

BIS | Department for Business
Innovation & Skills

A Simplified Further Education and
Skills Funding System and
Methodology

Consultation Document

July 2010

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A Simplified Further Education and Skills Funding System and Methodology

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This consultation is relevant to: Further Education colleges and training organisations; Further Education provider associations; employers and employer representative organisations; adult learners and adult learner representative bodies.

How to respond

When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation response form and, where applicable, how the views of members were assembled.

If you want to respond in writing the response form can be submitted by letter or email to:

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A list of those organisations and individuals we plan to consult is listed in Annex A. We would welcome suggestions of others who may wish to be involved in this consultation process.

Other versions of the document in Braille, other languages or audio-cassette are available on request.

Territorial extent

Training is a devolved issue and this document covers England only. We will work closely with the Devolved Administrations in Northern Ireland, Scotland and Wales, recognising their particular and varying responsibilities.

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Help with queries

Questions about the policy issues raised in the document can be addressed to:

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A copy of the Code of Practice on Consultation is in Annex B.

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A Simplified Further Education and Skills Funding System and Methodology

Introduction

1. This Government's key priorities for skills are to build an internationally competitive skills base and ensure we have a skills system that supports progression. To tackle the challenge of the largest deficit in Britain's peacetime history the Government is implementing an accelerated plan to reduce the deficit. The Budget 2010 outlined that Government departments (once commitments on protecting health and overseas aid are taken into account) could see on average real cuts of around 25 per cent over the four years from 2011-12 financial year. This sets the context for *Skills for Sustainable Growth* (22 July 2010), the consultation on a new Skills Strategy.
2. *Skills for Sustainable Growth* asks a number of fundamental questions about where public investment is most important; how the skills system can be made simpler and more effective; and how we can better support employers and individuals to invest in learning and developing the skills they and our economy need.
3. Work has already started with: a de-cluttering of the landscape; fewer national bodies imposing burdens; more sector ownership of its own improvement; and a commitment to go further in terms of removing other structures operating at different spatial levels.
4. The funding system and methodology is a key area that requires attention in terms of simplification and to ensure we maximise value for money. For the 2010/11 academic year we set out changes to the funding system to enhance freedoms for colleges and training organisations to respond to learner and employer need. These included:
 - Simplified budget lines with greater flexibilities and the removal of Summary Statements of Activity and detailed planning assumptions.
 - Colleges paid on monthly profile for single adult budget with no in-year reconciliation.
 - Training organisations paid on actual delivery, in arrears, against a national standard profile, with automated quarterly reconciliation to reflect performance.

5. This has set a clear direction of travel for simplifying the funding system and methodology and we now need to build on this for the 2011/12 academic year and beyond. Through discussion with the sector we have identified the following criteria that should underpin a reformed funding system and methodology:
 - Simple
 - National
 - Fair and equitable
 - Transparent
 - Ensure value for money
 - Optimise co-investment – with a clear expectation of what each individual and employer has to contribute
 - Recognise provider autonomy in delivering what is needed, subject to eligibility and affordability
 - Enable colleges to engage and be accountable to local communities, learners, employers and stakeholders.

About this consultation

6. This consultation sets out proposals for further discussion on how we can support the system to be simpler and more effective; it also asks questions on simplification of the broader Further Education (FE) and Skills landscape. This is being published alongside the Skills Strategy consultation, *Skills for Sustainable Growth*. It complements the debate about the choices we must make as we enter this Spending Review round, where we know that hard choices are needed on where public funds are focussed. All considerations of funding policy are therefore dependent on the outcome of the Spending Review. A full Skills Strategy will be published following the Spending Review which will set out in more detail how we intend to support our learning and skills priorities.
7. To manage within a tight fiscal climate, colleges and training organisations (including voluntary organisations where appropriate) must be able to focus their offer to learners and employers rather than trying to navigate the funding system. This consultation seeks views on simplifying the funding system to enable this, recognising that there must be appropriate accountability – which in the future will increasingly be to informed and empowered customers. We also examine changes that will support the reduction in operating costs of funding bodies.
8. At the same time we realise that change can often bring cost and can disrupt or destabilise. We are therefore clear that, as part of this consultation, we want to weigh up the costs and benefits to ensure that we deliver a funding system which is fit for purpose, now and in the future. We want to move quickly on changes where feasible, but there will be some areas where more time is required to ensure effective

implementation. At the end of the consultation we summarise a proposed timescale for change and ask for feedback on this and views on how best to manage transition.

Scope

9. This document considers the system as it applies to post-19 learners. We will continue to work closely with the Department for Education (DfE) and the Young People's Learning Agency as options are developed to consider how changes can be consistent with the funding approach for 16-18 year olds. This is particularly important with regards to Apprenticeships and ensuring there is a coherent offer across the age groups.
10. The funding system can broadly be split into four areas. This document examines the funding system from end to end including the funding methodology. It covers:
 - **Funding and eligibility policy** – who and what is funded, if and how funding priorities are determined, including our approach to co-investment and fee subsidies; and how we target those most in need.
 - **Setting funding rates and the funding methodology** - how rates are set and how this can better support the flexibilities of the Qualifications and Credit Framework; the potential for moving away from an input based rate setting model; and elements of funding methodology e.g. use of standard learner numbers, provider factor (area costs, programme weighting, disadvantage).
 - **Allocations, procurement and contracts** – how money is allocated to colleges and training organisations; a single budget for all post-19 provision; minimum contract levels; sub-contracting; and the approach to new providers.
 - **Performance management, payment, data collection and audit** – how future allocations take account of performance; method of payment; data collection; and audit.
11. This consultation proposes options under each of the areas set out above to inform further discussion with the sector. As these areas are interrelated it is important that none of these is considered in isolation. Furthermore, there is a need to balance the drive for simplicity against requirements for a system that is sensitive to a full range of different learner and employer needs.

