Funding Focus

The FE and skills funding bits of the Spending Review and the Autumn Statement

27 November 2015

Funding Focus provides quick summaries of recent funding developments, or particular aspects of the funding system.

Introduction

The cuts announced in the Spending Review and Autumn Statement on Wednesday 25 November were less drastic than originally expected. The Chancellor reported that the combined effects of better tax receipts and lower debt interest resulted in a £27 billion improvement in the public finances over the forecast period, compared to where we were at the Budget.

Within the overall cuts the DfE budget will fall by 1.1% by 2019-20, the BIS budget by 17%, and the DWP by 14%. This Funding Focus gives you the headlines of the announcements made for schools, 16-19 year-olds, apprenticeships, adult skills, higher education, and employment programmes.

Departmental Programme and Administration Budgets

	£ million					Per cent
	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative real growth
Education	53.6	54.4	55.5	56.4	57.1	-1.1
Business, Innovation and Skills	12.9	13.4	12.3	11.7	11.5	-17
Work and Pensions	5.8	6.1	6.3	5.9	5.4	-14

Schools

- A new national funding formula will be introduced from 2017 to remove big regional differences in levels of per pupil funding.
- The budget will be protected in real terms so there will be a per pupil protection for the dedicated schools grant and the pupil premium.
- Around £600m of savings will be made from the education services grant (ESG) and supporting schools to 'realise efficiencies'. The government will reduce the local authority role in running schools and will consult on policy and funding proposals in 2016.
- £23 billion of capital investment will be made over the Parliament to open 500 free schools, provide over 600,000 additional school places, rebuild and refurbish over 500 schools and address essential maintenance needs.
- Government will support 800 more National Leaders of Education to continue driving up performance in schools, while increasing funding for teacher training and recruitment to deliver the English Baccalaureate and more specialist STEM teaching.

16-19 year-olds

- The national base rate per student for 16 to 19 year olds will be protected in cash terms over the Parliament. This represents a reduction in real terms.
- Targeted savings will be made from 16-19 funding, including from declining demographics and funding outside the national base rate per student.

- Sixth-form colleges will be made eligible for academy status allowing them to recover their non-business VAT costs. They will have the option of joining a Multi Academy Trust.

Apprenticeships

- Apprenticeships remain the 'cornerstone of the skills system'.
- The levy will be introduced in April 2017 at a rate of 0.5% of paybill, be paid through PAYE, and apply to employers across all sectors. The paybill will be calculated based on total employee earnings; it will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.
- Each employer will receive an allowance of £15,000 to offset against their levy payment. This means the levy will be paid on employer's paybill in excess of £3m, and £5,000 will be paid for every £1m of paybill in excess of £3m.
- After the allowance is applied, less than 2% of UK employers will pay.
- Legislation to permit the imposition and collection of the apprenticeship levy will be introduced in the Finance Bill 2016.
- By 2019-20, the levy will raise £3 billion in the UK. By 2019-20 government spending on apprenticeships (including income from the levy) will be double the level of spending in 2010-11 in cash terms. Spending on apprenticeships in England will be £2.5 billion, and Scotland, Wales and Northern Ireland will receive their fair share of the levy.
- The levy will fund 3m starts by 2020 compared to 2.4m in the last Parliament.
- Providers will benefit from an increase in spending of almost £900m by 2019-20.
- Colleges currently receive approximately a third of apprenticeship spending.
- Employers in England who pay the levy will be able to get out more than they pay into the levy, through a top-up to their digital accounts.
- Employers who do not pay the levy, as now, will be able to access government support for apprenticeships through the existing funding model.
- The government will establish a new, independent, employer-led body (the Institute for Apprenticeships (IfA)). An independent Chair will lead, supported by a small Board made up primarily of employers, business leaders and their representatives.
- The body will put in place transparent mechanisms for the approval of apprenticeship standards and assessment plans, and use take-up and wage return data to review the effectiveness and quality of standards over time. The body will also support the work of BIS and DfE in setting a cap on the level of funding available for each apprenticeship standard. The IfA will be established by April 2017 to fulfil an initial core set of functions to support quality apprenticeships and advise government on the pricing of apprenticeship standards.
- Further information on the new employer-led IfA will be set out within the next few weeks.
- Operational functions associated with funding for apprenticeships and administration of the levy will be fulfilled by the Government's operational agencies. Ofsted and Ofqual will continue to fulfil their existing functions.
- Funding caps will be significantly higher for programmes which have high costs.
- Every employer will be given a reasonable amount of time to use their funds and funds not used will be made more widely available.
- Employers will, in line with the standard and assessment plan, continue to be free to select which provider and assessment organisation they wish to use from the SFA registers.
- Levy funding will not be used to fund non-direct training costs to employers.
- The Digital Apprenticeship Service will provide employers with the means to pay for the off the job training of their apprentices drawing on government funds, including those raised by the levy.

