



Negotiating College Funding in the context of the EFA High Needs Formula

Report

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Introduction

- 1 acl consulting are pleased to present this report to the Association of National Specialist Colleges [Natspec] in order to assist Association members in responding to requests for financial and other information made by local authorities as part of the High Needs student placement process.
- 2 This report is based on documentary research into local authorities' intended student placement procedures and on publications from the Education Funding Agency and its predecessors. It has had the great benefit of being informed by a Working Group of Finance Directors from constituent Natspec member colleges, who have met with acl consulting on three occasions to advise and critique upon the approach described in this document. We are most grateful to these colleagues for their assistance.
- 3 We hope we may be permitted a disclaimer. Every care has been taken in putting together this Report and it is believed that it will form a sound basis for negotiating placements and their associated fees with local authorities under the new High Needs funding regime. However the costing and pricing of educational provision – as with all costing and pricing – is both a highly technical science and also to an extent a matter of judgement. As discussed in the Report, pricing always needs to take into account volumes of activity, yet those volumes are then in turn influenced by the prices decided upon. “Mistakes”, or even misjudgements, about pricing can if uncorrected lead to serious or even catastrophic shortfalls in income. acl consulting – as we are sure will be appreciated – can take no responsibility for the prices set by an individual institution, whether based on this document or not, nor for the consequences which may follow from mispricing.
- 4 It should also be pointed out that the Education Funding Agency High Needs funding system is very new, and the “approved” guidance being issued by the Agency and its parent the Department for Education is changing all the time. Statements made in this document are believed to represent the current position at the time of writing (January 2014) but this position is likely to change and evolve in the coming months.
- 5 In addition, URLs for key documents (as quoted in footnotes to the text) may change over time or the documents themselves may be re-issued or replaced.
- 6 It would therefore be valuable to hear from members of their ongoing experience of negotiating placements and prices with their local authorities. Any comments and suggestions will be very useful in informing future versions of similar documents to this one.

1 The funding context for independent specialist colleges

The changing context

- 101 The new 16-19 funding arrangements introduced by the Department for Education [DfE], and delivered on its behalf by the Education Funding Agency [EFA], have immediate implications for the funding of specialist colleges. Readers will be well aware of these, and it is not necessary to describe them in detail. However to set the context a few salient points must be sketched in.
- 102 As part of the transfer of responsibility for 16-19 funding from the Learning and Skills Council, via the (short-lived) Young People's Learning Agency, to the Education Funding Agency, the decision was taken to introduce a standard approach to funding young people with additional learning needs over an agreed cost threshold which would apply across all institutions, and in addition would cover these young people from ages 0 to 25.
- 103 This replaced a long-established approach under which separate funding systems were applied to independent specialist colleges and to general FE colleges in respect of their learners with additional learning needs.
- 104 There are a number of challenges associated with the new system, many of which were predicted from the start; in particular the large number of LAs commissioning and funding places in so many providers has created a plethora of systems and associated paperwork. In addition, many of the details were not in place, and have been addressed only as the reforms have progressed. At the time of writing, updates and information about the approach to be taken in the future are being regularly placed on the EFA high needs webpage.¹
- 105 The funding reforms anticipate the implementation of the Children and Families Act Part 3 from September 2014. Like the funding reforms, this new system applies from 0 to 25, and replaces statements and LDAs with Education Health and Care Plans [EHCPs] based on a joint commissioning approach between education, health and social care services. LAs will be required to develop a Local Offer to provide information to young people and parents about the full range of provision and support that is available to them.
- 106 The legislation has a central focus on the views of the young person, who should be supported to identify their hopes and aspirations and be involved in the planning to achieve them. Young people leaving school and moving on to post-16 provision will be asked to focus on their ambitions for adult life and their plan should reflect these

¹ <http://www.education.gov.uk/aboutdfe/executiveagencies/efa/a00228993/hn-funding-information>

outcomes, which could cover employment options, choice over living arrangements and opportunities to participate in the community.

- 107 The new funding system itself will be increasingly familiar to readers of this report, and it is not intended to describe it in detail here. However in outline the new system provides funding via three “elements”:
- Element 1 is the core EFA funding formula for 16-19 year olds, usually around £5,000+ once additional weightings have been added
 - Element 2 is a place-led funding payment of £6,000
 - Element 3 is a “top-up” paid by the local authority who act as “commissioners” for the provision, and is to be determined between colleges and local authorities based on the needs of the student concerned.