The Wider Further Education and Skills Landscape

12. In establishing a streamlined FE and Skills system we need to recognise the advantages of a mature, contested commercial system, delivering in a market where good information and price are central to effective operation. Our core principles for any new system should:
 - Empower customers of all ages and employers to engage with colleges and training organisations to make decisions about what is needed. Both sides must be equipped with intelligence about what is available, the cost to them or Government funding available (if any) and information on how various learning and skills options will support them in life and work.
 - Put more trust in colleges and training organisations that, in a market driven system, will need the flexibilities in budget and management to meet demand, as well as system simplification and reduced bureaucracy to maximise time and money going to frontline delivery.
 - Focus on outcomes so that the system delivers what society and the economy need particularly getting people into work, or better jobs;
 - Be lean and fit for purpose - with a minimal interventionist role for Government – using Higher Education Funding Council for England type processes and procedures to ensure low cost, highly effective funding systems and agency structure.
 - Recognise that in a constrained fiscal environment, it is essential that we achieve a better balance of investment in skills between the Government and individuals and employers. This should reflect the benefit that each party receives and ensure Government funding is used where it is needed.

13. The system based on these principles should:
 - Allow colleges and training organisations the maximum flexibility to respond to customer needs (learners and employers) at a time when funding is much tighter, including the ability to award qualifications.
 - Minimise the processes and hence costs involved in drawing down and justifying the use of public budgets.
 - Establish a single route through which colleges and training organisations negotiate and receive their primary source of adult public funding in order to minimise transactions around funding and monitoring, utilising a single account management system.
 - Streamline the funding system to focus on delivery of quality outcomes so that colleges and training organisations delivering these are rewarded.

- Remove statutory or regulatory constraints which limit the ability of colleges to innovate.
- Radically overhaul the complex performance management regime of inspection, quality assurance and performance measurement so that it is more proportionate and the main driver is learner or employer choice.

Q1. We welcome views on whether these are the right principles for a streamlined FE and Skills system - are there any others?

Q2. We welcome views on whether there are other areas of the wider FE and skills system that should be focussed on to simplify systems and processes and reduce burden?

Funding Policy

Single Budget

14. For the 2010/11 academic year, the Adult Learner Responsive and Employer Responsive budgets have been combined for colleges so that the majority of their adult delivery is in a single budget. Training organisations have also been given a single budget for their post-19 Employer Responsive provision. Whilst decisions on the overall FE and Skills budget are dependent on the outcome of the Spending Review, we are keen to seek views on whether there is scope to extend the single budget approach to other currently separate budget lines. This could mean for example:

- A single post-19 budget without separate budgets for specific programmes for the unemployed.
- Retaining a separate Adult Safeguarded Learning budget as now or combining it with the new single Adult Learner Responsive and Employer Responsive budget, with or without a safeguard.

15. We propose that any budgets for provision funded through other Departments, for example the Offender Learning and Skills Service (OLASS) and European Social Fund (ESF) would remain outside a single budget approach.

Q3. We welcome views on the benefits of extending the current approach to a single post-19 funding stream and whether there are alternative models to consider.

16. We have also had feedback from the sector on the need for stability in a period of reducing budgets. We therefore want to understand, subject to the outcome of the Spending Review, to what extent giving a funding envelope covering the whole of the Spending Review period would support improved delivery and performance. This would continue to be subject to the performance of each college or training organisation in responding to customer needs and meeting quality standards.

Q4. Would a funding envelope covering the Spending Review period support improved delivery and performance - if so, to what extent?

Improvement Support

17. We are currently considering a fully sector-led approach to determining the funding for improvement support for colleges and training organisations, and how that is deployed. Funding for this activity is

currently provided directly to the Learning and Skills Improvement Service (LSIS).

18. Whilst decisions about future funding are dependent on the outcomes of the Spending Review we would welcome views on whether there are more effective ways of determining the proportion and deployment of any such funding. For example, would there be benefit to considering this as part of mainstream participation for post-19 provision? (similar arrangements are being considered pre-19). In this scenario, there could be a role for the LSIS Council, elected from all the constituent parts of the sector to determine the marginal proportion of the total participation budget to be allocated and the broad purposes and parameters of how it should be spent. The Council could also determine the speed at which further mechanisms are introduced to increase the proportion spent through the sector and extend market choice for colleges and training organisations through LSIS accounts.

Q5. We welcome views on how the sector should take the lead in determining the funding allocated to LSIS and the broad parameters of how this is spent.

Ensuring Colleges and Training Organisations Meet the Needs of Customers

19. The single adult budget approach (as described above) should cover accredited learning through qualifications on the Qualifications and Credit Framework (QCF). However, we recognise the need to ensure that colleges and training organisations are encouraged to meet the needs of all learners, including those who may be more difficult to engage and support, for example, unemployed people and learners with learning difficulties and / or disabilities.
20. We also want to make sure that providers identify and meet the needs of employers, to upskill their workforce and ensure they have access to a supply of labour to fill vacancies. A key aspect of this will be working through partners agencies including Jobcentre Plus, who have a stake in the performance of training offered.
21. A number of ways could be used to incentivise providers to identify and meet the needs of all their customers, some of which are set out below. These need to be considered in line with the proposals elsewhere in the document for simplifying the rate structure and streamlining the approach to learning support:
 - paying a premium for learners in identified categories, including for example Job Seeker Allowance claimants.
 - paying a premium for shorter, flexible provision targeted at/restricted to the needs of unemployed people.

- paying an additional outcome payment, for those supported into work.
- as part of course labelling, colleges and training organisations putting robust and comparable information in the hands of learners and employers (and key partners e.g. Jobcentre Plus). This may include for example learner destinations and/or progression for unemployed people, and those with learning difficulties and / or disabilities.
- reviewing the way in which we measure the performance of the sector, to ensure we reflect efforts to engage with those who are disadvantaged / hard to reach etc. This could include measuring performance and determining future allocations.
- relying on each college's engagement with its local communities to secure the best outcomes.

