

# 16-19 funding formula review Consultation

October 2011

 For consultation

# 1: Introduction

## The case for change

1. The national funding formula used for the education and training of 16-19 year-olds in England has supported the significant improvement in attainment by young people over recent years. It operates across the many different routes a young person may choose and has brought maintained school and Academy sixth forms, colleges and other providers onto the same basis for funding.<sup>1</sup> It gives those providers additional funding depending on the characteristics of the young people who choose to learn at their institution.
2. Nevertheless, it is not appropriate for a system of compulsory participation, and it has two significant weaknesses that we need to address. First, the funding formula is not always transparent and straightforward, requiring providers and funding bodies to develop significant data and audit systems to operate it. The opacity and complexity of the formula means that young people do not have a standard funding allocation that follows them. The total amount a provider receives depends on the details of each learner's separate qualifications, characteristics, and achievements. At the same time, the various elements of the current approach, which provide the additional funding for disadvantaged learners, are resource-intensive to maintain and not easy to understand. We need to ensure that the funding formula is as transparent and simple as possible, while also ensuring that it continues to distribute public money in a fair and appropriate way.
3. Secondly, we know that too many young people currently do not progress into secure employment or further and higher education (HE) and training. We need to ensure that all learners study the best qualifications that ensure they can progress to further study or into a job. Furthermore, too many learners without a solid grounding in the basics are being allowed to drop the study of English and maths – the most vital foundations for employment – when these are precisely the subjects they most need to continue. In revising the funding formula we need to strip out the perverse incentives that are inherent in the current system of “payment-per-qualification,” and introduce funding at learner level that will support the delivery of a coherent programme of learning for the young person. The current funding system is unique compared to pre-16 education in England and international post-16 education. Professor Wolf found that it:
  - forces institutions to steer a high proportion of learners into courses they are likely to pass easily, if they are to remain solvent, and risks severe downward pressure on standards in teacher-assessed awards,

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<sup>1</sup> Unless we are referring to a specific type of provider, we use ‘providers’ to mean all types of provider.

- gives institutions strong incentives to choose qualifications that pay well – that is, qualifications that are well-funded but require less teaching time in practice than their value implies,
  - gives institutions no incentive to offer coherent study programmes, and
  - gives institutions no real powers or incentives to respond directly to the labour market.<sup>2</sup>
4. Moving to a system for 16-19 learners, whether vocational or academic, which funds on a per learner basis, with the amount varying to some extent by programme, would tackle the worst of these effects and bring significant benefits to the young person. At the moment, providers devote too much attention to “exploring the intricacies of ‘success rate data anomalies’ which will have a major impact on their annual budgets”<sup>3</sup>, and as Professor Wolf writes, England “is the only country, to the best of my knowledge, where institutions routinely spend money attending workshops which explain the latest wrinkles in the funding formula and how best to exploit these.”<sup>4</sup>
  5. A simpler funding system will support autonomous institutions to offer coherent and substantive study programmes, free from any perverse incentives. Providers will be able to ensure that each young person is on the correct programme to facilitate their progression to further learning or employment, a requirement outlined in the Wolf review.<sup>5</sup>

### A new challenge for 16-19 funding: getting the principles right

6. This is a critical time for 16-19 education and training as it changes to meet the demands of compulsory full participation, at a time when every element of public funding and every single budget is under the greatest scrutiny.
7. The proposals in this consultation document build on the actions the Government has already taken to simplify the funding system through the introduction of the lagged learner number approach to allocations, and to deliver fair funding so that all providers are funded at the same level by 2015. But there is a long way to go before we can say that funding follows the learner, and that we have removed perverse incentives to steer young people onto easier programmes with a large number of qualifications that do not improve their opportunities for progression.

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<sup>2</sup> Alison Wolf, *Review of Vocational Education – the Wolf Report*, Department for Education, March 2011, p.60. [tinyurl.com/wolfreport](http://tinyurl.com/wolfreport)

<sup>3</sup> *Review of Vocational Education*, op. cit., p.62.

<sup>4</sup> *Review of Vocational Education*, ibid.

<sup>5</sup> *Review of Vocational Education*, op. cit., recommendation 6, p.14.