The impact of the changes

- 108 Faced with these funding and other changes, which started to take effect from September 2013, local authorities have reacted in a variety of ways. Some have decided (for 2013/14 at least) to continue using the former “matrix system” to determine the overall level of funding for each student, and then calculate their Element 3 payment by deducting from this overall level the amounts the specialist college receives for Elements 1 and 2. Others have taken a varying amount of direct interest in just what the specialist college concerned intends to charge for the provision it intends to deliver, and how these two are linked.
- 109 Some of these local authorities also wish to see a direct link between salaries paid to staff who will support the student being funded and the amounts they pay to the college in question, and this in turn calls into question how colleges will receive funding for their non-staff costs (and indeed costs of management and other non student-specific staff) in the future.
- 110 At the very least, specialist colleges are faced with a wide range of different approaches from different local authorities, all of which potentially seek different data. In the subsequent confusion, there is a danger that colleges will not receive the funding they require to sustain their operations into the future and therefore that students’ future provision will be adversely affected.
- 111 The aim of this paper is to suggest a way forward that specialist colleges can apply to the range of requests they receive from local authorities. In addition, by sharing the principles behind the paper proactively with local authorities it is hoped that they in turn may be encouraged to adopt a more standard approach to the funding information requests they make to specialist colleges, to the benefit of all parties.
- 112 This paper focuses on negotiating funding for student placements – day or residential – within independent specialist colleges. Much the same principles would

apply, however, where an independent specialist college offers “outreach” support to students placed with other providers, or where a college offers an “extended” programme to supplement a “daytime” programme being offered elsewhere. Such models are becoming gradually more common, particularly in urban areas (geographical factors can make them difficult to manage in a rural context). To discuss the funding of the arrangements in detail would make this present report unnecessarily complex; in lieu of such discussion, Annex 4 offers a few notes on how varied types of provision might be funded.

- 113 The paper also focuses specifically on negotiations with local authorities as commissioners. In some cases, the position is more complex than this, with part-funding being sought from health authorities and combined LA/health packages of funding being put together. Again, to discuss these in detail would make the present report unnecessarily complex: similar principles to those discussed here would however apply.
- 114 In any event, detailed negotiation of provision with local authorities – often on a student-by-student basis – is likely to be a core activity in the future. It is the purpose of this paper to facilitate that negotiation.

2 Price and cost

The distinction between price and cost

- 201 Before turning to the main purpose of this paper, it is worth spending a few paragraphs on setting the negotiation between local authority and specialist college in an economic context. The concepts explored here will underpin the discussion that follows.
- 202 Under the new arrangements the local authority has a responsibility to ensure that appropriate “further education” provision is available for young people aged up to 25 who hold an EHCP. It can discharge this responsibility through provision at special schools up to the age of 19; through supplementing the provision funded by EFA at general FE colleges if it needs to do so; or through funding places at specialist colleges (where technically it is also supplementing the provision funded by EFA: this will be significant later)².
- 203 In doing so, the local authority incurs *costs*. Payments made to specialist colleges are one form of costs it incurs.
- 204 From the point of view of the specialist college, however, things look slightly different. The college is setting a *price* for the services it intends to provide; if a contract is signed between the local authority and the college, then the local authority is paying the *price* negotiated between them. The local authority is *not* necessarily meeting any particular share of the college’s costs.
- 205 This is not a semantic distinction. It implies, for instance, that the local authority has every right to discuss the support programme that the student will receive, and to assess whether or not it represents value for money, but no automatic right to enquire into the college’s cost structure (but see Section 5). In particular, it is not automatically entitled to information on:
- Whether the college is required to make an annual revenue surplus, either in order to provide a return on capital invested (for instance because it is profit making) or in order to build up a fund for future planned capital investment
 - Specifically, the extent to which the price charged by the college is designed to service the college’s capital costs, either through depreciation or by building up a capital fund to replace buildings, etc. when this becomes necessary
 - The salaries paid to individual employees, and whether these are more or less than those paid by other colleges or indeed by the local authority itself for similar staff.

² Strictly the local authority is not “supplementing” the provision made by the EFA; rather, it is funding additional support to enable the student to access the EFA-funded “study programme”. However as will become clear the distinction between these two is hard to draw in a specialist college context.

