

EXPLANATORY MEMORANDUM TO
THE HENLEY COLLEGE SIXTH FORM COLLEGE CORPORATION
DESIGNATION (ENGLAND) ORDER 2010

2010 No. 1911

1. This explanatory memorandum has been prepared by the Department for Education and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

The instrument designates The Henley College as sixth form college corporation.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Context

4.1 Section 125 of and Schedule 8 to the Apprenticeships, Skills, Children and Learning Act 2009 (“ASCL Act”) inserted new provisions for sixth form college corporations in England into the Further and Higher Education Act 1992 (“FHEA 1992”) including section 33B FHEA 1992.

4.2 Section 33B provides for the designation of existing further education corporations as sixth form college corporations by order made by the Secretary of State. Designation will take effect from a date that is specified in the order. The designation order may provide for the continuity of governance between the former further education corporation and the new sixth form college corporation and may specify the initial name of the new corporation.

4.3 The institutions that may be designated as sixth form college corporations under section 33B include both further education corporations established under section 16 of the FHEA 1992 and “designated institutions”. Designated institutions are colleges that were sixth form colleges before 1992. They entered the further education sector by way of designation under section 28 of the FHEA 1992, and were later incorporated as further education corporations under section 143 of the Learning and Skills Act 2000.

4.4 This Order is made under section 33B(1) FHEA 1992.

5. Territorial Extent and Application

This instrument applies to England.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The ASCL Act transfers the duties and powers of the Learning and Skills Council in relation to sixth form colleges to Local Authorities (LAs) and provides for the creation of sixth form college corporations with a distinct legal status. This enables sixth form colleges to be performance managed by their home LA. Section 33A FHEA allowed the initial designation by the Secretary of State for Education of any existing FE corporation as a SFC corporation. 93 of the 95 colleges that were identified as sixth form colleges and invited to designate under Section 33A chose to designate under this initial order. As sixth form colleges are high performing institutions it is intended that this will have the effect of raising standards across all 16-18 provision in areas where sixth form colleges exist. Separate legal status will also facilitate the development of the sector by providing the basis for any further legislative changes that may be necessary to meet changing circumstances.

7.2 Section 33B FHEA makes provision for subsequent designation by application. Section 33B(1) gives the Secretary of State for Education the power to designate, by order, existing FE college corporations as sixth form college corporations. Pursuant to section 33B(8), this power can be used anytime now that the initial designation power (section 33A) has been exercised on 4th March 2010.

7.3 The Secretary of State will consider making a designation order under section 33B only after a governing body of a college has applied to him and shown that, on the date of application, at least 80% of its total enrolment number (as calculated under Schedule 3 to the FHEA 1992) is aged over compulsory school age but under 19. In exercising his powers under section 33B the Secretary of State may seek the views of other bodies, including the Skills Funding Agency, in reaching his decision.

8. Consultation outcome

8.1 The provisions in the ASCL Act for the designation of sixth form colleges relate to reforms proposed in the White Paper 'Raising Expectations: Enabling the System to Deliver'. While the majority of correspondents (64%) were in favour of the LA role in commissioning and performance management to improve quality there were requests for greater clarity over what designation entailed for colleges. The details of the process were supported by sixth form colleges, FE colleges and LA representative bodies including the Sixth Form College Forum, Association of Colleges and Local Government Association.

9. Guidance

9.1 The Department will be issuing separate guidance in relation to this instrument and this will be available through the Department for Education web site and will be forwarded to all representative bodies.

10. Impact

10.1 A separate sixth form college sector will benefit local areas by raising standards and improving student outcomes. There will be few associated costs to the public sector. There will be minimal costs for LAs in performance managing sixth form colleges; as the sixth form colleges will remain independent corporations, the LA role will be comparatively light touch except in the rare instances where intervention is required. The YPLA will have a

strategic role in developing an intervention strategy for sixth form colleges, the cost of which will be part of the initial establishment cost.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 This is an administrative measure which will be exercised only once to effect the designation of existing further education colleges so is not subject to monitoring and review.

13. Contact

Mark Nightingale at the Department for Education Tel: 0114 2742464 or email: mark.nightingale@education.gsi.gov.uk can answer any queries regarding the instrument.

EXTRACT FROM THE IMPACT ASSESSMENT PREPARED FOR THE APPRENTICESHIPS, SKILLS, CHILDREN AND LEARNING BILL

1.4 SIXTH FORM COLLEGES

RATIONALE

Sixth form colleges (SFCs) mainly provide for students aged 16-19 although many have diversified since they were first incorporated in the FE sector in 1993. SFCs have maintained a distinct identity within the FE sector, although there are few objective criteria that differentiate precisely between SFCs and FE colleges. SFCs have a reputation for high standards. They tend to offer Level 3 provision, are often seen as a bridging phase into higher education and negotiate pay and conditions that take account of school teachers' pay and conditions. They are represented by the Sixth Form Colleges Forum, of which all existing SFCs are members. Ministers want to recognise the strength of SFCs and their contribution to the education of young people by identifying the SFC sector as a distinct legal category.

AIMS AND OBJECTIVES

The main objective of the proposals is to create a separate legal identity for sixth form colleges, which will be based on a single commissioning and performance management relationship between the SFC and its home local authority.

BENEFITS

The benefits of a separate SFC sector will be in student outcomes: SFCs are among the highest performing post-16 settings (as shown by attainment data and in Ofsted reports) and the strengths of a developing SFC sector will help raise standards. The presence of high performing institutions within 14-19 partnerships will help to secure better 14-19 outcomes in local areas. SFCs are generally popular with parents and students and a strong and separate SFC sector will add to quality, choice, diversity and learner satisfaction – all indicators of a successful post-16 system.

COSTS

This is largely an administrative change with few associated costs to the public sector. There will be minimal costs for LAs in performance managing SFCs; as the SFCs will remain independent corporations, the LA role will be comparatively light touch except in the rare instances where intervention is required. The YPLA will have a strategic role in developing an intervention strategy for SFCs, the costs of which will be part of the initial establishment cost.

Summary: Intervention & Options

Department /Agency: DIUS and DCSF	Title: Raising Expectations: Enabling the system to deliver	
Stage:	Version: 1	Date: 14 March 2008
Related Publications:		

Available to view or download at:

Contact for enquiries: James Addy

Telephone: 02079256209

What is the problem under consideration? Why is government intervention necessary?

In order to drive forward the 14-19 reform agenda, we need strong local leadership to help foster collaboration, deliver a range of new qualifications and change the pattern of provision within a local area. We also need stronger links between education and skills and wider regional strategic priorities.

Our stretching skills targets demand a highly responsive, demand-led system. The pre 19 reforms will bring an end to the LSC: Government therefore needs to create a streamlined, focused national adult skills funding agency to build on the success of the LSC post-19 and accelerate the move towards a demand-led system.

What are the policy objectives and the intended effects?

1. To give local authorities the necessary funding and commissioning powers to effectively deliver the new entitlements and raise the participation age, so that more young people have the necessary qualifications and skills to succeed on entering further or higher education or employment.
2. To streamline the post-19 skills system, to make it better support our policies of creating a demand-led system and integrating employment and skills, and therefore make faster progress towards our ambition of achieving a world class skills base by 2020.

What policy options have been considered? Please justify any preferred option.

1. We have considered a fully devolved option and one with a strong agency role. Our preferred model sits in between giving LAs necessary freedom to commission and decommission provision, working collaboratively at the sub-region and region to ensure coherence, with a slim-line national NDPB to secure budgetary control.
2. For post-19 provision: (a) Retain the LSC but with 16-19 stripped out; (b) New next steps agency (FAVOURED) c) New NDPB (d) pass all skills funding and duties to Local Authorities (e) ditto to SSCs (f) ditto to RDAs (g) ditto to HEFCE

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? A third party will review actual costs and benefits of new models reporting back in April 08. Monitoring and evaluation plans will be place to assess future benefits.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date: 14th March 2008

Summary: Analysis & Evidence

Policy Option:	Description:
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' Administering the new system is expected to be cost neutral for the exchequer. Resource implications for providers (of employing additional staff) are estimated at £2m per year and there could be additional costs to government office staff to support planning forums.
	One-off (Transition) Yrs	
	£	
	Average Annual Cost (excluding one-off)	
	£ 2.5 million	Total Cost (PV) £
Other key non-monetised costs by 'main affected groups' Initial estimates do not include figures for transition costs since these are dependent on future decisions. However, whilst we expect some transition costs, there may be offsetting cost savings from shared services and premises disposal depending on how changes are implemented.		