8. We consider the principles of a new system should:

**a. Support policy objectives**

A revised funding formula must support the policy objectives of:

- raising the age for compulsory participation in education,
- eliminating the attainment gap between young people from poorer backgrounds and those from more affluent ones, and
- removing any perverse incentives that funding may exert over the curriculum.

**b. Be fair**

Funding should follow the learner, and be based on the lagged learner number approach to allocations to ensure stability.

Funding should be based on inputs (currently guided learning hours) that recognise the typical costs incurred by providers in delivering the programme.

**c. Be clear and transparent**

The funding formula should have clear funding calculations, the links to the relevant data should be easy to understand, and the basic elements and calculations should, where practical, be aligned with proposals for funding pre-16, and with proposals for funding high-need pupils.

**d. Enable data simplification**

The minimum data necessary to provide the required level of accuracy in allocations and assurance of public funds should be collected.

**e. Be clear what additional funds are being targeted at young people from disadvantaged backgrounds**

The funding formula should include a more transparent and consistent element to show the extra funding targeted at young people, including those on an Apprenticeship, from disadvantaged backgrounds. We should aim to align this with the principles of the pre-16 pupil premium, so ideally this should show how much extra funding will be received by each learner classified as disadvantaged.

**f. Avoid financially destabilising good quality provision**

To meet this challenge, we must provide clarity, simplicity and fairness to institutions as well as transparency to young people and parents, so that everyone can better understand how successful learning and provision is funded by government. This consultation will lead to a redesigned national formula capable of continuing to support the complete range of provision for all learners aged 16-19. The

change will need to be carefully managed. Options for achieving this are discussed in chapter 6.

### A new ambition for young learners

9. There is no doubt that the 16-19 further education system continues to deliver ever greater success. In England, over 1.6 million young people are in some form of learning, the highest ever number, with 91.6 per cent of 16-17 year-olds participating in education or work-based learning at the end of 2010. Participation of 16 year-olds alone stands at 96.1 per cent. In 2010, four out of five<sup>6</sup> young people aged 19 were qualified to at least level 2 and over half<sup>7</sup> of all young people were qualified to level 3.
10. The gap in attainment between disadvantaged young people and their more affluent peers continues to close. Between 2005 and 2010 the gap in attainment of level 2 at age 19 between those in receipt of free school meals (FSM) – a key proxy for deprivation – and their peers,<sup>8</sup> closed by 8 percentage points.
11. Despite this, the overall number of young people not in education, employment or training (NEET) is still too high. At the end of 2010, 141,800 16-18 year-olds were NEET: this is 7.3 per cent of all 16-18 year-olds.<sup>9</sup> This figure remains high, around one in ten, and has been for over twenty years. We also know that it is more often young people from disadvantaged backgrounds who are less likely to participate.
12. Similarly, whilst the gap in attainment for disadvantaged learners has narrowed in recent years, it is background and social class that remain the key determinant of young people's educational outcomes. The gap in attainment opens up by the age of 22 months, and a child receiving free school meals is around three times less likely than other children to achieve good school outcomes at age 16. The attainment gap is evident at every single point in the educational journey.
13. The pre-16 pupil premium has been introduced to provide schools with extra funding to spend on interventions that can support the attainment of disadvantaged pupils. The Government remains committed<sup>10</sup> to full participation in education and training for 16-17 year-olds, to raising the participation age to 17 in 2013 and to 18 in 2015. The question for post-16 funding is how it can be most effectively used to better support young people's prospects, which are too often determined by home background and circumstance.

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<sup>6</sup> 81.5% of young people aged 19 possessed a level 2 qualification in 2010.

<sup>7</sup> 54.2% of young people aged 19 possessed a level 3 qualification in 2010.