Q6. We welcome views on how we can ensure the funding system supports the sector in responding to the needs of the most disadvantaged.

Public Subsidy - A Simplified Fee Structure

22. In the future we want to simplify how we fund learners. We are clear that some individuals and employers will need to contribute to the cost of learning. To support this there should be a clearer articulation of what the Government will support and what individuals and employers will need to contribute to. *Skills for Sustainable Growth* published alongside this consultation asks for views on the current approach to entitlements and how Government money could be targeted where it is needed most and where it can add most value.
23. Whatever the outcome of discussions on the policy of fee subsidies, the system will need to be able to reflect these in a clear and transparent way, to inform individuals and employers. This system could be delivered through a consistent set of fee assumptions and subsidies applied to all learning / learners. This would simplify the current approach (where fee assumptions change depending on the type of provision being undertaken) and would support a move to a single post-19 budget.
24. The Independent Review of Fees and Co-Funding (5 July, 2010) recommended that, while there should be a standard private contribution (currently 50%¹ in the 2010/11 academic year), in some cases to incentivise take up and / or prevent market failure, this could be

¹ For 2010/11 academic year in Adult Learner Responsive provision this is 50% of the unweighted funding rate, in Employer Responsive provision it is 50% of the weighted amount.

moderated so that, for example, a co-funded course could be 30% private and 70% public. This could be used as a means for modulating funding (in either direction) based on employer size. (For example, large employers could be expected to contribute relatively more than small businesses).

Q7. We welcome views on whether the approach to public subsidy should be differentiated.

Q8. We welcome views on whether employers should be accommodated through different measures within the funding system based on their size.

Public Investment to Follow Private Investment

25. The Independent Review of Fees and Co-Funding recommended that public investment should follow and support the choices and contributions of individuals and employers.
26. The Review also recommended that contributions to course costs by employers should be in cash (with in-kind payments handled separately in parallel), and public investment would match this up to the maximum contribution. This would include Apprenticeship provision where currently contributions in-kind are considered as part of course costs.
27. The extent to which the college or training organisation has secured the appropriate levels of co-investment from co-funded provision could be measured at an institutional level. Where co-investment from individuals and employers is not secured, the assumption would be that the college or training organisation did not require the investment. Funding could either be clawed back at the end of the year or impact on future years' allocations.

Q9. We welcome views on the practical implications of taking into account the need for optimising co-investment and the need for simplification

A Coherent Approach to Learner Subsidy and Learning Support

28. We believe that a simplified co-investment approach needs to be implemented alongside a clearer and more coherent approach to learner subsidy and learning support. At present, a number of approaches are taken to recognise, support and incentivise the sector to deliver to those groups who are more disadvantaged and/or who require more support. These include learner uplifts, Additional Learning Support, fee remission, enhanced rates for provision etc. This can often lead to a difference in approach, depending on which programme people are enrolled on, or at which institution. It can also mean that these groups are most vulnerable to the impact of difficult funding decisions and budget reductions.
29. In addition to reviewing the range of funds and incentives currently used to support learners, we are also keen to review the way in which we prioritise this support. This would link to the development of the Lifelong Learning Account and the Personal Learner Record, where an individual will be able to see information on what amount of support they are entitled to.
30. This could be achieved in a number of ways. We have set out some options below. These are not mutually exclusive; for example, we might want to have a clear policy on fee remission, supplemented by additional support for those learners that require more help. These also need to be considered in parallel with options on rates. Options include:
- Establishing a nationally defined group of learners who would be entitled to full subsidy where funding allowed.
 - Use of a “learner premium” so that particular groups of learners attract an automatic uplift in funding.
 - Supplementing a national fee subsidy approach with a locally-determined bursary scheme, where those in need are determined by each college or training organisation.

Q10. We welcome your views on streamlining the way in which we currently support learners’ additional needs including what (if any) aspects of current arrangements should remain.

Comparison of proposed funding approach to how it works now

| How it works now | How it could work |
|---|---|
| <p><u>Separate mainstream budgets allocated for post-19 provision including:</u> Adult Learner Responsive 19+ Apprenticeships Train to Gain Employability Skills Programme 6mth offer for unemployed Response to Redundancy Young Person's Guarantee</p> <p><u>Adult Safeguarded Learning Budget – broken down into:</u> Family Literacy, Language and Numeracy Neighbourhood Learning in Deprived Communities Wider Family Learning Personal and Community Development Learning, Formal First Step Family Learning Impact Fund</p> <p>European Social Funds Offender Learning</p> | <p>One budget for mainstream post-19 provision</p> <p>One budget for Adult Safeguarded Learning, plus Family Learning Impact Funding (FLIF)</p> <p>European Social Fund budget Offender Learning budget</p> |
| <p>Different fee subsidies dependent on funding stream</p> | <p>One set of fee subsidies irrespective of mode of delivery</p> |
| <p>A fragmented approach to supporting disadvantaged groups, particularly those who are out of work</p> | <p>More flexibility to use a single budget to support all learners, including those who are most in need</p> |
| <p>No mechanism to ensure private contributions are collected from learners and employers where they are due</p> | <p>All colleges and training organisations will demonstrate that they have collected the private contribution from learners and employers in order to confirm the matched (up to a maximum) level of public funding they can receive for co-funded activity</p> |

Funding Methodology

Simplified Rate Setting

31. The introduction of the Qualifications and Credit Framework (QCF) necessitates a fresh look at the existing funding system, to ensure it is better able to reflect new flexibilities and ensure value for money.
32. This has required a new approach to the way in which we set rates for each qualification and the methodology used to determine that. In addition, the move to a single budget has exposed some of the inconsistencies of the current model, where different rates are paid for the same provision delivered through different funding routes. In order to ensure value for money we will need to move to a new structure for setting rates, for provision delivered through the QCF. This could use input (guided learning hours and costs of delivering provision and assessment in the workplace) or outcomes (for example credits, qualifications etc.) as the basis for setting rates. Either way we would look to use bands rather than the current situation where every qualification has its own rate assigned. This would clearly need to ensure value for money.
33. Fewer rates might mean a less fine-tuned approach to rate setting, in favour of greater simplicity. The convergence required by this means that some courses will receive a lower rate than they do currently, and some will receive more.
34. There is a balance to be struck between recognising the flexibility of the QCF in offering units, Awards, Certificates and Diplomas and ensuring we maximise value for money from public investment where it will not be able to fund everything.