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' Benefits costed include (a) £50 million a year in discounted lifetime earnings resulting from more young people attaining qualifications and (b) £25 million a year discounted lifetime earnings resulting from more employees being trained and gaining qualifications. Estimate is approximate annual equivalent.
	One-off Yrs	
	£	
	Average Annual Benefit (excluding one-off)	
	£ 75 million	Total Benefit (PV) £
Other key non-monetised benefits by 'main affected groups' All stakeholders are expected to benefit from supply-side benefits from more efficient and better functioning markets for 14-19. With regards to adult skills : Employers will benefit indirectly because the new streamlined body is designed to be better able to support a demand-led system, with less planning its role. Learners will benefit indirectly because the key functions which lead to a successful and effective adult skills system will all be run from one adult-specific body, especially the supply of advice, guidance, financial support. Providers will benefit directly with respect to their adult provision because the new body will be focused solely on it, and on joining it up with other post-19 services.		

Key Assumptions/Sensitivities/Risks Benefits are estimated under 'what-if' assumptions because of insufficient evidence to predict exactly what the impact will be. Key assumptions include: that changes benefit 5,000 young people who gain a L2 qualification and 15,000 more employers train an extra 225,000 employees.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010/11			
Which organisation(s) will enforce the policy?	DCSF and DIUS			
What is the total annual cost of enforcement for these organisations?	£			
Does enforcement comply with Hampton principles?	Yes/No			
Will implementation go beyond minimum EU requirements?	Yes/No			
What is the value of the proposed offsetting measure per year?	£			
What is the value of changes in greenhouse gas emissions?	£			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)

(Increase - Decrease)

Increase of £

Decrease of £

Net Impact £

Key:

Annual costs and benefits: Constant Prices

(Net) Present Value

Evidence Base (for summary sheets)

OVERVIEW

This evidence base sets out the potential impacts of the proposed changes to the pre and post-19 education and training systems. There is limited direct evidence to allow robust quantification and monetisation of all the costs and benefits arising as a result of the changes. This assessment therefore estimates the potential magnitude of key impacts under certain simplifying assumptions. As these changes are critical to delivering the wide-ranging reforms in 14-19 and adult skills, we expect them to realise significant benefits to young people and adults, the economy and society as a whole which will more than outweigh the cost of the changes we are looking to implement.

BACKGROUND

Problem and rationale for change in the pre-19 education system

As part of the 14-19 programme of reform we have a very ambitious agenda where we will be looking to ensure every young person up to the age of 19 participates in some form of education and training. We believe it is critical that all young people stay on and achieve as those who participate for longer are more likely to be in work and to earn well, more likely to be healthy and live longer, and less likely to suffer crime or the effects of deprivation. In order to secure this challenging ambition we also need to ensure that there is a wide range of high quality options available for young people locally that they want and can access. We are therefore looking to introduce a new entitlement which is effectively a range of new curriculum options to support the delivery of the RPA. The delivery of the entitlement requires a significant level of collaboration amongst a whole range of providers locally and we have already positioned Local Authorities to help facilitate this through the development of 14-19 Partnerships. Consequently giving local authorities a new strategic commissioning role for 16-19 provision seems like a natural progression to deliver our policy aims and improve outcomes for all Young People.

The changes are particularly important for the most vulnerable groups of young people who are in most need of an integrated package of provision and appropriate support to engage them in learning opportunities. We think local authorities are best placed to deliver this integrated package because they already have responsibilities for delivering a wide range of services for children and young people and by giving them new responsibilities for commissioning provision they can more effectively integrate the whole offer for young people. They have an increasing commissioning role with schools and as responsibility for Connexions services transfers to them, they are taking on responsibility for the broad range of advice and guidance services and developing integrated youth support services. They are best placed to: understand what young people want; provide the right kind of support, information, advice and guidance to help them make informed choices; ensure that local patterns of provision are available to meet learner choice and local skill needs; and provide a package of integrated support to ensure that all young people, and particularly those who are most vulnerable, are able to participate and achieve.

This change is also in line with an increasing government emphasis, in line with the Review of sub-national economic development and regeneration, on managing policy at the right spatial levels and giving local authorities the powers and incentives to respond to local challenges and improve economic outcomes in their areas. As part of this, we want ensure that education and skills planning links more effectively with wider strategic priorities, particularly economic regeneration.

Problem and rationale for change in the post-19 system

The **policy challenges** which have led to these proposals are well documented. Fundamental changes in technology, production and trading patterns are having far-reaching effects on our economy and our society. The nation that invests in its skills will be the social and economic success story of the next decade. In *World Class Skills* (<http://www.dius.gov.uk/publications/worldclassskills.pdf>); *In Work, Better Off* (<http://www.dwp.gov.uk/welfarereform/in-work-better-off/in-work-better-off.pdf>) ; and *Ready to Work, Skilled for Work* (<http://www.official-documents.gov.uk/document/cm73/7316/7316.pdf>), we set out how Government will work with our partners, employers, and individuals to rise to the skills challenge.

The skills landscape has grown organically over the years. While the current landscape has worked well – and the LSC has hit all the targets Government set for it – the ever-increasing pace of change means the skills landscape too must change, and itself be flexible and responsive.

Two key features in particular of our ambitious policy programme dictate that structural change is necessary: the aim of a demand-led system, and the integration of employment and skills.

The advent of Skills Accounts and the growth of Train to Gain sees a radically different model of organisation of the skills system, where the role of Government is to ensure that customers are empowered, well-informed and well-supported, so that demand can lead supply.

The whole integrating employment and skills agenda – which will strengthen and grow in the coming years, as the Government pursues its twin socio-economic goals of 80% employment and higher productivity – requires a new approach. In particular, it will require ever-closer co-operation and alignment between the activities and agencies of DIUS and DWP, as set out in *Opportunity, Employment and Progression* in November 2007(<http://www.dius.gov.uk/publications/7381-TSO-Skills.pdf>).

The practical challenge which precipitates these proposals now is that pre-19 policy dictates that a move to local leadership, planning and funding is needed to make a success of the 14-19 reforms; and this in turn means the LSC are currently constituted will not exist. This requires then creates a need for a new administrative solution for adult skills.

It also creates a major opportunity, because the overall cost/benefit assessment for replacing the LSC post-19 shifts fundamentally. This is because previously, when considering change in this area, all the costs of disaggregating and reconfiguring the post-19 functions of the LSC needed to be weighed against the advantages of moving to a new structure.

Since the 2007 Machinery of Government announcement it became apparent that the LSC may no longer fulfil any function 16-19 in future. In terms of the post-19 functions, the question now becomes, therefore, whether it is more advantageous to retain a ‘rump’ of the LSC to perform some of its previous functions, or whether a new bespoke organisation should be created. In this context it must be remembered that the whole *raison d’être* of the LSC was that it brought together 16-19 planning and funding with post-19, to create an integrated whole. If that rationale is no longer to be reflected in the institutional structure – for excellent reasons concerning the creation of a fully integrated 14-19 phase with local leadership – then it is more logical to seek a bespoke adult-facing solution to fit the new strategic role of the Department for Innovation, Universities and Skills.

AIMS AND OBJECTIVES

Pre-19 Aims and Objectives

The purpose of transferring 16-19 funding to local authorities has three **main aims**:

- To put 16-19 commissioning in the hands of a single body, reflecting principles of local decision making at the right spatial level to help support the delivery of raising the participation age and the Diploma and Apprenticeship entitlements
- To enable local authorities to take a more integrated approach to all the services it provides to Young People.
- To encourage a mixed economy of sub national and regional planning across the country to ensure appropriate provision for young people moving across local boundaries and create a good join up with wider strategic priorities, particularly economic regeneration

Post-19 Aims and Objectives

The **main aims** of these proposals are:

- To give the adult skills system the dedicated agency it needs and deserves; and
- To reflect the vital importance of the skills agenda to our economy and society.

