing the need to "abolish existing intermediary bodies" and ensure that reform does not entail new bodies simply being 'bolted on' to existing organisations. John

Hayes argued that the irony inherent in Government policy is that colleges are now allowed to award foundation degrees and yet are so heavily regulated in every other sphere". Hayes also highlighted the anomaly that college principals are required to have certain qualifications whereas university vice-chancellors are not. Hayes summarised that over-regulation was having "a negative impact on morale of FE" stressing that colleges are performing well according to Ofsted thus making the difference in treatment from the HE sector even less valid.

Baroness Sharp stated that the difference in autonomy "reflects a historical lack of trust in FE. There were some bad colleges in the 1990s but the LSC has gone overboard now", concluding that "colleges should decide for themselves the balance of courses they want to put on". David Chaytor echoed this view: "I think most FE colleges now are of a sufficient size and quality to be trusted with the management of a special budget or financial system for adult students and trainees". Baroness Verma reiterated that "colleges need more autonomy and decision-making power, the 'one size fits all' approach for FE colleges is not helpful and we need to trust those who run the colleges to run their own programmes". Baroness Verma also voiced criticism of the role of the LSC, stating that she "would like to see money spent on the LSC channelled back into FE colleges". Baroness Morris summarised: "I still don't think we are clear about the place of FE in our education system. It is squashed between the schools and universities. If you compare the situation with schools, Government is moving towards giving them more innovation and development." Baroness Morris concluded that FE is "in the same place" as schools now and therefore "the best of FE colleges should also be allowed to innovate and develop; the FE sector is ready to take the next step. We accept that there were faults in the past but a lot of those are better now."

On the other hand, participants generally welcomed the expansion of an employer-led approach to the funding of qualifications through sector skills councils. John Hayes was supportive of sector skills councils having an influence on qualification eligibility in FE but stressed that "this must be countered with cuts elsewhere in institutional interference in FE". John Penrose felt that "the employer-led direction is right, especially for FE, but there may be better models than the current one using less bureaucracy". He added: "Colleges have to be accountable to local communities but self-regulation could provide a good model."

However it was also argued by some parliamentarians that, although some FE colleges might benefit from greater autonomy, there are justifiable reasons why FE has a different regulatory system from HE. Baroness Perry noted that in FE there is a multiplicity of providers unlike HE and therefore greater levels of monitoring are necessary. Eric Joyce stated that "with vocational skills there is probably more scope for a coherent, standardised approach". Baroness Morris concurred, defending the role of state planning for FE courses:

"It absolutely makes sense to have a national plan for skills. On what other basis will colleges decide which vocational courses to offer other than what the nation needs? I think it would be letting people down terribly if you trained more people than you had places for them."

Angela C Smith MP agreed: "With FE and vocationally oriented elements there has to be some kind of mechanism for determining what it is the country needs and ensuring that is delivered, balancing the needs of country and aspirations of young people. I wouldn't necessarily disagree with the need of the state to use its funding mechanisms to ensure the delivery of certain skills sets of the economy." However, Smith did qualify her response by saying that "in doing

so Government needs to think more broadly and creatively that it is in the current situation". Similarly, Baroness Perry tempered her defence of state intervention in FE by adding that the regulatory system "is currently over-heavy and inhibiting creativity in the FE sector". Tim Boswell summed up the need for a balance between central control and local autonomy with regard to vocational qualifications: "Fine-grained planning is inappropriate, but Mick overstates the distinction between the funding and planning mode of the HEFCE and the LSC. My preference is to minimise state planning, but there is some relevance of central planning in simply looking at the adequacy of coverage of provision in areas, as a fall back."

Jeff Ennis suggested that regional pilots could be run to give colleges more autonomy. This suggestion was supported by most of the participants, although Barry Sheerman warned that "if colleges are given more autonomy, this needs to be balanced with an overarching responsibility to respond to national needs".

