

Appendix A

To: Directors of Children's Services

Dear Colleague,

I am writing to thank you and your colleagues for all of your work to prepare for the introduction of the 14-19 reforms.

I am very conscious of the amount of effort that is going into making the reforms a success, in the context of very significant change. One important area of development is to the funding system and we thought that it would be helpful to provide a summary of the current position.

At the end of June you will have received information about the government's decisions on the school, early years and 14-16 funding arrangements for 2008-11. The analysis of the responses to the joint LSC and former Department for Education and Skills post-16 demand-led consultation 'Delivering World-class Skills in a Demand-led System) can be found under the latest new section of the Further Education website (<http://www.dfes.gov.uk/furthereducation/>). In the autumn, the LSC's Statement of Priorities for 2008/09 will contain details of how the demand-led system will operate for both young people and adults.

More recently, you will be aware that the Prime Minister has announced, as part of the machinery of government changes, that 16-18 funding for sixth forms and colleges will be delivered through local authorities in the future, subject to consultation and the passing of the necessary legislation. In the interim, the LSC will remain responsible in law and practice for the allocation of funds to all forms of post-16 education and training other than higher education.

This note provides an overview of how the schools and 16-18 funding systems will work in 08/09 and 09/10 to support delivery of the 14-19 reforms, prior to transition to the new funding arrangements, which we expect to take place from 2010/11. It includes detail on some of the more technical issues which have arisen through our consultations. It also aims to provide reassurance about the need for good and well planned transition arrangements, following a wide consultation, to achieve a smooth and successful transfer of 16-18 funding to local authorities.

The principles of 14-19 reform

Our aspiration for the 14-19 reforms is that every young person will be prepared by their education and training to make a success of their life. This requires us to create a system which matches the best in the world with much higher levels of post 16 participation, and to break the link between deprivation and low educational achievement.

Building this system requires a new curriculum and qualification entitlement including: 14 new employer-led Diplomas; a Foundation Learning Tier of qualifications; functional skills; strengthened GCSEs and A Levels; a significant expansion of Apprenticeships; wider availability of the International Baccalaureate; and a revised secondary curriculum to ensure students are well prepared for the 14-19 phase.

By the time the new entitlement comes into effect in 2013, we want 85% of those

aged 19 to be achieving a Level 2 qualification, and a significant increase in the numbers achieving Level 3 at 19. Currently around 78% of 17 year olds are participating in education or training. But almost 10% are not in any form of education, employment or training and others are in low-skilled jobs or jobs without training.

What do you as DCS's need to do?

In parallel with this note, we are issuing a narrative about how local partnerships should work to deliver the 14-19 reforms. I hope that this note and the narrative will help you begin to consider how you are working locally to bring together providers to deliver the entitlement in the best way for the local area.

Issues that you will want to consider, using the guidance in this note, include:

- How you will commission and plan 14-19 provision in a local area, working with providers, and use the funding system to support and incentivise achievement and participation;
- How you will work together to fund the delivery of Diplomas in a way that most benefits young people including:
 - developing a local strategy for achieving the Diploma entitlement by 2013, across all providers, based on an assessment of local demand and supply;
 - reviewing how the Dedicated Schools Grant (DSG) allocation for practical learning which you already have within your baseline will be deployed to build capacity for Diplomas.

In the meantime, you can expect to receive more information about the funding system including detailed allocations in the autumn. More details of 16-19 funding will be published in the LSC's Annual Statement of Priorities in October.

If you would like further information on delivery of the 14-19 programme please do not hesitate to contact 14-19@dcsf.gsi.gov.uk.

Jon Coles

Director 14 – 19 Reform Group

Department for Children, Schools and Families

1. The 14-19 planning and funding arrangements are driven by three main principles:

- Funding Diplomas and practical learning at Key Stage 4;
- Bringing together funding for all 16-18 year olds;
- The pivotal role of 14-19 partnerships in planning and commissioning.

This statement sets out how we expect each to work in more detail.

Funding practical learning provision at Key Stage 4

2. The number of schools and colleges delivering Diplomas will grow year on year, and will vary from area to area. It will depend on the number of consortia that are successful in the Diploma Gateway, how much demand there is locally to take the Diplomas and how each area chooses to deliver Diplomas alongside their 14-19 provision.