The specific **policy objectives** are:

- To build an innovative, streamlined agency with the needs of the adult workforce at its heart
- To provide a sharp and effective tool for Government to realise our ambitions for a world-class, demand-led system
- To create a skills and FE system which targets support for individuals and employers where it is needed most, and allows providers to deliver an excellent service to help us move towards our vision of a high-skills, high-employment, high-productivity nation

HOW THE PRE AND POST-19 SYSTEMS CURRENTLY WORK

Pre-19 provision

The current planning and commissioning of 16-19 provision takes place through a Non-Departmental Public Body (NDPB) the Learning and Skills Council (LSC), established under the Learning and Skills Act 2000. The LSC's current Business Cycle is an annual one based on the annual grant letter from the government and around the three elements of Planning, Commissioning and Performance with key activities undertaken at different times of the year at different spatial levels. In response to the grant letter and to key policy changes, an Annual Statement of Priorities is produced, which sets the national priorities for 14-19 and 19+ funding. This will be agreed with DIUS/DCSF (formerly agreed with DfES). Also at a national level the LSC examines cohort size, quality, programmes and policy to ensure that the overall CSR settlement meets need.

Funding for 16-19 provision currently flows through the LSC on the basis of a national formula. For 08/09 the LSC is introducing a new single 16-19 funding model which is fair and equitable. It is formula based and plan-led so that all providers will receive a national rate with appropriate differentiation on the basis of provider factors which include deprivation and success factors rather than institutional type. Following the Annual Statement of Priorities each region produces a Regional Commissioning Plan to meet targets which are negotiated and agreed based on an analysis of the demand and supply of learning and skills. The plan is developed in consultation with the Local Authorities in the region the Regional Development Agency and with knowledge of Sector Skills Councils' priorities. The approach to commissioning is supported by a contracting process carried out by a regional contracts team. Contracts are issued regionally and Regional Audit Committee and Regional Board oversee this process.

A regional panel meets to agree the allocations to providers and to moderate any requests for growth. This is done in an evidence-based way on the basis of historical delivery and growth patterns,

demographic changes, performance and local intelligence. Some specialist provision for 16-18s – Learners with Learning Difficulties needing specialist college places is managed by LSC at regional level.

At a local level the LSC partnership teams work with Local Authorities to develop the capacity of the provider network to deliver the policy objectives. This involves the management of contractual relationships with the colleges, independent training providers, education business link organisations and also with the local authorities themselves. The LSC therefore does not currently plan or commission at the local authority level for 14-19 (other than by Open and Competitive Tendering for specific place-based and learner-targeted programmes to fill gaps which may be created for reasons of poor performance of the existing provider base).

Provision for young people in custody is subject to different arrangements. For education and training in Young Offender Institutions (YOIs) this is lead by the LSC through the Offender Skills and Employment Service (OLASS), whereby national LSC contracts with learning providers to deliver education in YOIs (funding flows from central government to the YJB, and on to the LSC). For private YOIs and for Secure Training Centres, the YJB provide fund contractors who operate these establishments, who then directly provide education or sub-contract this to other providers. For Secure Children’s Homes, the YJB contracts with operating agents (mostly local authorities and some private contractors) who either delivery education in custody directly or sub-contract with another provider.

Post-19

Each year the Secretaries of State for the DIUS and DCSF issue a joint annual Grant Letter to the LSC, setting out its priorities and targets, and the resources allocated to the LSC for the forthcoming financial year. These priorities are reflected in the LSC’s Corporate Plan (Annual Statement of Priorities) and its annual business/delivery plan. The Delivery Plan summarises the overall provision that is planned to be delivered nationally in the year ahead, and the arrangements for monitoring progress and managing risks, including the supporting performance indicators.

LSC Regional commissioning plans inform the activity and plans of the local areas/150 new local partnership teams, which work with local partners to identify and respond to local needs.

The DIUS and DCSF monitor performance at national level through a formal system of accountability which includes quarterly reviews by Ministers and by a joint Performance Forum consisting of senior DIUS, DCSF and LSC officials.

The funding which providers receive for both pre and post-19 delivery is currently based on a national funding system. From 2008/09 the vast majority of adult provision is funded through either a learner responsive or employer responsive model. Both models are funded on the basis of a national funding formula that takes account of subject weightings, deprivation, area costs and the levels of competition and achievement. The models are designed to be increasingly demand led responding the choices of individual learners and employers and will support the developing Skills Accounts and expanding Train to Gain programme respectively.

For skills and training for adults in custody, national LSC contracts with learning providers to deliver training in custody (via the Offender Skills and Employment Service -OLASS).

PROPOSALS FOR THE 16-19 SYSTEM

Local authority plan-led system supported by a slim line 14-19 NDPB

We are proposing to put a system in place that devolves the majority of responsibility for planning and commissioning 16-19 provision to Local Authorities, with a small light-touch national NDPB to ensure budgetary control and the delivery of the entitlement. In this system Local Authorities are required to collaborate to ensure that their planning and commissioning decision cohere, and perform a number of functions collectively where it is more beneficial than acting alone. To ensure stability and avoid any detrimental impact on the learner, we are proposing a two-step process where initially the commissioning of GFE provision is retained by the 16-19 NDPB and only transfers to local authorities subject to them providing sufficient evidence that they have the capacity to perform this role effectively.

The new system will continue to use a national funding system that operates on a plan-led basis to allow local authorities the freedom to commission and decommission in order to change the pattern of provision to meet the needs of learners locally and deliver the new entitlement. In order to reduce burdens and minimise complexity, funding will be based on a National Funding Formula where institutions are funded on the basis of participation rather than each LA funding those learners who are resident within their boundaries. We are also proposing that each provider has a single strategic commissioning dialogue with a single local authority who will be responsible for collating the demand from other LAs for that institution. The interaction between commissioner and provider must not be so complex to manage for schools, colleges and other providers that it draws energy from the task of educating and training young people.

In terms of the planning and commissioning process, the 14-19 Partnership will be the vehicle through which LAs work with local providers to analyse demand and develop a commissioning plan. Local Authorities would then need to come together at a sub-regional level to agree their plans and ensure that they take account of travel to learn patterns and wider strategic priorities. Local Authorities would then submit their plans to a LA owned Regional Planning Forum which brings all LAs together with the Regional Development Agency, and Government Offices to make sure plans cohere across the region and fit within the existing budgetary envelope. They will also look to plan certain types of specialist provision and capital investment at this level.

The 14-19 NDPB would then perform a final moderation of the commissioning plans to ensure that they fit within the overall budget and that the new entitlement is being delivered. Once plans are agreed funding will then flow on the basis of the plan to the appropriate commissioning body which will then procure the necessary provision.

PROPOSALS FOR THE POST-19 SYSTEM

To support our policies and streamline the system we will create a new skills funding agency. It will be a focused, streamlined agency, close to Government and with an operational role. It will have national and regional presence, reflecting the fact that skills needs are manifested in sectoral, regional and sub-regional patterns, and rarely follow local authority geographies. It will be an effective delivery tool designed to fulfil a limited range of functions, and do those excellently.

The key role of the new Skills Funding Agency is to ensure that public money is routed swiftly, efficiently and securely to FE colleges and providers following the purchasing decision of customers. It will build on the success of the LSC, and aim to be the most efficient and effective public funding body in the country, a model of best practice.

Coupled with making payments, the agency will also manage the framework and the development of the FE service. This includes responding to strategic projects, regional and local planning, securing dynamic market exit and entry, creating a funding and incentive structure that prioritises responsiveness

to customers, and ensuring availability of good public information. It is a funding body, not a funding and planning body.

The agency will provide a coherent structure for housing the management of three high profile public services – the National Apprenticeships Service, the National Employer Service, and the Adult Advancement and Careers Service. These three services managed from within it each will have a strong, accessible presence targeted on their audiences. They will have high-profile, high-definition brand identities.

Overall, the funding agency is responsible for ensuring that public funds are best used to complement the much larger private investment which is made in adult skills and training. It is responsible for ensuring the overall environment or ‘trading conditions’ in FE created by Government are highly supportive of upskilling to meet the nation’s needs. The Skills Funding Agency will therefore be responsible for the performance management of FE colleges. It will also be the single point of intervention where either pre or post-19 performance does not meet nationally agreed minimum standards.

As announced in *World-class Apprenticeships: Unlocking talent, Building Skills for All* (http://www.dius.gov.uk/publications/world_class_apprenticeships.pdf), the Government is creating a new national Apprenticeships service (NAS) to take end-to-end responsibility for the Apprenticeships programme, including ultimate accountability for national delivery of targets. In the longer term future, the NAS will be a discrete, coherent service, led by a Director of national standing and managed within the Skills Funding Agency.

The agency will also manage the National Employer Service, the single service for employers with 5000+ employees. The relationship between NAS and the NES will be close, so that employers experience a ‘no-wrong-door’ service.