Gordon Marsden was critical of the levels of micro-management as opposed to over-regulation in the FE sector more broadly. Stephen Williams suggested that this might be stifling the initiative of some colleges. David Chaytor suggested that the shift in funding powers from the LSC to local authorities may result in more freedom for colleges. Marsden stressed the need for colleges to work within a strategic framework with funding shifting to local authorities.

► Recommendation

Although there is some justification for state control of the eligibility for funding of FE qualifications in order to accommodate national economic need, the FE sector would benefit from greater freedom for institutions to develop unique qualifications in response to local demand.

10.2. The Growing Overlap between FE and HE

It was recognised that the differences in autonomy with regard to funding between the FE and HE sectors are largely historic, as universities evolved as autonomous institutions whereas FE colleges were, until the advent of the LSC, part of local authorities. Yet, a number of MPs felt that the relationship between the two sectors was 'a moving picture' and that the gap between the two sectors is diminishing. As Gordon Marsden pointed out, HE is more centrally controlled than it was 20-30 years ago and equally FE is less so. Colleges now have powers to award foundation degrees and in the long term colleges may see this power extended. Additionally, it was noted that the Government is currently consulting the FE sector about more self-regulation. Conversely, HEFCE has been asked by Government to provide 5,000 employer co-funded courses. Consequently, Gordon Marsden argued that "it is not a question of comparing fiscal discrepancies but broader issues of lack of comparability. With FE and HE moving closer, broad principles of parity will become easier to argue".

This merging of the two sectors was welcomed by participants; John Penrose described the process as "democratising access to further and higher education". Estelle Morris observed that "20 years ago we would not have dreamt of comparing FE with HE but they have been coming together and they have both been changing". Derek Wyatt emphasised the increasing interface between the two sectors: "I would like to see HE having more of an FE element; I do not like the dichotomy". Wyatt added that this overlap is likely to increase when fee caps for universities are reviewed next year because "the universities who cannot charge more will have to look to

FE to generate business". It was stressed by respondents that collaboration between HEIs and FEIs will need to increase, which may, as John Penrose commented, require some changes in institutional frameworks.

► Recommendation

The overlap between FE and HE has been increasing in recent years. This is welcome and will help to democratise access to education. FEIs and HEIs will need to collaborate closely in order to deliver provision suitable for all types of adult learners.

10.3. Learner Choice

When asked why market forces as expressed through learner choice are more of a guiding planning principle in HE than in FE, the majority of parliamentarians reiterated that more flexibility in funding was needed to enable FE to respond to learner need, particularly at a regional level. Jeff Ennis commented: "I understand the Government focus on level 2 - Barnsley East has many unskilled and unqualified adults - but we need to be a bit more expansive with choice and at a higher level, especially for adults." Tim Boswell argued that the current approach has been a "mistake" and "there has been too much planning without very obvious benefit". It was noted that PSA targets are necessary and even that central targets are starting to be relaxed but there was general agreement that FEIs need to be able to run courses according to both employer and learner demand.

David Chaytor pointed out that the current funding system contains a bias against part-timers and adults returners who need gradual entry back into education rather than an immediate full level 2. As Phil Willis noted, returning adult learners are the key to achieving Leitch's targets and FE colleges need more autonomy with regard to funding

to be able to cater courses to them. Baroness Morris argued that the Government needs to "look again" at adult learners below level 2 and how to get those people, whom the Government and society wish to target, back into education or training. Baroness Howe was concerned in particular about the effect of current funding policy on older people: "I am worried at funding moving away from wider areas of learning and choices in FE especially for older people and particularly when there is a demand but no funding for provision."

Baroness Perry felt particularly strongly on this issue and found it "mad that student choice on 'other' (non-priority) provision is quite often not funded at all".³³ She argued that: "The thing that used to be wonderful about FE was its creativity; providers could take little bits of this and that and create new provision and the learners came pouring in for it. The fact that something like that is almost being squeezed out of the system is heartbreaking." Angela Smith emphasised in particular the "need for more bitesize learning, and accreditation and the need to fund softer provision for adults to get them back into learning". She concluded that "Government has never got to grips with this sub-layer and never recognised the need to fund it".

