

SFCA response to National Audit Office value-for-money study on managing colleges' financial sustainability

February 2020

1. What are the main factors that have affected colleges' financial health in the last five years?

- Sixth form colleges are specialists in 16 to 19 education are almost entirely dependent on this funding stream. The chronic underfunding of 16 to 19 education since 2010 has therefore been the main factor in the deterioration in college finances over this period.
- Sixth form education inhabits a funding chasm between schools and universities. Since 2010, successive governments have prioritised investment in other stages of education. Sixth form funding was subject to deep cuts in 2011 and 2013 and the [national funding rate](#) ('the rate') for 16 and 17 year olds has remained frozen at £4,000 per student, per year since 2013/14. The rate for 18 year olds is set even lower at £3,300 per year.
- The needs of students have become increasingly complex since 2010 (for example the significant increase in mental health problems) and the government continues to ask more of schools and colleges (everything from implementing the Prevent duty to meeting new benchmarks for careers advice). New requirements are rarely accompanied with funding to fully cover the costs of their implementation.
- Funding cuts, the growing needs of students and increasing demands from government have all been accompanied by a significant rise in running costs since 2010. Recent research from [London Economics](#) found that in real terms, Sixth Form Colleges received £1,380 less per student in 2016/17 than they did in 2010/11 – a 22% decline in funding.
- In the September 2019 spending round, the government [announced](#) that it would raise the rate to £4,188 per student from 2020/21. This is a welcome first step on the road to sufficient funding, but the government [recently calculated](#) that the rate of £4,000 in 2013 amounted to £4,435 in 2019 prices – so this increase falls well short of even meeting the cost of inflation.
- Taken together, colleges have had to choose between serving students effectively and protecting their own financial health. Having chosen the former, the number of sixth form colleges with in-year deficits has quintupled since 2010/11 to 36%, while the number of FE colleges in the same situation has doubled to 40%. The Education Policy Institute [points to](#) the insufficient level of 16 to 19 funding as the explanation for this trend.

- ◆ Funding pressures are exacerbated by a range of inequalities *between* providers of 16 to 19 education. For example, sixth form colleges (as private sector organisations) cannot reclaim their VAT costs, but schools and academies (as public sector organisations) can. This means that the average sixth form colleges has to redirect around £350,000 per year (4% of income) away from the front line education of students to pay VAT. We believe young people should receive the same level of investment in their education, irrespective of where they choose to study.
- ◆ SFCFA is co-ordinating a campaign to [Raise the Rate](#) of funding for 16, 17 and 18 year olds. The rate is by far the biggest component of 16 to 19 fundi The campaign has been endorsed by the cross-party [Education Select Committee](#), the [Social Mobility Commission](#), and the [Ofsted Chief Inspector](#).ng and providers are able to tailor this core funding to the specific needs of their students.
- ◆ [Research from London Economics](#) found that an increase in the funding rate of £760 per student was the *minimum* required to increase student support services to the required level (e.g. improving the mental and physical health of students), protect minority subjects that are at risk of being dropped (e.g. modern foreign languages), and increase non-qualification time (e.g. extra-curricular activities, work experience, university visits). A further £310 per student would be required to eliminate the deficit of the average sixth form college and return them to a financial surplus.

2. What has been the impact of these factors on:

- **the quality of provision; and**
 - **the ability of colleges to help deliver initiatives such as changes to apprenticeship provision, requirements for English and maths tuition, and T levels?**
- ◆ The Raise the Rate campaign's [recent funding impact survey](#) found that:
 - **51%** of schools and colleges have dropped courses in modern foreign languages as a result of funding pressures, with A levels in German, French and Spanish the main casualties
 - **38%** have dropped STEM (Science, Technology, Engineering, Maths) courses
 - **78%** have reduced student support services or extra-curricular activities – with significant cuts to mental health support, employability skills and careers advice
 - **81%** are teaching students in larger class sizes
 - ◆ The use of [comparable outcomes](#) in the Department for Education's performance tables masks the impact of this ongoing underinvestment. Put simply, comparable outcomes means that *if the ability of the cohort of students is similar to previous years, they would expect results (outcomes) to be similar*. This explains why results in A levels (for example) have been stable year on year since 2010 despite the sharp reduction in sixth form funding.