The Skills Funding Agency will manage the creation and management of the new England-wide adult advancement and careers service, which will play a key role, with Jobcentre Plus, in boosting individual demand for skills and guiding people to the right training to meet their needs and help change their lives. The Agency will be responsible for the programmes of financial support to help adult learners (aged 19 and over) meet the additional costs of learning in FE that could otherwise prevent them from participating; though a single delivery contract [managed by the DCSF 16-18 agency] will be kept until 2013 to unify the delivery of financial support for young people and adults.

The Agency will also be responsible for setting targets and monitoring performance of the Offenders Learning and Skills Service (OLASS); it will do this jointly with the new Regional Directors of Offender Management whose role will be introduced progressively from 2008, planned to be in place everywhere by 2010.

The Skills Funding Agency will have a closer relationship than now between DIUS and the LSC, more analogous to the DWP/Job Centre Plus relationship, so as to minimise the need for sponsoring and oversight functions in DIUS, and get the tightest connection between policy and delivery. The Skills Funding Agency is not an arm’s-length body in the manner of the LSC, and so, like Jobcentre Plus, it will depend on clear, consistent and transparent rules, tariffs and operating procedures to give the necessary assurance that public money is being used equitably and consistently, according to national priorities as defined by Government. As now, there will be a national funding system, with consistent, transparent, national funding formulae, tariffs and subsidies; this is crucial.

The 2006 FE White Paper (<http://www.dfes.gov.uk/publications/furthereducation/docs/6514-FE%20White%20Paper.pdf>) set out the Government’s ambition to develop a new relationship with

colleges and providers which would reinforce their autonomy within a significantly deregulated operating environment, including the new proposals for qualification deregulation for colleges and employers.

STAKEHOLDERS AFFECTED

The proposed changes will have significant implications for the whole system of pre and post 19 education and learning. The main stakeholders directly affected for pre 19 are:

- The Learning and Skills Council
- Local Authorities
- Central Government
- Providers of Education and training
 - School 6th Forms
 - GFE Colleges
 - 6th Form Colleges
 - Specialist Colleges
 - Work Based learning providers
 - Training Providers
- Learners aged 16-19
- Learners aged 19 and over
- Businesses

COST-BENEFIT ANALYSIS

This section identifies the expected impacts of the proposals on the main stakeholders affected. It provides a comprehensive overview of the different types of costs and benefits that could arise from the proposals from the perspective of each of the stakeholders.

We have not yet been able to robustly estimate the costs of the changes to government and local authorities. In order to better estimate these impacts we have committed to commissioning a review from a third party to get a clearer understanding of the actual costs and potential savings of both the pre 19 and post 19 system models. So we will be developing a robust assessment of the costs of the models we are proposing to introduce once the independent report has feedback in April.

In terms of the impact on stakeholders, the analysis is mainly qualitative – due to lack of hard evidence – and indicates the types of cost and benefits that could occur as a result of the proposed reforms. Again, where possible, we have estimated the impact on the basis of a set of conditional assumptions to illustrate their potential magnitude. Estimating the impact on stakeholders is difficult because the proposals will change the behaviour of all the different stakeholders and it is difficult to predict what the cumulative impact is likely to be. Many of the expected impacts, particularly the benefits, are non-pecuniary and expected to accrue over the medium to longer term from facilitating the delivery of the wider reform programme and it is difficult to isolate or predict the specific impact that these institutional changes will have.

In terms of the benefits for the pre 19 changes, the primary aim is to put in place a system to deliver more effectively the 14-19 entitlements and raise the participation age so that more young people stay on and achieve. The main benefit of the changes is therefore twofold: (a) the contribution they will make to delivering the benefits of increased participation and attainment which have already been set out in the Impact Assessment for the Education and Skills Bill and (b) the contribution they will make over and above what could be achieved by the reforms under current arrangements. This impact assessment focuses on (b). However, it is very difficult, with the available evidence, to quantify the exact

contribution that these changes will make. We have therefore estimated the potential benefits under a number of simplifying conditional assumptions to illustrate their possible magnitude. The benefits are based on the impact of improving participation and attainment, in terms of the potential number of beneficiaries and increased wages in the labour market.

In terms of the benefits of the post-19 changes, the primary benefits are related to achieving a world class skills base. We believe that the new Skills Funding Agency will facilitate a truly demand led system and therefore a key expected benefit of this proposal is an increase in employer participation because of improved system responsiveness to employer demand. The estimated benefits of increased employer training are again based on the potential number of beneficiaries of this training and estimated net present values of achieving NVQ qualifications.

In addition, a number of the benefits are indirect in the sense that we anticipate that these proposals will enable or enhance a number of related policies, such as de-regulation and self governance, but we cannot accurately apportion benefits from these other policies. Therefore, benefits are articulated here without monetary values, but these should not be overlooked.

So whilst this assessment includes monetary estimates of the main impacts, they are purely indicative, should be treated with extreme caution and are not intended to represent an exact or robust estimation.

Summary of costs and benefits that have been monetised

Costs to the exchequer of administering the new system are expected to be cost-neutral within the current budget for funding the Learning and Skills Council. Additional costs may be incurred by some FE colleges from the need to interface with two commissioners rather than one as now but this may be offset by savings from less interfacing with a demand-led post-19 system. These costs will depend on the number of colleges affected and average staff costs but on some assumptions a very rough estimate suggest the resource implications could be around **£2 million per year** in total. There may be additional costs to regional stakeholders in participating in the regional planning forums. These costs are expected to be quite small – possibly around **£60-380 thousand per year** - and could be absorbed by current resources.

Benefits will arise primarily as a result of impacts on young people and adult learners because the main aim of the proposals is to create a system that can more effectively deliver the 14-19 and skills reforms. If the proposals were to result in helping 5,000 more young people to stay on and achieve a qualification at level 2 the economic benefits could be around **£50-300 million per cohort of leavers** in discounted lifetime earnings. Obviously, the value of these benefits depends not only the number of additional qualifications gained but on the type and level of those qualifications. These estimates are therefore purely illustrative. Similarly, if the proposals were to encourage 15,000 more employers who currently do not provide training to do so, and this training benefited 225,000 employees, then the economic benefits could be around £735 million in total in discounted lifetime earnings. Assuming these benefits accrue over 30 years, this equates very roughly to annualised benefits of **£25 million per year**.

These estimated benefits are purely indicative of the magnitude of potential benefits under a set of illustrative 'what-if' assumptions. For this reason, many of the costs and underpinning assumptions used have been heavily rounded. But they nonetheless serve to show that the proposals have the potential to yield some significant economic benefits by making it possible to more effectively deliver the wide-ranging reforms to education and skills already set in train.

Impact on government

In respect of the 14-19 changes, the new national agency will be a small NDPB retaining some of the functions currently carried out by the LSC for 14-19 provision and it will have a regional arm. At a local level, we would expect some staff to transfer to Local Authorities to conduct the negotiated commissioning with providers.

We will ensure that the Skills Funding Agency will have a smaller annual administrative budget than the current cost of the LSC's post-19 functions. This is deliverable because it will not perform some quite resource intensive planning functions which the LSC does now. Furthermore, the current sponsorship function in the DIUS will be smaller, as the SFA will be closer to the central department than is LSC, and lines of accountability and reporting will be more direct; the need for sponsoring and oversight functions in DIUS is minimised and there will be tighter connection between policy and delivery..

The detailed costs of the new agency will depend largely on key policy decisions yet to be taken regarding the site of the new agency and the detailed staffing structure. It is not appropriate to make these detailed decisions, potentially affecting the jobs of thousands of individuals, in advance of consultation on the principles and key proposals of policy. Furthermore, when such decisions are taken it should be after appropriate explorations and conversations with those with most relevant expert knowledge, which includes the very people concerned; again necessitating that the policy direction is consulted on and made public before detailed implementation discussions are entered into.

The impact of the proposed changes will impose **direct financial costs** on government which are additional to the costs of running the current system. These costs include: set-up costs of establishing the 14-19 and post-19 agencies as separate bodies; changes in the location of specific functions currently carried out by the LSC; and administrative costs to DCSF of sponsoring the new 14-19 agency. There will also be a number of one-off **transitional costs** of setting up the new agencies, covering redundancy payments, retraining, legal costs and provision for property disposal. These costs have yet to be quantified and will be estimated as further details of the transition become available. Offsetting these costs there may be potential savings to be realised by the disposal of superfluous premises.

The total budget for administering the LSC in 2010-11 in the Grant letter is **£205.7 million**. It currently employs around 3,700 staff at national, regional and local levels. Subject to a 3rd party review where we will provide a more detailed appraisal of the actual costs of the two system models, we estimate that the **annual running costs** of administering the new proposals for pre and post 19 will fit within the existing LSC baseline.