With regard to learner choice in HE, Rob Wilson noted that "even HE doesn't do this quickly enough". He insisted on the importance of learner choice: "This is the future for FE: responsive, customer-service focused and business community driven. This will enable institutions to generate their own funds directly, rather than through Government, and bring prosperity to the local community." Linda Gilroy MP argued that there needs to be more collaboration between schools, colleges and universities in this area to cater fully for learners' needs. She suggested that some sort of guide for students showing what choices are available should be explored.

³³ 'Other' or non-priority provision refers to courses which do not lead to a Skills for Life, full level 2 or full level 3 qualification.

Eric Joyce on the other hand recognised that there is a balance to be struck between what employers and the economy need on one hand and what young people want to do on the other, noting that these do not always correlate. He consequently argued that "it is unfair to take students onto courses which look vocational but in truth are only pseudo-vocational and offer little prospect of employment in the field of study.

Gordon Marsden MP suggested that the difference between the sectors in respect of learner choice is "overstated". He pointed out that there are limits on learner choice in HE (for example prescribed amounts of dentists, doctors and nurses). Conversely, learner choice can play a significant role in FE, for example, the growth of computer courses in 1990s reflected consumer interest. Marsden also noted that the situation was changing in HE which now also has to take into account wider social and economic needs.

► Recommendation

The loss of non-priority provision in FE despite learner demand, especially for older learners and adult returners, is to the detriment of adult education. This should be reviewed and, if necessary, more funds made available to FEIs for access and entry level provision for adult learners.

10.4. Market Forces and Institutional Stability

In his paper, Mick Fletcher highlights LSC proposals to increase competitive bidding in the FE sector in order for more private providers to enter the market, an approach not replicated in HE. Fletcher notes that expanding the market-based approach to allocations can have a negative impact on the stability and predictability of institutional budgets in FE, but is considered a price worth paying. There was a varied response from parliamentarians when asked about the different approach to competition within the two sectors. Whilst a few were

sceptical of the notion of introducing more competition into the FE sector and felt the different treatment unjustified, many felt that this route was valid and inevitable for FE providing there was a level playing field between FE colleges and private providers.

It was noted that the culture instigated in FE in the 1990s had produced some 'dubious' practice and that Government was slow to close down under-performing colleges. In some areas FE colleges had been known to operate as a 'cartel'. However, Kelvin Hopkins argued that it was an "economic waste for an under-performing college to be closed as if in a competitive market rather than, for example, investment in a new Principal". David Chaytor echoed this sentiment with his comment: "I prefer that existing expertise in the public sector be used, for example successful colleges take over neighbouring under-performing colleges rather than entering into a competition." Kelvin Hopkins went on to argue that all education should be a state funded public service and therefore did not believe in the introduction of any form of market enterprise.

Baroness Perry was horrified at the lack of institutional stability that this caused FE colleges, describing this point as "the most serious concern of the lot" which ultimately "short-changes the students" as colleges cannot be managed effectively. Stephen Williams expressed the following scepticism:

"In this sector there is a lot of private provision already meeting the needs of certain employers. I am not sure that you need to create a sort of false market and a false contestability in order to try and draw in private sector providers if they are not already attracted to that by the return that employers provide from the service anyway. If there is underperformance by colleges in an area, I think that needs to be addressed in a different way because private providers will only be interested in the aspects of FE with high margins."

Many recognised the need for some

competition but favoured a cautious approach. Baroness Howe noted that "there are dangers and benefits from competition" adding that "private providers may be more innovative but I would be worried whether any evaluation of the effect is being conducted". Jeff Ennis expressed similar caution: "It's a question of balance and needs to be kept under review."

Most felt that the introduction of competition into FE was not the problem, and was even welcome to generate innovation in the sector, but insisted on the need for a level playing between FE colleges and private providers. As noted earlier, FE colleges are often not free to respond innovatively to local demand. As Rob Wilson put it, "there is no problem with competition but you need freedom and diversity for it to flourish; at the moment this is almost impossible for FE colleges". John Penrose expressed the view that ultimately "the choice must be up to the customer not the politician". Many also added the caveat expressed by John Hayes that more information was needed on private providers for example with regard to apprenticeships.