- 206 These are only examples; more will come to mind. The characteristic they share is that they are internal cost factors which may influence the prices that the college subsequently charge but which do not govern it. Many of them are also commercially sensitive or confidential.
- 207 Some insight into colleges' internal cost data may of course be freely available from statutory returns to Companies House, and local authorities are free to request this if they wish. But this does not change the overall point.
- 208 So, at one extreme, colleges are perfectly entitled to assess a potential student (or for that matter an existing one, though by mutual agreement existing students tend to continue at the same price unless substantial changes to the programme have been agreed at annual review), and then propose a single-line price to the local authority for the provision that they intend to make over the coming year. The local authority could then accept that price (effectively forming a "contract"³) and in due course pay it.⁴ However an authority that acted like this could be criticised for not taking sufficient care over public expenditure: specifically, for not taking the trouble to enquire just what its student is going to receive in exchange for the price paid.
- 209 As a "good purchaser", the local authority should therefore at the very least ask:
- What service is going to be provided to the student: what will the annual programme look like, what level of resource is going to be made available, and why do college staff believe that this level of resource is appropriate for this student? Is the proposed offer consistent with the EHCP?
 - What evidence or experience do college staff have that suggests this level of resource will lead to certain outcomes for this student, and how will they assess progress towards these outcomes? More subtly, would a greater level of resource lead to more progress, or for that matter a lower level of resource lead to less progress, and how do the various options compare in terms of "return" (defined in what terms, and by whom?) on investment?
 - How does the price the college proposes to charge relate directly to the service to be provided? What "pricing schedule" has been used?
- 210 These are entirely reasonable questions (even if LSC and YPLA may not always have asked them in the past). Colleges should have no difficulty in answering the first. The second may be more difficult – particularly if colleges are used to offering more or less "standard pricing packages"⁵ based on the former matrix classification – but is highly relevant, particularly if education from 16 to 25 is viewed as an investment in

³ The extent to which a contract in law is formed, and between whom (EFA, the LA, the college) is technical and beyond the scope of this paper. The use of the word "contract" is not intended to prejudge this issue.

⁴ Less Elements 1 and 2, of course. The point is not important in the present context but will become so later.

⁵ It should be stressed that in these circumstances it is the price that is standard, and not the provision – which is in almost all cases designed specifically to meet the individual needs of the student.

the young person's future (as confirmed in the NAO report 'Oversight of special education for young people aged 16-25'⁶). The third question is the most difficult, and will occupy much the rest of this paper.

- 211 In principle, however, the third question is easy to address. The link between the service to be provided and the price charged is built up of *input unit prices*. In resource terms, the student's intended programme can be viewed as requiring different input components: so many hours in a classroom (with a certain staff ratio), so many hours of 1:1 personal support, so many nights' residential provision (with a certain level of staff cover), etc. For all these components, a unit price can be set ("per hour in a class of 1:4", for example); the student's programme is then calculated by pricing each component ("1200 annual hours in a class of 1:4") and adding the component prices together.
- 212 In this way, the local authority can see how the price is made up – why it is being charged what it is – and can also enter into a professional dialogue and negotiation over the programme if it chooses to. It can, if it wishes, explore the options suggested by the second question of paragraph 209, and not necessarily only in a negative direction ("if we reduced provision, how much would the student lose?") Indeed, a college could, if it felt the authority were likely to be interested, offer a range of options for provision and discuss the relative value to the student of each.⁷
- 213 The point is that – although the college will of course use its internal cost structure to determine the unit prices it sets – only the price, and not the associated cost, need be communicated to the local authority as commissioner.

A domestic parallel

- 214 It may be helpful to explore a (fairly mundane) domestic parallel. If not, the next paragraphs can be skipped.
- 215 When ordering a new kitchen, a householder will not be very impressed if the salesperson simply quotes a single-line price. He or she will want to know "how the price is made up". There will be a certain number of cupboards, work surfaces, etc. to be installed; there will be a choice of different cupboard doors and handles and of work surface materials; there will be various built-in kitchen appliances to choose, and (unless this is rolled up in the prices quoted) an assessment of the number of hours' labour from a kitchen fitter to install it all. The householder can reasonably expect the price to be broken down across these categories.