Benefits to government

These costs will be offset by some potentially huge **benefits** to the government and the economy as a whole. The main objective underpinning the proposals is to make it much easier and more effective to deliver the wide-ranging reforms to education and skills set in train by DCSF and DIUS. Although we do not claim the totality of the associated economic benefits here, it is certainly expected that the proposals outlined in this impact assessment will facilitate the achievement of these benefits. For example:

- Achieving a world class skills base will deliver a possible overall net benefit of at least £80 billion over 30 years, equivalent to an average of £2.5 billion each year. So if these proposals help us achieve only 1% of that ambition it would contribute to the delivery of benefits of **£25 million per year** for the next 30 years;
- Similarly, we have already estimated that the net economic benefits of raising the participation age are estimated to be around £1.6 billion per cohort affected. So if these proposals help us to achieve only 1% of this ambition it would contribute to the delivery of benefits of **£16 million per cohort**.

The section on overall impact of the changes on the pre and post-19 systems focuses on the possible benefits that could be delivered by the proposals over and above their contribution to delivering the benefits outlined above.

There will be a significant benefit to Government's post-19 skills functions in terms of lower transactional costs. Already mentioned is the saving in the central LSC sponsorship function. But there are other hidden savings, as the much closer integration of the delivery body with the policy body, meaning freer flows of information, more flexible and effective performance management, quicker resolution of problems, freer interflow of staff and expertise, easier communication and a strong unity of purpose.

This is one reason for favouring a Next Steps Agency over an NDPB. A second reason is the administrative savings from having no independent council and chair. A third reason is ensuring no overlap between the new strategic function of the UK Commission for Employment & Skills and the funding body. And a fourth reason is that unifying systems and processes within the Integrating Employment and Skills agenda is likely to be easier if Jobcentre Plus can work with a similarly constituted body rather than an arm's length NDPB.

Impact on Local Authorities

The potential impact on local authorities is significant and although they will experience both costs and benefits in the new system, we expect the medium and longer term benefits to outweigh the additional costs. Some of the potential costs will be transitional and associated with building up the capacity of local authorities to take on their new responsibilities and integrating resources from the LSC. The benefits relate to the incentives that the new system will create for local authorities to deliver integrated provision and support for children and young people which meet their diverse needs and allows them to stay on and achieve, find gainful employment, and contribute to the local economy.

The main costs born by local authorities are the costs of taking on their new responsibilities. However, these costs will be financed from the costs of administering the current system so are not additional. These costs include:

- Direct costs associated with new activities of planning and commissioning provision, facilitating more local collaboration and managing the funding
- Indirect costs associated with interfacing with two national agencies

These costs will be offset by a number of potential benefits, some non-pecuniary, for local authorities:

- Will help fulfil ambitions set out for them in the sub-national economic and regeneration review
- Potential for better co-ordination and integration of planning across the whole range of children's services (e.g. targeted youth support, Connexions, youth offender learning) and general 14-19 provision
- Opportunities to further improve their local standing through the strengthening of their existing responsibilities for strategic leadership
- Substantial freedom to influence patterns of provision to better meet the needs of local communities

Impact on providers

Many providers such as General FE colleges will often serve both adults and young people. So the potential impact on providers – schools, FE colleges, independent providers – will be different depending on the nature of their provision. A number of expected costs will accrue in the short term

and these are associated mainly with building up new relationships with local authorities. Although providers will have to spend additional resource in building new relationships and speaking to both the local authorities and DIUS agency, the new process will be as efficient and effective as possible.

Costs specifically born by providers include:

- Direct financial costs associated with interfacing with two commissioners - although these costs will be partially mitigated by designing the system to minimise these costs and are likely to be offset by savings from the less burdensome interface with the post-19 demand-led system
 - Consultation with a number of providers suggests that some may need to employ additional staff and some will be able to absorb the costs within current resources
 - There are currently around 378 FE colleges in England, of which 199 are General FE colleges and 96 are sixth form colleges. It is difficult to estimate how many colleges could be affected but if it does have an affect it may fall on large providers who operate beyond the sub-regional level for both pre and post-19 provision. If we assume that the resource implications equate to 0.5 of a full-time equivalent person per year and affects a quarter of all providers, and also assume an average cost of £42,000 per year¹ (wage plus non-wage costs) this would amount to additional costs of around **£2 million per year**.
- Indirect costs associated with colleges and independent providers building new planning relationships with local authorities - schools with sixth forms may see minimal impact as they already have these relationships
- Non-pecuniary costs associated with any uncertainties about how their independence will be affected under the new arrangements

These costs will be offset by a number of potential benefits for providers but due to their nature it is difficult to quantify them:

- Clearer role for providers as strategic partners in planning and delivery of local provision
- Moving to a more light-touch demand-led system for post 19 may mean they need less resource to plan provision
- Separate designation of sixth form colleges will give them greater clarity about their role in, and enable them to make a greater contribution to the success of, the pre-19 education system
- Single commissioner for 14-19 provision will facilitate a level playing field for providers
- Creation of a more integrated 14-19 phase and coherent local planning arrangements could reduce institutional segregation across the current post-16 divide
- Better managed and planned market for integrated provision and support for young people could ultimately lead to improved provider performance through increased retention and success rates and could increase overall demand for provision, increasing revenue for providers
 - For example, the estimated additional participation funding (for learner places) as a result of raising the participation age is **around £580 million per year** in 2016/17 prices. This amounts to additional funding for providers, based on a unit of funding of around £7,000 per FTE learner, and is the difference between funding 100% participation and meeting the government's previous 90% aspiration for 17 year olds.
 - If we assume as a result of the changes in this proposal that 1,000 additional FTE learners participated for one year when they otherwise would not have, in the run-up to RPA, this would equate to additional funding of around **£6 million per year** for providers².
 - But were participation to rise a bit faster than it might otherwise have done, this would obviously be associated with an additional cost in discounted terms. For example, costs occurring one year earlier would, in appraisal terms, be discounted less heavily.

¹ Estimate based on hourly pay for public service associate professionals from Annual Survey of Hours and Earnings 2006, uprated by nominal earnings growth of 4% per year plus 25% non-wage labour costs. Figures are estimates in 2008 prices.

² Estimated on the basis of unit of funding in 2010/11 prices at a rounded-up £6,000 per FTE.

Impact on third sector organisations

Third sector providers are increasingly key members of local multi-agency partnerships focused on the integration of services for children and young people. These providers from a very diverse group and the proposals may well impact differentially on them so it is difficult to quantify the impact on this group. Some of the expected costs for school and college providers will also apply to the third sector but so will the potential benefits.

Costs expected to fall on third sector providers:

- Direct transactions costs associated with building up new relationships with local authorities
- Indirect opportunity costs of full participation in the new collaborative planning system, given that many third sector providers will be quite small with limited resource to fully engage in a way that they might wish to do

These costs will be offset by some key benefits for third sector providers:

- Stronger role in a system with greater integration of provision and support services to better meet individual needs, including vulnerable groups and those supported by the third sector
- Better planned and integrated provision and support for vulnerable young people could ultimately lead to increased demand for third sector provision which caters for these needs

Impact on regional tier

The potential impact at the regional level will depend in part on the particular model adopted. Additional costs will be imposed by the creation of Regional Planning Forums which will act as advisory bodies to satisfy local authorities and central government that the overall picture in the region delivers proper provision to meet the needs of all young people and regional economic regeneration plans.

Costs of retaining a regional tier in the planning system:

- Costs to regional stakeholders, including local authorities, of establishing or convening the new Regional Planning Forums and interfacing with the national agencies
 - For example, there are nine government offices and each will be involved in the regional planning forums. If we assume average labour costs (wage and non-wage) of £42,000 per year per full-time person, and that the resource involved in the planning forums is equivalent to two months of FTE time per year, the costs of participating would amount to around £7,000 per region or around **£60,000 per year** in total. In the extreme, but unlikely scenario where each regional office needed one FTE per year to resource the forums the total costs would rise to around **£380,000 per year**.
 - In all likelihood, we expect these costs to be small and may be absorbed by utilising existing resource

Benefits arising at the regional level from the proposals include:

- Regional and economic regeneration planning is built into regional commissioning planning via links with Regional Development Agencies, in line with the sub national review
- Stronger understanding of local and regional skill needs via the National Apprenticeship Service and Sector Skills Councils which is reflected in local authority planning

We expect the Post-19 changes to have a neutral impact at regional level because we expect the breakdown of national and regional functions to be unchanged. Over time we would expect less regional planning, but this would have been in the case without MoG changes.