Gordon Marsden and David Chaytor also both noted that HEIs are larger and generally have longer established infrastructures than FE. This suggests that HEIs may be less likely to get into financial difficulties and also that the implication of having more competition in HE could have a more devastating impact than it might in FE. There were also suggestions that the future direction of policy would see more contestability and competition in both sectors; HE as well as FE.

► Recommendation

The principle of introducing more competition into the FE sector is generally welcome providing there is a level playing field between FE colleges and private providers with regard to regulation. In certain circumstances, it may be preferable to support failing colleges from within the FE sector rather than automatically create a competition.

10.5. Funding Rates

Parliamentarians were asked whether they thought it was justifiable for the treatment of success to be a component of the funding formula in FE but not in HE. Participants were also asked if HEFCE should adopt a similar approach and take into account drop-out rates in HEIs when calculating funding amounts.

Some parliamentarians felt very strongly that penalising colleges for drop-out rates in this way was unfair and put undue strain on colleges. Baroness Perry argued "this puts enormous pressures on colleges and ultimately encourages people to be dishonest". Angela Smith was "dubious that penalties for poor retention rates are right" and concluded that this approach "has damaged FE and builds instability into the system". Tim Boswell made the pertinent point that "at the access end of FE getting someone onto a course, even if they don't complete it, is a partial success." Baroness Howe took this point further and argued that "FE needs compensating for the extra effort to keep people in who don't necessarily have that background" adding that "FE should have extra funds for the most deprived and in need".

On the other hand, some MPs thought that building the treatment of success into funding formulas is a sensible idea in order to ensure value for public money. It was pointed out that drop-out rates are generally higher in FE and so need to be monitored more closely and, on a practical level, it is easier to take action to improve completion rates in FE than in HE. Some thought that similar action should be taken in HE according to the same logic. Phil Willis argued that drop-out rates in HE are increasingly "unacceptable" but unlike FE they are not punished for it. Eric Joyce summarised: "FE traditionally has much higher drop-out rates than HE so this practice is legitimate to some extent. If HE starts having increased drop-out rates they too should be punished."

However a number of MPs warned against penalising universities for poor retention rates, arguing that this would discourage HEIs from striving for broader

access. Universities that encourage a wider intake often experience increased drop-out rates and therefore introducing penalties may act as a disincentive for universities to engage with the widening participation agenda. Gordon Marsden emphasised that focus should be on rewarding or penalising institutions that do not support their students through to completion, rather than whether the student actually completes or not.

A number of participants felt that whilst retention rates should be a consideration in funding formulas, action should take the form of positive incentives for effective initial recruitment processes rather than penalties for low completion rates. Phil Willis argued that "there should be symmetrical systems with premiums to keep students on. This is done by attractive, relevant courses." Angela Smith agreed: "It is better to ensure more rigour when placing and recruiting students in the first place." Baroness Sharp argued that introducing licence to practise would help improve completion rates in FE as students on vocational courses would have a strong incentive to complete the qualification, comparable to the value of a completed degree certificate.

There was clearly division as to whether the practice of funding being dependent on success rates should be part of both systems or scrapped entirely. Either way there was general agreement that both sectors should be treated the same. As John Hayes put it, "with more collaboration between FE and HE, so there should be similar rules."

► Recommendation

The use of success in completion rates to inform funding calculations should be standardised across the FE and HE sectors.

