Paper

Skills Funding Agency

Proposals for Funding Simplification

Background and introduction

1   The BIS document *Further Education – New Horizon, Investing in Skills for Sustainable Growth*, November 2010, announced decisions for changes to the Skills Funding Agency's funding system over the Spending Review period.

2   This followed a consultation on *a Simplified Funding System and Methodology for adult FE and Skills provision* that ran between July and October 2010.

Purpose

3   This paper sets out the proposals for simplifying the Skills Funding Agency's funding system in 2012/13. Proposals include a simplified rates and funding formula, as well as initial thinking about a new earnings and payment process for providers.

Recommendation

4   The group is recommended to note the proposals.

Simplified Rates

5   A simple rates structure is being proposed, which is based on:

- A significant simplification and standardisation of existing rates, with a reduced number of programme weighting factors, consistent across all adult skills delivery
- Size of qualification being in line with the QCF, i.e. classified by Units, Awards, Certificates and Diplomas.

6   In the future, funding rates will be expressed in pounds, rather than SLN and National Rate per SLN.

7   The table below illustrates the proposed simplified rate structure:

Size/Uplift	A (1.0)	B	C	D
Unit	£	£	£	£
Award	£	£	£	£
Certificate	£	£	£	£
Diploma	£	£	£	£

Funding Formula

8   The proposals for simplifying the funding formula include:

- Retaining the area cost uplift as the only uplift factor that will be applied to the rate
- Routing disadvantage uplift funding through the Additional Learning Support budget. Learner support funds will be rationalised and allocated in a similar way to providers
- Incorporating programme weighting factors into the rates structure.

9   The proposed funding formula is significantly simplified:

Funding = Rate (£) x area cost uplift

with budgets allocated to providers for Additional Learning and Learner Support.

Funding Earned

10   The methodology to be used to calculate the amount of funding earned by providers is still work in progress, and therefore subject to further discussions and development.

11   However, it is proposed that:

- The current qualifying threshold for funding starts will be retained.
- All learning aims will have a proportion of their value held back and paid only on achievement of the aim, the achievement element. The percentage is yet to be agreed.
- Funding will be calculated on an annualised value of the learning aim, based on the planned delivery from the learner's start and planned end dates.
- The expectation is that all payments to colleges will be monthly profiled payments that will be reconciled to actuals at year-end. Payments made to training organisations will be monthly and based on actuals.
- Once the learner has crossed the qualifying threshold then all payments for the funding year will be payable, even if the learner leaves early without achievement. Current thinking is that these

payments will continue to be paid monthly and not stopped when the learner leaves, but this is still subject to further discussion. If the learner leaves before achievement then any funding planned in subsequent years will not be paid.

- If the learner achieves early then all payments due, including the achievement element will be paid. For colleges this will happen at year-end reconciliation and for training organisations as a balancing payment due in the following month after data has been received that records the achievement.
- The threshold will be applied at the start of each funding year, with the start date replaced by the start of the funding year in the calculation.

12   For colleges, this is very similar to the current Adult Learner Responsive process, but with an individual learning aim achievement element rather than provider level lagged success factor.

Data and Audit

13   Funding simplification will reduce data burdens and the complexity and duration of each audit for providers. This may also reduce the number of audits if the likelihood of funding error reduces. Work is currently being done to assess the impact of the funding simplification proposals on these areas.

Next Steps

14   A Funding Simplification Technical Advisory Group has now been established work with the Skills Funding Agency to review and comment on specific areas of the funding simplification proposals and to assist with impact assessment and communication to the sector.

15   AoC and four colleges are currently members of the group. A fifth college, representing the land based sector, has yet to be confirmed to the Skills Funding Agency.

Timetable

16   The main changes to the funding system will be implemented in 2012/13, and will represent a significant change from the current system.

17   In order to prepare for these changes and to aid transition, impact modelling and shadow working will take place in 2011/12. This will include:

- Modelling confirms new rates and calculation
- Shadow rates table issued for start of 2011/12
- Additional release of LIS in October 2011 with new funding calculation and reports
- Existing methodology continues to operate in 2011/12 but providers view new funding as well
- Providers plan for 2012/13 using new reports
- Final rates included in 2012/13 LIS and LAD/LARA.

18   In addition to funding simplification, there are changes to learner eligibility in 2011/12 and 2012/13 that providers will need to plan for.

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