Impact on employers

The main benefits of the Post-19 proposals should be felt by employers and learners, albeit indirectly. The new UK Commission for Employment and Skills which comes into place in April 2008 will look at employment and skills arrangements in order to make access for employers easier. There are no expected costs for employers as a result of MoG changes, as the changes, from an employer's perspective, will simply seem to replace one Government funding body for post-19 training with another. The changes are not aimed at improving the customer interface; they are 'back-office' changes, and arguably of little interest to the 'employer on the street'. However, we anticipate the following long-term benefits:

- With the new National Apprenticeships Service nested in the Skills Funding Agency, and with Train to Gain brokerage moving to RDA influence, employers should find it easy to get to the right person whatever their skills needs. They will experience a "no wrong door" service: an employer who accesses either will be able to access the full range of support available through Local Employer Partnerships and Train to Gain.
- Most crucially, the FE sector will be supported and enabled to become more responsive to employer needs and less planned, and so the employer experience of FE should be more effective and relevant.
 - Evidence from the evaluation of the CoVE programme (<http://readingroom.lsc.gov.uk/lsc/National/ghkreportjul05.pdf>) indicates that a greater focus on employer needs e.g. through providing more flexible or tailored provision, increases employer engagement and leads to more success for learners.
 - Results from the *National Employer Skills Survey 2005* (<http://readingroom.lsc.gov.uk/Lsc/2006/research/commissioned/nationalememployersskillsurvey2005mainreport-re-june2006.pdf>) show that around 15,000 employers do not provide training because the courses they need are not available locally, and 270,000 employers who do train but not through FE say that FE courses are not relevant for their needs. Employers spent a total of £33.3 billion on training (on and off the job).
 - Findings from the National Employer Skills Survey 2005 show that, of the 1.4 million employers in England, 35% (around 490,000) did not provide any training in the previous 12 months. Of these, 3% (around 15,000) said that they did not provide training was because "courses not available locally"
 - If this policy facilitates a truly demand-led system, then we would expect employers to be able to access the courses they need. Therefore, there is **potential for an additional 15,000 employers to provide training**. If we assume that each employer who provides training provides that training for an average of 15 employees³, then **this equates to an additional 225,000 employees receiving training**

Impact on pre-19 learners

The ultimate impact of the proposals – and in particular, the benefits - will be seen through the impact that they have on learners and their outcomes. The proposals are not expected to impose any direct costs on learners but they are expected to benefit in the medium to longer term from better planning and integration of services and provision for children and young people. But as important as these benefits are, it is very difficult to quantify them robustly. Estimates provided below are indicative of the benefits that can be realised under certain assumptions.

³ The 900,000 employers who do provide training collectively reported that they had provided training over the previous 12 months for 13.1 million workers, which equates to an average of 15 employees trained for each employer who provides training.

Learners are expected to benefit from the new system in the following ways:

- More holistic view of, and clearer progression through, the 14-19 education and training system will create a more coherent and seamless set of choices, both within and across local boundaries
 - This has the potential to facilitate greater self-esteem, ambition and achievement currently implicit in institutional choices at age 16 (see for example, *Stanton (2004)*)
- More inclusive, consistent and integrated provision and support is commissioned by local authorities which meets the needs of the most vulnerable groups, including young offenders
 - This links directly to DCSF's PSA target on narrowing the gap in educational achievement between those in disadvantaged groups and their peers
 - At the end of 2006, there were around 100,000 young people aged 16 or 17 who were not in education, training or employment. Some of these young people are considered to be in vulnerable groups on the margins of both learning and labour markets. If we assume that the proposals help just 1% of this group to engage with learning through better integration of learning and support then they would **benefit around 1,000 young people in NEET status per year**⁴.
- Appropriately engaging and supporting vulnerable young people has longer term economic benefits from reducing the sort of poor outcomes that are associated with high social costs, such as criminal activities
 - For example, research for the Prince's Trust, *The Costs of Exclusion (2007)*, suggests that using the average cost associated with each crime committed, together with the total number of convictions, the estimated cost of youth crime for Great Britain is in excess of £1 billion a year. So the potential economic benefits from even marginal reductions in youth crime from engaging young people in learning are significant.
- More integrated local planning caters for all learners' needs and any gaps in provision filled
- Removal of barriers to learning which stem from learner perceptions of poor choice of provision and poor access to transport and learner support – could increase participation
- Supply-side improvements driving up the quality of provision on offer
- Better choices and improved provision could lead to better learner engagement and improved satisfaction rates
- Better planning of 14-19 provision which improves the matching of learners to suitable provision
 - For example, if just 1% of learners were better matched this would **benefit around 15,000 learners aged 16-18 per year**, *Statistical First Release 22/2007 on Participation in Education, Training and Employment by 16-18 year olds in England*
- Better matching could in turn lead to increased retention, attainment and progression
 - This links to PSA targets on raising educational achievement for all children and young people; closing the achievement gap; and reducing the percentage of 16–18-year-olds not in education, employment or training
 - For example, if a third of those 15,000 better-matched learners stayed on their course and achieved a qualification that they would otherwise not have achieved this would **benefit around 5,000 learners a year**
- Local authorities' role in economic development – linked to sub national review – better facilitates provision that equips young people with skills that employers and the economy needs
- All of these benefits could ultimately benefit learners through longer term impacts on labour market outcomes and earnings potential. For example,
 - For qualifications at Level 2, people with 5 or more good GCSEs earn on average around 9-11% more than those without and are around 3 percentage points more likely to be employed. For those who leave school without 5 GCSEs at A*-C, a number of vocational Level 2 qualifications offer substantial wage benefits if held as their highest qualification: BTEC First or General Diplomas have a return of around 13%, City and Guilds Craft around

⁴ Depending on cohort size, of course.

5-7% and RSA Diplomas around 17% (women only). *Jenkins et al (2007)*.

- At level 3, people with 2 or more A-Levels earn on average around 14% more than those without and for those whose highest academic qualification is at Level 2 or below, NVQ3s have a wage return of around 10-13% when held as the highest qualification, BTEC Nationals have a wage return of around 16-17%, ONCs or ONDs around 14-26% and RSA Advanced Diplomas around 10-19%. *Jenkins et al (2007)*

Impact on post-19 learners

We do not expect adult learners to incur any costs as a result of MoG changes, but we do expect adult learners to benefit significantly from a more streamlined 'back-office' system and a service that is more responsive to learner needs. It is difficult to place monetary values on these benefits, not least because we expect the new landscape to better facilitate existing and planned Government policy such as Skills Accounts, expansion of Train to Gain, and the introduction of the Adult Advancement and Careers Service (AACCS), thus enhancing the benefits of these policies, rather than introducing new benefits.

Adult learners are expected to benefit from the new system in the following ways:

- Simplified learner support may lead to more learners (particularly disadvantaged learners) taking up the support on offer and engaging in learning when they otherwise might not have done
- Increased responsiveness of providers to learner needs may encourage greater learner participation in FE
 - 14% of those aged 19-59 are currently participating in LSC-funded FE, Train to Gain, WBL or provision in former ACL providers. If an extra 1% of the 19-59 population participated this would equate to an additional 284,000 learners. (*DIUS estimates*)
- Streamlined advice and guidance may encourage more adult learners to engage with FE, and for those that do engage may lead to better matching, which in turn we would expect to lead to increased retention and achievements.
 - Findings from the *National Learner Satisfaction Survey 2004/05* (<http://readingroom.lsc.gov.uk/LSC/2006/quality/performanceachievement/nationallearnersatisfactionsurveyfurthereducation-re-jul2006.pdf>) show that 15% of early leavers said that the course was the wrong course for them
 - The *National Adult Learning Survey 2005* (<http://www.dfes.gov.uk/research/data/uploadfiles/RR815.pdf>) provided evidence that a lack of information about learning opportunities, and a lack of suitable learning opportunities created obstacles to learning for non-learners. The results also showed that advice about learning, learning that increased job chances, and better availability of learning (at the right time and place) would encourage non-learners to learn.

OVERALL IMPACT OF MOG CHANGES ON FUNCTIONING OF THE SYSTEM

The previous narrative outlines some of the main costs and benefits that we expect to be incurred and enjoyed by particular stakeholders. In this section, we summarise the potential impact on the functioning of system as a whole through considering the supply-side and demand-side effects.