⁶ See <http://www.nao.org.uk/report/oversight-of-special-education-for-young-people-aged-16-25/>

⁷ This does however depend on the local authority being prepared to discuss the options in a "return on investment" context, and not simply taking the cheapest option offered. This may be asking too much of local authorities in their current economic climate. But see Section 5, paragraph 511.

- 216 Armed with this information, householder and salesperson can have a meaningful negotiation: what about if the work surfaces were made of different materials? What if the cupboard doors were less elaborate? What if we went for a cheaper oven (or re-used the existing one)? These are legitimate questions to ask. Householder and salesperson can explore the consequences of more expensive or cheaper options. In the end, and provided negotiations do not break down altogether – which they might – the two parties will agree on a way forward.
- 217 What the householder will not have asked about – indeed by convention *does not* ask about – includes:
- What the fitters are paid and how much holiday they get
 - What the firm actually pays for the handles, and how this relates to the price charged
 - How much of the price relates to the infrastructure of the business – premises, management, administration, costs of finance etc.
 - What profit margin is built into the various prices the householder is preparing to pay.

These are simply not appropriate questions.

- 218 The householder can if he or she wishes search Companies House for financial details on the supplier's business – but paradoxically might prefer to buy from a business that seems to be making a decent profit, since it is more likely to get to the end of the job without going bankrupt, and to be around to service the kitchen in the future. Of course that profit is directly reflected in the price he or she is about to pay: a company that is delivering a profit of 10% on turnover is (at any rate implicitly) building a 10% margin into every unit price.
- 219 It is suggested that this is (at least in part) a parallel to the local authority's negotiation with a specialist college over a student placement, and analogies with the kinds of questions that can and cannot be asked can be drawn. "What the student is likely to receive" is a fair subject for discussion and questioning; "how the college works internally in financial terms" is not.

Two ways of setting prices

- 220 To conclude this section, it is just worth commenting on the two ways in which (traditionally) prices are set.
- 221 The most common way, particularly in organisations that are close to the public sector (and for that matter in Western Europe generally) is known as "cost plus". This approach calculates the full cost of delivering a particular product or service, including both fixed and variable costs, and then adds in a margin for return on

investment based on how much it is believed the market will bear. The approach starts with a specification for the proposed product/service and builds from there.

- 222 The alternative approach, known as “price minus”, follows exactly the reverse path. It starts with a broad definition of a product or service niche, and the price to be charged is key to defining this niche. It then works backwards from the price to see if a product or service can be delivered for this price that will satisfy the demand for the niche. If it can, this is what is made or provided.⁸
- 223 Our proposed approach here is definitely “cost plus”. This is not a lazy choice, but it acknowledges that there is not (and it may not be in anyone’s interest that there should be) a full “market” operating in specialist college provision. However this does not mean that colleges should not keep a careful eye on the prices generated by a mechanistic “cost plus” approach – not least, to see that these prices are competitive and that they do not fall outside what LAs might reasonably be prepared to pay.

Implementing unit prices

- 224 Implementing a unit price approach – which, as argued in Section 1, we believe that local authorities will increasingly expect in any case – does require specialist colleges to know what they currently provide by way of programmes for their learners (this we take to be straightforward) and also to calculate a range of unit prices which will enable them to justify the price they charge for these programmes (this may not be). The next section will discuss how the unit price approach can be applied in practice.

⁸ The best known recent example of the “price minus” approach is the Tata Nano motor car, which was designed from the outset to cost one lakh of rupees (Rs 100,000). Interestingly, the car now costs more, since it has been found that a slightly higher specification car with a slightly higher price is a better market proposition (a conclusion based on “cost plus”, perhaps?).

