

Funding of Post-16 Education

Paper to support oral evidence to the
National Assembly for Wales Finance Committee's
Inquiry into the funding of post-16, further and higher education
20 January 2010

Colegau Cymru
Uned 7 Cae Gwyrdd
Greenmeadow Springs
Tongwynlais, Caerdydd CF15 7AB
Ff: 029 2052 2500
E: helo@colegaucymru.ac.uk
W: www.colegaucymru.ac.uk

Colleges Wales
Unit 7 Cae Gwyrdd
Greenmeadow Springs
Tongwynlais, Cardiff CF15 7AB
T: 029 2052 2500
E: hello@collegeswales.ac.uk
W: www.collegeswales.ac.uk

Introduction

1. ColegauCymru / CollegesWales welcomes the opportunity to provide written and oral evidence to the Finance Committee Inquiry into Funding of Post 16, Further and Higher Education in Wales. ColegauCymru / CollegesWales is the national organisation representing the 22 further education (FE) colleges and two FE institutions in Wales.
2. Each college is unique in size and number and type of learners. The largest college has an annual turnover of almost £50m with over 20,000 students and the smallest a £3m turnover and around 1,500 students.
3. The pattern of student enrolment varies. Some colleges will focus on full-time 16-18 year old learners taking primarily academic subjects while others may concentrate on older learners and/or those taking vocational subjects. Most will have a balance of both. Most colleges deliver work-based learning programmes and offer a range of adult community learning.
4. Colleges have helped respond to the current economic downturn by engaging in various WAG programmes. Some have worked with local companies in the ProAct scheme and with Sector Skills Councils in the Pathways to Apprenticeship programme. Others have enrolled those made redundant recently under the ReAct programme. It needs to be noted, however, that businesses/individuals in receipt of ProAct/ReAct funding are signposted to training providers by the WAG's Human Resources Advisers and Careers Advisers respectively. Colleges cannot bid directly for ProAct/ReAct contracts.
5. **Table 1** shows the estimated turnover of colleges in the current financial year based on the number of colleges as at January 2010. Four colleges have a turnover of below £5m and two have a turnover of over £30m.
6. There are currently five merger proposals at various stages of development, which will reduce the number of colleges to 19 including Merthyr Tydfil College, University of Glamorgan. Four colleges will have a turnover of over £35m in the near future and one will have a turnover of less than £5m.
7. The average annual turnover of FE colleges will increase from £17.3m to £21.9m.

**Table 1 Estimated Turnover of Colleges in Wales
Jan 2010 and after proposed mergers***

Turnover £m	Number of colleges Jan 2010	Number of colleges after proposed mergers
0 – 5	4	1
5+ - 10	4	4
10+ - 15	2	1
15+ - 20	5	4
20+ - 25	4	2
25+ - 30	3	3
30+ - 35	1	0
35+ - 40	0	2
40+ - 45	0	1
45+	1	1
Total	24	19

**These figures include Merthyr Tydfil College, University of Glamorgan and the two FE institutions: WEA South and YMCA Community College. The proposed mergers are: Barry College/Coleg Glan Hafren; Deeside College and Coleg Lllysfasi; Gorseinon College/Swansea College; Coleg Llandrillo Cymru/Coleg Meirion-Dwyfor; Coleg Harlech/WEA(N) and WEA South.*

College Funding

8. In 2007/8, FE colleges in Wales collectively had an overall turnover of £416.067m. Of this, £321.059m (77.2%) was provided by the Welsh Assembly Government through recurrent funding, work-based learning contracts and specific funding. Recurrent funding amounted to £286.2m. Almost £20m was received through work-based learning contracts. Specific funding included Learners with Learning Difficulties and/or Disabilities (LLDD) Supplementary Funding and the Financial Contingency Fund. Colleges are not informed of the level of LLDD Supplementary Funding until mid-way through the academic year even though colleges will have committed resources to these disadvantaged learners. For example on 14 December 2009, colleges were informed that LLDD supplementary funding for 2009/10 had been reduced to 70% of their 2008/09 allocation.