3. As numbers taking the Diploma grow, we would expect the balance of funding for practical learning to shift progressively towards Diplomas. But equally it is important that the funding you have already received in your allocations supports high quality practical learning that meets local demand, enhances progression, and builds capacity in line with planning for the Diploma entitlement.

4. Funding for Young Apprenticeships will continue to be delivered through the LSC in 08/09 while we review how they may be adapted to the changing qualifications landscape. Funding for KS4 Engagement pilots will also continue for 08/09 at least. We will encourage other areas to learn from the pilots and adopt the good practice models they are developing.

5. We will continue to route Education Business Link (EBL) funding via LSC in 2008-09 as a transitional measure to avoid disruption as we seek to build Work Related Learning (WRL) capacity in time for Diploma introduction in 2008. Planning and commissioning of WRL will be undertaken in consultation with 14-19 partnerships. We will of course review funding routes for future years, with the expectation that funding will flow through local authorities in the longer term.

Funding of Diplomas at Key Stage 4

6. As part of the statement on school funding on 25 June we announced funding arrangements to support collaboration between schools and partnership providers to deliver Diplomas at KS4 during their roll out period. The way this will work is:

- Funding for 14-16 years olds taking Diplomas will be distributed to local authorities through a specific formula grant. The grant will take account of the number of Diploma lines being offered, take-up, the higher cost of provision in high wage areas and the additional costs in sparsely populated areas.
- How that funding is used locally needs to be decided locally, and should build on existing successful partnership models. We think that the best approach is to keep some funding at a partnership level so that schools can draw on a central pool of funding, rather than meeting all Diploma costs from their

delegated budget.

- Charging for Diplomas should be based on a framework set out in the LSC funding methodology but with local flexibility to reflect different levels of funding for 14-16 pupils across local authorities.

7. A more detailed illustration of how Diploma funding may work over the next two years is set out at Annex 2.

Funding sources for the Diploma grant

8. As Diplomas are rolled out over the next three years, more pupils will be taking them each year. Funding for Diplomas over this period will come from three sources:

- (i) Funding which has been earmarked within local authorities' DSG allocations, for the delivery of more practical learning options at 14-16. This is £40 million in 2006-07 and £110 million in 2007-08.
- (ii) £36 million within the Increasing Flexibility Programme (IFP) currently distributed through the LSC to provide vocational courses for 14-16 year olds, usually through attendance at college. From 08-09 these funds will be distributed through local authorities. The size of the allocations will be determined from current 07-08 baselines.
- (iii) Additional funds secured through the Comprehensive Spending Review (CSR).

9. The earmarked DSG funding has already been allocated to local authorities. Some authorities have, with the agreement of the Schools Forum, held some or all of their allocation at local authority level to purchase practical learning provision on behalf of the local area. Others, probably the majority, have devolved these funds to schools through the Average Weighted Pupil Unit (AWPU). Regardless of how this DSG funding has been deployed, local authorities and schools are expected to use these allocations to support practical learning opportunities and Diplomas as they are rolled out in each area, subject to the Gateway process.

10. In addition the grant must take account of:

- contributions from school mainstream budgets achieved through savings when pupils are studying off-site;
- the funding rates for different lines and levels of Diplomas which will be set by the LSC in line with the new funding methodology introduced from 08/09 for 16-18 provision. Details of the average rates will be set out in further guidance in the autumn.

Funding 16-18 provision

11. As part of the Machinery of Government changes at the end of June it has been announced that responsibility for 16-18 funding (with the exception of 16-18 Apprenticeships which will continue to be funded through the LSC) will pass from the LSC to local authorities.

12. Arrangements for the transfer of funding for 16-18 learners to local

authorities, including the mechanisms which will be used to route funds through local authorities to schools, will be subject to consultation and subject to the passing of the necessary legislation. This process must make sure there will be no disruption to schools and colleges and to the introduction of Diplomas. As previously mentioned funding of Diplomas at KS4 from 08/09 will be through a new specific formula grant to local authorities.

