

## 10 - FINANCING - INVESTMENT IN HUMAN RESOURCES

### 1001 - BACKGROUND INFORMATION CONCERNING FINANCING ARRANGEMENTS FOR TRAINING

In the UK funding of VET has undergone substantial changes in the past decade. England has started yet another big-scale reform of funding of post-16 education<sup>21</sup> as the government takes a proactive role and encourages individuals and employers to take more responsibility for training to improve their own prospects and the country's competitiveness and productivity as well as more efficient use of public expenditure on education and training.

With the White Paper 'Skills: Getting on in business, getting on at work made public in March 2005 the Government is making a commitment to deliver publicly-funded skills training in a way that is directly led by the needs of employers.

Government funding is mostly acquired from general tax revenue, alongside some other sources, in particular, concentration on private funding initiatives (PFI). Enterprise pays, both in real funds and in-kind, the biggest portion of the overall VET bill for Continuing Vocational Training (CVT), while the state is the major contributor to Initial Vocational Training (IVT). Individuals contribute through fees less than 1% of IVT and CVT. The reform envisages that a higher contribution will be required from employers and individuals, who have got level 2 qualifications. While employers are largely responsible for their own CVT, public funding is available through Learning and Skills Councils (LSCs) for basic skills and learning which is generated by trade unions.

The education spending in the UK in real terms has not significantly increased in the last five years, although the government is committed to stability of funding for education and skills. The 2007 Comprehensive Spending Review (CSR), the financial framework for public services, provides for overall public funding for education and skills only to increase slightly in the next five years (0.3% UK, 2.8% England for 2008-2011). In VET funding has been changed to support government policy priorities for young people and major programme for adults, such as Skills for Life, level 2 entitlement and Train to Gain, thus curtailing spending on other adult non-priority areas.

For the last five years, spending per pupil/student has increased fastest in schools, followed by FE, whereas HE spending per student has changed little in real terms.

In 2007, the Comprehensive Spending Review (CSR) will redistribute resources in the light of changing economic and social priorities, and ensure efficient use of resources for work which crosses Departmental boundaries. This funding will be linked to a set of public service agreements (PSAs) and indicators, which HM Treasury will use to measure the impact of the investment. Investment in the DAs is less directly linked to PSAs than in England, as the DAs control their own budgets within the overall allocations from HM Treasury. The 2000-06 European Social Fund programmes were used to add value to a range of government training programmes and initiatives across the UK, and this continues in the integrated lifelong learning programme period 2007-13.

Table 1: Education and training spending in the UK as a proportion of GDP

1996-97	2000-01	2004-05 (OUTTURN)	2005-06 (ESTIMATE)	2006-07 (ESTIMATE)	2007-08 (ESTIMATE)
4.9%	4.6%	5.4%	5.6%	5.7%	5.8%

<sup>21</sup> This report covers the system in 2007.

Source: HM Treasury, Financial Statement and Budget Report, Chapter C 'The Public Finances' p274  
<http://www.hm-treasury.gov.uk/>

The Scottish education sector involves a partnership between government and other organisations. The Scottish Executive guides the system and oversees funding of further and higher education via the Scottish Funding Council (SFC).

In Wales, the National Assembly Government (WAG) has devolved responsibility for the funding of education and lifelong learning. Although the key objectives are broadly consistent with those for England, there are a number of significant differences in structures and the way that programmes are offered and funded. Department for Children, Education, Lifelong Learning and Skills (DCELLS) under the WAG has a responsibility for post-16 education and training in Wales (excluding higher education) has implemented a new National Planning and Funding system, which aims to strengthen the link between the learning needs and the learning delivery and to ensure that schools, colleges and training providers are funded on an equitable basis.

In Northern Ireland, the Department for Employment and Learning, Northern Ireland (DELNI) is responsible for the funding of both further and higher education. Apart from direct financing, funding is provided to colleges and students through a number of special initiative "earmarked" budgets, which are designed to widen access, increase participation, address skills shortages and enhance the role of the sector in supporting economic development.

