CEDEFOP

European Centre for the Development of Vocational Training

PANORAMA

The financing of vocational education and training in the United Kingdom

Financing portrait

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Foreword by
Sarah Elson-Rogers/Sven-Åge Westphalen

At the end of 1997, CEDEFOP launched a project to produce financing portraits of the vocational education and training (VET) systems within the individual Member States of the European Union. The portraits combine a qualitative description of the flow of funding through the VET structures, identifying the funding sources and allocation mechanisms, with quantitative data on expenditure for different training types. The reports are structured around initial vocational training, continuing vocational training and training for unemployed people. In recognition of the increasing overlap among these training types, some of the reports include an extra section on combined forms of training.

At the outset of the project, CEDEFOP asked the individual national authors to follow a uniform structure for the presentation of their financing training systems. This structure centred on the following issues with regard to initial and continuing vocational training and training for unemployed people:

- outlining the economic, political, legal and administrative background to the financing of the VET system;
- defining the different types of training according to the national context;
- identifying the funding sources (e.g. central government, regional/local government, employers, individuals, etc.);
- explaining the mechanisms for the distribution of funding;
- identifying the expenditure levels over 10 years (1986-1996 or the most recently available years);
- concluding and discussing the trends and perspectives of the financing VET system.

The authors were requested, where possible, to distinguish between private/public and direct/indirect funding sources and to identify capital and revenue funding. They were also asked to provide a breakdown of expenditure according to the different sources of funding for each training type over a ten-year period.

While defining a common structure for each report allows for broad comparisons between the different systems and easier cross-referencing between the reports, it does not allow for detailed trans-national comparisons. It was acknowledged at the outset of this project that creating comparable reports would not be possible for a number of reasons, including:

- Training definitions: initial vocational training, continuing vocational training and training for unemployed people means something different within individual national contexts. While creating a “standard” definition of each training type would have facilitated comparability, it would have complicated the process of gathering and presenting data. For this reason, each author was requested to use a nationally-based definition.
- Data: there are a number of general obstacles to obtaining comparable data, for example: the lack of common definitions, different national accounting procedures and the problems of identifying expenditure where funding sources are diverse and estimates are based on surveys. More specific obstacles include the difficulty of aggregating data where funding is decentralised and estimating indirect sources of expenditure.

A number of barriers to achieving even basic common parameters arose as the work developed. Among others, these included:

- The lack of training definitions and the increasing overlap between the traditional training categories in general. In some countries the division between the different training types is not as strict as in others. This means that some artificial divisions have had to be drawn by some of the authors, for example, between academic and vocational training. While this overlap may be, in part, the result of a general policy aim to level parity of esteem, it creates challenges in disaggregating data to identify expenditure on the vocational element. The notion of Lifelong Learning also has implications for creating more coherent training structures which include a wider range of learning activities. It is often difficult to identify and measure expenditure data on training which takes place outside of the formal structure.
- The complexity of financing training structures in terms of the number of different funding sources and mechanisms for financing VET. For example, levels of expenditure on indirect demand-side incentive mechanisms such as tax incentives are often difficult to identify. More fundamentally, this general complexity is enhanced in those countries where there is no national structure for training, i.e. where local governments have autonomy with regard to financing training.
- The number of recent reforms to the financing VET system blur data comparability over time within individual Member States. In addition, the newness of many of these reforms mean that there is often a lack of stringent evaluation according to efficiency, effectiveness and equity criteria.

There was no ideal way to create common criteria for the structure of this series of reports. There is a certain trade-off between attaining a common structure and reflecting the nuances of the individual national training systems. Nevertheless, this first set of portraits does serve to highlight many of the complexities involved with the financing of vocational education and training across the European Union. We hope you find the portraits informative and welcome your comments.

We would like to thank David Atkinson at the Further Education Development Agency, who prepared this portrait on the financing of vocational education and training in the United Kingdom.

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Preface by

The Further Education Development Agency

This monograph has been prepared by the Further Education Development Agency (FEDA) for CEDEFOP, as one of a series of national portraits of the financing of vocational education and training.

The United Kingdom consists of four separate countries, England, Scotland, Wales, and Northern Ireland, each with distinct legal and statutory arrangements. In the context of vocational education and training (VET), the separation into four countries is significant because in each country there are differences in the educational and training systems. As an approximate indicator of scale, England constitutes 80% of the total VET activity, Scotland 10%, Wales and Northern Ireland 5% each. In this monograph therefore the major emphasis will be on England and on English systems; where the situation in the other three countries differs radically from that in England, the differences will be noted.

Just as it is difficult to describe VET in the UK because of the variations between countries, vocational education and training itself is not a unified system. The VET system described in this portrait comprises a number of separate elements. These elements are often part of larger general-education or job-creation programmes. In the background section we have tried to identify the VET elements of the larger programmes but it is often difficult to distinguish and quantify them, as statistics do not always distinguish between the VET element and the rest. Where the problem occurs in this portrait, estimates will be used to supplement hard data. For the purposes of the portrait the following elements of VET have been defined:

(a) Initial vocational training:
- vocational training in schools for 16-19 year olds;
- vocational training in further education colleges for 16-19 year olds;
- vocational training in enterprises for school-leavers.

(b) Continuing vocational training:
- vocational training for those in employment funded mainly by enterprises;
- vocational training for those in employment funded substantially by the government;
- vocational training for those in employment, mainly self-funded.

(c) Training for unemployed people:
- vocational training in college for those aged 20+ who are unemployed;
- vocational training in private training providers and enterprises for unemployed people.

There are aspects of the VET structure which cross these subdivisions. In all cases, however, it is clear that they belong substantially to one or another subdivision.

In all three elements of VET, the sector known as “further education” is significant. Further education (FE) includes a great deal of VET activity, but it is neither exclusively VET nor does it cover the whole of VET. As a concept, further education has no precise equivalent in other EU countries, but certain characteristics can be identified which are widely recognisable. Essentially the FE sector consists of education and training, academic and vocational, at levels of attainment below university level (which is known as “higher education”), for people aged 16 or over. The precise content of further education is constantly changing according to the needs of the labour market and approaches to the provision of education and training.

The portrait has been prepared over the period March to May 1999, a time when the New Labour Government, elected in 1997, was introducing new VET programmes and substantially changing others. This adds greatly to the complexity of the portrait and care must be taken with financial data that essentially refers to the pre ‘98 position. In addition, as this portrait was being finalised for publication, the government issued a White Paper (“Learning to Succeed”) proposing to reform all public sector VET arrangements in England (an additional section has been added to the end of the report which summarises the proposed changes). It is likely, however, that the information contained in this report will remain relevant until 2001.

With regard to the availability of data, there is a marked difference between the information available on state-funded VET and private-sector provision. The former is well documented, and a reasonably complete picture of the current situation can be provided. In the private sector, however, there is no national requirement to report on or account for the use of company funds on training, and recourse has to be made to surveys. The uncertainties and unreliability associated with survey data is an inherent problem with estimating private-sector expenditure on VET. As the private sector is more significant in continuing vocational training (CVT), this data is less reliable than the data on initial vocational training and training for unemployed people. The reliability of state-funded VET data notwithstanding, there have been such radical changes in many of the state-funded arrangements - as described subsequently in this portrait - that time series data can be very misleading. Whereas it is possible to analyse the programmes which existed in 1996/97[1] and, using other data, to map the relevant parts into IVT, CVT and TfU, to undertake similar mappings for the programmes of 1986/87 or 1990/91 has proved extremely difficult, and could be misleading.

In addition, it is important to note that the GBP/ECU/EUR exchange rate has fluctuated during the years presented in this report. As the ECU/EUR figures presented within the report are based on an average exchange rate for the relevant year, there are some

[1] Most organisations in the public sector in the UK use an April to March financial year, which means that most financial and related statistics straddle two years, e.g. "1996/97" means April 1996 to March 1997.

inconsistencies where funding in GBP may have increased while the ECU/EUR equivalent shows a decrease and vice versa.

In preparing this financial portrait we have used desk research, accessing a number of published sources, unpublished material, and Internet data. All the main agencies concerned with VET have been consulted for information or interpretative comment. These agencies include:

Department for Education and Employment
Further Education Funding Council (England)
The Scottish Office
The Scottish Further Education Unit
The Welsh Office
Department of Education (Northern Ireland)

In particular, we would like to thank the UK representatives on the CEDEFOP Management Board - the Department for Education and Employment, the Confederation of British Industry, and the Trades Union Congress – who have also been consulted on the preparation of this portrait. In addition, we also thank Sarah Elson-Rogers at CEDEFOP for her input during the drafting stages of this report and for her summary of the recent White Paper (published by the DfEE on 30 June 1999) inserted at the end of this report.

A separate monograph “Vocational Education and Training in the United Kingdom” (CEDEFOP) contains a great deal more information and analysis of the VET system generally. We gratefully acknowledge the use of some of that material within this portrait.

PART 1 Background information concerning the financing arrangements for VET

1.1 Definitions

In contrast to general education and university/academic education, vocational education and training is very specifically aimed at providing and upskilling the needs of the national workforce:

- Initial vocational training normally provides the skills and aptitudes that school-leavers require to enter the workforce at an appropriate level;
- Continuing vocational training is aimed primarily at people already in employment who wish or need to increase their skills;
- Training for unemployed people is designed to assist people to re-join the workforce by improving their skills.

With this very specific focus on workforce development in particular and economic growth in general, it is appropriate to reflect on recent economic trends and the relevant political context.

1.2 Economic background

The following tables outline some indicators of the UK economy - gross domestic product, employment/unemployment rates, the retail price index and the ECU exchange rate. Gross domestic product (in constant prices) fell in the early 1990s, but growth was re-established by 1992 and continued thereafter:

Table 1: National finances

	1986	**1991**	**1994**	**1995**	**1996**
GDP £bn	384.8	575.7	669.1	704.2	742.3
GDP Index (1990=100)	88.6	98.0	103.8	106.7	109.2
Public sector Borrowing Requirement £bn	2.3	7.5	37.9	35.1	24.9

Source: Annual Abstract of Statistics (Office for National Statistics, 1998)

Table 2: Price index

	1986	1991	1994	1995	1996
retail price index (1987=100)	96.2	130.2	141.3	146.0	150.2

Table 3: £/ECU Exchange rate

	1986	1991	1994	1995	1996	1997	1998
ECU value of £1 (i)	1.489	1.427	1.289	1.207	1.229	1.444	1.478

(i) Annual averages: DG 11 – These are the ECU exchange rates used within this report for the relevant years. In January 1999 when the Euro was introduced £1 = EUR 1.422, although this rate has fluctuated during 1999.

Table 4: Labour market statistics (UK)

	1986	1991	1994	1995	1996
In employment ('000)	24,678	26,400	25,697	25,973	26,219
ILO – unemployment ('000)	3,136	2,414	2,736	2,454	2,334
Employment rate (%) - (i)	(ii)	73.0	70.6	71.1	71.6
ILO unemployment rate (%)	11.3	8.4	9.6	8.6	8.2

(i) aged 16 - 59/64

(ii) changed basis of calculation

Source: Labour Market Trends: November 1998

The number of people in employment peaked in 1990, then declined. Employment figures resumed their growth in 1996. Unemployment data has been subject to several different methodological approaches over the period and some of the time series are incomplete. On the basis of ILO definitions, the data show that unemployment was at its lowest during this period in 1990 and rose to a peak in 1993. In general unemployment rates tend to be higher than the national average in Northern Ireland and the north of England, partly because of the concentration in some areas of older industries in secular decline. Unemployment rates of 18 and 19 year olds for the years 1994-1996 were 20.0%, 17.3% and 15.9%, respectively.

1.3 Political background

For many years there has been a concern in the UK that the national economy has not been growing or performing as well as competitor economies (Aldcroft, 1992; Bennett, 1994). One cause of the problem has been seen as the quality and/or quantity of vocational education and training provision. While successive governments since the 1970s have committed resources to increasing and improving the provision of all types of vocational education and training, they have differed markedly in their approach according to the specific political, economic and social priorities of the time.

The 1960s and 1970s can be categorised as a period when there was a broad political consensus between both Labour and Conservative governments on the role of the state in the provision of training. The state provided resources to the locally-elected authorities to fund further education colleges and schools, i.e. the institutions used by some employers to provide the theory-based elements of apprenticeship or continuing training, or by individuals following a full-time training programme. Also during this time, successive central governments began to stimulate, support and regulate work-based training (apprenticeships and continuing training for employees). Much use was made of tripartite decision-making in the delivery of government-decided policies which could affect workers and enterprises. It was within this broad framework that governments further increased their involvement in the provision of vocational training.

In 1964, the Industrial Training Act was introduced by the Labour government. This was designed to create a number of sector-based tripartite Industry Training Boards (ITBs) which would operate a levy-grant system for enterprise training within the relevant sectors. The scheme was funded by industry-wide levies and partly subsidised by the government, the rationale being to spread the costs of training over all enterprises within the sectors. By 1969 there were 27 statutory ITBs covering 15.5 million workers with a total levy of approximately £195 million. The levy system acted almost entirely as a redistribution device within each industrial sector, the underlying assumption being that in overall terms industries spent sufficient amounts on training but that the issue was to achieve a fairer distribution of costs between firms and to improve the quality of training.

Some employers viewed the levy scheme as a tax which added to their costs and tended to reduce competitiveness. A few firms simply refused to pay, while others argued that a voluntary free-market approach would be more appropriate and that the amount of training being undertaken had been artificially stimulated. In 1973, the Employment and Training Act was introduced by the Conservative government, bringing the ITBs under the remit of the centralised Manpower Services Commission (MSC), a non-departmental government body with employer and trade union representatives. The MSC was to plan training on a national basis and to manage new programmes of youth and adult unemployment training, and its work grew quickly due to the rapid rise in unemployment after 1974. While the debates on training in the 1950s and 1960s had been about labour shortages and the best methods of training employed people, discussion in the late 1970s and 1980s centred on job creation and training for the increasing number of unemployed people (Hall, 1990).