3 Unit prices (i): direct student specific costs

Introduction

- 301 Section 2 has argued that specialist colleges should be prepared to justify the price they intend to charge for a particular student's programme by reference to the way in which the programme is built up, and in particular to a description of the provision that will be made to that student to which a schedule of unit prices is applied. This Section will discuss how to set those unit prices.
- 302 Needless to say, it is most important that the unit prices are calculated correctly. If unit prices are set too low then a college's income will not cover its costs and financial loss will result. Conversely, if unit prices are set too high then the college will not be competitive and may struggle to persuade local authorities to pay its fees.
- 303 It should also be pointed out that many of a college's costs are to all intents and purposes "fixed" – that is, independent of the volume of activity within the college⁹. In setting unit prices, a conservative estimate has to be taken of the volume of activity which will be undertaken in the coming year (and which the prices in themselves may influence).
- 304 This may all sound desperately uncertain. However colleges can take as their starting point the experience built up over many years both of what their internal costs have been and of what LSC and YPLA have been accustomed to pay.
- 305 This paper is not written on the assumption that local authorities *en masse* will revolt against paying the typical fees paid by LSC and YPLA in previous years, but rather on the assumption that they will want more information before paying them, and the chance to negotiate at the margins over just what is provided. (They may also want to see more explicit links between what the college proposes to do and (respectively) the Study Programme and the EHCP.) But in any event colleges that have previously been operating at "break even" by delivering a certain design of student programme for a particular annual fee should find that an accurate calculation of unit prices applied to their current programme should yield a fee very near to that they currently charge.
- 306 The same should apply if a college offers a range of programmes, with a range of fees. Here, however, it may discover that some programmes have been (wittingly or unwittingly) cross-subsidising others, and will need to act with care: see paragraph 223 above.

⁹ Strictly, most of these costs are in fact "step costs", which change suddenly when particular activity thresholds are passed. If a college increases dramatically in size, then for instance additional accommodation will become necessary.

307 To state the obvious, however, if the overall fee total purchased by local authorities in any one college is smaller than that previously purchased by LSC or YPLA then that college's activity will shrink in size; at that point it becomes imperative to "get fixed costs out" – and indeed to maximise the efficiency with which the college delivers its services for the prices it can get – if a spiral of lower activity with higher unit costs is to be avoided.

"Cost plus" pricing in practice

308 The following approach is suggested (there are many others) as a way of setting up a cost-plus unit pricing system for programmes delivered within a specialist college.

309 First, the college should determine the "input units" that it is going to use to describe the programmes it offers to students. These units describe the way in which the programme operates, and will form the basis in due course of discussions with purchasing local authorities. They will be of the following kinds:

- Support provided directly to the student by staff (teachers, other tutors, support workers etc.). These can conveniently be measured in hours per year. It is important to record the staff:student ratio since the hourly cost of the member of staff concerned will need to be divided by the ratio concerned to arrive at the cost to be borne by the student¹⁰. Only direct "student specific" staff should be counted: for Principals, administrators, cleaners, etc. see below
- Therapy sessions of various kinds, again measured by hours per year
- Non-staff costs including meals, resources, specialist equipment specific to the student concerned, education consumables, qualification and assessment fees, etc. If student-specific, these can be priced "at cost", or alternatively an average per-student charge can be calculated
- Residential inputs, which will themselves include some or all of the input categories just listed above.

310 In general, it can be helpful if (where relevant) input units applicable to the "day" curriculum and those applicable to the (additional costs of) a "residential" curriculum are identified separately. Many local authorities will reasonably ask for separate price quotations for day and residential provision. In addition, "day" and "residential" input units may well have different unit prices. (See below, paragraph 329, for a fuller discussion of how to price residential provision.)

¹⁰ Where a student needs support from two (or more) members of staff simultaneously it is least ambiguous if the hours allocated are simply doubled (or whatever). Thus a student who needs personal care support for a total of one hour per day from two members of staff simultaneously, over 190 days, should be shown as needing 380 hours of 1:1 personal care support. This avoids the confusion that may well ensue if ratios of 1:2 and 2:1 are intended to mean different things (remembering which is which is likely to be a challenge).

- 311 A structured list of proposed “input units” is given in Annex 1 to this paper. This list has been put together with advice from the Working Group (see the Introduction) and we are most grateful for their help with this. Some points about Annex 1 are in order:
- The list is structured in such a way that individual colleges can use any elements they see fit, and discard those that do not apply. In particular, colleges can decide the level of detail appropriate for them. For example, “therapists” can be treated and priced as a group, or can be subclassified as occupational therapists, physiotherapists, etc. and priced separately
 - The list attempts to distinguish between structured teaching sessions (even if these are given by therapists) and more general therapy linked to health needs. This distinction may help local authorities determine what, if any, funding they are subsequently to seek from the NHS. Of course this is a matter for the local authority and not for the College, and colleges can abandon this distinction for simplicity’s sake if they prefer.
- 312 Annex 1 is given as an example, and colleges are free to use any list of input units that makes sense to them. However there are some advantages in all Natspec member colleges using (extracts from) the same list: local authorities will become used to seeing the list, and indeed to seeing different colleges set out their prices in a comparable way. (Of course, different colleges’ unit prices for items on the list may well differ; there is no suggestion in this report that any attempt to standardise prices should be made.)
- 313 To repeat, the idea is that an individual student’s programme will be made up of combinations of these input units, and priced according to the unit prices set. The next stage is to work out what these prices should be.