Q11. We welcome views on targeting funding where it will have the most impact; what elements of the Qualification and Credit Framework should be eligible for funding and why?

A Move Away From Funding Inputs to Funding Outcomes

35. The current approach to setting rates often limits the ability of colleges and training organisations to deliver a more personalised approach to the needs of each individual learner. It is also overly complex, relying on guided learning hours and estimated costs of delivery for assessment in work-based learning (the activity based model).

36. The introduction of the QCF offers us an opportunity to think differently about how we fund provision because the QCF specifies an outcome to be delivered, rather than an input (linked to the cost of delivering provision). As many in the sector have suggested, the current funding model can often act as a barrier to innovation or efficiency in delivery, as colleges and training organisations are required to prove the amount of input (teaching/contact time) they have delivered, rather than focus on the quality of outcome secured.
37. As part of this consultation, we think it is time to review this methodology to consider the merits of moving to a more outcome based approach. This could mean moving to a system of pricing, where the rate or price set would be determined by the value attached to the outcome (for example a qualification or moving someone into employment) rather than the number of hours it took to deliver it.
38. This would also enable a more transparent approach to the way in which we reflect the costs of more expensive provision. At present, for Adult Learner Responsive provision, this is based on averages, and built into the Provider Factor. As we move towards reliance on greater information for customers and a more coherent approach to co-investment, we may need to reconsider how we set out the price (level of Government investment) of each qualification (or other outcomes if appropriate) to ensure that it is clear what public contribution is being made.
39. The introduction of a price tariff model could be staged, over the 2011/12 and the 2012/13 academic years, to ensure an effective transition. It would enable Government to respond to the market, but through pricing strategies rather than targets or planning.
40. We recognise that moving to an outcome-based system will necessitate wider changes to the funding methodology. This is an area where we would like to hear the sector's views. For example:
 - What does a move to a greater focus on price contestability mean for different delivery organisations where public and private sectors have different cost bases?
 - If we moved to a price-based approach, would we need to change the balance of payment so that the majority was on achievement rather than the current system where the majority is paid on-programme?
 - Could we use price to incentivise delivery for those most in need, and the outcomes we most want to see - for example to support unemployed people into training and work?

Q12. We welcome views on the benefits of moving to a more price-driven system; including how we would mitigate against the risk of focusing too much on a single outcome at the expense of the quality and relevance of the learner experience.

Maximising New Technology in Delivery

41. Historically there have been different levels of funding paid by Government for workplace delivery (including apprenticeships), e-learning and Adult Learner Responsive delivery. However, with the introduction of a single budget and the flexibilities offered by the QCF, we no longer believe it is feasible to maintain separate rates. This could mean a greater simplification and a drive towards more efficiency. In any new model, we will need to ensure that we continue to maintain our focus on quality and value for money – where learners gain real skills and knowledge as a result of their learning experience.

Q13. Are there any other barriers to the sector delivering more efficiently and effectively?

Rate setting

42. Rate setting is a complex area. It will therefore be necessary to work with the sector to consider a range of options to developing a new approach to ensure the approach meets with the criteria for the funding system.
43. In order to shape discussion some options of how the current approach could be simplified are provided below. In considering these and any other options, it will be necessary to take account of the impact of proposed changes in other areas in the consultation as not all of these could be delivered together. Similarly it will be necessary to consider the balance between simplification and having a system that is sensitive to different learner and employer characteristics.

Pricing Model Options

Option 1 – Bands based on size of qualification

- The QCF gives us a consistent measure of the size of achievement, through Award, Certificate and Diploma, with each falling within a standard credit range. This has the potential to provide a simple and consistent categorisation for pricing as shown in the table below.

| | | Size of qualification | | |
|------------|----------|---|-------------|---------|
| | | Award | Certificate | Diploma |
| Price band | Uplifted | | | |
| | Standard | Majority of provision in standard banding | | |
| | Lower | | | |

- Each qualification would fall into one price band. However they could be moved into the uplifted or lower bandings where the Government wanted to incentivise delivery or where it wanted to pay less for a qualification. The high price band could be used where market signals showed under-supply or where Government decided it wanted to provide additional incentives to take up. The lower band would be used where returns on investment are such that the market will stand a higher fee.
- Bands would remain fixed for at least a year. For example, if we wanted to build capacity in a particular area we might enhance the rate paid for a minimum of 2 years. Conversely, if we believed that the sector was delivering more efficiently, we would reduce the rate to ensure greater efficiency.

Option 2 – Bands based on learner characteristics

Using the learner as the prime determiner of price could be a way of setting bands that have built in fee subsidy and incentives to deliver to harder to reach groups. Rates would be set for learner type and size of programme.

| | | Size of qualification | | |
|--------------------|------------|-----------------------|-------------|---------|
| | | Award | Certificate | Diploma |
| Examples of groups | Unemployed | | | |
| | Under 25 | | | |
| | LLDD | | | |

Option

3

A combination of the above, where we would set a range of bands with the ability to enhance rates to stimulate the market and/or recognise the need to build capacity. This could apply to certain sectors and certain groups of learner (e.g. unemployed people.) As part of this proposal, we would also need to unpick the relationship with the programme weighting in the provider factor, with the possibility that we could make this more transparent.