#### **1002 - FUNDING FOR INITIAL VOCATIONAL EDUCATION AND TRAINING**

New funding models and methods are being introduced during 2008-2009, making funding more demand-led by learners and employers and reflecting introduction of new programmes. As the system is in transition, it reflects the funding mechanisms of 2006..

In England, funding flows from the Department for Innovation, Universities and Skills (DIUS) to Learning and Skills Councils and then to training providers. The LSC funds post-16 education in secondary schools, via the LAs, and funds directly all other state-funded programmes. The LSCs consult with the range of partners regarding the most appropriate mode of delivery for training provision, taking account of quality, access and strategic planning priorities.

The majority of funding for school-based IVET (whether undertaken at a further education – FE – college or school) originates from the central DIUS). There are some slight variations on the funding sources depending on the provider.

Publicly funded secondary schools in England and Wales receive their funding from local authorities (LA) based on the funding formulae (number of students, their age, students with special education needs etc). LA raises funds through local taxation. Local authorities and education institutions also receive a small proportion of direct funding from DSCF or the Welsh Assembly Government. Schools can also raise some funds through voluntary contributions and renting out premises.

The LSCs are also responsible for funding school sixth forms. The LSC does not fund them directly – it funds the LAs, which include the allocation within their schools' budget shares. Most schools are within the authority of local governments and are funded on the basis of a formula with the majority of the weighting given to a student number

For FE colleges, their sources of budgets are the following:

- 70% from the Learning and Skills Councils – subject to funding agreement with their local LSC,
- 10% from students' fees,
- 10% from other sources (including the European Union and training provision for companies) and,

- 10% from diverse sources such as sales of materials and interest on their investments.

This breakdown cannot distinguish between what the FE college spends on providing school-based IVET or for other VET programmes provided privately (e.g. to enterprises), for adults, etc. (i.e. there is no budget hypothecation). Specifically for IVET, however, an FE college receives funds from its local LSC, which in turn receives money from the DIUS as a grant. The DIUS receives money from the Treasury. The Treasury allocates money from general taxation. The LSC gives colleges a three-year indicative budget. Money goes as a grant to FE corporations, HE institutions offering FE, special designated institutions (which are not FE colleges) or adult education services. Providers get annual allocation from the LSC, which are paid in scheduled monthly amounts and settled at the year-end following an audit.

The size of LSC grant to colleges is conditional on a funding agreement specifying various targets. LSC reserves the right to reduce the amount it pays over if the funding agreement is not met. How that college decides to spend the funds is largely at its discretion so long as it delivers the quantity of training to which it has agreed. Colleges have to report on what they spend their money on in terms of student retention, student recruitment, achievement and value for money. Accountability focuses on what they have produced in return for funding. A similar situation broadly pertains in schools.

#### FUNDING IN THE DEVOLVED ADMINISTRATIONS

In Wales, the National Assembly has devolved responsibility for the funding of education and lifelong learning. Although the key objectives are broadly consistent with those for England, there are a number of significant differences in structures and the way that programmes are offered and funded. All central government funding for education in Wales is provided by the Welsh Assembly Government (WAG). The WAG decides the sums to be spent on its various areas of activities, including education, and distributes resources.

In Wales the National Planning and Funding System (NPFS) supports a credit-based framework. Funding is based on Credit Equivalence Units (CEUs), which were developed as a component of the NPFS funding model pending the wider credit valuation of funded learning.

In Scotland, the Scottish Executive provides funding for the 46 Scottish Further Education colleges through the Scottish Further Education Funding Council (SFEFC). The SFEFC funds the 42 incorporated (self-governing) colleges directly, and Orkney and Shetland colleges through their local authorities. All the colleges also receive fees from their students and from organisations and firms for which they supply education and training.

In Northern Ireland, virtually all schools have delegated budgets under which school governors determine spending priorities.

DELNI is responsible for funding Jobskills, the training scheme for young people. The programme comprises three strands: Access, for young people with essential skills or special skills needs that require additional support; Traineeship (the equivalent of FMA in England); and Modern Apprenticeship, (the equivalent of AMA in England).