9. The proportion of total WAG funding to total income varies from college to college: from 66.3% to 83.9%, a difference of 17.6 percentage points. This variation reflects the unique business circumstances of each college. Some colleges focus primarily on fully funded 16-18 year old learners while others work particularly closely with business and industry.

10. **Table 2** shows the broad breakdown of income of FE colleges in 2007/08¹.

Table 2
FE Sector income and expenditure 2007/08

INCOME	£'000	% of total
WAG Grants	321,059	77.2%
Tuition fees and Education Contracts	43,264	10.4%
Research Grants and Contracts	330	0.1%
Other Income	44,806	10.8%
Investment Income	6,608	1.6%
Total Income	416,067	100%
EXPENDITURE		
Staff costs	277,372	66.7%
Other operating expenses	116,499	28.0%
Depreciation	20,110	4.8%
Interest payable	2,103	0.5%
Total Expenditure	384,848	100%

11. In 2007/08, colleges generated £95m on top of WAG funding mainly from tuition fees and education contracts and other income including higher education provision and the recruitment of overseas students and the selling of services such as catering, consultancy, and farm shops. Since 1997/98, the total amount generated in excess of WAG funding since 1997/98 is £1.2bn; a figure which would be much higher were the GDP deflator applied. This money has been invested in learners.
12. In evidence to the Inquiry into the Economic Contribution of Higher Education by the National Assembly for Wales' Enterprise and Learning Committee in April 2008, ColegauCymru drew on research by Cardiff University commissioned by WAG which investigated the economic impact of the *purchasing activity* of FE institutions and their staff and students. Scottish Executive-commissioned research showed the return on investment in *qualifications*. When these two indicators are combined (and assuming that FE colleges in Wales are broadly similar to FE colleges in Scotland), FE colleges in Wales contribute an estimated £1.4bn to the Welsh economy; a figure close to that generated by HE institutions.

¹ From Financial Position of the Further Education Sector 2007/08 WAG Information document 078/2009 June 2009

College Expenditure

13. Colleges are a labour-intensive sector and efficiency gains usually impact on levels of staffing. **Table 2** also shows that two-thirds of expenditure is on staffing. Colleges have less control over other operating costs including energy, maintenance, purchase of equipment and transport.
14. WAG data on expenditure on staffing shows that since 2005/06 expenditure on pay rose from £248.056m to £277.372m – an increase of 11.8% over three years. This is largely a result of the WAG FE Pay Initiative which has brought about pay parity between FE lecturers and schoolteachers. This increase in staff costs has been offset by a reduction in the number of staff employed.

Annual funding allocations

15. The overall WAG budget, which is debated by and approved by the Assembly each autumn, gives an overall figure for spending on education and on post-16 funding. It is not possible to identify in the WAG budget how much will be allocated to FE, as “post-16 funding” covers colleges, school sixth forms, adult and community learning and work-based learning.
16. In previous years, when Assembly Members have sought clarification from Ministers on FE allocations during scrutiny sessions on the draft budget, Ministers have warned against speculation. Assembly Members are told that FE allocations are not published until after the WAG budget is approved. This means that scrutiny of the draft budget in terms of FE is not possible. It also means that colleges cannot start the planning process (including staff contracts and prospectuses) at an early stage.
17. Prior to 2009/10, WAG announced the funding allocations to colleges in March or April for the academic year beginning in September of the same year (whereas sixth forms’ allocations were traditionally allocated in January). However, in 2009/10, a new and improved procedure was established whereby the draft recurrent allocations for both colleges and sixth forms were announced by WAG at the end of January. It is expected that the 2010/11 draft allocations will similarly be announced at the end of January 2010. Bringing forward the announcement date to January has been welcomed by colleges as college managers have more time to plan provision for the forthcoming academic year.

National Planning and Funding System

18. ColegauCymru / CollegesWales is working with DCELLS in a review of the National Planning and Funding System (NPFS) which is used in determining the allocations of post-16 funding (outside higher education) for colleges, school sixth forms (via their local education authority) and work-based learning providers.