Compared to the current system, the proposals necessarily entail a number of supply-side inefficiencies. These **supply-side costs** are difficult to quantify but they arise from:

- Efficiency loss from running two national agencies with some duplicate functions and activities – whilst the changes are expected to be cost-neutral for the exchequer in terms of costs of administering the current system, the fact of having two agencies will limit potential efficiencies
- increased transaction costs associated with establishing an effective interface between the two agencies and between the FE sector and local authorities – but these will be absorbed into the running costs of the new system

- Diseconomies of scale and scope from operating at a more devolved level – with potentially between 47 and 150 local authorities carrying out planning, commissioning and funding activities. These costs will be greatest under the most devolved model
 - We have committed to commissioning a review from a third party to get a clearer understanding of the actual costs and potential savings of both the pre 19 and post 19 system models – so will be developing our cost estimates when that has reported.

But these costs are offset by a range of potential system-wide benefits, some of which will improve the functioning and performance of the supply-side. These potential **supply-side benefits** include:

- Efficiency gains from better integration of planning and delivery for 14-19 provision and the Every Child Matters agenda for 0-19 year olds which drives improvements in all five outcomes
- Allocative efficiency gains⁵ from securing a better collaborative, planned approach for young people with local authority strategic direction
 - *Delorenzi and Robinson (2005)* argue that anecdotal evidence suggests that left to itself the education market would not provide for the needs of all learners, particularly those at lower ability levels, as providers will want to compete for the best learners. In reviewing the evidence on 14-19 collaborative arrangements, *Hodgson et al (2005)* argue that collaboration can improve cost-effectiveness
- Allocative efficiency gains from a post-19 system that allows funding to follow the learner/employer
- Efficiencies from use of some shared service functions by the national agencies and promotion of shared service arrangements at local level
 - We will have a better view of the potential for efficiency savings when the independent review of costs has reported
- Technical efficiency gains from incentives created by a new single performance and inspection framework for post-16 institutions and promotion of competitive collaboration
- Technical efficiency gains from a minimised need for sponsoring and oversight functions in DIUS
- Promotion of stronger local collaboration could make progression routes for young people more transparent, increase the supply of provision at different levels, enhance quality of provision and provide more learner choice, *Principal Learning Ltd (2003)*.
 - According to *Hodgson et al (2005)*, research evidence suggests that collaboration does increase choice and enhance progression routes. Moreover, effective collaboration needs strong and effective leadership and co-ordination, *Nelson et al (2001)*, which local authorities, in their new role, can bring
- Ultimate benefit pre-19 is the development of a strengthened 14-19 phase and delivery of learner entitlements and the prospect of 100% participation and eventual elimination of the post-16 divide between schools and further education colleges
 - National participation data indicate a deeply divided system based on a process of institutional selection at 16 largely along ability lines, *Hodgson et al (2005)*, *Fletcher and Stanton (2005)*

The proposed new system also has a number of expected **demand-side benefits** which reflect the cumulative impact on learners. These represent the main benefits of the proposed changes. The 14-19 reforms, such as raising the participation age, and changes to the adult skills landscape, such as demand-led funding and the integration of employment and skills, will deliver many economic benefits themselves and we do not claim the totality of these benefits here. For example, the impact assessment for the recent Education and Skills Bill estimated that the net economic benefit from raising the participation age could be in the region of £1.6 billion per cohort. The proposals in this impact

⁵ Allocative efficiency is where funding is spent on the right things and technical efficiency is where the right things are produced at the lowest cost for a given level of outcomes.

assessment are expected to yield further benefits over and above those outlined elsewhere through the facilitation of a more efficient and better functioning market for learning:

- A streamlined adult system more responsive to customers could lead to increased learner and employer participation in FE, and better matching which could lead to increased retention and achievement, and ultimately an increase in the stock of economically valuable skills.
- Facilitation of a more seamless system of provision for young people could lead to a much better and more efficient matching of learners to a wider range of local provision, within and across local boundaries
 - For example, if just 1% of learners were better matched this would **benefit around 15,000 learners aged 16-18 per year**, *Statistical First Release 22/2007 on Participation in Education, Training and Employment by 16-18 year olds in England*
- Better matching could in turn improve retention and attainment rates
 - For example, if a third of those 15,000 better-matched learners stayed on their course and achieved a qualification that they would otherwise not have achieved this would **benefit around 5,000 learners a year**
- And this could lead to higher earnings and productivity in the labour market. Each additional learner who achieves a L2 or L3 qualification as a result of the proposals could improve their estimated lifetime earnings
 - For example, someone with 5 or more GCSEs A*-C (or O-levels) could earn on average around £100,000 more over their lifetime than someone who leaves learning with below Level 2 qualifications. And with 2 or more A-levels they could earn on around £85,000 more than someone who leaves learning with Level 2 qualifications. *DCSF's estimates*
 - Someone with a Level 2 Apprenticeship earns on average around £65,000 more over their lifetime than someone who leaves learning with qualifications at Level 2 or below and if they have an Advanced Apprenticeship they could earn around £100,000 more than someone who leaves learning with Level 2 qualifications. *McIntosh (2007)*.
 - Based on this evidence, assume, very crudely, that the average lifetime earnings benefits from gaining a L2 qualification for the additional learners are £65,000. Also assume that all of the additional 5,000 better-matched learners who achieve a qualification do so at L2. Under these assumptions this would amount to **wage benefits of around £300 million over a lifetime**
 - We know that some vocational qualifications do not yield significant wage returns so to the extent that learners may choose to take these qualifications then this estimate is likely to be an over-estimate. If we assume an average wage benefit of only £10,000 over a lifetime⁶, then the estimated wage benefits would still amount to around **£50 million per cohort**
- Better matching and longer term supply-side improvements could increase overall demand from young learners and increase voluntary participation in the run-up to raising the participation age
 - Over 77% of the 2 million 16-18 year olds in England currently participate in education or training and this equates to 1.55m individuals, *SFR 22/2007*. If the overall impact of the proposals increased participation by just one percentage point it would **benefit an additional 20 thousand young people**.
- In terms of adult learners, under certain assumptions outlined earlier we might expect 15,000 more employers to provide training to a total of 225,000 employees as a result of the changes. This will lead to significant economic benefits
 - There is a significant body of evidence on the private return an individual gains from gaining a qualification. The 2007 research report *A Cost-Benefit Analysis of Apprenticeships and Other Vocational Qualifications* <http://www.dfes.gov.uk/research/data/uploadfiles/RR834.pdf> estimated net present

⁶ This is roughly equivalent to assuming that the benefits are equal to those achieved from gaining an NVQ at level 2.

- values for NVQ level 2 qualifications of £13,000 and £34,000 for NVQ level 3
- DIUS evidence shows that the Net Present Value of a Level 4 qualification is at least £100,000. Given the lack of consistent evidence on the Net Present Value of an NVQ Level 1, we shall assume that this is zero – but this will of course under-estimate the true benefits
- Using these net present values, and assumptions about the numbers of additional employees gaining NVQs at different levels, the **estimated benefit of additional employees studying for NVQ qualifications is over £735 million**

An important **wider benefit** for local communities as a whole is the strengthening of local democracy from giving responsibility for planning, commissioning, managing and funding local provision to elected bodies who are accountable to the communities they serve.

YOUNG OFFENDER EDUCATION AND LEARNING

The proposal is to develop greater alignment between planning and funding of education and training for young people in custody in the juvenile estate, with the new mainstream education arrangements. The main changes will involve placing local authorities in the lead on planning and funding arrangements for young people in the juvenile secure estate. ‘Host’ local authorities (where the custodial establishment is based) will take the lead on planning and arranging education for young people held in custody within their boundary. We will expect ‘host’ local authorities to work with other local authorities at sub-regional and regional levels in planning and commissioning this provision, and for local authorities to collaborate in groupings which have regard to any local patterns in secure estate placements from other particular local authority areas.

Two models for the underpinning funding arrangements are proposed for consultation:

Model A, whereby ‘host’ local authorities would be responsible for both planning and funding education for young people in custody in their area. This would mean that local authorities with custodial establishments in their area would take lead responsibility for both planning and funding education for the young people held in the custodial establishments in their area (regardless of where the young people held there have come from). Funding would flow from central government, through the new national agency for pre-19 provision, to local authorities.