10.6. Reconciliation

Participants were asked why there seemed to be greater toleration of variation from planned activity and planned growth in HE than in FE. Most participants reiterated that FE needed

greater freedom to be creative when there is deviation from planned activity. Estelle Morris agreed with Mick Fletcher's questioning of this difference: "It is true, all an institution needs to do is retain the learners and I think that's a fair criticism." Baroness Perry added: "This is wrong, people drop out for complex reasons beyond colleges' control and variation happens, colleges need flexibility to be creative with budgets when this happens." Tim Boswell noted that "the point at which alarm bells should ring should not be deviation from plan but deviation from outcome". David Chaytor conceded that: "Bigger, more autonomous institutions need more discretion. However colleges need an adequate level of flexibility to be able to respond to sudden local initiatives, that is their strength."

Stephen Williams said "if an institution is actually over-recruited in another sector then there could be transferability between the budgets". He emphasised that transparency was the most important factor: "As long as the whole process is open, as long as it's fair between schools and colleges, sixth form colleges and universities, there should be internal transferability in between the budgets." Baroness Howe argued that across the two sectors "systems should be as close as possible and the best approach of course is to ensure that courses are relevant in the first place".

Participants noted that this question reflected the fundamental issue underlying this section of the interview; that the FE sector is more centrally controlled than the HE sector which seems to reflect a lack of trust in the sector. As Rob Wilson summarised: "All this comes back to the same issue: you can not have true excellence without real freedom."

► Recommendation

FE colleges should have greater freedom to be creative with provision where there is deviation from planned activity, as in the HE sector.

Funding Adult Learners

10.7. Overall Levels of Financial Support

Parliamentarians were asked about the differing systems and levels of financial support available to adult learners in FE and HE. During the interviews, participants were shown Mick Fletcher's summary table (see p.23) which highlights the substantial variation in amounts available to adult learners in the two sectors. It was also emphasised that financial support in HE is offered as an entitlement whereas in FE funding is offered as a mixture of restricted entitlement and discretionary support.

There was consensus among participants that historical bias has led to HE receiving far more of the public purse than FE and that this needs to be fundamentally rebalanced. Baroness Morris commented that students on vocational courses have always had to pay more and "this is an inequality". She observed that there used to be more paid apprenticeships in the vocational sphere, which arguably represents the equivalent of a grant. However, the number of apprenticeships has decreased over time and more learners study vocational courses at college instead, but the equivalent financial assistance has never been matched. Jeff Ennis said that he even had constituents downsizing properties to fund their FE learning. Many respondents echoed Stephen Williams's point of view:

"It seems absurd to me that if you come from a background where your parents have not gone to university or college before and have low incomes, and you are the first person in your family ever to go to an FE college, the state does not incentivise and reward that individual on a fair basis."

A number of participants were not aware that the disparities highlighted in Fletcher's paper were so severe. Baroness Perry was "absolutely shocked"; and Jeff

Ennis stated: "I didn't realise it was as stark as that - this needs tackling head on as a Government".

All participants agreed that the balance between what HE and FE students receive from the state needs to be reviewed to achieve greater parity. Phil Willis argued that current public spending on student support levels in HE is "fundamentally unsustainable". Many respondents agreed with Eric Joyce that:

"We should shift student support as much as possible from HE to FE. HE is pampered and individuals get huge rates of return. There is an inherent bias towards HE."

However, parliamentarians did differ as to the extent and way student support funding could be shifted from HE to FE. Kelvin Hopkins argued that the two sectors should be "treated equally" and preferred a system of more generous public grants in both sectors paid for through increased taxation. It was recognised by most MPs, however, that increased public expenditure was not a feasible option, particularly within the current CSR period, and a rebalancing of existing funds was the preferred course of action.

Respondents also pointed out that there is limited political feasibility for a whole-scale shift of funds from HE to FE given the long-established nature of entitlements and the strength of the HE sector's lobby. It was noted that changes are starting to take place, for example with the advent of variable fees in HE, but that more needs to be done. David Chaytor suggested that "there is more scope for a redistribution of taxpayer funding to the lower levels of achievement to incentivise those at the lower end". John Hayes proposed that this rebalancing might be achieved by reinvesting the money spent on bureaucracy in FE back into the frontline. John Penrose suggested that "the current Government targets of 50% to HE could perhaps be 50% to HE or FE and then the money saved by those not going to HE can be used to support

higher numbers in FE courses".