<sup>8</sup> *GCSE and Equivalent Attainment by Pupil Characteristics in England, 2009/10* (SFR 37), Department for Education, 16 December 2010, p.2 and p.6. [tinyurl.com/SFR37](http://tinyurl.com/SFR37)

<sup>9</sup> *16- to 18-year-olds not in education, employment or training (NEET)*, Department for Education, August 2011. [tinyurl.com/2010neets](http://tinyurl.com/2010neets)

<sup>10</sup> *The Importance of Teaching – the Schools White Paper 2010*, Department for Education, November 2010, p.50. [tinyurl.com/importanceofteachingwhitepaper](http://tinyurl.com/importanceofteachingwhitepaper)

14. The case for change is therefore powerful and compelling. As Professor Wolf found from over 400 submissions from individuals and groups with extensive knowledge of the current 16-19 and vocational system: “Many highlighted its strengths and achievements. But none wanted to leave things as they are: nor did they believe that minor changes were enough. This is surely correct.”<sup>11</sup>

## Scope of the consultation

15. This consultation is limited to 16-19 learner responsive provision in general and specialist further education (FE) colleges, sixth form colleges, maintained school and Academy sixth forms (SSFs), and commercial and charitable providers. It includes Apprenticeship providers and the areas of Apprenticeships that are in scope are included in this document.
16. The consultation does not consider changes for funding for young people with “high needs.” The high needs strand of the schools funding consultation<sup>12</sup> looks at children and young people aged 0-25 with special educational needs (SEN) and disability in a consistent manner in accordance with the green paper on SEN and disability.<sup>13</sup>
17. The proposals in this consultation cover the following areas.
- Reforming disadvantage funding and aligning it more closely with the principles of the pre-16 pupil premium. We are seeking views on the scope and distribution of the disadvantage funding.
  - Simplifying participation funding, and how we can move away from funding an aggregation of the qualifications a young person is studying, and fairly allocate funding to full and part time learners.
  - Streamlining the way we address the additional costs of delivery of certain provision, and how we can apply these to the programme of study rather than the individual qualification.
  - Revising area costs by potentially introducing consistency, and possibly aligning area cost uplift with those applied pre-16 through the dedicated schools grant (DSG).
  - The potential removal of the success factor from the formula, or treating achievement and retention separately.
  - Simplifying the residential care standards uplift by removing it from the funding formula and distributing it directly to providers, and removing the short programme modifier.
  - Using transitional protection and/or phased implementation to support a smooth transition to the simpler funding formula.

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<sup>11</sup> *Review of Vocational Education*, op. cit., p.8.

<sup>12</sup> *Consultation on school funding reform: Proposals for a fairer system*, Department for Education, July 2011, p.46. [tinyurl.com/schoolfundingconsultation](http://tinyurl.com/schoolfundingconsultation)

<sup>13</sup> *Support and aspiration: A new approach to special educational needs and disability*, Department for Education, March 2011. [tinyurl.com/sengreenpaper](http://tinyurl.com/sengreenpaper)

18. The Department for Business Innovation and Skills (BIS) and the Skills Funding Agency are also taking action to simplify the adult skills funding system. In line with the announcements set out in *Further Education – New Horizon, Investing in Skills for Sustainable Growth*<sup>14</sup>, proposals are being developed for a simplified rates structure, funding formula, and new earnings methodology.
19. 16-18 Apprenticeships are included in the Skills Funding Agency's simplification plans. However, there are some aspects of 16-18 Apprenticeship funding where we believe it is important to retain consistency across all 16-19 learners, and which therefore are within the scope of this consultation. These aspects are:
  - funding for disadvantage and additional learning support, and
  - programme weighting factors.
20. The content of this consultation has been informed by six expert seminars with the Association of School and College Leaders (ASCL), the Association of Colleges (AoC), the Association of Employment and Learning Providers (AELP), the Sixth Form College Forum (SFCF), and the Specialist Schools and Academies Trust (SSAT), as well as a research project led by the YPLA to gauge the sector's perception of simplification.

## Responding to the consultation

21. Responses to be considered must be received by 4 January 2012.
22. Responses to the consultation can either be made:
  - online: [education.gov.uk/consultations](http://education.gov.uk/consultations),
  - by email: [16-19Funding.CONULTATION@education.gsi.gov.uk](mailto:16-19Funding.CONULTATION@education.gsi.gov.uk),  
or
  - by post:  
Consultation Unit  
Area 1C  
Castle View House  
Runcorn  
Cheshire WA7 2GJ
23. The results of the consultation will be published in Spring 2012.

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<sup>14</sup> *Further Education – New Horizon: Investing in Skills for Sustainable Growth*, Department for Business, Innovation and Skills, November 2010. [tinyurl.com/FNewhorizon](http://tinyurl.com/FNewhorizon)