Q14. We welcome views on whether there are alternative approaches that could be considered (including maintaining the status quo) which meet the principles of simplification and value for money; if so, how might they work?

Programme weighting

44. Feedback from the sector indicates that a programme weighting factor should continue to reflect higher cost subjects, but that there may be scope for simplification. Our assumption is that programme weightings would continue to be applied to the base rate. However, we propose a single set of programme weightings, across all adult delivery, replacing the different weightings that exist now. For example, it could be possible to develop a standard weighting for each sector subject area which would then apply across all adult delivery in the single pot. This would reduce the number of different weightings, but result in a less finely-tuned approach.

Q15. We welcome views on how this might be achieved, and whether its benefits would justify the change

45. As the later section on the provider factor suggests, we may also want to consider whether we need to make the programme weighting element of the provider factor more transparent, so that learners and employers are fully aware of the overall price of their qualification and the amount that the state contributes to it.

Reviewing Rates

46. It will be important that the Skills Funding Agency work with the sector to understand and review how the market and customers are responding to this method of pricing. Currently, rates are reviewed annually, based on analysis of previous years' delivery in Adult Learner Responsive provision and individual qualifications in Employer Responsive provision and dialogue with sector experts. In future, we propose an annual discussion, with the sector and other representative organisations, where we would analyse the pattern of delivery and identify areas where we think the market could sustain a reduction in rates and where we think additional incentive is needed to build capacity.

Rate Setting for Apprenticeship Frameworks

47. The approach to setting prices for post-19 Apprenticeships could be included in the options set out above by including a 'framework' size to the bandings. However, given the introduction of the Specification of

Apprenticeship Standards for England (SASE) and the greatly reduced number of potential rates for Frameworks compared with qualifications on the QCF, we need to consider whether a separate approach is required for Apprenticeships. Whilst this would need to be consistent with the approach to rate-setting described earlier, it would differ, in that there would still be a link with the estimated cost of delivery. Any considerations will need to take into account the need for a consistent and coherent funding approach across the 16-18 and post-19 age groups.

48. In broad terms:

- The price set per framework would retain a link to the cost of delivery but should also include adjustments to reflect what NAS will and will not fund.
- Co-funding will continue to be used in the Apprenticeship funding model.
- Costs / activities may be capped and where costs/ activities are consistent across frameworks a standard assumption will be made.
- A more robust feedback loop with providers will need to be established to supplement Sector Skills Councils' advice to NAS.

Q16. Should there be a different approach to setting rates for post 19 Apprenticeships?

Reviewing the Use and Composition of the Provider Factor

49. The proposals outlined above will clearly have an impact on the underpinning funding methodology used by the sector and the Skills Funding Agency. We need to ensure that the methodology delivers the goals of simplification and efficiency and supports the broader policy ambitions. At the same time, there are a number of areas which feedback from the sector suggests we could usefully review, to see if we could streamline or simplify further.
50. The main area within the funding methodology is the provider factor. Currently this is not very transparent as it includes: area cost uplift, disadvantage factor, short programme modifier, programme weighting and, in some cases, success rates. These are currently based on historical trends and can in some cases be based on information from two years previous.
51. The proposals outlined in preceding sections have implications for the way in which we use programme weighting (i.e. build into rate setting process); the disadvantage uplift (link to a more coherent approach to learner support and subsidy) and success rates (move to funding on

outcomes). We will need to consider the responses to these suggestions to inform the way in which we simplify, or not, the actual technical funding methodology. However, alongside these areas, there are the other elements of the provider factor which we would welcome views on.

Q17. We welcome views on whether there are other elements of the provider factor that could be removed / simplified in light of the proposed approach to allocations, rates and funding?

Comparison of proposed funding methodology approach to how it works now

| How it works now | How it could work |
|---|--|
| A very high number of qualifications each with an individual funding rate attached particularly within the Adult Learner Responsive model. | A simplified number of bands covering the range of qualifications, consistent across all programmes. |
| All qualifications currently need to go through a funding rates approvals process which takes time and can delay new qualifications being delivered quickly. | The process will be shorter, so colleges and training organisations will be able to take offers to market more quickly. |
| A range of different programme weightings varies according to the route through which the qualification is delivered. | A single set of programme weightings across all post-19 delivery. |
| Guided Learning Hours are the currency for funding and have to be recorded in order to evidence a claim funding for a particular qualification that is unlisted. Listed qualifications assume a pre-determined input level. | Removal of input based rate setting will lead to a significant reduction in administration, data returns and audit. Although some of these may need to be retained for Apprenticeships if a separate pricing model based on activity is adopted. |

Allocations, Procurement and Contracting

Allocating Funds

52. The purpose of setting an allocation is to assign a funding envelope which colleges and training organisations can use to respond to demand. It will be for the college or training organisation to determine what they can deliver for the money in response to local need and demand through their business plans. For the 2010/11 academic year, we moved to a cash allocation for the adult budget. We propose to continue with this approach for future years as it removes the need for complex calculations adjusting for policy and price changes. Based on initial discussions with the sector we want to explore options for how funds are allocated, which consider both the need for 'predictability' of budget, as well as the need to encourage dynamism in the system.

Option 1

Overall budget for each college or training organisation is adjusted for overall affordability based on previous full year's delivery; adjusted for poor quality against Minimum Levels of Performance and for under-delivery against previous year's cash allocation. It will also need to take account of how colleges have met the needs of customers and the wider community as set out in their business plans.

Option 2

Core and marginal funding: all colleges and training organisations receive a percentage of the previous year's cash allocation (subject to quality) in line with the overall budget. This would form the core element. The marginal element would be open to competition where colleges and training organisations can bid for provision. This could be on the basis of more efficient delivery (i.e. at a lower rate); engagement with priority groups; delivery of priority provision etc. This could work on a 90%:10% basis.

Q18. We welcome views on the options – including how we could use the approach to marginal funding to reward good performance in delivering quality outcomes in response to learner and employer needs.