Training in each of the strands focuses on the delivery and attainment of national vocational qualifications at levels one, two, or three respectively. Training is provided by approved Training Organisations (TOs), which can include further education colleges, local and national employers and community organisations, and is funded by the Department. Trainees receive a training allowance, paid through the Training Organisation.

Colleges of Further Education in NI main recurrent funding is provided through the FE Funding Formula, which is based on the measurement of student activity and achievement called a Student Powered Unit of Resources (SPUR). This ensures that all colleges are funded on the same basis.

The Scottish Executive's (SE) strategy for Enterprise in Education includes provisions for work-based vocational learning linked to a relevant qualification for young people aged over 14. The SE provided GBP 42m (EUR 58m) in 2003-2006 to support this and

the other strands of the strategy. There are examples of schools vocational programmes in a number of local authority areas that have been developed and are being funded by authorities through their allocation of this funding.

At tertiary level, the government funding for universities is channelled through the Higher Education Funding Council for England (HEFCE), the Higher Education Funding Council for Wales (HEFCW), the Department of Employment and Learning Northern Ireland and the Scottish Funding Council (SFC)<sup>22</sup>, to support teaching programmes and a core of research funding. Much research is separately funded across the UK by the Office of Science and Technology and through research Councils.

### **1003 - FUNDING FOR CONTINUING VOCATIONAL EDUCATION AND TRAINING, AND ADULT LEARNING**

Statutory, employers are not required to provide training to employees. Nevertheless, employers spend a considerable amount on training: The Confederation of British Industry (CBI) claims that employers spend some GBP 32 (EUR 39.6) billion per annum on training, including the costs off the time staff spend training. The training might be in-house, by a private provider or by a further education college. There are a number of government programmes, which supply different types of funding, particularly, for those without basic skills or level 2 qualifications. The companies can also qualify for the government-sponsored programmes for low-skilled employees (for example, Train to Gain).

Employed individuals can undertake CVT with their own funding plus some government support or with public funding by enrolling at a further education college.

A key principle of publicly funded continuing vocational education and training in the UK is to focus on stimulating demand and creating a framework which best serves the individual. One important organisation is the University for Industry (Ufi), which stimulates demand amongst both adults and businesses. The Ufi acts like a training broker providing access to ICT under its brand name learndirect, with 6,000 online centres and almost 2,000 learning centres across the UK.

Trade unions through their learning representatives encourage the low skilled employees to engage in training and to support those with higher skills to maintain their continuous professional development. Government sponsors the Union Learning Fund, which trains and accredits union learning representatives, who aim to help 250 000 employees per year annually by 2010. Union Academy has been established with the government financial support to provide course from basic skills to MBAs.

### **ADULT AND COMMUNITY LEARNING**

An identifiable characteristic of adult education opportunities in the UK is the range and flexibility of provision. A wide range of adult part- and full-time courses is available through publicly funded further education and adult education colleges in the community (for priority areas and priority qualifications), as well as distance learning courses, such as through Open University. Increasingly, study programmes and guidance are available on-line. The mode and length of study vary depending on the type of course and the institution. Courses may be full or part-time and may last from a day or two for employer-based courses to several years for a first-degree course.

A number of adults also attend secondary schools for part of the time and take particular classes with the pupils. Adult education units are also active within Her Majesty's Prisons (HMPs). Most of community and leisure learning provision, while it may be part-funded by bodies, such local authority, carries a financial cost to the individuals, apart from some disadvantaged and vulnerable groups.

Although traditionally the adult learning participation has been high, it has dropped (49% change in enrolment 2003-2007) due to the funding changes, which took effect in

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<sup>22</sup> In 2006, the funding bodies for FE (Scottish Further Education Funding Council) and HE (Scottish Higher Education Funding Council) were merged to form the Scottish Funding Council (SFC) in order to develop a cohesive system of funding lifelong learning and research.

2005-2006 and were followed by further funding cuts in non-priority areas in 2006-2007. Training providers have been obliged to increase course fees for adults who do not fall into the government's priority groups (those without basic skill level 2 qualifications, amongst others).