13. For 08/09 and 09/10 it has been agreed that school sixth forms, colleges and private providers will be funded using a common funding methodology which supports our 14-19 funding principle of providing comparable funding for comparable activity irrespective of provider type. The way this will work is:

- In Autumn 2007, schools, colleges and providers, working with local authorities and the LSC through the 14-19 partnership will agree how together they will deliver local 14-19 plans. They will agree expected 16-18 learner numbers and associated funding allocations for 2008/09, calculated using the new, national funding formula. In year recruitment and past delivery performance will be used alongside anticipated growth/reduction to inform the funding allocations for the year.
- Significant new or changed provision will be offered to schools, colleges and providers through the commissioning process. This will allow growth to be allocated by negotiation against needs identified by 14-19 partnerships and 16-18 competitions for growth over 200 places, including new provision following school and FE presumptions.
- Indicative allocations will be made to schools in December 2007, and confirmed by the end of March 2008. Colleges' and other providers' allocations will be confirmed by the end of May 2008.
- Growth in participation, but not for breadth, will be consolidated into the baseline. Negotiations will begin again in autumn 2008 and take into account performance and relevance to 14-19 plans. This will then inform the 2009/10 allocations.
- The new national funding formula will be based on Standard Learner Numbers, a national funding rate, a provider factor and additional learning support. The provider factor will be calculated individually for each school, college and provider and will reflect the relative costs of delivery as well as quality. As indicated in the demand-led consultation it will include elements for average programme weighting, disadvantage, area costs and success rates.

14. More information on 16-18 learner numbers and associated funding, including for Apprenticeships, will be published in the LSC Annual Statement of Priorities (October 2007). The demand-led consultation indicated that the introduction of a new funding formula can cause variations in the level of funding per learner for institutions. We will therefore assess the impact of the changes on institutions and consider any transitional arrangements that may be necessary.

The key role of 14-19 partnerships

15 14-19 partnerships will have a pivotal role in developing plans to meet Diploma and 16-18 entitlements across each local area, these are set out in detail in the attached narrative. They will look at demand and supply, identify gaps in provision and how they may be filled, address logistical issues arising from

collaboration including transport, and work through how funding will be deployed to support consortia to deliver Diplomas. Funding allocations will be made using these plans, and the outcomes of the Diploma Gateway process.

16. Ultimately decisions on school funding including Diplomas at KS4 will be made by local authorities after consulting the Schools Forum. From 08/09 14-19 partnerships will be separately represented on forums to ensure those decisions are consistent with area plans.

The following **illustrates** how Diploma grant may be calculated and paid. It will be further developed in consultation with stakeholders.

Specific formula grant – how it is calculated and paid

1. The calculation, allocation and payment of specific formula grant for Diplomas depends on the level and timing of information available on take up of Diplomas in each year. We assume the following three stages will take place in a given academic year in order to firm up data on Diploma take up:

- **initial planned numbers** – planned numbers in an area for a given academic year will derive from:
 - numbers by line and level to be delivered by local consortia approved through the Gateway process for first teaching in that year. The full picture will be available in July when numbers conditionally approved in March are confirmed. The workforce plans in the Gateway application are based on these volumes;
 - for Diploma lines and levels and consortia already approved through the Gateway, the level of provision that can be delivered in that year in line with anticipated demand;
 - the proportion of planned numbers by Diploma line and level that will be delivered at KS4.
- **final options** – we would expect final options as a firm basis for payment of funds to be made in April / May.

2. Allocations of the Diploma grant from the Department to local authorities with consortia delivering Diplomas will be made in November/December. These will be based on outcomes of the Gateway process, with an allowance for growth to meet demand affordable within the CSR outcome. The following specific factors will be taken into account:

- volume and mix of Diploma provision across the area in that year (the mix will include Diploma line and level)
- additional funds to take account of:
 - geography - the rurality of the area and/or weighting for greater costliness, for example in London;
 - areas of the authority in which Diplomas are to be offered (so a measure of how many of the authority's children will be able to access the Diploma);
 - overall pupil numbers in the authority;
 - an adjustment to take account of levels of funding available to local authority from earmarked DSG funding for practical learning allocated in 07-08, allocation to local authority of former IFP funding, and

reduction to avoid double funding, linked to volume of take up.