The election of the Conservative government in 1979 led to a radical change over the following ten years in the role of the state in intervening and regulating aspects of the private sector economy and in the administrative and funding principles underpinning social policy. While central government retained responsibility for the policy-making framework, operational responsibility for delivering government-funded training programmes was delegated and decentralised. Changes included abolishing many ITBs, de-regulating the remaining levy-grant system and restoring the principle of voluntarism within enterprises concerning their individual training policies. The training responsibilities of the Manpower Services Commission were replaced by the Training Agency at national level and by Training and Enterprise Councils (TECs) at local level. Trades unions played no part in the Training Agency and very little in TECs, breaking the mould of tripartite arrangements which had existed in the UK in the post-war period. The Training Agency was subsequently absorbed into central government. The institutions providing training under the control of individual local governments, specifically further education colleges, were removed from their authority and funded by a centrally appointed agency, the Further Education Funding Council (FEFC).

Some of the reasoning behind these changes concerned the emphasis on value for money explored in section 1.6.3 and the recognition that perhaps the public-sector institutional framework for VET was no longer wholly appropriate (Bennett, 1994). In addition there were political factors which included reducing the power of trade unions in government and enterprise decision-making, and reducing the influence of local authorities in delivering public policy.

The election in 1997 of a Labour government has led to further changes and developments. In order to restore elements of local planning and accountability, some powers related to VET and economic development are being transferred to regional levels through new Regional Development Agencies, and non-departmental government agencies are enhancing their regional representation. Scotland, Wales, and (perhaps) Northern Ireland will take much more responsibility for their own policy, legislation and financial arrangements under a Scottish Parliament, an elected Welsh Assembly and new bodies in Northern Ireland. The emphasis on market forces is increasingly being supplemented by a greater stress on planning, and the attention to increasing efficiency is being slightly relaxed. A new set of IVT and TfU programmes - the New Deal - has also been introduced. These are outlined in the relevant sections of this report.

1.4 Legal background

The development of VET in the UK has not usually been the subject of primary legislation, most developments being the result of rules and regulations laid down under secondary legislation. Legislation tends moreover to be permissive, setting out what might happen rather than prescribing it. Since the 1980s two pieces of primary legislation have however directly involved VET:

1. The Education Reform Act of 1988:
   i. Clarified the duty of local authorities to provide further education.
   ii. Required local authorities to delegate budget responsibility to their colleges.
2. The Further and Higher Education (FHE) Act of 1992:
   i. Defined further education more closely.
   ii. Specified all the qualifications (the “schedule II qualifications”) which would be funded as part of further education.

iii. Created Further Education Funding Councils (FEFC) in England and Wales to oversee the development of further education and gave them responsibility for ensuring “adequate and sufficient provision” of further education.
iv. Made further education colleges, which had hitherto been owned and controlled by local authorities, into corporate (autonomous) organisations regulated primarily through the FEFC.

1.5 Administrative arrangements

During the 1980s and early 1990s responsibility for government policy and programmes of VET continued to be divided between two departments. The Department of Education and Science oversaw vocational education provided in schools and further education colleges. The Department of Employment, working primarily through semi-autonomous agencies, developed arrangements for employer-based training and training for unemployed people. In view of the potential for overlap, in 1995 the two departments were combined as the Department for Education and Employment (DfEE). The development of national policy with respect to VET remains with this government department, but other types of organisation (including non-departmental government bodies and corporate bodies) have a place in executing those policies.

The major governmental and government-related organisations involved in public-sector VET are as follows:

- The Department for Education and Employment (DfEE) is the department of the national government responsible in England for - inter alia - school education, further education, higher education, employment services and unemployment programmes; it funds the FEFC and the TECs.
- The Further Education Funding Council (FEFC) for England is an intermediate agency, a non-departmental government body with an appointed board, responsible for ensuring that there are sufficient and adequate facilities for further education throughout England; it receives funding from DfEE. The FEFC has an inspection system to monitor the quality of the training it funds.
- Training and Enterprise Councils (TECs) are local independent companies with boards of mainly local employers which contract with the DfEE for government-funded vocational training and training programmes for unemployed people and others in their areas. They are also responsible for fostering local economic development and stimulating employer investment in skills. The quality of TEC-funded provision is inspected by the Training Standards Council which was established in 1998.
- Local Authorities (LAs) are locally elected bodies responsible for the provision of local services including social services, transport, and schools.

- The Government Regional Offices (GROs) are part of the national government which co-ordinate the functions of three government departments at a regional level, and cover environment, transport, trade and industry, and education and employment. The role of the Government Regional Offices will be supplemented in the near future by the creation of parallel Regional Development Agencies (RDAs), which will take a more proactive role in economic development.

The absence of trades unions from the above list requires some comment. Unlike many other European countries since the late 1980s, trades unions have played a small and purely advisory part in public-sector VET policy or management. The role of trades unions as social partners is likely to increase under the current government.

In Scotland the functions of DfEE and FEFC are held within The Scottish Office Education and Industry Department; a separate funding council for FE will take responsibility in July 1999. Local Enterprise Companies (LECs) are the equivalent of TECs in England, but they are funded through two non-departmental agencies - Scottish Enterprise/Highlands and Islands Enterprise - rather than directly by The Scottish Office. In Wales the functions of DfEE are located within the Welsh Office; arrangements for further education are handled through a Welsh Funding Council and other government-funded training is organised through TECs as in England. In Northern Ireland there is a Department of Education for schools and further education, plus a Department of Economic Development which operates the Training and Employment Agency.

The organisations that actually provide VET, as opposed to funding and managing the system, include:

- further education colleges: autonomous organisations;
- schools: owned and staffed by local authorities, but with delegated budgets and some responsibility for strategy;
- private training providers: set up on profit-making lines to contract for the provision of training;
- private enterprises: companies which provide training mainly for their own employees.

The relationship between the various governmental and government-related bodies, plus the interaction with enterprises and private training providers, is discussed within this portrait. The approximate pattern for the funding flows of each of the three types of VET identified is shown in the table below. Further detail is supplied in the section dealing with each VET type.

Figure 1: The pattern of funding for vocational education and training

	Prime funder	**Intermediate agency**	**Training provider**
Initial vocational training	Government Local tax	TECs FEFC Local authorities	Enterprise/private trainers Colleges Schools
Continuing vocational training	Enterprises Government	TECs FEFC	Enterprises/private trainers Colleges
Training for unemployed people	Government	TECs FEFC	Enterprise/private trainers Colleges

1.6 Institutional and funding overview

Given the overlap for the institutional and funding structure for the different types of vocational education and training within the UK as shown by figure 1, this part of the report will provide more specific background for the funding system for further education colleges and for other training providers through the Training and Enterprise Councils (TECs).

1.6.1 Background: National Vocational Qualifications (NVQ)

VET qualifications are a subset of the national qualification framework, an arrangement by level of attainment (introductory to higher degree) and by academic/vocational focus, into which all qualifications are mapped. The whole framework is shown below relevant to VET; only levels 1, 2, and 3 fall within the VET specification of this portrait. In England, Wales and Northern Ireland vocational National Vocational Qualifications (NVQs) are awarded for vocational courses and General National Vocational Qualifications (GNVQs) for mixed academic/vocational courses; in Scotland there are equivalent Scottish Vocational Qualifications (SVQs) and General Scottish Vocational Qualifications (GSVQs).

Figure 2: The National Vocational Qualification framework

National Vocational Qualification (NVQ) level	Traditional vocational qualifications	General National Vocational Qualifications (GNVQs)
1 – Foundation	Basic introductory courses	Foundation
2 – Semi-skilled	Craft certificates	Intermediate
3 – Skilled/technician	Advanced craft and technician certificates	Advanced
4 – Management	Higher National Diplomas	n/a
5 – Senior management	Master of Business Administration	n/a

The economic value of qualifications has been estimated in a variety of studies. As far as individuals are concerned, the possession of VET qualifications increases earnings by between 9% and 50% depending on the level and type of the qualification (Robinson, 1997). Computer skills alone appear to be worth an extra 20% of earnings (Green, 1998). Rate of return studies which look from the national point of view and take costs into account have tended to concentrate on university-level qualifications rather than VET.

1.6.2 TECs and further education

As can be seen from Figure 1, two sorts of organisations, both involved in the whole of VET, require a particular introduction. The Training and Enterprise Councils are intermediate funding agencies with wide-ranging remits to stimulate and support training.[2] A measure of the variety of the TECs' involvement in VET is shown in the following table:

[2] An extensive description and analysis of TECs is contained in Bennett (1994).

Table 5: TEC programme and funding for 1998/9

	1998/99
Work-based Training for Adults	£340m (120,000 starts) (see TfU)
Work-based Training for Young People	£741m (see IVT)
Local Competitiveness Budget	£55m (see CVT)
Performance Related Funding (PRF)	£20m
Out of School Childcare	£10m
Work experience	£10m
TEC Discretionary Fund (local initiatives on training to attract private sector matched funding)	£23m
Strategic Budget (for strategic local development and meeting national priorities)	£93m
ESF/ERDF (direct applications)	£33m
Total TEC programmes	**£1,325m** (MECU 1,958)
Inward Investment (for economic regeneration and improved competitiveness)	£3 (£9m over 3 years)

Source: DfEE (1998)

The further education (FE) sector plays a very large part in UK vocational education and training. The sector consists of more than 3m students (aged 16+) attending more than 500 colleges, funded by the Funding Councils, the TECs/LECs and other sources including contract training. The colleges are autonomous bodies run by boards of governors selected from the local community. Each college owns its own buildings, employs its own staff and, within limits, determines its course provision and the strategic direction it wishes to take. Students in the FE sector pursue a variety of studies and training:

- academic disciplines, equipping students to enter higher education;
- vocational disciplines, equipping students to enter or continue in the workforce or to enter higher education;
- special courses to assist with access to higher education;
- special courses for students with learning difficulties or disabilities;
- recreational/leisure-related learning.

The sector is extremely heterogeneous, reflecting different local policies in the past. It includes a number of different types of institution - technical colleges, art and design colleges, agricultural colleges. In some areas of the country there is extensive overlap and competition with schools, in others there is little overlap. Some colleges are entirely dependent on state funds; others find as much as half of their funds from other sources. The growth of the sector has been rapid, as the following public funding details show:

Table 6: Public sector funded further education in England

	1985/86	1990/91	1995/96	
			£	ECU
Local authority FE expenditure (i)	£2,395m	£2,474m	(ii)	
FEFC expenditure	(ii)	(ii)	3,024m	3,650m
Students (iii)	619,000	715,000	1,026,000	
Unit expenditure	£3,860	£3,460	2,930	3,537

(i) Cash figures adjusted to 95/96 levels
(ii) Responsibility for funding further education passed from local authorities to FEFC in 1993
(iii) Full time equivalent (fte) based on weighted student numbers

N.B. The figures include all FE expenditure on all of the training they provide whether it is academic or vocational. The figures also include expenditure on IVT, CVT and TfU.

Source: Education and Training Statistics 1997, DfEE

1.6.3 Public-sector VET budgeting

The way in which revenue and capital expenditure budgets for public-sector VET are set has recently been reformed. Until 1997, the whole budget of the DfEE, and all other Ministries, was set annually. Since 1998, budgets are set for three years. Nevertheless the determination of the DfEE budget, and the subsequent determination for the FEFC and TECs, is a mainly historical process. Budget allocations are rolled forward from one year to the next with marginal adjustments to allow for planned growth or a decline in provision, and also for cost-efficiency savings each year. Thus, for instance, it might be decided to expand the numbers of TEC trainees by 5%, which would require an additional 5% funding at average funding levels. The sector as a whole however might be subject to a 2% cost-efficiency saving, which leaves the 5% trainee expansion being funded by an extra 3% of money. There have been certain exceptions to the historical approach in respect of VET funding. Between 1994 and 1997 a system known as “demand-led element” (see section 2.3.1) was operated by the FEFC for colleges. This was in effect an open-ended fund to pay at marginal rates for growth beyond planned levels. There is currently a windfall tax on privatised industries (see section 4.2.1) which is funding several new initiatives including schemes for training for unemployed people.

Funding for FEFC and the TEC structure uses slightly different principles. All TECs in England work to an Operating Agreement, a government document which sets out TEC contractual obligations each year. Responsibility for contracting and monitoring TECs is devolved to the Government Regional Offices. Each year TECs negotiate contracts with their local GRO on the number of training places and levels of payment per result in terms of the number of qualifications achieved and jobs gained by participants. The TECs in turn negotiate individual contracts with their training providers which normally consist of further education colleges and private training providers. Funding from FEFC to colleges follows a more transparent and less negotiated route, based on a national tariff for qualifications (section 2.3.1).

Public-sector expenditure on VET over a ten-year period is difficult to quantify because of the changes in government and organisational arrangements and changes in the relevant programmes. Based entirely on official statistics concerning the major programmes, and mapped into the three VET categories, the following pattern emerges:

Table 7: Public recurrent expenditure on VET (England)

	1986/87	1991/92	1996/97	
	£m	**£m**	**£m**	**MECU**
Initial vocational training				
– Further Education	632 (i)	977 (i)	1,040	
– Youth training	851	742		
– Work related FE	88	105		
– Work-based training for young people			734	
Total	1,571	1,824	1,774	2,180
Continuing vocational training	422 (i)	652 (i)	1,100 (ii)	1,352
Training for unemployed people				
– Employment Training (iii)	1,257	664		
– Work-based training for adults			460	
– Further Education			100	
Total	1,257	664	560	688
Total public expenditure	**3,250**	**3,140**	**3,434**	**4,220**

(i) Local authority expenditure on further education (IVT and CVT)
(ii) Further education expenditure (CVT)
(iii) Employment Training Programme replaced by Work-based training for adults

These figures omit local authority expenditure for training in schools.

Total public expenditure on VET has thus been fairly stable in cash terms over ten years; in real terms it has declined by about one third. As mentioned in the previous paragraph, the number of different changes to VET programmes and institutional arrangements it is difficult to assess exactly the reasons for the decline in expenditure. Certain factors such as demographic changes and a falling number of unemployed people might account for some of the decline although it might also be due to efficiency gains within the training sector.

The system outlined above for passing funds from central government to other agencies essentially refers to revenue or recurrent funding. Some of these funds may be used for capital purposes and the FEFC specifies that at least 2% of the recurrent funding they give to colleges will be so used. For major elements of capital, however, there are several alternatives, which include grant funding from central government and borrowing from financial institutions. The National Lottery and the European Union (through ERDF) are also sources of capital. The most significant new alternative, the Private Finance Initiative (PFI), merits particular attention.