Minimum Contract Levels

53. Currently, the Skills Funding Agency has contracts with over 1,300 colleges and training organisations for Adult Learner Responsive and Employer Responsive activity (this excludes European Social Fund and Programmes for the Unemployed). This reflects the arrangements and structure of the previous funding system, but results in a complex and often bureaucratic approach to contract management. As the table below illustrates, the majority of funding is concentrated in a relatively small number of larger colleges and training organisations, with many smaller organisations accounting for a very small percentage of the overall funding. For example 8% of Skills Funding Agency funding goes to 778 providers currently with allocations of less than £1m.

Potential Impact of Introducing Minimum Contract Levels for post 19 contracts

| Minimum contract level | Number of providers | | | | Total funding £ millions | | | |
|------------------------|---------------------|-------|--------|---------|--------------------------|-------|--------|---------|
| | Over | Under | % over | % under | Over | Under | % over | % under |
| £5,000,000 | 190 | 1,171 | 14% | 86% | 2,071 | 1,178 | 64% | 36% |
| £3,000,000 | 293 | 1,068 | 22% | 78% | 2,462 | 788 | 76% | 24% |
| £1,000,000 | 583 | 778 | 43% | 57% | 2,991 | 258 | 92% | 8% |
| £750,000 | 661 | 700 | 49% | 51% | 3,058 | 191 | 94% | 6% |
| £500,000 | 779 | 582 | 57% | 43% | 3,130 | 119 | 96% | 4% |

Notes: Based on provisional 10/11 allocations data (including 16-18 Apprenticeships) but excluding European Social Funds and Programmes for the Unemployed

54. The Skills Funding Agency has previously set out its intention to streamline this approach, by moving to a system of Minimum Contract Levels supported by a fair and transparent approach to sub-contracting.
55. For the purposes of this consultation we are keen to seek your views on how far this approach should extend. Our assumption is that the Minimum Contract Level will apply to all types of provider (including employers) and to the majority of provision. However, we are still reviewing whether they could or should apply to certain types of provision, for example:
- Adult Safeguarded Learning
 - Offender Learning
 - European Social Fund

And/or certain types of provider, for example:

- Local Authorities
- Universities

Q19. Should some areas of provision and/or types of provider be exempt from Minimum Contract Levels?

Q20. We welcome views on what the “right” minimum level might be.

Subcontracting

56. As a result of the introduction of Minimum Contract Levels, the Skills Funding Agency will have fewer direct contractual relationships. We therefore expect that the scope for sub-contracting relationships as well as other forms of collaboration will increase, in order to retain high quality smaller providers but also to deliver efficiencies as a result of economies of scale and shared services. It is therefore critical to have a robust and transparent approach to sub-contracting that recognises and mitigates against the risks involved but still enables effective sub-contracting to take place:

- The level of sub-contracting allowable will not be subject to a specific limit but instead will be based on whether it delivers greater efficiency through providers working together to reduce overheads.
- Sub-contracting can represent an increased risk to the use of public funds and therefore, where there is a significant proportion of provision being sub-contracted, there will need to be greater assurance from the lead contractor that a robust assessment of the sub-contractor has been carried out.
- The lead contractor would retain full responsibility for their sub-contractors including ensuring the quality of provision – if quality is not met responsibility for ending that contractual relationship rests with the lead contractor.
- Lead contractors determine which sub-contractors they want to engage with.
- Performance management arrangements should include assessment of sub-contracted delivery and the ability of the lead contractor to manage their sub-contractors.

57. One of the risks of sub-contracting is that there is a reduction in the amount of funding that is actually spent on delivery, which is not a good use of public funds. There is also a financial and reputational risk to colleges and training organisations if they are not able to ensure they are engaging with quality providers. While it is not unreasonable for a lead provider to charge an administrative fee to their sub-contractors this

should be fair and transparent. There should be a clear agreement and understanding between the two partners about what is being delivered for the fee that is charged. The Skills Funding Agency will require that all lead contractors publish the details of the administration fees being charged to ensure complete transparency.

Q21. We welcome views on the risks of greater sub-contracting and what we and the sector can do to minimise those risks.

New Provider (or Employer) Process

- There needs to be a clear and consistent approach to bringing in new providers. Before any provider can be considered for direct funding they will need to be on the Approved College and Training Organisation Register (ACTOR). This will be the case regardless of the type of provider (including an employer delivering to its own staff).
- ACTOR will assess the capability and capacity of a new provider to be able to deliver but, until that information is verified, the Skills Funding Agency would only award new providers probationary contracts with a timetable for verifying the information they have submitted.

Summary of proposed approach compared to how it works now

| How it works now | How it could work |
|---|---|
| Over 1,300 colleges and training organisations have direct contracts with the Agency, with 57% of providers delivering 8% of provision. | A minimum contract level will result in a significant reduction in the number of organisations contracting directly with the Skills Funding Agency. |
| Variable approach is taken to new providers and the rules are often not clear, particularly for voluntary and community organisations. | Single and consistent process for new providers that is robust but also allows quicker delivery on a probationary basis. |

Performance Management, Payment, Data Collection and Audit

Performance Management

58. For the 2010/11 academic year we have significantly simplified the approach to performance management against delivery for colleges and training organisations. This has meant a move away from in-year reconciliation for colleges and a move to quarterly performance management for training organisations.
59. Minimum Levels of Performance (MLP) have been applied over the last four years. This has resulted in the removal of poor quality provision and increased success rates. We propose to continue with the application of MLP, although we may review some of the elements of this. It will be even more important going forward to ensure that funding allocations are focussed on those colleges and training organisations who are delivering high quality provision.
60. Discussion on the types of indicators that will be used to inform future allocations needs to be taken forward as part of the wider discussion with the sector on quality and intervention. It will be necessary to reflect how these will support the increased flexibilities given to the sector to respond to local learner and employer needs.