Funding Pressures

19. Colleges' core funding has recently come under pressure. The WAG policy on pay parity between FE lecturers and schoolteachers has effectively meant that any increases in funding have been spent on staff salaries. From 2003/04 to 2006/07, the additional funding for pay was given as a separate sum of money. Since 2007/08, however, pay increases have had to be paid by colleges out of their core budgets.
20. Total WAG funding for 2009/10 is £289.95m, an increase of £3.75m (1.31%) on the £286.2m allocation of 2008/09. This funding includes additional investment for FE colleges (and school sixth forms) announced in April 2009.
21. The funding settlement means that 12 of the 24 colleges have received the same allocation in 2009/10 as for the 2008/09 financial year and two colleges, which were reducing their student numbers, have received less. Nevertheless, all colleges are expected to maintain pay parity with schoolteachers. The WAG Conditions of Funding document – 2008/09 (para 28) states that

Institutions are required to honour the National Pay Agreement to ensure that pay parity is maintained. Non compliance with the National Pay Agreement will result in the reclaim of 1.5% of the total provisional allocation.
22. Staff received a pay increase of 2.3% for 2009/10 (from 1 August), which cost the sector around £6.4m. The costs of increments and threshold increase the salary bill by an additional £6m. The increase in staff pay of around £12.4m in no way matched the overall increase of £3.75m.

Efficiency gains

23. Colleges have made continual efficiency gains since incorporation in 1993. One approach to measuring efficiency is to examine the value of the funding unit (FU) – the basis for allocating funding - since 1993/4. In 1993/94 the value of the funding unit was £76.46 using 2004/05 as a base year. Allowing for the GDP deflator, the value of the unit had fallen to £58.38 by 2008-09. This amounts to an overall reduction of 23.6% or 1.47% per year².
24. As there has been no funded growth in the sector and as FE funding has been squeezed since 2006/07, efficiency gains are likely to continue.

Accountability for Funding

25. FE colleges were granted incorporated status as a result of the Further and Higher Education Act 1992. They were initially funded by the Further Education Funding Council for Wales from 1993 to 2001, by ELWa from 2001 to 2006 and from 2006 by the Welsh Assembly Government.
26. There are strict rules about the conduct and performance of colleges. As recipients of large amounts of public money, colleges rightly have to account for the use of their funds and be subject to detailed and regular audit. Principals are the accounting officers for their colleges.
27. Below is a list of some of the means by which WAG ensures that public funds are used in the way that WAG intends.³
 - Financial Memorandum (issued by WAG 1 Jan 2007)
 - Financial Health Monitoring Procedures (issued by WAG 1 Jan 2007)
 - Accounts Direction 2007/08 (issued by WAG 20 July 2008)
 - Collaborative Arrangements between FE Institutions and Schools (WAG Circular 007/2009, 27 March 2009) – these regulations allow for the setting up of joint committees between school and college governing bodies
 - Conditions of Funding letter issued annually by WAG which includes for example the requirement to maintain pay parity with schoolteachers and for funding to be reclaimed if targets not met
 - proposed Sector Priorities Fund that will eventually ringfence £40m of FE post-19 funding for specific vocational courses

² The value of the funding unit in 1993/94 was £56.50 and in 2005/06 £63.50. If 2004/05 is taken as the basic year, and taking account of the GDP deflator, the value of the FU in 1993/94 was £76.46 and in 2008/09 £58.38, based on converting CEUs to FUs. £76.46 minus £58.38 = £18.08. £18.08 is 23.6% of £76.46. Thus the value of the FU has declined by 23.6% over 16 years or 1.47% per year.