The Private Finance Initiative is based on the idea that a financial partnership can be forged between the public and private sectors to the benefit of both. The intention is that public-sector bodies including FE colleges should move from being owners and operators of assets into becoming purchasers of long-term services. In a PFI scheme the public-sector organisation wishing to construct a new building would form a partnership with, perhaps, a development enterprise, sharing between them both the benefits of the new building and the risks inherent in any such undertaking. The arrangement might be that the development enterprise would use private capital to construct and operate the building on behalf of the public-sector organisation which would use the building in return for rent and possibly reversionary ownership. The essence of PFI is shared benefit and shared risk, using private-sector capital and expertise to assist public-sector developments.

1.6.4 EU funding

Public-sector expenditure on vocational education and training receives considerable support from the European Union through the various strands of the European Social Fund (ESF). It has not proved possible to break down the figures into IVT, CVT, and TfU, but an allocation by sector is provided in the following table. These figures are included in the funding figures provided elsewhere in this financial portrait.

Table 8: European Social Fund (ESF) support for VET in the UK (1996/97)

	England (£m)	Scotland (£m)	Wales (£m)	N. Ireland (£m)	UK	
					£m	MECU
Government	246	33	16	32	327	402
TECs/LECs	41	8	1	-	50	61
Further education	97	22	12	4	135	166
Local authorities	47	9	-	1	57	70
Other	60	14	-	8	82	101
Total	**491**	**86**	**29**	**45**	**651**	**800**

Source: special DfEE analysis showing only the VET element of ESF expenditure including expenditure on ESF programmes related to VET.

1.6.5 Funding themes

If the sources and totals of VET funding have been fairly stable, the same cannot be said for the distribution mechanisms. Three themes emerge clearly from the experience of the past ten to fifteen years. Firstly there has been the separation of funders and providers. The funders (government, local authority, or funding agency) specialise in funding or commissioning programmes, leaving the actual provision of education and training to other organisations. This principle, the “purchaser-provider” principle or “customer-contractor” principle, became particularly popular in the 1980s and is a considerable step beyond simple budget delegation. It replaced former vertically integrated systems where the same organisations determined both how to fund and how to provide. The identification of funder as purchaser clarifies roles and responsibilities; the funder determines the ends that are required, including volume of activity and quality, while the provider determines the best means to achieve those ends. Much of the public sector now makes extensive use of this separation. As well as clarifying roles, it allows areas of the private sector to complement or compete with the existing public-sector providers for a share of the "purchasers" resources. Within VET we have seen a further development of the principle, with purchasers splitting into two or more parts with one (e.g., FEFC) specialising purely in funding, and the providers also splitting and subcontracting (see section 3.1.1).

The purchaser-provider separation established the conditions which allowed the second theme to emerge: the reliance on markets or quasi-market mechanisms in the funding allocation systems. Instead of a system of central planning and control, the UK now has the majority of public VET funding organised on the basis of market principles. Training providers compete with each other and tight contractual relationships between purchasers and providers have replaced central direction. Much of education and government-funded training are organised on the same market principles in order to maximise economic efficiency, with a justification along the following lines:

> "The main argument was that markets allocate resources more efficiently than bureaucratic rules. Efficiency is defined in two ways. First, goods and services will be produced at the lowest cost. Any high-cost producers will be replaced by lower-cost producers as new entrants seize the opportunity to make profits. Secondly, only those goods and services are produced which people demand. Producers' responses to individuals' demands are more likely to produce what people want than some bureaucratic mechanism deciding what people might want or need."
>
> *Public Sector Management, Norman Flynn, Prentice Hall 1997*

The belief that markets increase efficiency and tend towards optimal resource allocation in VET has to an extent been justified by the large increases in volume of activity at lower unit costs, which have been evident in the recent past. In today's training markets, schools, colleges and private providers compete with each other for funds according to rules set down by the funders. The rules, some of which are outlined in this portrait, have tended to become increasingly complex and the limitations of a broadly unregulated market system are being recognised. The markets moreover differ in their degree of transparency. Whereas the schools and colleges funding systems are completely open, with all the relevant data in the public domain, the markets involving TECs are more subject to negotiation around commercially sensitive information which is not made public. Thus at least two different interpretations of the market model (one with published prices, the other with negotiated prices) co-exist in the public sector.

A third funding theme concerns output-related funding (ORF) which has enjoyed a prominent position in some areas of VET. Having separated the functions of funder and provider, and having established market systems among the providers, attention turned to specifying just what the funder wanted to buy. Under ORF the traditional approach that funders bought “training” measured in terms of attendance has been replaced by measures of outcomes: qualifications gained or jobs created. This change clarifies more precisely what funders require, and gives more freedom to providers in how to provide it. As Felstead notes, ORF can promote efficiency and flexibility, cut costs and improve accountability (Felstead 1998). No funding system described in this portrait is 100% ORF, but several have moved substantially in that direction.

Part 2 Initial vocational training

Initial vocational training (IVT) is defined in this report as training undertaken by those between the ages of 16 and 19, excluding higher education and training (above NVQ3 level). It may be full- or part-time, and may be delivered in school (8%), further education college (55%) or within an enterprise (37%). IVT constitutes only a small fraction (about 2%) of total schools' activity but as much as a third of the activity in colleges. There are a range of nationally-based IVT programmes, including basic vocational courses, modern apprenticeships and youth training.

2.1 Background to IVT

Compulsory attendance at school in the UK ends at the age of sixteen; students are then faced with a number of choices. They can remain at school until the age of eighteen, studying vocational or academic disciplines. They can leave school and enrol at a further education college, again studying vocational or academic disciplines. They can leave school and enter employment, when vocational education and training might be available or, if no employment is available, they may join a youth training programme (they cannot technically be unemployed). The picture of initial vocational training is therefore complex, reflecting the fact that such training is an integral part of other systems.

Notwithstanding the national qualification frameworks, the distinction between vocational training and academic studies is not an absolute one; rather they represent opposite ends of a continuum. There is much common ground between the two, and in many cases the distinction is not clear. Increasingly over the past ten years, students have been encouraged to take a mixture of both academic and vocational studies. Hybrid qualifications including the General National Vocational Qualification (GNVQ) straddle the apparent boundary and are accepted as entry qualifications for universities and other higher education institutions with equal status to the more avowedly academic (GCE A-level) qualifications. For the purposes of this study a line between academic and vocational has been drawn with GNVQ on the vocational side but the artificial nature of that line should be recognised.

In addition to the blurring of academic and vocational studies, the need to encourage parity of esteem has also led to an overlap of the missions of some of the schools and colleges which deliver public-sector IVT. Traditionally, schools dealt with academic studies and further education colleges with vocational training. For well over thirty years, however, further education colleges have been increasingly involved in academic education, to the extent that now they have more students on academic programmes than do schools. The school sector, moreover, has recently become more involved in vocational courses through the delivery of GNVQs. The financial arrangement of IVT therefore requires us to look at both the school and the college systems.

As noted above, students at the age of sixteen have a third option between school and college - Work-based Training for Young People (WBT). The main strands of WBT are Youth Training (YT) Modern Apprenticeships (MA), National Traineeships and, in Scotland, Skillseekers; these are treated as one for many funding purposes. It is appropriate to consider WBT as part of initial vocational training, rather than training for unemployed people, because the majority of participants are considered to have employed status; about 90% of MA participants and 50% of YTs are actually employed, and all people under 18 are deemed to be in training or education rather than unemployed. They are IVT rather than CVT because more than 70% of them are 18 years old or younger. Work-based Training is organised at a local level by TECs (Training and Enterprise Councils) in England and Wales, or LECs (Local Enterprise Companies) in Scotland.

For all this wealth of opportunities, the actual record of IVT over the past 15 years has caused some concern. A particularly influential report of 1993 (Audit Commission: "Unfinished Business") highlighted two areas of concern. Firstly, the participation rate of 50% of 16 year olds in education and training compared unfavourably with other European countries: Denmark (90%), France (82%), West Germany (71%), Netherlands (93%), etc. Secondly, the retention of students on courses and their success in completing those courses was too low. Typically, 40% or so of students failed to complete or succeed. The report concluded that value for money could be very much increased.

The government response to these and similar concerns was threefold:

- It set a target to expand the numbers entering further education by 25%;
- It introduced funding systems (see below) which related funding not only to the numbers of students but also to their retention and success;
- It set national targets for the achievement of defined levels of education and training for the population as a whole.

The establishment of quasi-markets among VET providers can also be seen as a response to concerns about value for money, and the participation and retention of students. FE colleges compete with each other for students and as the FEFC funding follows the student; some institutions are more viable than others. Similarly FE colleges and private providers compete for TEC-funded trainees mainly on price, but also on quality. If providers fail to deliver programmes at a level of quality which is deemed acceptable either by purchasing agencies or final customers (trainees), the contracts may be transferred to other institutions and resources will follow.

2.2 Sources of IVT funding

IVT in the public sector is delivered by a variety of providers and the funding sources for them are quite distinct. It is necessary, therefore, to trace the total funding into the providers separately and then to identify which part of the funding is relevant to IVT. At the outset, however, it is worth observing that few funds are earmarked within any provider;

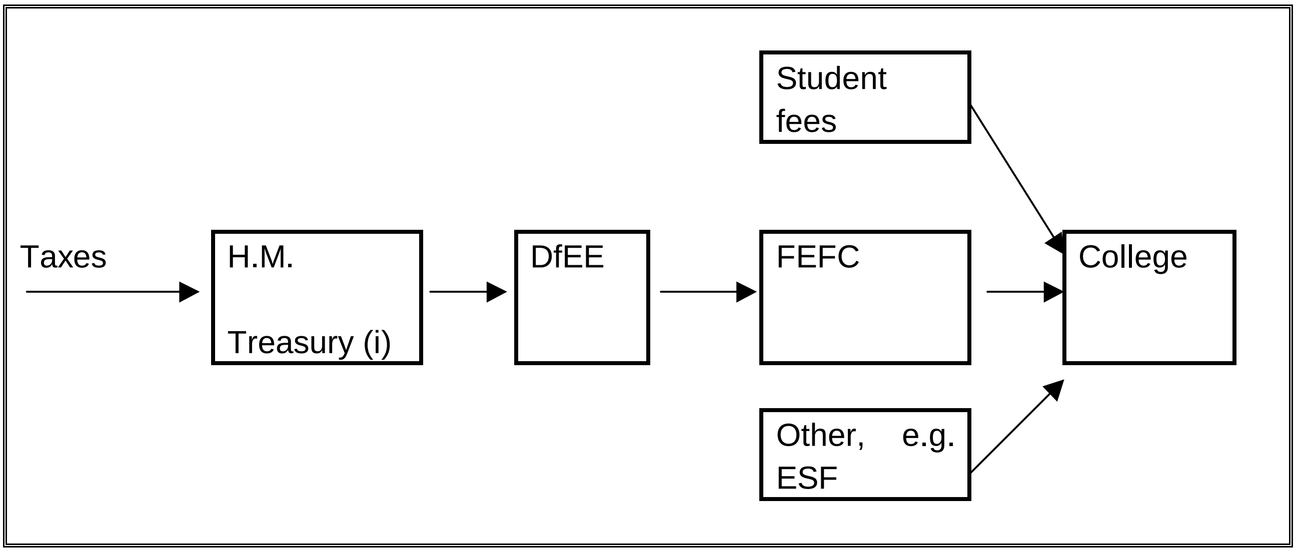
funds are in general made available to an institution without a predetermination of how or where those funds are spent except in the most general terms. This means that actual expenditure on IVT may be different from the funding for IVT. An example from a college will help clarify this point.

Colleges obtain revenue funding from a variety of sources in return for providing a number of different outputs and services. The average college raises 70% of its funding from the Further Education Funding Council, 10% from students' fees, 10% from other sources (including the European Union and training provision to companies) and 10% from diverse sources such as sales of materials and interest on their investments. How the college decides to spend the funds is largely at the discretion of the college so long as it delivers the quantity of training to which it has agreed. Colleges do not have to report in detail how they have spent their funds. Accountability focuses on what they have produced in return for funding. A similar situation broadly pertains in schools and private training providers, although the funding sources are not so diverse. This lack of hypothecation applies equally to IVT, CVT, and TfU.

One consequence of this local autonomy is that cross subsidy of programmes within an institution may be widespread. Revenue surpluses made in the provision of continuing vocational training for companies may be devoted to supporting IVT where government sources are inadequate. Less frequently, part of the funds provided for IVT may be used for CVT (when IVT makes a surplus or profit). The precise difference between what a college is funded to do and how it actually incurs expenditure is difficult to determine, and for the purposes of this report the problem will be noted but not hereafter developed.

2.2.1 Funding IVT in Further Education Colleges

Figure 3: Flow of funding for IVT in FE Colleges



Notes: Her Majesty's Treasury is the Ministry responsible for government finance

Colleges are funded in the main by the Further Education Funding Council (FEFC), an intermediate organisation which in its turn receives funding solely from the Department for Education and Employment (DfEE) in the form of a block grant. Up to and including 1996/97 there were separate allocations for recurrent (revenue) and capital purposes; from 1997/98 onwards the two allocations have been combined into one.

Table 9: Total further education expenditure (England)

	1993/94	**1994/95**	**1995/96**	**1996/97**	**1997/98 (estimate)**
Expenditure £(cash)					
Recurrent	2,549m	2,683m	2,865m	3,044m	n/a
Capital	152m	157m	159m	110m	n/a
Total	**2,701m**	**2,840m**	**3,024m**	**3,154m**	**3,137m**
MECU	**3,463**	**3,661**	**3,650**	**3,876**	**4,530**
Expenditure per student (i)	3,080	3,040	2,930	2,920	2,890
Expenditure per student (real index)	100	97	91	88	85

Notes: (i) Expenditure per student is for full-time equivalents.

N.B. Expenditure in this table includes all expenditure on IVT, CVT and TfU (academic and vocational).