The price for staff support

- 314 The majority of costs in respect of an individual student will be staff related. It is thus important to set the according prices correctly.
- 315 There are two stages to the calculation. One will be discussed here and one in Section 4.
- 316 The task here is to identify the cost of members of staff in a particular “staff group” (for example, teachers/lecturers, therapists, support workers, etc.) *in terms of the number of hours they actually spend interacting with students*. This is, it will be appreciated, in almost all cases substantially less than those staff members’ “contracted hours”. We will use the term “delivery hours” in this report to refer to

this smaller number of hours that are actually identifiable as being in support of a particular student or group of students.¹¹

- 317 The shortfall of delivery hours over contractual hours is typically made up from:
- Time spent preparing for, and recording the outcomes of, particular interactions with students, and other administration
 - Time spent in management and other meetings and in supervision of other staff – this will particularly affect more senior staff, who will have fewer delivery hours as a consequence
 - Continuing professional development
 - Time “lost” due to timetabling constraints¹².
- 318 Within a particular staff group there may be different grades of staff (“lecturers”, “senior lecturers”, “principal lecturers”, etc.). More senior staff may have fewer delivery hours because of their greater involvement in planning, staff supervision, etc. Usually the appropriate number of delivery hours for a particular grade of staff will be known from experience; exceptionally a “diary exercise” may be needed.
- 319 An annual total of delivery hours available from the staff group will be needed. It is often easier to assess delivery hours on a weekly basis per member of staff, and then “multiply up” by the number of staff at that grade (and e.g. by 36 weeks).
- 320 Annex 1 contains a hierarchical list of staff groups, and the worked example in Annex 2 (more fully referred to later) uses some of these.
- 321 The total number of delivery hours from the staff group can then be compared with the total cost of employing the staff group concerned to obtain an initial “cost per delivery hour”. This is self-evidently made up of the salary cost of the staff group concerned, together with employers’ pension payments, employers’ National Insurance and any other expenses¹³.
- 322 Three points may require special attention:
- Routine departmental management tasks should be covered in the estimate of delivery hours for the senior staff member with management responsibility, as

¹¹ The expression formerly used, “contact hours”, now has unacceptable connotations for some; however for readers familiar with the expression from the past it had exactly the same meaning as that which is now intended.

¹² It is assumed that all holidays are taken outside the college 36 week year; if not, these must be allowed for too. In this report, time lost through staff sickness is considered a little later (see paragraph 324) but could be considered here if preferred.

¹³ Membership of professional bodies, if funded by the college; uniforms, if relevant; personal equipment; other expenses, including travelling expenses, training fees and assessment costs. Anything, indeed, that can be directly linked to the staff member(s) concerned.

noted above. But where a member of staff has a part-time *college-wide* management role, a proportion of their salary cost etc. can if desired be held back for later and their delivery hours reduced in the same proportion

- Increasingly, part-time staff will have “fractional contracts” similar to those of full-time staff, and may not need to be analysed separately. However where *agency* staff are used in a planned way to supplement the college’s own staff then more care will be needed. Perhaps every agency hour will be a “delivery hour”, and can be counted as such. Or perhaps agency staff will be encouraged to attend staff meetings, given time to prepare materials, etc., and paid for their time accordingly. In this case the cost per delivery hour of agency staff used in the calculation will need to be increased to take account of these hours¹⁴
- Where agencies are engaged to deliver particular services to individual students – for example, an agency provides a specific kind of therapist (that the college does not normally employ) to meet a particular student’s need, then arguably this (from the college’s perspective) is a “non-staff direct cost” and should not be considered here at all.

323 Ideally budget forecast data for the coming year should be used – the budget year matching the year for which fees are to be set. This is less important at a time of low inflation unless the college is changing rapidly.