Accountability

61. For the last couple of decades the funding methodology has been based on the premise that funding is attached to every single learner. This has been driven through a complex system, with tight controls and detailed reporting requirements. Although it has been bureaucratic, it has provided transparency in terms of what was delivered and for how much.
62. Moving forward, we are entering an era of much greater simplification, freedom and flexibility, where colleges will have the majority of funding allocated in a single budget, and with significantly reduced requirements for data reporting, monitoring, and audit.
63. We are clear that the freedom to assess and respond to local need sits with a college. However, with this greater freedom comes extra responsibility, where colleges will need to consider how best they can be accountable to their local customers and stakeholders. An important aspect of that will be the regular publication of information, at both individual college and sector level, covering the details of the type and quality of provision being delivered. This will ensure greater transparency about how colleges are responding to local need.

64. We want to work with the sector to determine what this looks like, ensuring that the burden of data collection is simplified rather than increased. However, as a starting point, this could include the development of a set of outcome measures, applied alongside a benchmarking and value for money assessment.
65. Over time this approach could lead to more efficiency and effectiveness in achieving Government ambitions and in meeting community demand. The approach could also be enhanced with other mechanisms described in the rest of this consultation document.
66. It would still be necessary to retain a contractual approach with independent training organisations with a more traditional set of measures of inputs and outcomes. This could provide a strong competitive test of the efficiency and effectiveness of colleges, particularly if there were an annual process of determining allocations based on the best value for money.

Q22. Do you think it would be reasonable to expect this information to be publicly available on a monthly or quarterly basis?

Volume and Frequency of Data Collection

67. We recognise there are too many separate data collections asking for slightly different information against slightly different rules. Some of the simplification in this area will come as a result of a simpler funding methodology, some as a result of lighter touch oversight and some as a result of us challenging ourselves robustly and asking if we really need to collect the information. However, there will only be significant reductions in the Individualised Learner Record (ILR) if we change our funding calculations and business processes. This includes looking for ways in which shared services can be used more effectively across the sector.
68. We are clear that colleges and training organisations will still need to provide data. Indeed, we might expect that greater freedoms will increase the need for more transparency and therefore publication of data in key areas. However, we must also be rigorous in our assessment of the overall amount of data collected.

Q23. We welcome views on the extent to which the proposals in this document help to reduce the burden of data collection? Are there other areas that need attention?

Payment and Reconciliation

69. We propose the following approach for the 2011/12 academic year building on changes introduced for the 2010/11 academic year:

- Colleges will be paid monthly on profile based on standard delivery patterns for all of the budget lines with no in-year reconciliation.
- Training organisations (and employers) will continue to be paid on actual delivery, with quarterly reviews on delivery against Maximum Contract Value. The approach will be streamlined with limited intervention.
- Payments to and performance management against contracts of training organisations will be automated. This will initially include automated calculation of funds to be removed, based on a published range of tolerances. Contract increases would not initially be automated, and would be at the discretion of account managers. In time, the performance management framework could be extended to cover contract increases in certain circumstances, and depending on affordability.
- We will establish clear criteria for the re-allocation of under-spend – for all post-19 provision and 16-18 Apprenticeships. This will need to take into account the quality of provision and the capacity of the provider to deliver more.

Q24. We welcome views on whether there are other changes that would promote simplification and better value for money.

Audit

70. It is important to ensure that there are mechanisms in place to ensure appropriate use of public funds. However, initial feedback from the sector is that the way in which the current funding system operates, in particular the different rules for each funding stream, means that a significant amount of college and training organisation time is spent responding to multiple audits. We want to look at ways of streamlining this process at the same time as achieving the right level of assurance.

71. The following areas have been identified as potentially reducing the audit burdens on colleges and training organisations:

- Using a pricing model that does not seek to directly fund a pre-determined activity level will mean the current approach to auditing activity (based on cost of delivery) will be removed. In this instance learner existence and eligibility will continue to be subject to audit as well as achievement.

- Greater use could be made of naturally occurring evidence, in particular awarding organisation verification reports which sample the quality of assessment decisions.
- The move to a single adult budget should support a move to a single audit approach across all adult delivery.
- The scope of colleges and training organisations' internal and external audit would include all their delivery, their controls and approach to management of sub-contractors and their management of learner support funds. This would remove the need for direct audit from the Skills Funding Agency.

72. We also want to explore further the potential for a single audit framework for all post-19 provision. This would be used by external auditors which colleges and training organisations are already required to use. It would look at a sample across all post-19 activity rather than having separate auditors for each funding stream. This may increase the time required for the single audit but would significantly reduce the number of times a college or training organisation has to engage with auditors.

Q25. We welcome views on the existing aspects of the audit approach that would need to be included in a framework for use by external auditors? Are there alternative approaches to build on existing practice?

General

Q26. We welcome views on whether there are any other areas not covered in this document that could realise significant efficiencies if we simplified or streamlined.

Q27. Are these changes suitable to be taken forward specifically for post-19 provision?

Implementation

A proposed timeframe for delivering potential changes is set out below with a view to making changes as early as possible where feasible.

2011/12

- Consistent set of funding rules applied across all mainstream adult delivery (e.g. excluding Adult Safeguarded budget and offender learning).
- Simplified policy on who pays and who the state will fully subsidise consistent across all post-19 provision, and consideration of how to incentivise delivery of provision for those most in need.
- Simplified rate setting approach in line with Qualification and Credit Framework.
- A simple and transparent allocations process with clear expectations of what will be taken into account in determining allocations for future years.
- Minimum contract levels with clearer and more transparent sub-contracting arrangements to support the sector to move to greater collaboration and shared services.
- Simpler, lighter touch audit with a single approach to audit across all adult delivery with reduced frequency of data requirements.