Source: DfEE (1998)

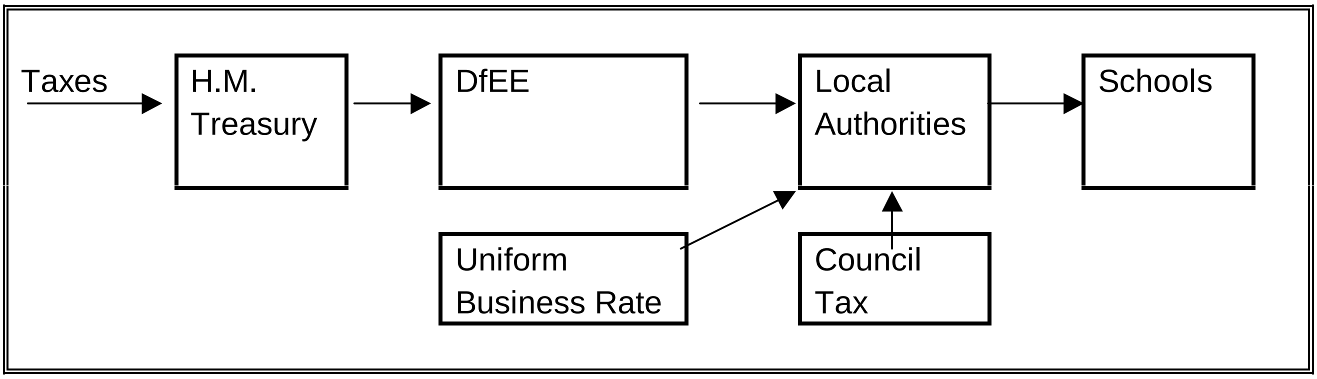
The major influence on the size of the allocation is its historic level. It is modified, however, in the light of assumptions about patterns of growth in demand for IVT. In particular, demographic trends are studied. There is also an expectation that there will be efficiency gains each year in terms of funding per student. The current round of funding for 1998/9 assumes an efficiency gain of 1%, i.e. that total real funding will grow at a rate 1% less than the planned growth of student numbers. All the allocation is derived from general taxation; there are no specific levies. As the figures show, there has been a small cash increase in funding over the past four years, although student numbers grew by about 25% over the same period. The result has been a significant cut in the real amount allocated per student.

The annual expenditure figures for further education cover IVT, CVT, and all academic and university access programmes carried out in the college sector. For the purposes of this study, it is necessary to apportion the total pro rata with weighted student numbers. A special analysis has been undertaken for this portrait by FEFC to show the breakdown of student numbers weighted by attendance. Of the over 700 million student-hours funded by FEFC, 33% are IVT and 35% are CVT and 3% are TfU; the balance are on academic programmes, etc. Applying these proportions to the actual 96/97 total expenditure of £3,154m (MECU 3,876) gives an approximate IVT funding of £1,040m (MECU 1,278), CVT funding of £1,100m (MECU 1,352), and TfU funding of £100m (MECU 123); details of CVT and TfU are shown in the relevant sections.

In addition to FEFC funding, some students or their employers are liable to pay fees for IVT amounting in total to less than £10m (MECU 12) per year for 1996/7. The fees range from about £50 to £500 (ECU 61 to 615) per student/year depending on the course and the local decision of the college. The fees are not expected to cover the full cost, as some public subsidy is assumed. Only students aged 16-19 studying full time are always exempt from fees; other groups (such as those receiving disability benefits) may also be given fee exemption at the local decision of the college. If a student falls into one of the nationally recognised potential fee-exemption categories and the college decides to grant fee exemption, the college receives additional funding from FEFC (included in the figures in the previous paragraph) to compensate them for the fees foregone.

2.2.2 Funding IVT in schools

Figure 4: Flow of funding for IVT in schools



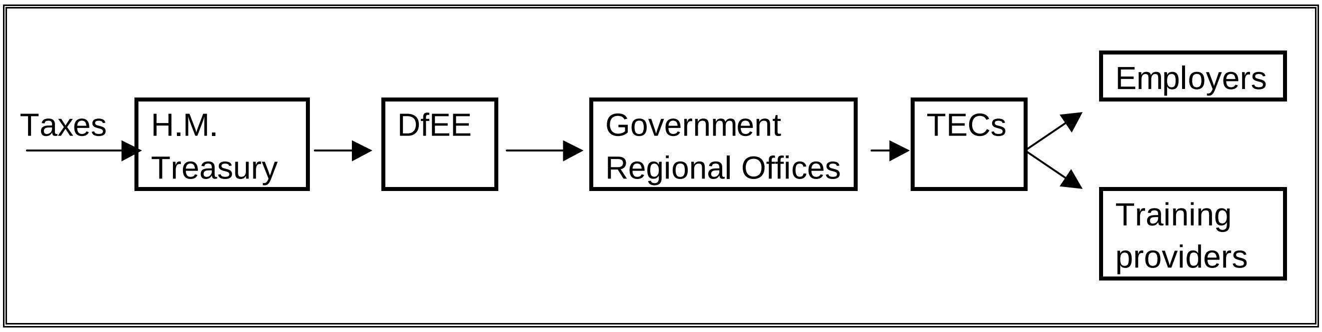
Most schools are funded by their local authorities. A local authority receives its funding for all services, including education, from three sources: central government grant (Revenue Support Grant), a centrally distributed premises tax on businesses (Uniform Business Rate) and locally raised household property taxes (Council Tax). The amount of funding which is distributed to individual local authorities through RSG and UBR and which can be raised through the Council Tax is based on an assessment of expenditure needs made by central government for each local authority according to the services it is legally bound to provide to its community, one of which is schooling. Individual assessments are, therefore, made for each local authority (Standard Spending Assessment) and each service within the authority (in this case, the Education Standard Spending Assessment). Each assessment is based on a multitude of factors that attempt to ensure that each local authority has sufficient funding to ensure a 'standard' level of services and that an equal level of service is available throughout the country.

Despite the complexity involved in calculating local authority funding, once they have received their funding from central government and have raised their own limited funds (approximately 25% is raised by each authority from the locally based Council Tax), they are free to allocate their budget between their service areas. However, the funds which each individual local authority allocates to its education services must be distributed according to government established criteria

In 1996/97 there were about 60,000 students (2% of school total) studying for the GNVQ, i.e. the qualification that is considered to be IVT, and the average unit cost was £2,333 (ECU 2,867). Estimated school VET expenditure was therefore some £140m (MECU 172) - about £100m from the government and £40m raised locally. No school students pay fees.

2.2.3 Funding Work-based Training

Figure 5: Flow of funding for IVT through Work-Based Training for Young People



The funding of work-based training for young people again starts with central government funding through DfEE. The total funding is determined on a historic basis with adjustments for demographic changes.

Table 10: Expenditure on Work-based Training for Young People (i)

	1995/96 (ii)	**1996/97 (forecast)**	**1997/98**
Government expenditure £m (cash)	635	734	731
MECU	766	902	1,056
First time entrants (000s)	215	249	209
Unit price £	2,743	2,972	2,925

Notes: (i) The figures include expenditure on Youth Training and Modern Apprenticeships.
(ii) Earlier years are not comparable as they cover a series of different programmes.

Source: DfEE (1997) (1998)

The DfEE funds Government Regional Offices which in turn fund Training and Enterprise Councils on the basis of TEC business plans (see section 2.3.3). The TECs in turn fund training providers and employers. The funding covers both training costs and trainee allowances, the split being determined at the local level. Recent research (DfEE Research Report RR25, 1997, Employers' Contribution to Youth Training Initiatives) suggests that employers contribute to this area of IVT an amount roughly equal to the government total, about £630m (MECU 760) in 1995/96.

2.2.4 Indirect funding

FE Colleges and TECs can raise funds from non-government sources, usually from the provision of services to enterprises. Some of the profits from such provision could be allocated to IVT although the sums involved are impossible to estimate.

A separate indirect funding source called “discretionary awards” is intended to fund students rather than organisations. Discretionary awards are the responsibility of local education authorities and are intended to assist students at further education colleges to meet the costs of books, equipment, travel etc. There has been considerable local variation in the system. In any event the total amount distributed fell from £212m (MECU 303) in 1991/92 to £89m (MECU 129) in 1997/98; it is not possible to identify the proportion relevant to IVT. The whole area of discretionary awards and financial support for students is under review.

2.3 Funding distribution mechanisms for IVT

The distribution, or allocation, mechanisms, used to fund IVT are diverse, and are not derived from a consideration of IVT alone. The three basic systems, for colleges, schools and work-based training for young people will be described in turn.

2.3.1 Funding distribution mechanisms for IVT in further education colleges

College funding mechanisms are determined by the Further Education Funding Council. The system is broadly driven by “units of activity” which are earned by each college for:

(a) enrolling each student;

(b) educating/training each student, based on the qualification(s) being studied and the continued attendance of the student which is monitored three times per year;

(c) each student who gains their qualification(s);

(d) each student receiving fee exemption;

(e) each student receiving assistance towards the cost of child care;

(f) each student who requires additional direct learning support, e.g. assistance for those with disabilities, problems with literacy and numeracy.

The bulk of the units (about 80%) are earned for part (b). Each qualification is rated on a national tariff according to the average time and resources needed for that qualification; the range is from one unit to 168 units. The units for each qualification are weighted according to the discipline area of study, e.g. business studies is weighted at 1.0, engineering at 1.5 and agriculture at 2.2. Thus a one-year business studies qualification might be worth 84 units according to the national tariff, whereas an equivalent one-year engineering qualification would be worth 126 units (84 x 1.5). A student may enrol for more than one course at a time; e.g., engineering and a foreign language, in which case they are worth the sum of the units for each qualification.

All the relevant college activity which has been agreed with FEFC is converted into these units of activity, and the total funding available for FE is divided by the grand total of units across the country to produce the value of a unit, about £17 (ECU 21) in 96/97. The FEFC then funds each college in monthly instalments up to the agreed number of units. There are subsequent downward adjustments for colleges that fail to achieve their agreed number of units.

As an example, consider a college planning to enrol 10,000 students (a mixture of full-time and part-time students equating to about 2500 full-time-equivalent students). Each student is worth a number of units depending on the qualification(s) he/she is studying and the relevant discipline weight. The first step is to calculate the total number of units accrued to the college due to the students and their studies. Extra units under categories (c) to (f) above would be added to this total for the relevant students. Thus 10,000 students might convert into a target of about 375,000 units of activity. Each unit is worth £17, giving a total planned funding for a year of £6.375m. If the college fails to enrol the planned number, or their retention of students is poor, or the achievement of qualifications is less than expected, the actual funding is reduced (actual enrolment, attendance, and qualifications gained, etc., are monitored three times per year). Funding is not increased, however, if enrolment targets are exceeded. Colleges negotiate their unit target with the FEFC each year in a process which takes account of each college's recent enrolment record, some quality indicators, and a number of other factors. Colleges that overbid and then fail to deliver will not only lose funding in-year but also risk having a lower target (and funding) set for the following year.

An additional element in the funding mechanism intended to stimulate growth existed from 1994. The "demand-led element" allowed colleges to exceed their unit targets and to be funded for the excess at a reduced rate of £6.50 per unit. Through this mechanism substantial growth was achieved by many colleges at marginal rather than average rates of funding. Colleges that expanded through this route were in a good position subsequently to renegotiate an increase in their planning targets for mainstream funding. With the ending of this provision the only way a college can receive funding for growth is to negotiate in advance with FEFC for an increased unit target, but such increases are usually restricted to one to two per cent per year.

The FEFC distribution mechanism has had a number of consequences, both intended and unintended. It has led colleges to compete with each other to enrol students, to improve retention and qualification successes. The unintended consequences include some colleges making payments or similar inducements to students to encourage them to enrol or remain. There has also been a growth of franchising, arrangements between colleges and other organisations (community groups or enterprises) where funding is received from

FEFC by the colleges for work undertaken under contract by the other organisations. Franchising applies to IVT, CVT and TfU and is considered further in Section 3.

2.3.2 Funding distribution mechanism for IVT in schools

Although the majority of schools are not independent organisations, but are owned and controlled by their local authorities, the mechanisms for distributing funds between schools is circumscribed by government rules. Each local authority must make an arrangement known as the local management of schools (LMS) system, which provides that at least 85% of the local authority's total schools budget will be delegated to the schools themselves. The allocation is based mainly on age-related student numbers. The schools are able to decide how to use their delegated budgets within conditions established by the local authorities. Capital expenditure on the other hand is not delegated, but controlled by the local authorities.

2.3.3 Funding distribution mechanism for IVT through Work-Based Training

Publicly funded Work-based Training for young people includes Modern Apprenticeships, National Traineeships and Youth Training, and employs a third distribution mechanism, different from both schools and colleges. It is a three stage process from DfEE to Government Regional Offices, from there to TECs, and from TECs to training providers in the private, public and voluntary sectors. At the first stage each trainee is worth a number of points depending on the level and type of training:

Table 11: Points value for Work-based Training for Young People

	Modern Apprenticeship	National Traineeships	Other training (including YT)
NVQ 1	(i)	(i)	3
NVQ 2	3	3	2
NVQ 3	6 or 3 (ii)	(i)	4 or 2 (ii)
NVQ 4	6 or 3 (ii)	(i)	(i)

(i) Not applicable.
(ii) Depending on prior level of achievement.

Funding passes from DfEE to Government Regional Offices on the basis of existing trainees (60% of total funds) and planned new trainees (40% of total funds) based on demographic factors. Each TEC submits an annual business plan to the relevant GRO showing, inter alia, the numbers and types of trainees it expects to deal with. The GROs negotiate performance targets and funding with individual TECs and fund on the basis of:

- 20% for each trainee start;
- 50% for each trainee in training;
- 30% for each qualification gained.

The TECs then contract with training providers in order to achieve the outcomes specified in their agreed business plans. TECs have considerable discretion in the funding and contracting arrangements they make with providers, and these vary significantly between TECs. There are both local and regional variations to the system in order to cope with different industrial situations and priorities across the country. It should also be noted that funding from GRO to TEC and from TEC to provider is not mechanistic; although the points system underlies the funding, there are negotiations at every stage in order to ensure value for money and to allow for different priorities. The variation between Government Regional Offices means that in some areas trainees will be funded at different rates depending on their employment sector, whereas in other areas there is a flat rate. Similarly the individual TECs might decide to discriminate in favour of a particular employment sector or type of training.