Other participants were keen to stress that, given limited funds, any shift in student support must be aligned with overarching economic objectives. Linda Gilroy agreed that "this definitely needs looking at and is not justifiable" but stressed that "we cannot just open it up to all. Student support must be linked to the economy otherwise we will not get our desired outcomes". Barry Sheerman shared similar sentiments "given skills shortages we could shift more to FE if we can prove it will deliver".

The difference in support for part-time and full-time learners was also highlighted. It was noted that part-time learners do have different needs; as John Penrose described "many FE students are part-time, on day release from jobs, and not living away from home and so the need for financial assistance is lower". Nevertheless, it was also recognised that, as Rob Wilson put it, "part-time students and mature students get a raw deal at the moment" across both FE and HE. Many felt that this disparity needs to be reviewed, especially given that there are far more part time adult students in FE.

Angela Smith emphasised the need for shifts in structures as well as funding: "Mick Fletcher raises a fair point but it is also about structures: part-time learning, flexibility, distance learning. There should be equity between FE and HE on this." Gordon Marsden questioned the likely impact of the transfer of funding to local authority control on the fact that FE student support is largely discretionary, particularly for part-time students. Marsden raised the issue of whether discretionary student support might need to be ring-fenced.

► Recommendation

HE students receive preferential levels of student support compared to FE and this is not justifiable. Student support levels should be rebalanced to ensure that those most in need, including part-time learners, receive public funds regardless of whether they study in FE or HE.

10.8. Loans

On the specific issue of loans for adult learners, participants were asked whether loans should be made available to full-time adult students in FE on the same terms as full-time adults in HE. There is currently no equivalent in the FE sector to the income contingent loan arrangements available to full-time HE students through the Student Loans Company. Career Development Loans (CDLs), the closest equivalent in vocational education, are not an entitlement; are offered through commercial banks; and are small scale, attracting a real rate of interest.

Many parliamentarians thought that this disparity was unjustifiable. Baroness Sharp described the systems as "totally unfair", adding that "there should be level playing field between FE and HE". Baroness Verma echoed these sentiments: "We need to alleviate those discriminations as once a learner goes back into full-time education, they will be a poor student regardless of what they study." Barry Sheerman commented: "There is a strong argument that if someone wants to do a course in FE that they should get similar kinds of inducements, especially in shortage courses."

David Chaytor criticised the cost to the public purse of subsidising HE loans:

"I think the zero rate of interest for HE student loans still represents a considerably generous taxpayers' subsidy to the most privileged group of people. I think there's an argument to be opened up here whereby zero rates could be increased and the saving to the state that comes from that could be reinvested in making more available to FE students. This could be raised during the Sale of Student Loans Bill. There is no longer any argument for distinguishing between what is HE and what is FE."

Baroness Perry felt particularly strongly on this issue: "This was unknown to me and Ministers in the House of Lords give the impression that CDLs are an

entitlement. It is astonishing and there is no excuse for it."

► Recommendation

The system of loans needs to be revised to allow adult learners entering further education access to the equivalent types of loans as adults studying in higher education.

10.9. Childcare Support

There was resounding support among participants for a review of childcare support for adult learners and a degree of outrage at the disparities that still exist between provision in FE and HE. The majority of MPs and parliamentarians were of Tim Boswell's view that "if you want people to go and study at all levels, then you have to make it practically possible and childcare is essential to this".

Rob Wilson suggested that student unions in colleges could be more proactive on this issue but generally it was felt that provision needed to be reviewed by central Government as well. Gordon Marsden argued that there was a "strong case for reviewing childcare across the board (FE and HE)" and noted that in particular current childcare support for ESOL students is a real problem. Gordon Marsden argued for a targeted approach to reviewing childcare support, suggesting that "rather than trying to equalise the two, we should identify those in most need and address that".

► Recommendation

It is not justifiable that childcare support is less generous for adult learners in FE than in HE. The system of childcare support needs reviewing across the board to target adults most in need.