³ These were included in a ColegauCymru /CollegesWales paper to the Review of Governance Arrangements in FE

- various Assembly Measures (e.g. Learning and Skills (Wales) Measure 2009)
- Instrument and Articles of Government (new WAG version came into effect on 6 April 2006)
- WAG has power to appoint up to two governors
- Ministers have powers to dismiss governors
- WAG has final approval of the appointment of the clerk to a governing body after recommendation from the governing body
- various planning documents
- Quality and Effectiveness Framework
- various top sliced funds including Learners with Learning Difficulties and/or Disabilities (LLDD) Supplementary Funding; Financial Contingency Funds (FCF) – colleges have to account for any funding allocated
- work-based learning contracts – this funding is allocated on the basis of a competitive bidding round and can be removed if the college does not deliver the contract or meet certain quality thresholds
- Pathways to Apprenticeships funding – again earmarked for specific activity
- other funding initiatives such as ProAct and ReAct in which colleges have to provide clearly defined services in return for specific funding
- Estyn inspections which although not statutory make recommendations on improving performance
- requirement that colleges maintain pay parity with schoolteachers which is reinforced in conditions of funding letter

28. Essentially WAG has the levers in place to ensure colleges do what is required.

Issues

29. The WAG budget for 2010/11 shows a frozen budget for post-16 education (excluding higher education) covering school sixth forms and FE colleges and work-based learning (WBL). The draft budget states that there will need to be an average efficiency gain across the post-16 sector of around 5%. This is not a cash cut of 5% but an estimate of the efficiency gain that would be incurred after payment of pay increases (the School Teachers Review Board has recommended an increase of 2.3% in 2010/11) and increments – these two increases alone cost colleges an additional £12m per year.

30. A ColegauCymru / CollegesWales survey showed that colleges shed around 375 jobs as a result of the 2009/10 settlement – 249 voluntary redundancies, 59 compulsory redundancies and 67 jobs not replaced. At the same time demand for courses in September and October 2009 grew significantly with an increase of 6.9% in full-time courses, although with a reduction of 9% in part-time courses. Colleges reported taking on learners additional to their funded targets as well as having to turn some potential learners away. Several colleges had waiting lists of students. Some colleges reported that the demand from 16-19 learners was their highest ever.
31. In responding to reduced funding, colleges have increased class sizes; set minimum numbers for a course to be viable and closed courses which do not reach that number; reduced adult community provision which is often expensive to run – a number of outreach centres have been closed. Because of the tightened financial circumstances and the WAG emphasis on 16-18 learners, an unintended consequence has been increased competition between colleges and school sixth forms for 16-18 year olds as the income of both is dependent on full-time learners. Part-time courses have been reduced as they attract less funding and often no funding from WAG. There is some evidence in the current economic climate that adults are increasingly reluctant to pay fees.
32. Colleges have responded very positively to calls for collaboration e.g. 14-16 vocational programmes run in partnership with local schools/networks. However much of this work is currently run at below the full cost of provision and may therefore be unsustainable under tightened funding settlement. There is a need to review the funding of 14-16 vocational provision if sustainability is to be achieved. Also some specific grants such as the Learners with Learning Difficulties and/or Disabilities (LLDD) Supplementary Funding is only announced midway through the year when college resources have already been committed to the most vulnerable learners. It is difficult for colleges to readjust spending if LLDD funding is reduced retrospectively.
33. Colleges are expected to continue to absorb losses while maintaining their standards and responding to the increased demands from students, employers and their communities. Colleges are a key part of the solution to the current economic downturn as young people and adults seek to upgrade their skills through education and training.
34. Colleges would like to see some consistency in funding. Planning is difficult when allocations vary from year to year. For example, in 2008/09 one college had a reduction in WAG funding of up to £1m only to receive an increase of £1m the following year. WAG needs to give serious consideration to three-year budgets or consider preserving a core part of a college's allocation from year to year to prevent dramatic annual fluctuations.

Some facts about colleges

- 236,780 students in further education (FE) learning programmes in 2007/08⁴
- This was a reduction of 33,360 (12.3%) since 2005/06
- Virtually all of this reduction was in the number of adult part-time learners
- 18% of students are full-time and 82% are part-time
- 97% of learners are domiciled in Wales
- Around 7,500 HE students (around 8% of the total number of undergraduates) study in FE colleges
- Colleges have more 16-19 learners than schools and more learners in total than higher education institutions
- 14,010 learners on work-based learning (WBL) programmes in 2007/08
- FE colleges deliver almost 80% of all post-16 qualifications outside higher education

⁴ Statistics for 2007/08 are from *First Release FE, WBL and Community Learning in Wales 2007/08 SDR 60/2009* 30 April 2009