- ◆ Performance tables can only ever provide a partial view of the student experience as they do not report on (for example) the effectiveness of support services linked to mental health or employability, or the extent and nature of extra-curricular activities. As the CBI reported in its latest [Education and Skills survey](#), the clear message from employers is that “*wider character, behaviours and attributes are considered to be the most important consideration when recruiting school and college leavers.*”
- ◆ Funding pressures are also proving a real barrier to improving social mobility. While university trips, coaching for interviews, careers advice and extra-curricular activities (such as music, drama, sport and languages) have been cut in the state sector, they remain the hallmark of the student experience in the independent sector. According to the most recent [data](#) from the Department for Education, just 18% of A level students from state school sixth forms and colleges progressed to the most selective universities in 2016/17, compared to 57% of students from the independent sector. In the independent sector, [fees actually increase](#) at the age of 16 to reflect the additional costs of teaching this age group.
- ◆ It is also difficult to see how we can remain internationally competitive when 16 to 18 funding in England supports 15 hours of tuition per week compared to the [25-30 hours per week](#) experienced by students in other leading economies such as Canada, Singapore and Shanghai. 16 to 18 education in England is now a part time experience for many students.
- ◆ The underinvestment in sixth form education is bad for students of all ages. Many schools have to cross subsidise their sixth forms with the funding intended for younger students. Research from the [EPI](#) has shown that schools with sixth forms are much more likely to be in deficit than those without a sixth form. School leaders are concerned that the low level of funding for 16-18 year olds is now having negative impact on key stage 3 and 4 provision.
- ◆ The government has a tendency to view 16 to 18 education almost entirely through a technical/skills lens. The vast majority of students in this age group study A levels or applied general qualifications and yet technical education dominates political discourse and is already receiving additional funding to aid the introduction of T levels. While it may be a legitimate political objective to increase the number of young people that pursue a technical course it should not follow that the needs of the majority of students are overlooked.
- ◆ This narrow focus on technical education will not be sufficient to prepare for life post-Brexit. The high-skilled economy envisaged in the government’s Industrial Strategy will be driven by leaders, scientists, technicians, engineers and others that in most cases will have followed the academic or applied general path during their 16 to 18 education.

3. Are the roles and responsibilities of oversight bodies clear?
4. How effective is monitoring and intervention by the ESFA and the FE Commissioner (both individually and when they work together)?

- The roles and responsibilities of the oversight bodies are not clear. In particular, the relationship between the ESFA and FE Commissioner is not well understood by the sector. It is not unusual for individual colleges to receive conflicting messages and there is often a degree of duplication.
- One recent example may be helpful in illustrating the point. In line with recent changes to the intervention regime, and clear messages from both ESFA and the FE commissioner, one of our members voluntarily requested a diagnostic assessment. That assessment by the FE Commissioner's team went well, and the two-day visit concluded with a clear plan with which all parties were content. However, shortly after the visit, the ESFA contacted the principal to request a meeting to discuss concerns about the finances of the college. The principal duly attended the meeting only to be notified that a further meeting had been scheduled – this time with the FE commissioner himself – to follow up the findings of the diagnostic assessment. This request was sent to the Chair of the college rather than the principal. Both Chair and principal were unable to establish the purpose of this meeting, or how it linked to the two previous interventions. The FE Commissioner visited the college and left the principal with a set of actions, but ongoing requests from ESFA continued for some time afterwards.
- These sort of examples do not incentivise other colleges that are in need of assistance to approach ESFA or the FE Commissioner for help. We also question the appropriateness of employing the FE Commissioner on a consultancy basis. This is an ill-defined role but one with significant power. If the FE Commissioner was employed (like the National Schools Commissioner) as a civil servant, it would be easier to integrate the individual and his or her team into the wider DfE/ESFA structures, and we could be assured of the individual's impartiality.
- For example, we have concerns that the current model of structural change favoured by the FE Commissioner excludes sixth form colleges. No sixth form colleges have to date (despite several attempts) been able to lead a merger with an FE college. The prevailing view seems to be that a large FE college is always better placed to lead a merger than a smaller sixth form college, even when - as is usually the case - the quality of provision is far better. And until very recently, there was not a single sixth form college principal on the Commissioner's advisory reference group.
- At a national level, we hold the ESFA in the highest regard. The experience of having a dedicated sixth form college commissioner employed by the ESFA was one that we and our members found to be much more effective than the current model. However, it is clear that the current system of grading the financial health of institutions only provides a partial assessment of a college's actual financial strength or sustainability and is in need of reform. Colleges that are financially strong can appear weak under the current system and vice versa.