Most funding from TECs to training providers follows the system described above. It is however worth noting that vouchers - called “training credits” or “youth credits” - have been used by some TECs. The voucher system involved giving each student or trainee a voucher with a nominal face value of £1000 or more. Armed with this voucher the student/trainee would choose and “buy” the appropriate training from a provider. The real value of the voucher was determined by each TEC depending on the vocational discipline and market forces among the competing providers. The actual payments include staged payments and output-related payments and went directly from TECs to providers not through the student/trainee, on the basis of where the credits had been used. The system could be cumbersome and there was some doubt as to whether a sixteen-year-old could make an informed decision on where to spend their credit. An evaluation of the voucher system (Coopers and Lybrand, 1992) found no substantive evidence of any material impact on the training market.

2.4 Scotland, Wales and Northern Ireland

IVT systems in Scotland and Wales are similar to those in England. In Scotland however there is no intermediate funding agency between the government and the further education colleges though a Funding Council for further education is to be established in 1999; in Wales there are joint Funding Councils which cover further education and higher education. Both Scotland and Wales have funding distribution mechanisms similar in principle to those in England but with different approaches to counting students and particular local priorities e.g., protecting rural colleges and enhancement for bi-lingual teaching. In Northern Ireland schools are managed and funded by the Education and Library Boards which in turn are funded by the Department of Education (Northern Ireland). Until 1998 the same boards managed and funded the further education colleges, but now the latter have corporate status and are funded directly from the Department. A separate department however, the Department of Economic Development, operates the Training and Employment Agency which both provides training and assists enterprises to provide training. The total sums of funding are difficult to quantify because of the variety of different systems and organisations. The approximate IVT funding for 96/97 is outlined in the table below.

Table 12: Public sector IVT funding in Scotland, Wales, Northern Ireland (1996/97)

	College funding	TEC/LEC etc. funding
Scotland £m	100	90
Wales £m	43	66
Northern Ireland £m	28	85
Total £m	**171**	**241**
MECU	**210**	**296**

Source: Scottish Office (1997), Training and Employment Agency (1997), DfEE (1998)

2.5 Total levels of funding

Adding together the funding in England as described in section 2.2 and the figures in table 11 provides the UK picture. It is clear that the public sector is the dominant funder for initial vocational training (75%), but the private sector also plays an important role through enterprises' contributions to youth training initiatives.

Table 13: Total IVT funding in the UK in 1996/97

	£m	MECU	%
Government			
– for further education	1,211 (i)	1,488	40
– for schools	100	123	3
– for work-based training	975 (ii)	1,198	33
Total government	2,286	2,809	76
Local authorities	40	49	1
Enterprises	630	774	22
Individuals	10	12	-
Total	**2,966**	**3,645**	**100**

(i) £ 1,040m in England (see tables in 2.2.1) plus £ 171m in Scotland, Wales and Northern Ireland.
(ii) £ 734m in England (see table 9 in 2.2.3) plus £ 241m in Scotland, Wales and Northern Ireland.

Participation in education and training by 16-18 year olds, which includes IVT but is not exclusively IVT, shows the following pattern:

Table 14: Participation rates in education and training in England (%)

	1986/87*	**1991/92***	**1994/95**	**1995/96**	**1996/97**
Age 16					
– Full time (i)	46.8	66.6	71.0	70.7	70.3
– Other gov't supported (ii)	n/a	16.1	12.6	10.8	10.1
– Employer funded	-	2.4	1.9	2.0	2.0
– Other	-	2.8	4.5	4.4	4.8
Total (iii)	**46.8**	**86.3**	**88.2**	**86.9**	**86.4**
Age 17					
– Full time (i)	23.3	48.8	58.7	58.7	58.0
– Other gov't supported (ii)	n/a	18.5	13.4	12.2	11.5
– Employer funded	-	4.7	2.8	2.9	3.3
– Other	-	4.5	6.1	6.1	6.7
Total (iii)	**23.3**	**75.6**	**79.4**	**78.7**	**78.7**
Age 18					
– Full time (i)	n/a	28.3	38.4	39.5	38.1
– Other gov't supported (ii)	n/a	6.6	7.7	7.7	8.6
– Employer funded	-	8.6	5.4	5.1	4.5
– Other	-	6.6	8.3	8.4	9.0
Total (iii)	**-**	**49.8**	**59.2**	**60.1**	**59.7**

* Data series changes after these years.
(i) Schools and colleges; academic and vocational
(ii) Part-time, mainly colleges
(iii) There is some overlap between full time and other government supported, hence the totals exceed the sum of the participants within the different programmes.

Source: DES, DfEE (1998)

2.6 General conclusions

Whether the totality of funding or the distribution of that funding played a significant part in the determination of participation is difficult to assess, as macro economic factors are also likely to have been important. As far as IVT is concerned it is evident that the funding changes noted in this section, particularly those involving competition between providers, have served to increase the cost efficiency of the system and to reduce unit costs. Funding systems, which empower the IVT customer, i.e. the 16-18 year old seeking vocational education and training, have not had notable success. The training credits initiative has declined and the use of similar vouchers for funding further education has been specifically rejected.

The use of three separate systems to fund IVT has naturally led to comparisons being drawn between them. The so-called “convergence” studies of unit funding undertaken by DfEE appear to show an approximate equivalence of school and further education college unit funding per “successful” student but that the work-based route is less expensive. There has been much discussion of the comparison methodology and the results, and no conclusions have yet been drawn (DfEE, 1997(b). A parallel study moreover has examined the implications for schools were they to adopt a funding method similar to that applying to colleges; again conclusions are awaited. It is clear however that convergence of systems which produce essentially the same type of result, in this case IVT, is likely when overall savings might be produced.

The systems remain quite different however in the matter of output related funding (ORF). None of a school’s budget is determined by ORF, and a maximum of 10% of college funding is so determined. In Work-based Training for Young People however about 30% of the funding total is ORF. Whilst it is impossible to say that the cost efficiency of the work-based route is due to ORF, the possibility has been considered in the convergence studies noted above.

Part 3 Continuing Vocational Training

Continuing vocational training (CVT) is defined in this portrait as training for those in employment, but excluding those aged 16-19 who are considered to be participating in IVT. CVT would include on-the-job training, adult vocational training, open learning opportunities etc. It can take place in a variety of locations such as within enterprises, with private training providers, and within further education colleges, and it may be funded by either private finance or public finance or a mixture of the two.

3.1 Background

Workers in employment need to continually update their skills and knowledge in order to increase their productivity. As industrial and commercial requirements change moreover, workers need to retrain to gain new skills. The whole process of CVT is an old one but the pace of change has given added emphasis to CVT in its many guises. A recent government report “The Learning Age” seeks to establish a national culture of lifelong learning and has drawn attention to the need for a national initiative in CVT, an initiative which is likely to have very significant impacts on the providers and funding mechanisms for CVT. Similar objectives were contained in The Scottish Office report “Opportunity Scotland”.

The bulk of CVT has traditionally involved enterprises training or re-training their own staff. Quite which activities actually constitute CVT however, is problematic because workers might be “trained” in any number of ways, only some of which would be considered CVT. Workers taking qualifications and/or being trained away from the workplace would certainly constitute CVT, but the myriad of occasions when ad-hoc on-the-job training takes place with a new system or piece of machinery would be too numerous to capture.

For the purpose of this financial portrait we will identify three alternative routes for CVT:

(a) An enterprise can train its own employees, using substantially its own funds. The training might be in-house, by a private provider or by a further education college. In order to assist such activity there are a number of government programmes which supply different types of funding.

(b) An enterprise can train its own employees, using substantially public funds, by making arrangements with a further education college for the employees to be enrolled as students.

(c) Individual employed people can undertake CVT with their own funding plus some government support or with public funding by enrolling at a further education college.

3.1.1 Employer and publicly funded CVT

The main route remains, the employer/enterprise funded alternative, although accurate figures are very difficult to obtain. A survey of the situation in 1993 (DfEE, 1996) shows that 88% of employers provided training (an increase from the 80% figure of 1987) the breakdown being:

- 141m days on-job training. This is defined as training which is planned in advance, takes place within the normal work position of the trainee, using the normal tools of work, with a manager or other responsible person spending a significant amount of time with the trainee to help them learn or develop skills. This definition excludes induction and familiarisation training.
- 25.4m days internal training courses. This is defined as education and training courses, seminars, conferences, workshops, lectures, self/open/distance learning which are run by the employing company.
- 23.4m days external training courses. This is defined as education and training courses, seminars, conferences, workshops, lectures, self/open/distance learning which are run by organisations external to the employing company.

The TECs and LECs, which were set up in 1989, channelled government assistance and guidance on CVT at a local level whilst maintaining the principle of voluntarism. To assist the operation of the training market there are now several separate government-funded programmes assisting enterprises with CVT including:

- Skills for Small Businesses
- Small Firm Training Loans
- The Local Competitiveness Budget
- The TEC Strategic Budget

In addition to these government-funding programmes to support enterprises in providing CVT for their employees, a further “standard” regarding the level of enterprise investment in training has also been developed known as Investors in People (IIP). This “standard” and other funding programmes are described more fully below (3.2.1).

In addition to TEC assistance the training services of further education colleges are also available. Enterprises paying for training might buy provision at full cost from further education colleges but there is also a long-standing tradition of employers “releasing” students to attend colleges on publicly funded courses. In this the second CVT route, the employer usually contributes about 25% of the cost of provision in the form of a fee with the remaining 75% funded by the FEFC. These “day-release” courses continue to be an important part of some colleges’ work. They have now been joined moreover by an arrangement known as “franchising” which has added to publicly funded CVT by reclassifying some of the previous full cost provision.

Franchising is a form of subcontracting by the training providers. Concerning CVT a college may agree with an employer that the employees receiving CVT will be enrolled by the college. The college draws funding from FEFC just as it would for IVT or day release CVT, and may also receive payments from the employer. The growth of franchising has contributed to the substantial growth of adults enrolled in colleges. Between 1994/95 and 1995/96 the number aged 19+ increased from 1.5m to 2.4m (+60%) whereas the number of 16-18 year-olds increased from 630,000 to 640,000 (+2%), (NAO; 1997; The Management of Growth). By 1996/97 the total number of students on franchised courses had risen to 700,000 (19% of all FEFC students); about 10% of all FEFC funding was being spent on franchising (Education and Employment Committee, 1998). The total amount of substitution of public funding for private funding has not been estimated and was perhaps not very large, but the potential was clear. When the problem of substitution was recognised more stringent conditions were put in place by FEFC including a standard form of contract between colleges and franchisees. It is a condition of the standard contract that a franchising enterprise will not spend less on training than was the case before the franchise. Franchised provision is now separately identified in the funding system and funded at a lower rate; it is also subject to volume control.

3.1.2 CVT for individuals

The first two CVT routes concerned enterprises training their own staff. The third route concerns employed individuals deciding to upskill or change their career direction through continuing education and training. Government funding is involved in:

- Career Development Loans
- Vocation Training Relief (tax rebates)
- Individual Learning Accounts.

Individuals may also access the training services of further education colleges.

3.2 Funding sources and distribution mechanisms for employer-based CVT

The most recent figures for employer-funded CVT refer to 1993 and amounted to expenditure of £10.6bn (ECU 13.6bn) for that year. These figures were produced by a survey (IFF, 1996) of more than 4,000 employers in the UK, with the results being extrapolated according to Census of Employment data. A more recent estimate (CBI, 1995) put a figure of £28bn (ECU 33.8bn) on employer CVT including loss of production, but this was based on grossing-up an earlier survey and is therefore not preferred to the 1993 data.

Table 15: Employer costs for CVT (1993)

	Internal and external training courses	**On-the-job training**	**Total**
All employers	**£8.0bn**	**£2.6bn**	**£10.6bn**
ECU bn	**10.3**	**3.3**	**13.6**
Employers by size (no. of employees)	**%**	**%**	**%**
• 10-24	16	30	19
• 25-49	12	22	14
• 50-99	14	11	13
• 100-199	10	12	11
• 200-499	13	8	13
• 500+	35	15	30
Total	*100*	*100*	*100*
Business sector	**%**	**%**	**%**
– Government	26	14	23
– Office based	28	23	26
– Production	19	20	19
– Distribution	12	28	16
– Other services	5	10	6
– Communication	7	2	6
– Construction	3	4	4
Total	*100*	*100*	*100*

Source: IFF (1996)

Table 16: Average CVT costs per employee (1993)

	Internal and external training courses (£)	**On-the-job training (£)**	**Total (£)**
All employers (average)	**445**	**144**	**589** (ECU 755)
Employers by size (no. of employees)			
• 10-24	465	284	749
• 25-49	420	243	663
• 50-99	499	134	633
• 100-199	417	154	571
• 200-499	435	109	544
• 500+	441	63	503
Business sector			
– Government	402	67	470
– Office based	856	227	1,083
– Production	384	133	517
– Distribution	273	211	484
– Other services	407	281	689
– Communication	496	37	533
– Construction	405	150	555

Source: IFF (1996)

Table 17: CVT course costs (1993)

	Cost per training day (£)	**Cost per trainee (£)**
All employers (average)	**164** (ECU 210)	**993** (ECU 1,273)
Employers by size (no. of employees)		
• 10-24	193	1,012
• 25-49	155	1,223
• 50-99	188	771
• 100-199	173	1,052
• 200-499	157	1,921
• 500+	150	701
Business sector		
– Government	149	999
– Office based	227	882
– Production	162	921
– Distribution	134	1,111
– Other services	155	817
– Communication	164	1,102
– Construction	107	1,624

Source: IFF (1996)

From the figures a number of tentative conclusions may be drawn. Firstly, the average CVT spending per employee decreases with the size of the enterprise (i.e. the larger the enterprise in terms of employees, the smaller the average cost of training per employee), with supervised on-job training being the most important variable. Office based businesses are the highest spenders per employee by a considerable margin. Office based businesses are again in the lead in terms of CVT costs per training day, but construction businesses are well ahead in costs per trainee.

3.2.1 Government programmes and funding for employer training

The government gives assistance to enterprises undertaking employer-funded CVT through several separate programmes. There were significant changes in this area in 1997/98, the details of which are still emerging.

3.2.1.1 Skills for Small Businesses

Skills for Small Businesses helped companies with less than 50 employees to provide training for one or two employees within each company to lead the delivery of training within that company. It is in effect a “train the trainers” initiative, and started in 1995. Expenditure in 96/97 was £25m (MECU 31).