The duty to secure the adult and community-learning sector rests with LSC in England and the Department for Education, Lifelong Learning and Skills in Wales. These bodies agree adult learning plans with Local Authorities (LAs).

As part of a common funding approach:

- [Adult learners continue to make a substantial contribution to the costs of their learning where they are able to do so.](#)
- [Sufficient public funding is available to encourage providers to offer and increase learning opportunities to disadvantaged learners at no cost or low cost.](#)

In Northern Ireland, it is provided by the further education sector, supplemented by the work of a range of non-statutory providers, using established funding streams.

Adult education in Scotland is a statutory duty of education authorities and is generally known as community learning or community education. General responsibility for promotion, development and oversight of community learning and development lies with Communities Scotland. Its financing follows established routes.

#### **1004 - FUNDING FOR TRAINING FOR UNEMPLOYED PEOPLE AND OTHER GROUPS EXCLUDED FROM THE LABOUR MARKET**

The government announced a comprehensive review of welfare policies and associated programmes, including training, for long-term unemployed and other vulnerable groups (those on incapacity benefits, offenders and others) in 2005. The system is yet to undergo further changes, the report refers to the system as it stands in 2008.

Training for the unemployed (TfU) is training for persons aged 18 and over who are actively seeking work and are registered as unemployed. Those persons aged 16-17 who are unemployed are classified as IVT as they are not entitled to claim Jobseeker's Allowance (JSA).

There are some active labour government training initiatives for unemployed, the New Deal and Work-based learning for Adults (WBLA), in particular. After a 10-year successful run of the programme, in December 2007 the government announced a programme reform to introduce a more flexible personalised New Deal with a strong focus on helping the most disadvantaged jobseekers get and sustain work. In January 2008, the government was spending £5 billion less on unemployment than in 1997 and claimant unemployment was at a 30 year low. According to the programme evaluation, the New Deal has contributed to this success.

#### **THE NEW DEAL INITIATIVE**

[The New Deal for Young People \(NDYP\)](#) and New Deal 25plus are mandatory programmes for those who are unemployed for six to eighteen months out of the previous twenty-one months respectively. [New Deal for Partners](#), [New Deal 50+](#), the [New Deal for Disabled People](#) and [New Deal for Lone Parents](#) are voluntary programmes. To boost skills of those actively searching work, New Deal for Skills launched back in 2004 and aims to develop vocational or sector specific skills in unemployed and help them progress from lower to higher skilled work. It also provides coaching services and has introduced a validated record of skills achieved and other relevant measures.

New Deal is delivered by a network of local partners – including employers, local authorities, training providers, career services and other agencies that can offer practical help. They plan New Deal locally, on the basis of their knowledge of the local job markets.

The programmes and funding for training for unemployed people are closely related to Jobseeker Allowance (JSA) and other qualifying Working Age Benefits. As well as

providing payments of JSA or the appropriate New Deal Allowance, the New Deal consists of:

- Activation through incentives, e.g. working tax credit and child tax credit (\*);
- Activation through benefit sanctions, e.g. young people must meet criteria for seeking and applying for jobs and taking training opportunities;
- Help through training and improving vocational skills;
- Help through job search support/counselling and improved job matching;
- Help through subsidies, including subsidised placements.

(\*) Tax credits were introduced in 2000 to provide additional incentives to people who enter work. The employer through payroll pays these credits. Working families tax credit tops up the earnings of working families with children, while Disabled person's tax credit gives support to working people with disability. Both can include a tax credit to help working parents with the costs of childcare.

A 16-hour rule has been established which allows unemployment benefit recipients to participate in VET up to a maximum of 16 hours per week.

See here for [Diagram 1- New Deal spending 2000-2008](#)

See here for [New Deal programmes in more detail](#)

#### **THE WORK-BASED LEARNING FROM ADULTS INITIATIVE**

Others facing particular disadvantages in the labour market qualify for work-based learning for adults (WBLA) provided through LSC as soon as they become unemployed. Such disadvantaged include people with disabilities and single parents. Through LSC, WBLA also supports employed people with training not normally provided by the employer. This will lead to a qualification at NVQ level 2 or equivalent (the employee will initially be an unemployed WBLA participant placed by the Employment Service).