Delivery of funding to the front line

Prior decisions and planning

3. Decisions on which option for distributing the formula grant to adopt are for local discretion. In some cases it will be appropriate to build on well established arrangements – for example for the distribution of earmarked DSG for practical learning opportunities which translate well to the funding of Diplomas. However, whatever the arrangements that are currently in place for the management of 14-19 funding, we would expect local authorities to give very serious consideration to adopting the partnership level approach (described as the ‘insurance model’ in the consultation document) with the grant and school contributions being pooled and managed by the 14-19 partnership. We believe this approach is generally the most likely to maximise control and stability and minimise risk during the roll-out phase of Diplomas. It has the added benefit of similarity to the LSC’s allocation and funding methodology.

4. Prior to pooling and/or distributing Diploma funds we expect local authorities/14-19 partnerships to have established in consultation with Diploma consortia:

- planned volumes by Diploma line and level to be delivered, taking into account Gateway outcomes (for the first 5 lines in 08/09 this information will be dictated solely by Gateway outcomes)
- a clear picture of how schools and providers will collaborate to deliver Diploma places at KS4.
- timetabling and transport arrangements to underpin this configuration.

5. Against that background 14-19 partnerships will also need to determine their overall approach to funding transport, including whether to reserve a proportion of the formula grant/school contributions at area level for costs of inter-institutional travel that cannot be met from baseline funding.

6. 14-19 partnerships will also need to allow in their planning of funding for Diplomas the clearance of proposals through the Schools Forum.

Quantifying Diploma funds

7. The formula grant will be issued by the Department to local authorities at the end of November. The allocation will provide information on the assumptions on which the grant is based, and guidance on LSC funding rates for Diploma lines/levels.

8. The level of **grant** payable in respect of each school offering Diploma provision to its pupils will be based on:

- numbers of pupils and Diploma lines/levels being undertaken, based on initial options in October/November;
- LSC base funding rates for Diploma levels/lines, including any uplifts within

the 'provider factor', for example for area cost or deprivation

9. The contribution from cost reductions will be estimated on the basis of the volumes taking up Diplomas from each school. As indicated in the consultation document it is recognised that there is not a linear relationship between numbers and cost reductions, but it is expected that schools will make some contribution to minimise double funding, and that this contribution will increase in proportion to numbers of pupils taking up Diplomas.

10. The contribution from funds in the baseline earmarked for practical learning opportunities and former IFP funds will need to be quantified by the 14-19 partnership taking into account provision that these sources are currently supporting.

Routing and management of Diploma funds

11. When these factors have been determined the routing of funding would operate as follows:

- under **Option 1** the Diploma funds will be held by the 14-19 partnership on behalf of the local authority. The contributions from cost reductions can be secured through a top slice of all participating schools' budgets either at an average rate or in direct proportion to numbers taking Diplomas in each school. All payments to Diploma providers will be arranged centrally by the partnership
- under **Option 2** the grant would be held and paid at partnership level. Each school would need to make a contribution to partnership provision from their budgets, either at an average rate or in proportion to the provision purchased for their pupils. In this scenario the partnership would be responsible for paying the grant, and the 'home' school the required contribution from its AWPU.
- under **Option 3** the grant would be delegated to participating schools through an uplift to their AWPU proportionate to planned take up by numbers/line/level by their pupils. The uplift would be reduced to take account of the agreed contribution from the school's budget to the cost of provision. The total payment for Diploma provision would be made to partnership providers direct, and not through the 14-19 partnership.

Payment of Diploma funding

12. School budgets will need to be set by mid February for the following financial year, taking the above Diploma funding arrangements into account. It is expected that final decisions by pupils to take up Diplomas will be made in April/May for the following academic year. Payments to partnership providers, from the central pool or direct by schools, will be made in accordance with these decisions.

13. It will be necessary for 14-19 partnerships acting on behalf of schools, and/or 'home' schools to be able to reconcile Diploma funds allocated with spend, taking into account changes in demand and switching courses. To manage uncertainties and minimise bureaucracy involved in reconciliation/claw back, local authorities/schools may wish to deploy a threshold approach, where a proportion of funding is held back until a certain take up limit is reached.