10.10. Support for Disabled Students

There was an equally strong consensus for a review of support for disabled learners given the discrepancies highlighted by Mick Fletcher. The fact that disabled adults in HE are allowed

to control their own support budgets (through the Disabled Students' Allowances) but are not in FE is "completely unacceptable" according to Phil Willis and participants all shared his view that "treatment must be the same in both sectors". Gordon Marsden emphasised that this was an "historical anomaly" and needs to be addressed for both in and out of college support. Baroness Sharp highlighted in particular the need for better transport for disabled adults to get to FE colleges, a problem which currently prohibits a number of learners from access to further education.

► Recommendation

It is not justifiable that there are differences in the types of financial support available to disabled adults in FE and HE. Support for disabled adult learners should be the same in both the HE and FE sectors.

10.11. A New Basis for Student Support

There was general consensus on the inequity between financial support levels for students in FE and HE and the need to review this situation, and MPs had some strong views on how this should be done. Rob Wilson took the pragmatic view that: "you need to equalise investment to equalise value but this is untenable, so a much larger reform of both needs to be looked at in harmony". Wilson specifically suggested that the review of HE planned for 2009 should be a review of FE and HE together.

A number of MPs agreed that a full-scale "root and branch reform" of both FE and HE is needed because of the different and changing nature of how adults are choosing to study. Tim Boswell noted that the current arrangements for full-time and part-time learners in FE and HE are "not fit for purpose" because people are doing fewer 3 year courses. As Derek Wyatt noted "it is not about FE copying HE because HE is in transition, the emphasis should be on creating wealth and creativity". Phil Willis commented:

"It is impossible to compare student funding for FE and HE as HE is based on 3 year, undergraduate courses. The question that needs to be asked is how do we get sufficient financial support to adult learners in FE rather than how do we equalise the systems."

Gordon Marsden shared this view, warning that "we shouldn't directly compare the two systems" but rather, given the growing convergence between FE and HE:

"We need a very fresh look at the basis on which student support and need is assessed and that shouldn't be done on the basis of FE versus HE, it should be done on the basis of demand, social circumstances, particular support for particular groups and first-time entrants."

A number of those interviewed were in favour of a funding system for student support for both FE and HE based on, in the words of Phil Willis, "learning and financial support credits". Tim Boswell mentioned that the new system of proposed skills accounts should be across the piece for both FE and HE. Baroness

Sharp suggested "a voucher-type credit system, almost like a cheque book, where for example every person is entitled to 5 years' worth of education fees after the age of 16" alongside a loan system to cover maintenance costs.

Derek Wyatt stressed that more creativity was needed for adults in the student support system and suggested a similar scheme to that in Scandinavia of a 7 year, lifelong access system. This would enable genuine lifelong learning as the system would allow, for example, a sabbatical or for tax relief on a sabbatical to be taken at any age. Derek Wyatt had some innovative ideas, "I'd like to see some of the FEs establish Trusts so you can get your 28p in the pound back". He proposed a system similar to the state university in America: "I would prefer that there was an alliance between FE and HE so that there was, for example, one organisation per county that was responsible for FE and HE. This could be 50% owned by the local authority and 50% by the private sector."

David Chaytor argued for a shift towards a single 'post-compulsory sector' in which

the basic principles and entitlements should apply equally. Chaytor pointed out that increasing the education participation age to 18 (through the FE and Training Bill) will produce a common funding system up to 18. Therefore "all we really need is two broad sectors of education, 0-18 and 18+ and the more we have a unified, simplified funding system with some common principles the better it will be". Derek Wyatt also suggested that FE and HE need to merge at the undergraduate level. Gordon Marsden stressed the need for flexibility: "We must build flexibility into any new system as FE and HE are changing so rapidly and learners are increasingly dipping in and out of education."

► Recommendation

A new, single financial support system for adult learners studying in either the FE or HE sector should be explored based on common principles and entitlements. This needs to be flexible and it should allow for 'credits' of learning to be taken up at any stage of an individual's life.



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