- A more fundamental analysis of college balance sheets, income and expenditure, and cash flows forecasts can often reveal impending difficulties with liquidity, sustainability and resilience which are not picked up through the financial health grades. The new Integrated Financial Model from the ESFA is in part an attempt to address this, but has to date been plagued with teething problems – the first returns are not due until the end of this month (Feb 2020).
- [London Economics found](#) that in real terms, the average Sixth Form College recorded a net deficit of £110 per student in 2017 compared to a net surplus of £190 per student in 2011. This is the sort of analysis that could be used to augment the current model and provide a clearer picture of the actual financial health of institutions.

5. To what extent did the area reviews take full account of the strategic needs of local areas and the sector as a whole?

- From a sixth form college perspective, area reviews suffered from a number of significant flaws:
 - The non-participation of school and academy sixth forms
 - A process designed for further education rather than sixth form colleges
 - Significant financial and opportunity costs
 - Poor linkage with other government policies (e.g. proliferation of small sixth form providers, 16-19 funding levels)
 - An unrealistic timeframe coupled with delays in releasing important information.
- A genuine process of area reviews would have been extremely welcome, as it would have scrutinised the performance and viability of all 16-19 providers – including school and academy sixth forms. To exclude 40% of the 16-19 provider base meant that it was never going to take *full* account of the strategic needs of local areas.
- Sixth form colleges were also asked to complete a process which was clearly designed to assess the quality and sufficiency of further education colleges. The focus was on the delivery of professional and technical education, which is not the core business of sixth form colleges, and financial targets were set at a level more appropriate to further education colleges, which spend less on staff pay and are usually larger, often multi-site institutions.
- Another major flaw was the narrow focus on reducing costs, with little thought given to the quality of provision and related outcomes for students – something we still see in the approach of the FE Commissioner today. The government was unable to provide compelling evidence that ‘fewer, often larger’ providers would result either in a more financially sustainable sector, or have any effect on quality. Around a quarter of sixth form colleges have merged with larger Further Education colleges since 1993 with little evidence of improved efficiency but some evidence of reduced quality. Our submission to the Education Committee’s inquiry into area reviews provides more information and can be found [here](#).

- A better way to ‘take full account of the strategic needs of local areas’ is to look at provision by age group, rather than by the legal status of institutions. As the number of 16 to 18 year olds starts to increase, the need to reform the process for establishing new sixth form provision will become even more pressing. This should be a single process focussed on the age range of students (16 to 18 year olds) rather than where they study (school or college) and should begin with an impartial assessment of current and future demand in each local area. Once this has been established, a competitive process for establishing new sixth form provision should take place that is open to all types of sixth form provider. This is more likely to result in a sixth form solution that is right for each local area and is a more effective way of dealing with the national increase in student numbers.
- Addressing market exit, as well as market entry is also important. Sometimes the right solution to dealing with a failing school sixth form might sit with a college and vice versa. There is currently a policy chasm between the two groups that starts at the Department for Education and continues to ground level. Solutions should be developed based on what is in the best interests of 16 to 18 year olds in a given area, not the legal status of local providers.

6. Do you consider that the Department for Education has a clear vision for the role that colleges should play in education and skills development?

- Yes, although as noted above, it would make more sense to have a vision for different phases of education, rather than particular types of institution. It would be a mistake to assume that schools deliver education and colleges only deliver skills. The Department has sometimes struggled to fit sixth form colleges into its vision; a group of ‘colleges’ that deliver A levels and applied general qualifications that, curiously, are usually in the portfolio of the minister for apprenticeships and skills.
- The vast majority of 16 to 18 year olds pursue this sort of general education rather than technical education or apprenticeships. And, as we also noted earlier, it is these A level and BTEC students that will drive the high-skilled economy envisaged in the government’s Industrial Strategy.
- The government has set out a clear vision of post-16 education where A levels and T levels are the qualifications of choice for 16 to 18 year olds at Level 3. However, we believe that the newly-reformed applied general qualifications also have a vital role to play in the future qualifications landscape. We are urging the government to guarantee they will continue to be available to students alongside A levels and T levels in the future. Schools and colleges are extremely concerned that years of work developing and refining progression pathways based around AGQs could be undone through a top-down rationalisation of qualifications.

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