Also available is job-based short-term training to help people gain or improve work-related skills to enable them to find other work. There is longer occupational training for those who need extra skills and/or work experience to find employment. And self-employment help is available for those wanting to set up their own business.

#### **FURTHER EDUCATION AND TRAINING FOR UNEMPLOYED PEOPLE**

Further education colleges are involved in training for unemployed people in a variety of ways, but for most colleges TfU is not central to their mission. The potential contradiction between JSA and access to training has already been noted but nevertheless more than 100,000 students (7% of the total) on LSC-funded courses were unemployed and claiming JSA or Working Age Benefits. The funding of this group would amount to some EUR 144.5 m per year. Because they are unemployed it is unlikely that any of the group would pay fees. In addition, some of the New Deal training programmes are placed in further education colleges.

### **1005 - PERSPECTIVES AND ISSUES: FROM FUNDING TO INVESTING IN HUMAN RESOURCES**

The national priorities for funding training are closely linked to the priorities of the central government's and the devolved administrations' main objectives for education and training. From 2005, the focus of policy for adult learning changed to acquisition of skills, the aim being to meet the needs of employers and boost the country's economic competitiveness. Therefore, the major objective in the financing in education and training has been to alter the balance of resources between the state, employers and individuals. With limited public resources, state funding is to be channelled to areas of demonstrated market failure and used to support government priorities, notably provision for young people and initiatives for adults without a full level 2 qualification or above, while encouraging employers' further contribution into their staff training as well as individuals'. The current institutional changes (abolishment of LSCs and channelling

funding streams through different structures) and funding mechanisms review are meant to support this shift.

The linking of strategy, funding and the different learning streams is an intentional part of government policy and of the new legislation.

These policies fit within an overall strategy to develop the human capital as a resource and as a means of achieving higher levels of productivity and competitiveness. Access to education and training beyond the statutory requirements of school attendance and entry to jobs that have entry qualification requirements is left in most respects to individuals (an individualistic approach) and, as far as training is concerned, to employers (the voluntarist approach). In recent years, adult learning has become more targeted and government in England, Wales, Scotland and Northern Ireland have become more involved in identifying priorities.

Nowadays, state-provided funding is geared to contributing to the achievement of the objectives. The funding regime and mechanism is used as a conscious system driver to attempt to achieve system goals. This began more than a decade ago with the move to fund the main public providers of training at ISCED levels 2 and 3 (the further education colleges) through a mechanism that would reward the achievement of objectives such as successful retention and completion rates, rather than simply fund on a per capita basis the number of students or learners enrolled at a particular date. Though simplified and at a transitional phase, the funding mechanisms continue this practice of targeting and rewarding.

A number of issues and problems are to the forefront.

Notably:

- How to incentivise low-skilled and reluctant adults to re-engage with learning: The policy response to this includes the funding of education maintenance allowances, the review of guidance systems.
- How to raise intermediate or technical skills levels among the workforce: State funding of apprenticeships, new diplomas for young learners, the expansion of non-degree higher education and the current review of vocational qualifications aim to tackle this issue, although major concerns remain.
- How to fund the expansion of higher education: in particular, the extent to which the stock of graduates is an individual good as compared to a social/economic good is a sharp political issue. The administrations of the UK take divergent positions on this issue.

Changes to the funding mechanism for government-funded training

The changes 2008/09 academic year relate to the mechanisms of funding rather than the types of learning that the government fund. It has affected the mechanisms by which the funding is calculated, paid and recovered in line with demand. The impact of these changes will be measured as the funding arrangement in bed.

The government has increased the assumed private contribution towards fees where learners are not undertaking priority courses. It increases from 32.5% in 2006/07 to 37.5% in 2007/08 further increasing to 42.5% in 2008/09. By 2010-11, the government expects an equal balance between public and private fee contributions.

The ongoing reform envisages that FE colleges will increase their income by providing more courses, consultancy and research work for employers at full cost recovery rates, selling other goods and services, or charging full-cost fees to overseas students, where there is existing and growing demand or where the provision is no longer attracting public funding.