Fiscal impact of Spending Review and Autumn Statement policy decisions

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Apprenticeship levy	0	0	+2,730	+2,845	+2,970	+3,095

Example of apprenticeship levy payments

Employer with:	
250 employees, each with gross salary £20,000 **Paybill**: 250 x £20,000 = £5,000,000 **Levy sum**: 0.5% x £5,000,000 = £25,000 **Allowance**: £25,000 - £15,000 *= £10,000 annual levy payment*	**100 employees**, each with gross salary £20,000 **Paybill**: 100 x £20,000 = £2,000,000 **Levy sum**: 0.5% x £2,000,000 = £10,000 **Allowance**: £10,000 - £15,000 *= £0 annual levy payment*

Levy issues still under consideration

Government will engage with stakeholders ahead of implementation of the levy to look into:

- Whether employers in England should be able to use the funds in their digital account to pay for apprenticeship training for apprentices that are not their employees.
- Practical issues of implementation, funding flows and the interaction of the levy with devolved skills responsibilities to ensure the levy works for employers across the UK.
- How much time employers will be given to use their levy funding. Two years is the suggested timescale.
- Registration of providers to protect the quality of apprenticeship training provision and maintain the integrity of the brand.
- Moving towards an assurance model that works for employers who choose to work with lead providers and for those employers who want to take on key functions themselves.
- Additional financial support required for 16-18 apprentices.
- Any additional support for 16-18 year old apprentices, beyond financial measures, to help them move from the school to work. Further details will be set out in the near future.
- How levy could further strengthen the link between traineeships and apprenticeships.
- How the levy will interact in sectors where one is already in place (i.e. the mandatory training levies in construction and engineering construction, and the voluntary levy in the creative sector).

BIS are also asking stakeholders who would like to be involved in the development of the Digital Apprenticeship Service to register their interest by e-mailing: DAS@bis.gsi.gov.uk.

Adult skills

- Funding will be protected for the core adult skills participation budgets in cash terms, at £1.5 billion and so will decline in real terms. This is positive news given the fears about huge cuts to this budget.
- 'Core adult skills participation' is not defined but likely to include traineeships, English and maths, entitlements, provision for the unemployed, and community learning. It is likely that provision outside of entitlements that is currently co-funded (for example, certain learners taking second level 2s) will go.
- Savings will be made from non-participation budgets and efficiencies will be delivered through locally-led Area Reviews, which will be supported with additional government funding. The aim is to ensure the further education sector is financially resilient and meets local economic needs.
- 1.7m learners will be supported each year to develop the skills employers need with better targeted basic skills provision alongside high quality professional and technical education at higher levels.

- Government will expand tuition fee loans to 19 to 23 year olds at levels 3 and 4, and 19+ year olds at levels 5 and 6. This is estimated to benefit 40,000 students a year.
- Government will also consult on introducing maintenance loans for people who attend specialist, higher-level providers, including National Colleges.
- Government will create 5 National Colleges and will support a new network of Institutes of Technology across the country.
- National Colleges will train an estimated 21,000 students by 2020 in industries that are crucial to the productivity agenda such as digital and high speed rail.

Financial transactions: impact on central government net cash requirement

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Further Education: expansion of tuition fee loans	0	-80	-125	-200	-200	-185

Higher education

- The removal of the student numbers cap enables English universities to plan to recruit 130,000 more domestic and EU students, expanding the opportunity of a degree and increasing income by £1.3 billion by 2020.
- Implementing the HE maintenance grants-to-loans switch announced at Summer Budget will save over £2 billion a year by 2019-20.
- Government will reduce the teaching grant by £120m in cash terms by 2019-20, but allow funding for high cost subjects to be protected in real terms. There will be real terms protection for the overall budget for STEM subjects in HE. £4.7 billion science resource funding will be protected in real terms for the rest of the Parliament.
- The age cap will be lifted on new loans to postgraduates from 2016-17 so they are available to all under 60.
- Following a sharp decline in part-time students since 2008, government will introduce new part-time maintenance loans from 2018-19. It is expected that 150,000 part-time students could benefit each year by the end of the Parliament.
- For all STEM subjects, tuition loans will be extended to students wishing to do a second degree from 2017-18.
- Government will work with the Director of Fair Access to ensure universities take more responsibility for widening access, including collaborating on outreach.
- The government will run a £20m competition to set up a new Institute of Coding that will train the next generation in higher level digital skills.
- Support will be provided to secure launch funding to create a new university in Hereford focused on engineering in 2016 (subject to relevant approvals), and government will help fund £100m development of a new campus in Battersea for the Royal College of Art (subject to relevant approvals).
- Government will take forward a review of the Research Excellence Framework in order to examine how to simplify and strengthen funding on the basis of excellence, and will set out further details shortly.

Employment programmes

- Spending on unemployment programmes 'can also fall' as the numbers claiming unemployment benefits come down.
- Further measures announced to support people into work.
- Universal Credit will extend the same Jobcentre Plus support that people on Jobseeker's Allowance (JSA) receive to 1.3m additional claimants who currently get little or no support, by 2020.
- Jobseekers will be required to attend the jobcentre weekly for the first 3 months and the more intensive support element of the Help to Work programme currently in place for the long-term unemployed will be brought forward.
- A new Work and Health Programme will be introduced after current Work Programme and Work Choice contracts end, to provide specialist support for claimants with health conditions or disabilities and those unemployed for over 2 years.

Useful links

- HM Treasury: Spending Review, Autumn Statement and related documents
- BIS: Apprenticeship Levy – Employer Owned Apprenticeship Training, Government Response November 2015
- HEFCE: Introduction of loans for masters students from 2016-17

Siân Owen
Head of Stakeholder Engagement (Funding)
sian.owen1@pearson.com