Model B, whereby the ‘host’ local authority is responsible for planning and arranging education provision in custody, but ‘home’ local authorities (where the young people are from and usually return to) remain financially responsible for this provision. This would involve host local authorities recouping the cost of education in custody from the young people’s ‘home’ local authorities.

The consultation will also consider whether there may be wider planning or legislative levers outside of the of funding arrangements which could be worked into either models to foster a mix of responsibilities and incentives which promote the best outcomes for this group of young people. ‘Home’ LAs already have a role through Youth Offending Teams to remain the contact point with the young person whilst they are in custody, and to coordinate services to form a rehabilitation and resettlement plan. However, there may be an important role for ‘home’ LAs to work with lead LAs who plan and deliver provision in custody, in order to develop consistent and progressive education and training plans for young people as they move through the youth justice system and on their release from custody and beyond.

Stakeholders affected

The proposed changes will have an impact on a number of stakeholders:

- *Local authorities* – will have a new duty to fund and deliver education for young people in custodial establishments and will need to collaborate on this
- *Youth Justice Board* – will have a much reduced role in the provision of education, although we expect will still play an important role in ensuring education provision is planned in conjunction with wider rehabilitative regimes.
- *Prison Service* – will need to develop a new interface with local authorities but their role will otherwise remain similar to what it is now
- *Secure Children's Homes, Training Centres and private prison operators*– privately run SCHs will now need to work with local authorities, we will need to consider whether privately managed prisons are in scope and would also need to work with local authorities. For LA-run SCHs there will be less change, although for privately operated LAs where education is not already managed by LAs, they will now work with LAs. STC, private SCH and private prison operators will no longer handle funding or manage delivery of education but will need to work in partnership with learning providers and local authorities.
- *Existing learning providers in custodial establishments* – may no longer be required to provide education in custody but will depend on where local authorities wish to commission this education from
- *Learners* – will benefit from provision better aligned with mainstream arrangements, access to the range of education services that LAs must provide for young people in the community, and a more consistent learning experience.

COST-BENEFIT ANALYSIS

Under the proposed system, existing funding for young offender learning will be re-routed through local authorities and is expected to be largely cost-neutral. But there may be additional administrative costs to local authorities resulting from their new duties over and above the costs of the current system. These are hard to quantify but the **main costs** under the proposals for young offender education are:

- Direct costs associated with 'home' local authorities taking on new responsibilities for planning and funding education for young people whilst they are in custody (in Young Offender Institutions, Secure Training Centres and Secure Children's Homes)
- Costs associated with new administrative recoupment functions under Model B.
- Indirect costs of new collaborations between 'home' and 'host' local authorities
- Indirect costs of new partnership arrangements between local authorities, the prison service, the Youth Justice Board and custodial governors/head of establishments

These costs will be offset by a number of **expected benefits**:

- Education and training for young people held in custody is better aligned with mainstream provision and support - leading to a more consistent learning experience
- Reduced costs for LSC and Youth Justice Board from no longer being responsible for funding and providing education in custody, freeing up resources for other priorities
- *More* integrated and consistent learning experience may improve rehabilitation and movement onto pathways for success - into further education, into employment and away from crime

OVERALL RISK ASSESSMENT

There are two main risks of the proposals. The first risk is that future uncertainty about the change could destabilise the Learning and Skills Council which results in a loss of capacity and failure to deliver continued improvement in participation and achievement over the current CSR period. This risk will be mitigated by maintaining an open and honest communication with the LSC regarding the future direction of the changes to provide their staff with the necessary assurances they need. We will also ensure that we continue to employ a robust performance dialogue to identify earlier where there is

potential that we start missing our target trajectories. There is an associated risk that we will lose some of the LSC expertise in transition.

The second risk is that local authorities are unprepared to assume their new commissioning role when the change comes into effect in 2010/11. To mitigate this risk we intend to set up shadow arrangement between the LSC and Local Authorities in order to start building up capacity and expertise to affect the change. We also intend to have some form of gateway process that will only allow LAs to assume some of their commissioning functions when they are ready.

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Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	No
Rural Proofing	No	Yes

Annex A

COMPETITION ASSESSMENT

The proposals have the potential to impact on competition in the pre -19 learning market because they will directly affect the behaviour of, and consequences for, providers in that market. There are currently around 378 Further Education Colleges in England (of which 199 are general FE colleges, 96 are sixth form colleges, 48 are tertiary colleges and 35 are specialist institutions), c1,800 school sixth forms and numerous independent and third sector providers. It is difficult to estimate the net effect of the proposals on competition but it is expected that the overall effect will be neutral.

The proposals could impact on competition by reducing incentives or ability to compete. A key aspect of the proposals is to encourage and enable greater collaboration between providers and with local authorities to foster a more collective responsibility for delivering a coherent and inclusive package of local provision for young people. This could lessen normal levels of competition between providers. However, FE colleges and independent providers are and will remain independent and organisations and schools are increasing being given more autonomy. So the move is towards more competitive collaboration which will still be underpinned by a competitive ethos and the flexibility to compete for and respond to local demand in the overall context of local needs.

Potentially offsetting this are two positive effects. First, the single performance framework for post-16 providers has the potential to incentivise competition between providers by making institutional performance more transparent. Second, promoting local collaboration could actually increase allocative and technical efficiency. For example, *Delorenzi and Robinson (2005)* claim that anecdotal evidence suggests that if the education market were left to itself then courses benefiting lower ability students may not be provided. Collaborative arrangements can yield synergies and make possible what a single provider acting alone could not achieve.

In the Post-19 system we might expect Skills Accounts and Train to Gain to lead to increased competition because these policies represent demand-led funding.

The proposals are not expected to directly or indirectly limit the number or range of suppliers in the market. Were individual providers to become unviable due to significant changes in their demand and funding, this could eventually lead to closure and a reduction in competition. But these circumstances are possible under the current system and the proposals are not expected to exacerbate this.

SMALL FIRMS IMPACT TEST

The proposals do not directly impose any regulatory requirements on small firms. However, they will indirectly impact on small independent or third sector providers in the further education market. The proposals will affect all providers in the market to the extent that they will be operating under a very different system of planning and funding for 16-19 and post-19 provision. It is possible that, administratively, smaller providers may incur higher proportional costs under the proposals compared with larger providers. However, this will also be the case under the current system. The particular impacts of these proposals are not expected to fall significantly more heavily on the smaller providers. There is no provision in the regulations to exempt small providers as it is not considered appropriate.

Annex B

EQUALITY IMPACT ASSESSMENT

This annex considers the potential for the proposals to have an impact on equality in relation to gender, race and disability.

Assessment

The Learning and Skills council currently carries out a range of activities in order to ensure that it meets its responsibilities to ensure equality in all aspects of its work. It recently led the EQUAL Equality and Diversity Practitioners Project where it explored the infrastructure associated with equality and diversity practice across all sectors and in April 2007 it launched our Single Equality Scheme. This scheme has been a key tool to demonstrate how the LSC commitment to equality and diversity is related to strategic priorities and targets, and is embedded in their business cycle.

Where LSC staff are affected by these proposals, all the options for their future management and deployment will be considered. Of course, there will be a clear and consistent policy for the treatment of staff, founded upon the provisions of the TUPE regulations if and when functions and staff transfer from the LSC to other bodies, as there would be for any transfer of staff in the public sector. DIUS will work closely with the LSC to ensure the smooth transition of functions and staff where such transfers take place.

In respect of gender, race and disability, public authorities have a general and specific duty to proactively promote equality throughout all their activities. They must demonstrate how they intend to achieve this through an equality scheme that they are legally obliged to produce. Additionally, there are specific duties regarding employment. In addition, the Equality Standard for local government was launched in 2001 and is now adopted by 90 per cent of all local authorities. The standard recognises the importance of fair and equal treatment in local government services and employment. It has been developed primarily as a tool to enable local authorities to mainstream age, disability, gender, race, religion or belief and sexual orientation into council policy and practice at all levels.

Local authorities will continue to follow these duties to promote excellence in the management of equality outcomes.

These proposals will not directly affect the current requirements relating to funding of provision. Policies are already in place to ensure learners have access and equality of opportunity.

Conclusion

The proposals set out in “[Insert title of consultation doc]” will not have an impact on race equality, disability equality or gender equality.

RURAL PROOFING ASSESSMENT

The proposals are not expected to have a disproportionate effect on rural areas. In fact, the proposals will give local authorities a responsibility, when putting forward proposals for their sub-regional groupings, to take into account the needs of all learners. They will also need to take account issues such as appropriate transport and support so that all young people have the same opportunities and breadth of provision.