3.2.1.2 Small Firm Training Loans

The Small Firm Training Loans scheme was set up in 1994 to help small firms of up to 50 employees to improve the skills of their employees. The programme is similar to Career Development Loans described below, in that major UK banks approve, on the basis of a business plan, a loan between £500 and £125,000 (ECU 739 – 184,750) to the companies which wish to undertake training and the DfEE pays the interest. Repayment is deferred according to the amount of money borrowed: 6 months for £500-£7,000 borrowed; 9 months for £7,001-£15,000 borrowed; 12 months for £15,000 borrowed or more. Individual employees have a say in the type of training they wish to undertake provided that it fits the objectives of the business plan. The programme has a budget of £0.3m (ECU 0.44m) for 1998/99.

3.2.1.3 The Local Competitiveness Budget

The Local Competitiveness Budget was introduced in 1997-98 to promote effective investment in learning, training and development in all sizes and types of companies. Its objectives are:

- to promote the achievement of the Investors In People award (see below);
- to improve skills in companies of fewer than 50 employees;
- to improve higher level skills in the workforce, particularly management development;

- persuading employers and individuals that training is worthwhile.

The Local Competitiveness budget combines previous government departments' separate initiatives to support business. Government Regional Offices negotiate with each TEC on the delivery of the service. TECs then use the budget to promote local economic development. Contributions from the Local Competitiveness Budget are normally matched with employer funding. The proportion varies from TEC to TEC.

3.2.1.4 The TEC Strategic Budget

The TEC Strategic Budget, formerly the TEC management fee, has provided funding for TECs since their inception as a contribution to their strategic role in local economic development which includes general support to education and training. A budget of £93m (MECU 137) is available for 1998/99, down from £100m (MECU 123) in 96/97, a small part of which may be considered as an indirect funding source for employer-funded CVT, but the correct proportion cannot be calculated and it is excluded from the figures in this portrait.

3.2.1.5 Investors in People (IIP)

Investors in People (IIP) was launched in 1991 and while it is not strictly a source of funding for CVT it has been an important initiative to recognise those enterprises which invest in training for their employees. The programme provides employers with a national standard of training need analysis and those companies wishing to be recognised as an Investor in People must conform to this standard. IIP helps to maximise business performance by linking the training and development of employees to an organisation's business objectives. The IIP standard is based on four main principles:

- *Commitment* Senior management makes a commitment to develop all employees to achieve business objectives
- *Planning* The employer regularly reviews its business objectives and plans how to achieve them by developing the skills of the individual employees and the teams
- *Action* The employer trains and develops individuals from the time when they are recruited and throughout their employment
- *Evaluation* The employer evaluates the investment in training and development and assesses the impact of the training on improved effectiveness.

The employer pays for the cost of assessment which varies depending on the size of the company; matched funding is available through the TECs and varies from employer to employer. By the end of 1997 a total of 8,600 UK firms had been recognised and over 21,400 were working towards the standard. Total government expenditure was £55m (MECU 68) in 96/97, but it is not possible to estimate the relevant company expenditure.

3.3 Funding sources and distribution mechanisms for publicly funded employer CVT

In addition to the specific assistance programmes which enterprises may access to support their CVT, further education funding is available to part fund courses which are mainly funded by enterprises. There is also the issue of day-release courses and franchising (see section 3.1.1), and the use of colleges by employed people. The total amount of FEFC funding for all three routes in 1996/7 is estimated at £1,100m (MECU 1,352); it is not possible to subdivide this figure into the individual routes. On top of the FEFC funding it is estimated that students' fees add a further £130m (ECU 160) per year.

3.4 Funding sources and distribution mechanisms for individual CVT

Individuals who are employed may use their own resources for CVT. If they use a further education college they are likely to be funded by FEFC and would be included in the estimated figures shown above. An individual may also access a number of other government sources.

3.4.1 Career Development Loan (CDL)

The career development loan (CDL) is a deferred repayment bank loan which helps to pay for vocational education or training. It is aimed at people who wish to further or change their careers but who lack the finance to pay for the training themselves. They can apply to borrow between £300 and £8,000 (ECU 443 – 11,824)[3] to pay for up to 80% of course fees and the full cost of books, materials and other related expenses. Their income is not taken into account when deciding on the loan. They can take any course, whether it is full-time, part-time or distance learning, provided the course does not last longer than two years. At further education colleges the course fees are likely to be lower than at private training providers, and may in some circumstances be waived altogether.

CDLs are available through a partnership between the DfEE and four major national banks. The person applies for a free loan with one of these banks. If the bank is willing to lend the money, the DfEE pays interest to the bank at an agreed percentage above base rate while the person is on the course as well as one month after completion. If borrowers do not find employment on completion, they may apply to defer payments for up to 5 months. In this case DfEE will pay the banks the interest but at a higher rate than for on-course loans.

The CDL may be used by both the employed, which make up the majority of takers, and unemployed people. While the employed can go to the banks direct, unemployed people need to have their loan endorsed through the TECs before approaching the bank. On the

[3] At the 1998 exchange rate.

other hand, unemployed people may apply for 100% of course fees as well as living expenses if the course is full-time. In 95/96 TECs endorsed 28% of the applications. £298m has been advanced to over 95,000 applicants since the programme began in 1988. 17,000 applicants are expected for 1998/99 and the budget is £12.9m (MECU 19.1).

3.4.2 Vocational Training Loans

Vocational Training Loans enable individuals to claim course fees against tax, provided that they are working towards a National Vocational Qualification. Training providers may deduct the basic rate of tax (currently at 23%) against course fees. If the individual is a higher rate taxpayer (currently 40%), then the difference may be claimed against the individual's tax bill. The Inland Revenue provided a total of £35m (MECU 51) tax relief in 1997 to an estimated 200,000 taxpayers. The average tax relief amounted to £175 (ECU 253) per taxpayer who claimed the relief.

3.4.3 Individual Learning Accounts

Individual learning accounts which form part of the government's Lifelong Learning Initiative are currently in the first phase of development. The aim of the accounts is to encourage people who are in employment to invest in their own learning and career development. They will be able to transfer £150 (EUR 213) provided by the government into their own learning account and will be encouraged to contribute their own money as well. The individual's minimum contribution is likely to be £25 (EUR 36) per account. Employers will also be able to pay into the account. This initiative is intended to complement two others: Investors in People and University for Industry (see sections 3.2.1.1 and 3.4.4).

There will be two phases to the development of the accounts. The target for the first year will be to establish 100,000 learning accounts delivered through twelve projects involving 34 TECs. These will test different ways of working with banks, credit unions, employers, trade unions and providers of education and training. The use of borrowing facilities, in particular smartcards, will also be investigated. A national system of Individual Learning Accounts is planned for April 2000 with a target of 1 million accounts, funded by £150m of government funding.

3.4.4 The University for Industry (UfI)

The University for Industry (UfI) is a particularly important government initiative affecting the whole CVT area but with special relevance to individuals' investment in their own training. UfI is central to the government's policies for lifelong learning. The government predicts that within five years of launch 2.5 million people and businesses a year will be using UfI Information services, with over 600,000 a year following UfI-brokered programmes of learning. It will have both private individuals and businesses as customers. Using modern technologies, it will broker learning products and services and make them available at home, in the workplace and at learning centres countrywide. It aims to break down the barriers to learning by making provision more flexible and assessable and by giving advice, thereby providing opportunities for people to learn at their own pace and in convenient locations.

The UfI will have six key activities:

i. analyse the needs of the market and potential customers;
ii. drive demand for learning through mass marketing and promotion;
iii. provide people with information, advice and guidance;
iv. ensure the availability of, and connect customers to, high quality learning programmes;
v. commission new content to bridge gaps between supply and demand;
vi. ensure the quality of products and services accessed through it.

The infrastructure of the UfI will include a national network of learning centres. Many will be on existing facilities in workplaces, colleges, universities, schools and libraries. Others, with the UfI's encouragement, might be established in new locations ranging from housing estates and shopping centres to football clubs and leisure centres. The aim is to attract more people and businesses, who might otherwise be deterred from learning, by providing them with more convenient ways to improve their skills.

Customer support systems will include:

- enquiry systems including Learning Direct's telephone helpline[4]
- individual membership systems
- corporate membership systems
- guidance systems.

The public-private funding arrangements for the University for Industry are particularly interesting. During the period up to UfIs launch the government has allocated £15m (MECU 22) for the financial year 1998-99 and £40 million (EUR 57 million) for 1999-2000. A number of development projects (related to the aims of the UfI) have started, to run through to year 2000, in part funded by the European Social Fund through The ADAPT and Objective 4 programmes.

The government's estimate of the UfI costs in its launch year of 1999-2000 is £50 million (EUR 71 million). After the launch period public sector funding will mainly be to support

[4] Learning Direct is a UK-wide telephone helpline, which operates free of charge to the user and offers advice on how to re-enter the world of learning and on courses to suit individual needs. Learning Direct may refer callers to local advice centres, adult education, further and higher education and private providers. It has links with careers guidance centres at the local level and with TECs, the Youth Service and the Employment Service. It can also advise employers about qualifications and training for their employees.

particular groups of learners. The UfI will be expected to raise its own income from a range of sources which are expected to include:

- charges for brokerage or for specialist guidance, although information and advice will be free to individuals);
- payment from public funds for some purchases of UfI services, e.g. basic skills provision;
- charges to employers or other organisations which provide learners with UfI services as part of wider training programmes;
- charges to providers for including learning products within the UfI portfolio;
- sales of products and services commissioned directly by the UfI to companies and individuals;
- franchise fees, primarily from learning centres but also from the sale of other products endorsed by the UfI;
- sponsorship income;
- sales of database information (subject to appropriate data protection legislation and other requirements on privacy and confidentiality), either for the marketing of learning products, or more widely, or for labour market information and analysis;
- sales of rights to media companies, including, possibly, a subscription TV channel.

3.5 Scotland, Wales and Northern Ireland

CVT systems in the rest of the UK are broadly similar to those in England. Some of the programmes have different names but the underlying approach is the same. TECs exist in Wales but in Scotland there are different arrangements - the Local Enterprise Companies (LECs) have a broader remit than TECs (although very similar VET responsibilities) and are run by one of two government agencies, Scottish Enterprise and Highlands and Islands Enterprise. In Northern Ireland the Training and Employment Agency (TEA) is funded by the Department of Economic Development to deliver a variety of VET and other programmes. The total sums of funding are difficult to quantify because of the different system and organisations. The figures for enterprise expenditure have been provided under 3.2, but where the government programmes are separate from those in England, the approximate CVT funding for 96/97 is given in the table below.

Table 18: Public sector CVT funding for Scotland, Wales and Northern Ireland (1996/97)

	College funding (£m)	TEC/LEC/TEA funding (£m)
Scotland	120	22
Wales	40	22
N. Ireland	38	23
Total	198	67
MECU	243	82

Source: Scottish Office (1997), Training and Employment Agency (1997), DfEE (1998)

3.6 Total levels of funding

The table below gives an estimate of CVT funding for 1996/97, in terms of public sector and private expenditure.

Table 19: CVT funding (1996/97)

	£m	MECU	%
Government			
– programmes	161	198	1
– further education	1,298 (i)	1,595	10
Total	1,459	1,793	
Local authority	0	0	0
Enterprises	10,600	13,027	87
Individuals	130	160	1
Total	**12,189**	**14,980**	**100**

(i) £1,100m in England (see 2.2.1) plus £198m in Scotland, Wales and Northern Ireland.

3.7 CVT Conclusions

In terms of expenditure CVT continues to dominate vocational education and training, being much bigger than IVT or TfU. Were the opportunity cost due to the loss of production to be included in the costs of CVT the domination would be even larger. It reflects the importance of re-skilling and updating the workforce. As the pace of development quickens we might expect the position of CVT within VET to grow further.

Within CVT specifically there is a dominance of private or enterprise funding (about 90%) over government funding (about 10%). The government sector is involved in CVT with a variety of programmes for both direct and indirect funding, but such programmes are small in comparison with the whole of CVT. The programmes divide into firstly, a set of relatively small scale initiatives to assist the privately funded training market, and secondly part of the further education sector which may be classified as CVT. A recent development in further education CVT, the franchising problem, was inadvertent. Once the government discovered that public funding was being used to substitute for private sector funding there was a substantial review of the funding methodology. Although the possibility of substitution still exists, it is not an area which will grow.

For the future, the University for Industry is clearly the most significant development. Whilst it retains an assisting and brokering role, rather than directing or controlling, the scale of the initiative is likely to have a large impact on continuing vocational education and training.

Part 4 Training for the unemployed

Training for the unemployed (TfU) is defined in this portrait as vocational education and training for those persons aged 19+ who are unemployed. Those persons aged 16-18 who are unemployed are classified as IVT for the purposes of this portrait as they are not entitled to claim unemployment benefit.

4.1 Background to training for unemployed people

Significant developments took place in the public sector approach to training for unemployed people (TfU) in 1997 and 1998. This section therefore will outline the system prior to 1997, as there is a good deal of data available. A description of the new system is also included in this section but as yet there is little data.

The programmes and funding for training for unemployed people are closely related to unemployment benefit. It is the task of this section to identify those parts of benefit which contribute to vocational education and training and the programmes which an unemployed person might access. It should be noted that an unemployed person can also access one of the VET provisions described under IVT or CVT although that provision is not necessarily only for unemployed people. In looking at TfU, we concentrate on the provision made specifically for the unemployed rather than training which may be accessed by the unemployed amongst other groups.

It is worth highlighting that there may exist a contradiction between the provision of unemployment benefits and the accessing of training. A condition for receiving unemployment benefits is usually that a person is available for work. If such a person is involved in vocational education and training they may be viewed as not being available for work, and therefore not a proper recipient of unemployment benefit. A compromise (the 16-hour rule) has been established which allows unemployment benefit recipients to participate in VET up to a maximum of 16 hours per week. This rule does not apply to unemployed people who are not recipients of unemployment benefit (although they may be receiving other unemployment-related benefits), nor to those involved in training as part of an unemployment benefit scheme.

4.1.1 The pre-1998 Training for Work scheme

Until 1998 the main TfU programme was the DfEE “Training for Work” (TfW) programme for people between the ages of 18 and 63 who had been unemployed for six months or more. TfW consisted of a mix of guidance, training, qualifications, and structured work experience, based on an initial assessment, with the aim of helping long-term unemployed adults to get jobs as quickly as possible.