2012/13

- Guided learning hours removed as prime determiner of rates and simpler rates setting process based on bandings.
- Some simplification of funding methodology:
 - Removal of Standard Learner Numbers for every qualification
 - Review of current disadvantage uplift in provider factor and fee remission categories – to be replaced by a single learner uplift
 - Simplified programme weighting approach – consistent across all adult delivery

Q28. We would welcome your views on the key considerations that we need to take into account when implementing any changes.

What Happens Next?

| Activity | Date |
|--|---|
| Consultation with sector | 22 July to 14 October 2010 |
| Assessment of costs and benefits of change | Over consultation period |
| Proposed changes for 2011/12 and beyond communicated | Autumn 2010 through the Government skills investment strategy |

In accordance with the Better Regulation Executive Code of Practice on Consultation, any decisions taken in the light of the consultation will be made public promptly with a summary of views expressed and reasons given for decisions finally taken. This information will be made available at the same time as the proposed changes to the funding system and methodology are published. You will be able to view them on the BIS website, including a link from the central BIS consultation web pages, with paper copies of the summary of responses made available on request.

Annex A: List of Individuals/Organisations to be consulted

157 Group
3SC
Action with Communities in Rural England
Age UK
Alliance of Sector Skills Councils
Association of Chief Executives of Voluntary Organisations
Association of Colleges
Association for Education and Ageing
Association of Learning Providers
British Chambers of Commerce
Business in the Community
Cabinet Office - Office for Civil Society
Campaign for Learning
Confederation of British Industry
Co-operatives UK
The Chartered Institute of Personnel and Development
The Development Trusts Association
Employers
FE colleges
Federation of Awarding Bodies
Federation for Community Development Learning
Federation of Small Businesses
Industry Training Boards
Institute of Directors
Institute for Learning
Joint Council for Qualifications
Learning and Skills Improvement Service
Local Education Authorities' Forum for the Education of Adults
Local Government Association
London Language and Literacy Unit
Museums, Libraries and Archives Council
National Apprenticeship Service
National Association for Teaching English & Community Languages to Adults
National Association for Voluntary and Community Action
National Employer Service
National Federation of Women's Institutes
National Institute for Adult Continuing Education
National Skills Academies
Office for Disability Issues
Private training organisations
Regional Development Agencies
Sector Skills Councils
Social Enterprise Coalition
Skills Funding Agency
The Third Sector National Learning Alliance
The Homeless Link network of providers
Trades Union Congress

Unionlearn
UK Commission for Employment and Skills
UK Skills / WorldSkills
Workers Educational Association

All other parties or individuals interested are also welcome to submit responses to this consultation.

Annex B: The Consultation Code of Practice Criteria

1. Formal consultation should take place at a stage when there is scope to influence policy outcome.
2. Consultation should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
4. Consultation exercise should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

Comments or complaints

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

Tunde Idowu,
BIS Consultation Co-ordinator,
1 Victoria Street,
London
SW1H 0ET

Telephone Tunde on 020 7215 0412
or e-mail to: Babatunde.Idowu@BIS.gsi.gov.uk

Annex C: List of consultation questions

Q1. We welcome views on whether these are the right principles for a streamlined FE and Skills system - are there any others?

Q2. We welcome views on whether there are other areas of the wider FE and skills system that should be focussed on to simplify systems and processes and reduce burden?

Q3. We welcome views on the benefits of extending the current approach to a single post-19 funding stream and whether there are alternative models to consider.

Q4. Would a funding envelope covering the Spending Review period support improved delivery and performance - if so to what extent?

Q5. We welcome views on how the sector should take the lead in determining the funding allocated for LSIS and the broad parameters of how this is spent.

Q6. We welcome views on how we can ensure the funding system supports the sector in responding to the needs of the most disadvantaged.

Q7. We welcome views on whether the approach to public subsidy should be differentiated.

Q8. We welcome views on whether employers should be accommodated through different measures within the funding system based on their size

Q9. We welcome views on the practical implications of taking into account the need for optimising co-investment and the need for simplification.

Q10. We welcome your views on streamlining the way in which we currently support learners' additional needs including what (if any) aspects of current arrangements should remain.

Q11. We welcome views on targeting funding where it will have the most impact; what elements of the Qualification and Credit Framework should be eligible for funding and why?

Q12. We welcome views on the benefits of moving to a more price-driven system; including how we would mitigate against the risk of focusing too much on a single outcome at the expense of the quality and relevance of the learner experience.

Q13. Are there any other barriers to the sector delivering more efficiently and effectively?

Q14. We welcome views on whether there are alternative approaches that could be considered (including maintaining the status quo) which meet the principles of simplification and value for money; if so, how might they work?

Q15. We welcome views on how this might be achieved, and whether its benefits would justify the change

Q16. Should there be a different approach to setting rates for post 19 Apprenticeships?

Q17. We welcome views on whether there are other elements of the provider factor that could be removed / simplified in light of the proposed approach to allocations, rates and funding?

Q18. We welcome views on the options – including how we could use the approach to marginal funding to reward good performance in delivering quality outcomes in response to learner and employer needs.

Q19. Should some areas of provision and/or types of provider be exempt from minimum contract levels?

Q20. We welcome views on what the “right” minimum level might be.

Q21. We welcome views on the risks of greater sub-contracting, what can we and the sector do to minimise those.

Q22. Do you think it would be reasonable to expect this information to be publicly available on a monthly or quarterly basis?

Q23. We welcome views on the extent to which the proposals in this document help to reduce the burden of data collection? Are there other areas that need attention?

Q24. We welcome views on whether there are other changes that would promote simplification and better value for money.

Q25. We welcome views on the existing aspects of the audit approach that would need to be included in a framework for use by external auditors? Are there alternative approaches to build on existing practice?

Q26. We welcome views on whether there are any other areas not covered in the document that could realise significant efficiencies if we simplified or streamlined.

Q27. Are these changes suitable to be taken forward specifically for 19+ provision?

Q28. We would welcome your views on the key considerations that we need to take into account when implementing any changes.