Within the overall aim, TfW had four key objectives:

- achieving employability, through pre-vocational training by developing the skills sought by employers;
- encouraging and helping employers to recruit and train unemployed adults;
- developing new or enhanced occupational skills leading to jobs; and
- encouraging and supporting self-employment through training.

Each TfW trainee received a training allowance equal to their unemployment benefit plus £10 per week. Assistance with travel, lodging, childcare etc. was available at the TECs discretion.

TECs managed TfW at a local level and had the flexibility to tailor it to match emerging opportunities in the local labour market and the needs of each trainee. Although the aim of TfW was to help people get jobs, it also helped them enter further education or training and achieve National Vocational Qualifications (NVQs/SVQs).

Table 20: Training for Work: expenditure and performance (England)

	1995-96 *(out-turn)*	**1996-97** *(out-turn)*	**1997-98** *(estimated out-turn)*	**1998-99** *(plans)*
Expenditure (£m)	502	460	424	340
MECU	606	565	612	503
No. of starts (000s)	214	215	200	120
% of leavers gaining jobs	41	43	46	46
Cost per job (£) - including fees and allowances	5,960	4,617	4,800	6,200
% of leavers gaining NVQs	39	33	30	35
Average length of course (weeks)	17	13	13	19

Note: Earlier years' data are not available.

Source: DfEE (1998)

4.1.2 Work-based Training for Adults and the New Deal

Training for unemployed people has undergone major changes since the election of the government in May 1997. For those aged 25-63 Training for Work continues, but under a new guise - Work-based Training for Adults (WBTA). For those aged 18-24, there is a completely new programme called "New Deal", which aims to be a more proactive policy towards young unemployed people. The current government had already announced before the last general election that they would raise a £5.2 billion windfall tax from the previously state-owned companies which had been privatised during the 1980s and 90s.

£3.5bn would be used to finance training for 18-24 year-olds who had been unemployed for over 6 months. The Department for Education and Employment has been charged with the management of the New Deal for 18-24 year-olds as well as the subsequent extension of the target groups to the programme.

The Training for Work programme has been replaced with Work-Based Training for Adults to help those at risk of exclusion from the labour market. The programme is open to people aged 25-63 who have been unemployed for 6 months or more. The TECs manage WBTA through funding colleges and private provision for training schemes including literacy, numeracy, English as a second language, low self-esteem and motivation, health problems, a history of offending and alcohol or drugs abuse. Regional Development Agencies will also take a major role in WBTA. They will be expected to take a strong strategic regional role in determining the skills requirements of each region and co-ordination of training provision. They will work closely in partnership with other players such as the TECs, local authorities and chambers of commerce. In a continually changing picture, parts of WBTA are being re-designated as New Deal.

The New Deal for the young unemployed aims to help all 18-24 year olds who claim unemployment benefit for six months or more back into the labour market, into sustainable work and to improve their employability. In addition, the New Deal will also be available to young people at particular disadvantage in the labour market. Early access to the New Deal will be available to young people with particular needs, for example, ex-offenders, people with a health condition or disability or those requiring help with literacy and numeracy.

The organisation of New Deal is in the hands of a new type of institutional arrangement - the Local Partnership. There is no prescribed model for a partnership, it can take one of many forms. Typically the constituent members would include local authorities, local employers, TECs, further education colleges, and local voluntary groups; the leadership role might be taken by any of the constituents, but in the first set of partnerships local companies and local authorities were in the forefront of the partnership. Each Local Partnership negotiates to agree a strategy with the Employment Service of the DfEE. The delivery of the New Deal programme can be by members of the partnership, or it may be subcontracted.

The New Deal has three stages of participation - the Gateway, four “options”, and a follow-through strategy. The Gateway may last for up to four months and aims to:

- help those who are already equipped to find jobs to do so;
- provide help for those who, with some immediate support, could quickly improve their prospects of getting a job quickly - and then work intensively with them to find jobs; and
- for those who take up New Deal options, provide the support and help required to enable them to make choices, and to prepare them to gain the maximum benefit from the option in terms of developing skills, employability and job prospects.

During the Gateway, young people will receive regular advice and guidance to identify the action needed to find work. Throughout participation in the New Deal, each young person will be supported by an Employment Service personal adviser.

The New Deal options are all designed to improve young people's ability to find and stay in work. The options available are:

- To work with an employer for six months. The employer will receive a subsidy of £60 (ECU 89) per week.
- To participate in full-time education and training for up to a year. This option is mainly for those who lack qualifications at NVQ/SVQ level 2 or equivalent. According to the Labour Force Survey, half of those 18-24 year olds who have been unemployed for six months or more are not qualified to NVQ/SVQ level 2 or equivalent. Young people on this option will receive an allowance equivalent to their unemployment benefit and will retain their entitlement to any related benefits.
- To work in the Voluntary Sector for six months. Participants will receive either a wage or an allowance equivalent to the participant's weekly unemployment benefit together with a grant of £400 (ECU 591);
- To work on the Environment Task Force for six months. The young person will receive either a wage or an allowance equivalent to the participant's weekly unemployment benefit together with a grant of £400 (ECU 591).

In addition to the provision in the full-time Education and Training option, each of the three work options will include education and training equivalent to one day a week for six months, for which training providers will be paid £750 (ECU 1,108).

The follow-through strategy aims to provide continued help and support to those participants who do not get jobs.

4.1.3 Further education and training for unemployed people

Further education colleges are involved in training for unemployed people in a variety of ways, but for most colleges TfU is not central to their mission. The potential contradiction between unemployment benefit and access to training has already been noted but nevertheless more than 100,000 students (7% of the total) on FEFC-funded courses were unemployed and claiming benefit. The funding of this group would amount to some £100m per year (see section 2.2.1). Because they are unemployed it is unlikely that any of the group would pay fees. In addition, some of the New Deal training programmes will be placed in further education colleges.

4.2 Sources of funding

4.2.1 Central government

The major source of all TfU funding is the government, passing funds through the DfEE or other departments as noted below. The government receives funding from general taxation as described in earlier sections. In addition, however, the government has levied a windfall tax on the recently privatised utility companies to fund certain aspects of training for unemployed people.

Expenditure for Training for Work, part of which has become Work-based Training for Adults is outlined in table 19 above. The table below outlines the budget for the New Deal in 1998-99.

Table 21: The New Deal Budget (1998/99)

New Deal elements	
New Deal 18-24 and unemployed for 6 months	£499.5m
New Deal 25+ and unemployed for 2 years	£114.0m
New Deal Lone Parents	£17.5
New Deal for Disabled People	£3.0m
Total	**£634m**
MECU	937

Source: DfEE, 1998

At the time of writing this report, New Deal was being expanded to include people between 24 and 35, lone parents, and disabled people.

4.2.1.1 Employment Zones

Employment Zones were launched in February 1998 to help long-term unemployed job-seekers who live in areas of high unemployment and are 25 years and over with training and other help. The provision is delivered in partnerships of local authorities, voluntary groups, and enterprises along the same lines as New Deal. The government-funded budget of £33m (MECU 49) over two years includes payment of allowances to participants.

4.2.1.2 Other government programmes

Other programmes exist to help unemployed people find work, which have elements of vocational education and training within them but are not classified in this portrait as VET, for example Jobclub which assists unemployed people in their search for work.

4.2.2 EU funding

The European Social Fund (ESF) is a major contributor to UK initiatives to improve employment opportunities. It co-finances programmes such as vocational training, guidance and counselling and job creation projects. The European Social Fund is administered in partnership with organisations such as TECs/LECs, local authorities, higher and further education institutions and the voluntary sector. ESF is a revenue funding source and is complemented by the European Regional Development Fund (ERDF) which funds capital development. Details of total ESF funding are shown in table 1.6, although the TfU element is not separately identifiable.

4.3 Finance distribution mechanisms

Work-based Training for Adults is funded along broadly similar lines to the IVT work-based training provision for young people although there are some important differences. As with initial vocational training TEC programmes, the DfEE funds Government Regional Offices (GROs), which fund TECs, which fund training providers. The funding per trainee is in two parts, a "starts" payment of about £1,475, and an output payment of about £525 per output point where the points are calculated as shown in the following table. The length of the programmes varies depending on the needs of the trainee; the average length is 13 weeks.

Table 22: Points value for Work-based Training for Adults

Output	Points value
NVQ 1-2	2
NVQ 3-4	4
Job	4

The GROs negotiate performance targets and funding with individual TECs on the basis of agreed business plans which include, inter alia, numbers of trainees and types of training to be provided. TECs have considerable discretion in the funding and contracting arrangements they have with providers, and these vary significantly from TEC to TEC. About 65% of funding is output related although this again will vary not only from TEC to TEC, but within each TEC from contract to contract.

Before the introduction of New Deal all TfU finance passed from DfEE via the Government Regional Office to the TECs. The New Deal initiative however has introduced a new funding distribution mechanism involving the Employment Service (ES), an executive agency of DfEE, and Local Partnerships. The Local Partnerships bid for funding to the Employment Service in a way similar to the business planning negotiations between Government Regional Offices and the TECs, (see 2.3.3). The details of the finance distribution mechanism, however, are still evolving. The Local Partnerships fund the training providers, a substantial change from the previous system where the TECs alone funded the providers. Thus some providers will be able to choose whether to work with TECs on WBTA, or with Local Partnerships on New Deal, or with both.

4.4 Scotland, Wales and Northern Ireland

The funding of training for unemployed people in Scotland and Wales follows very closely the systems described for England, with TECs and LECs allocating government funding to a variety of training programmes; the main training programme in Scotland is called "Skillseekers". In Northern Ireland the Training and Employment Agency (TEA), an executive agency within the Department of Economic Development, has primary responsibility for training and employment services. Both youth and adult unemployment are particular problems in Northern Ireland. For TfU there are several programmes including Jobskills, and Action for Community Employment; training is delivered in enterprises and in the Training and Employment Agency's network of ten training centres.

Table 23: Funding for training for unemployed people in Scotland, Wales and Northern Ireland (1996/97)

	TEC, LEC, TEA funding
Scotland	£76m
Wales	£23m
N. Ireland	£40m
Total	£139m
MECU	171

Source: Scottish Office (1997), Training and Employment Agency (1997), DfEE (1998)

4.5 Total levels of funding

Table 24: Total level of funding for training for unemployed people (1996/97)

	£m	**MECU**	**%**
Government (training for work)	460	565	67
Government (colleges)	100	123	13
Scotland, Wales, N. Ireland	140	172	20
Total	**700**	**860**	**100**

As was shown in table 6 (1.6.3), the funding of training for the unemployed has fallen both in cash terms and in real terms since 1986/87. Much of this reduction is due to reduced unemployment, but the programmes themselves have become more focused and efficient.

4.6 Conclusions

Training for unemployed people is in a state of flux as the New Deal initiatives take over from the previous Training for Work programmes which themselves are fairly recent. The results achieved by the previous programmes did indicate an improvement in terms of programme leavers entering the labour market, which increased from 31% in 1991-2 to 45% in 1996-7, although the New Deal aims to improve further.

New Deal is a more structured programme at the national level; it is wider in its training scope, is more proactive towards trainees, and because of the Windfall Tax is better funded. In addition, the New Deal involves Local Partnerships which challenge the primacy of the employer-led TECs in the role of training. TECs are by no means excluded from the partnerships but their agendas must accommodate a more community-based approach.

For the outgoing system, perhaps the main feature requiring comment was the degree of output related funding; as much as 60% of funding in most TEC-managed Training for Work programmes depended on the trainee achieving a qualification of finding a job. An evaluation (Coopers and Lybrand, 1995) of the ORF aspect of Training for Work is interesting. The study examined the results of changing the Training for Work funding system in seven pilot areas, comparing the outcomes achieved with seven (unchanged) comparable areas. One of the key changes made was to increase the degree of ORF from 60% to in excess of 75%. The reports concluded:

"... (the ORF change) is having a positive impact on performance through significant changes in TEC and provider behaviour as a result of the financial incentive of the outcome payment. However, in our view, such altered behaviour reflects good management practice and evidence from some of the comparators indicates that a .. (greater ORF) ... model is not the only way to secure this beneficial change - and their improvements in recorded performance."

When the possible benefits of greater ORF are compared with the negative effects listed by Felstead (Felstead 1998), including fraud by funders or providers, short-termism, and the exclusion of "expensive or difficult trainees", the balance of advantage remains unclear.

In spite of the changes, New Deal funding remains heavily output related.

PART 5 The future of financing VET: trends and perspectives

The picture of vocational education and training in the UK is one of diversity and complexity. Even to one inside the system, the number and variety of different programmes for different parts of the VET structure can appear confusing. On the other hand the richness results in potential trainees being given a number of different options and a wider choice than might have been available in a more coherent system.

The diversity reflects the three separate traditions still apparent in VET:

- the voluntarist, employer-funded training for their own employees, sometimes assisted by state-funding;
- the state-funded education and training system which includes schools and further education colleges, and has an emphasis on education;
- the state-funded skills and employment training system which uses local employer-based bodies, and has an emphasis on training.

The financial arrangements which have been described in this portrait are mainly determined by these three traditions. The two traditions which are state funded are sufficiently distinct as to represent different paradigms of state funded VET.

In terms of the total amount of funding for VET it is clear that enterprise-funded provision dominates, but the state is important for initial training and for unemployment training. Within continuing vocational training, deregulation and voluntarism have been the key government policies. Government assistance to smaller enterprises has been available, but for the most part, enterprises are judged to be in the best position to make decisions on VET. There may be some changes with the introduction of Individual Learning Accounts, but wholesale re-regulation through industry training boards seems very unlikely.

Table 25: Funding summary (1996/97)

	IVT		**CVT**		**TfU**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Central gov't	2,286	77	1,457	12	700	100
Local gov't	40	1	-	-	-	-
Enterprises	630	21	10,600	87	-	-
Individuals	10	-	130	1	-	-
Total	2,966	100	12,197	100	700	100
MECU	3,645		14,990		860	

A number of significant changes in the funding of VET in the UK can now be identified, associated principally but not exclusively with the election of a new government in May 1997. These changes relate to initial vocational training, continuing vocational training and training for unemployed people, and the major features are:

- increased emphasis on planning rather than the market mechanism and competition;
- increased financial support for individuals and firms to take responsibility for training;
- specific emphasis on targeting funding towards the socially excluded.

Evidence concerning the likely direction of change can be identified from a number of sources. The principal document is the government consultative paper “The Learning Age” published in April 1998. This document, together with the parallel Welsh Office green paper “Learning is for Everyone” outlines the principles identified above as well as proposing specific measures such as the introduction of Individual Learning Accounts and the University for Industry. Similar themes however are also evident in the report of the Parliamentary Select Committee on education and employment reporting in June 1998 and the Fundamental Review Group set up by the FEFC.

The Further Education Funding Councils in both England and Wales have already introduced changes to their funding methodologies to focus more resources on those individuals categorised as being socially excluded. The initial arrangement has been to identify certain geographical areas as being socially deprived and provide institutions with greater resources for students recruited from those areas. The incentive applies equally without distinction to initial and continuing vocational training provided in or through FE colleges. The identification of students as socially excluded on the basis of their address or postcode is accepted as an approximate measure but one which is capable of being introduced quickly. As soon as record systems allow, the intention is to move to a more sophisticated definition based on prior levels of educational attainment.

In addition to giving incentives to training institutions to widen participation the government wishes to encourage individuals to take greater responsibility for their own learning. The creation of ILAs is an element in the strategy to transfer financial responsibility for both IVT and CVT away from the state and towards individuals and employers. The government has for 1999 sought to limit the state contribution to FEFC-funded education and training provided on employers' premises to 50%.

The University for Industry is an initiative designed to encourage individual and employer investment in VET, particularly CVT. The UFI will not be a traditional university or even a supplier of training. It will attempt to act as a broker to stimulate a more effective market in education and training. It will, on occasions, commission provision to fill market gaps.

New Deal programmes are extending their original focus from the 18-24 year old unemployed group, perhaps to encompass the whole of TfU. This would result in a substantial shift away from funding through TECs to Local Partnerships. The initial funding of New Deal, however, through a one-off windfall tax could not be repeated and alternative sources will be identified.

Some significant institutional changes can be seen in the way in which funds for vocational education and training are to be administered primarily through a policy of devolution and decentralisation. In Wales, The Welsh Assembly, will take over responsibility for further education in 1999. In Scotland the Scottish parliament will assume responsibility for functions previously exercised by The Scottish Office in respect of FE. In England increasing powers will be devolved to the regional level through the Government Regional Offices and in respect of VET Regional Development Agencies will have an important planning role. The development of a stronger regional input to decision making have to be seen alongside an increased emphasis on planning the provision of VET and less reliant on purely market solutions. An important symbolic change has been the replacement of a “competitiveness fund” which financed innovative projects in further education with a “collaboration fund” which performs broadly the same role but with a different political emphasis.

There has been some debate regarding the funding levels and funding arrangements for initial vocational training provided in colleges and that provided through employer-based schemes and also between the two forms of VET and continuing school education for those aged 16 to 19 funded through local authorities. Progress is expected towards the convergence of funding principles, most probably around the methodology employed by the FEFC.

A further technical change to funding arrangements for VET derives for moves to unitise the curriculum - to break up whole qualifications into smaller units of learning. The funding, particularly of IVT and CVT provided by colleges is largely based on the acquisition of whole qualifications. Many believe that this acts as a barrier to increasing participation and the Funding Councils have announced their intention to link their funding to units of learning or credits. One consequence is likely to be the transfer of funds from provision for full-time students to provision for part-time students and from VET for those aged 16 to 19 to that provided for older age groups.

In concluding this portrait it is appropriate to revisit the three “funding themes” set out in the background information (section 1.6.3), particularly as in some respects the UK has gone further than any other European country. The benefits of the purchaser-provider principle, in terms of clarification of roles and accountabilities, has we believe been clearly demonstrated within the UK context. The training providers have been set clear targets and can achieve them in ways which meet individual and labour market needs. The system has become more demand-driven and new approaches to training e.g., computer-based and weekend training sessions have become widespread. The benefits, however, must be weighed against a number of costs including the administrative burden of producing and verifying a large amount of data. The data requires student tracking systems and a number of auditors are needed to ensure that the providers are complying fully with the purchasers’ requirements. It cannot always be assumed that providers will act in the spirit rather than the letter of a contract, and within VET there have been some irregularities and a few cases of fraud. As a consequence, audit arrangements are becoming more complex. Other aspects of training provision, such as the quality of the training provided, are also being more closely inspected by the Training Standards Council (for work-based training) and the inspectorate within the FEFC. The importance of inspecting training quality has been reinforced by recent government statements.

The close monitoring of funding and quality is altering the way in which the purchasers are funding the training providers. The block allocation to colleges for a mixed package of training, or the funding of a whole TEC business plan may be partially replaced by specific funding for specific parts of training or specific groups of trainees. This so-called “categorical funding” allows the funder to assert more control over the providers but diminishes the discretion of the latter on how to use their funds. Nevertheless, on balance, the benefits of separating purchasers and providers seem to outweigh the costs as few participants would willingly return to the former vertically integrated systems.

A similar conclusion would be more difficult to reach in the case of the efficacy of market mechanisms. The introduction of market mechanisms has undoubtedly widened trainee choice, increased efficiency, and stimulated growth, as can be seen by some of the figures provided in this report. Competition between training providers for trainees has meant that the system is driven more by demand and providers have had to respond by ensuring that the courses and training they offer are attractive to potential trainees. Increased competition has also driven down (real) unit costs in FE colleges by more than 15% in five years. However, competition coupled with the pressures on efficiency have led to "...signs that colleges find it increasingly difficult to maintain the quality they have maintained in the past ...the average number of teaching hours per programme has fallen to 15 hours per week the substitution of full time staff with part time staff" (Education and Employment Committee, 1998). In addition, the FEFC undertook an assessment of further education colleges in 1997 to assess their financial position according to certain commercial key financial ratios such as solvency levels. They assessed that 27% of further education colleges were “financially weak”, the proportion in 1994 was 6%. Also in 1997 a further 30% of colleges were assessed as “showing signs of financial weakness”, compared with 24% in 1994 (Education and Employment Committee, 1998). A similar analysis is not yet available for private providers contracting with TECs.

For a variety of reasons, areas of VET in the UK are moving away from pure market approaches towards more planned arrangements. For example, the establishment of the Regional Development Agencies, while still being developed, is likely to increase manpower planning, and local labour needs will be of equal importance in organising a training market.

The continual change in various parts of vocational education and training noted in this portrait, with new programmes, new organisational arrangements, and new funding systems demonstrates a vibrant if somewhat uncoordinated sector. Whilst some VET providers might welcome a slower rate of change, the developing needs of the trainees and the imagination of the policy-makers will ensure a continuing adjustment of the system.

Part 6 White Paper: Learning to Succeed – a new framework for post-16 learning

On 30th June 1999, as the VET financing portrait for the UK was being sent for publication, the Department for Education and Employment issued a White Paper ("Learning to Succeed") proposing substantial changes to the training and funding structure outlined in the portrait. While some of the White Paper re-emphasises many of the proposals outlined in the earlier Green Paper ("The Learning Age"), there are a number of new proposals. In the context of this VET financing portrait, the proposals will affect initial vocational training, publicly funded continuing vocational training, and training for unemployed people.

It is proposed that the planning and funding of IVT and publicly funded CVT will be taken over by a Learning and Skills Council for England in April 2001 (subject to legislation). The current proposal is to create a central Council as a non-departmental public body, funded by DfEE and supported by two advisory committees: one to advise on training for young people and a second to advise on adult learning. According to the White Paper, the central Council will be responsible for "strategic development, planning, funding, management and quality assurance of post-16 education and training (excluding higher education)" (Chapter 3, pp 3.2); i.e., it will take over responsibilities for FE sector colleges from FEFC and work-based training for young people from TECs. Local Education Authorities will continue to have responsibility for the provision and funding of initial training within schools, although the funding aspect is currently the subject of a consultation exercise.

In order that the Learning and Skills Council will be responsive to local needs, the White Paper proposes establishing 40-50 local Councils which will be responsible for "raising standards and for securing provision to match local learning and skills needs" (Chapter 3, pp 3.21). These local skills needs would be analysed in consultation with Regional Development Agencies, Local Partnerships (currently involved with the New Deal – see 4.1.2 in the Portrait) and other relevant bodies and set out in the Council's *annual statement of priorities*. Both the central and local Learning and Skills Councils' Boards will be comprised mainly of employers and will include other bodies such as local government, the voluntary sector, trade unions, etc.

The White Paper states that "the new body, once established, is expected to have responsibility for a budget of around £5 billion and the education and training opportunities of over five million adults and young people" (Chapter 3, pp 3.4). With regard to the structure of funding, the White Paper outlines the development of a national system of tariffs for different qualifications similar to the current FEFC funding system. While the detail on this is not included, the White Paper states that funding will be "demand-focused" (Chapter 4, pp 4.6). It is also proposed that local Councils would have some budgetary flexibility and discretion within the national tariffs in order to meet local needs for particular skill shortages or where there are gaps in provision for socially excluded people. Further flexibility in expenditure will also be available, inter alia, where a local Council should improve the quality of provision within their area or where they need to increase capacity. In addition, discretionary funding will be available to local Councils "to identify and meet local needs and to fund innovative projects" (Chapter 4, pp 4.9).

The White Paper also highlights issues concerning quality and outlines the need for the Learning and Skills Council to set "clear targets and performance indicators which measure outputs, outcomes and impact" (Chapter 4, pp 4.17). It also proposes the establishment of a new inspectorate to monitor the quality of adult training provision (16-19 provision will be inspected by the existing schools inspectorate – OFSTED).

Within this new institutional and funding structure, more emphasis will also be placed on continuing vocational training and adult learning, more generally. The Learning and Skills Council will become responsible for the provision of adult information and guidance services concerning training opportunities. Part of the Councils' remit will also be to increase the number of adult learners within the FE sector. Other policies related to CVT such as Individual Learning Accounts, the University for Industry and Learning Direct are also re-emphasised within the White Paper (as outlined at 3.4.3/4 in the Portrait).

Concerning CVT within enterprises, it is proposed within the White Paper that the Learning and Skills Council foster closer links with employer organisations and local business in order to exchange mutually beneficial information on skills and training needs. The Council will also be responsible for ensuring that targets are met for the numbers of enterprises which are approved as Investors in People (see 3.2.1.5 in the Portrait).

Responsibility for work-based training for adult unemployed people (see 4.1.2 of the Portrait), will also be transferred from TECs to the Employment Service (an executive agency of DfEE which administers, inter alia, benefits for unemployed people and provides a job matching service) also during 2001.

The overall principles of the proposals contained within the White Paper include increasing participation rates in, and access to, post-compulsory education and training and improving the quality of the training provided. Fulfilling these aims is viewed as important to enhance both the skills level of the workforce and the employability of young people and adults. To achieve these aims, the White Paper focuses on the need for partnership between "the Government, individuals, employers, providers and communities" (Chapter 1, pp 1.13) in order to create a more co-ordinated training structure whereby training needs as expressed by different stakeholders are achieved.

Implications for Scotland, Wales and Northern Ireland

As mentioned within concluding Part of the portrait, education and training policy within Scotland and Wales have recently become the responsibility of a Scottish Parliament and a Welsh Assembly. While devolution is also expected within Northern Ireland, the arrangements are not yet clear. Hence the proposals within the DfEE's White Paper are applicable to England only.

In Scotland, as a Scottish Further Education Funding Council was recently established, any plans for change are currently related to post-school provision for 16-18 year olds. For Wales, *"An Education and Training Action Plan for Wales*" will be submitted to the Welsh Assembly later in 1999. For Northern Ireland, a Skills Task Force has been established and a consultation paper on the funding of further and higher education has been issued.

Annex 1 Glossary

BTEC	Business and Technology Education Council
CBI	Confederation of British Industries
C & G	City and Guilds of London Institute
DES	Department of Education and Science (to 1992)
DETR	Department of Environment, Transport and the Regions (from 1997)
DFE	Department for Education (1992 - 1995)
DfEE	Department for Education and Employment (from 1995)
DoE	Department of the Environment (to 1997)
DTI	Department of Trade and Industry
ED	Employment Department (to 1995)
ES	Employment Service (of DfEE)
ESF	European Social Fund
EU	European Union
FE	Further Education
FEFC	Further Education Funding Council
GCE	General Certificate of Education
GNVQ	General National Vocational Qualification
GRO	Government Office for the Region
GSVQ	General Scottish Vocational Qualification
ILA	Individual Learning Account
ITB	Industry Training Board
ITO	Industry Training Organisation
JSA	Job Seekers Allowance (unemployment benefit)
L(E)A	Local (Education) Authority
LEC	Local Enterprise Company
MA	Modern Apprenticeship
MSC	Manpower Services Commission
NAO	National Audit Office
ORF	Output Related Funding
PFI	Private Finance Initiative
RSG	Revenue Support Grant
SSA	Standard Spending Assessment
SVQ	Scottish Vocational Qualification
TEC	Training and Enterprise Council
TfW	Training for Work
UfI	University for Industry
WBT	Work-Based Training
YT	Youth Training

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CEDEFOP – European Centre for the Development of Vocational Training

The financing of vocational education and training in the United Kingdom

Financing portrait

David Atkinson
Further Education Development Agency, United Kingdom

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The financing of vocational education and training in the United Kingdom

Financing portrait

This report is the UK contribution to CEDEFOP's series of portraits on the financing of vocational education and training (VET) within EU Member States.

The structure of the publicly funded training system within the UK has altered significantly over recent years. The need to increase participation in training without compromising quality and value for money principles has driven many of these changes. The emphasis has been on designing funding mechanisms to create a more demand-oriented training market with diverse opportunities tailored to individual needs. For continuing training, the focus has been on maintaining a voluntary system with financial incentives for enterprises and individuals to participate. Current objectives include achieving a culture of lifelong learning and improving employability, through creating a more coherent training structure with a greater emphasis on planning, through partnership, to meet skill needs.

This report describes the funding of VET between 1986 and 1998. It outlines the different funding sources and distribution mechanisms for initial and continuing vocational training as well as training for unemployed people. Background information on the political, economic and administrative structure is given and the trends in funding and future perspectives are discussed. As such, the report provides a great deal of statistics on funding levels and is a useful guide to the way training is financed in the UK.

David Atkinson

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