324 At this point in the calculation, we can if we wish make an assessment of the likely impact of sickness and other absence on our costs per delivery hour. A single “percentage absence” figure can be used (based on experience) for all staff, or different absence figures can be used for different groups of staff if experience warrants it. The effect of this figure will be to increase the cost per delivery hour by an appropriate amount.¹⁵

Taking the calculation forward

325 At the end of this calculation we should have an hourly cost of putting a member of staff (from a particular group) “in front of students” based on the actual number of hours for which this is feasible. To reiterate, the calculation should usually be done separately for teachers; therapists of various disciplines; support workers; and can if desired be done separately for day and residential staff (but see below, paragraph 329, for a further treatment of residential costs).

¹⁴ Usually, agency staff are used for emergency cover only. The treatment of such emergency cover in college budgets is complex, and beyond the scope of this report; however colleges will be very familiar with the need to do it.

¹⁵ Note that this approach (implicitly) leads a college in due course to appoint more staff “on the books” in order to cover absence. An alternative approach, particularly if agencies are used to cover absence, is not to allow for the impact of potential sickness on delivery hour costs but instead to build a college-wide estimate for “staff cover” into non-student specific costs.

- 326 We have as yet made no allowance for any other institutional costs at all. One might like to think that at this point the learning is taking place in a public park, with no learning materials and with the students sitting in a ring on the grass. (This may be a useful image to have in mind when local authorities claim that they do not “pay overheads”, but we will have more to say on that later.)
- 327 We will also, incidentally, have a “volume of business” target for that particular group of staff for the year for which the budget is being set: this target is simply the total number of delivery hours identified for the group concerned. If this target is not “used up”, then target income cannot be achieved (and it will be too late to ask the commissioning LAs to make up any shortfall).
- 328 Annex 2 to this report provides a worked example of the approach discussed above (and also of the subsequent stage to this calculation, to be discussed in Section 4). The part of the calculation relevant so far is up to and including column H on sheet “Direct staff funding allocation”.

Residential pricing

- 329 There are two distinct ways of pricing residential provision, and colleges can choose between them.
- 330 If in resource terms residential provision is effectively “standard”, and offered in the same way to every residential student, then it may be sufficient simply to work out a “serviced room charge” that includes all costs associated with residential education and allocates them over an anticipated number of “bed-nights” to be achieved in a year. Such a calculation could include a standard allocation of overnight care staff, as well as food costs if the food is cooked by or with the involvement of the residential students. (Naturally the *way* in which the student is supported in the residential context will follow a plan entirely specific to the student; there is no implication intended that this is or should be “standard”.)
- 331 Self-evidently, if this is done then the overnight care staff costs should not be included in the “cost per delivery hour” calculation described above – that would represent double-counting of these costs.
- 332 However, in some colleges different students need different levels of care support during their residential education, potentially including waking or sleeping night support that is likely to be called upon (as opposed to more generic residential care staff who will, mostly, get a night’s sleep). Or students may need (different amounts of) input from therapists during the night as well as during the college day. If either or both of these is the case, then these student-specific staff costs will need to be excluded from the serviced room charge and calculated on the basis already outlined for day staff (see above, paragraphs 314 and following).

- 333 Similarly, all colleges will no doubt provide some support for residential students' learning experiences – the “extended curriculum” – during the evenings and at weekends. There is an equivalent choice as to whether to identify the prices for this support separately or to include it in the overall residential charge. Again, if different levels of support are provided for different students then it is fair to identify these so that LAs can be charged a fair price for what their individual students receive.
- 334 Provision to identify individual elements of residential support (including staff support), to the extent that colleges wish to do so, has been made in the headings provided in Annex 1.
- 335 [In passing, local authorities may need reminding that if a college is structured for “seven night” residential provision there may be virtually no savings possible should students (or their LAs) opt for “four night” provision. The students' rooms cannot be re-let over the weekend nor can staff savings necessarily be made. In due course it may be possible for a college to design (and staff) one or more of its residential units entirely for “four night” provision, but even then the cost will be greater than $\frac{4}{7}$ of the “seven night” charge in most cases. This is before any additional transport costs – normally borne by the LA – are taken into account.]

Prices for other components of the programme

- 336 With staff costs and residential provision taken care of, the remaining relevant non-staff input headings in Annex 1 can be priced easily. There is no reason to seek a surplus on these items so an “average cost” price (based on overall anticipated college expenditure divided by the number of students who benefit) will usually suffice. If subgroups of students who are likely to make differential use of these inputs can be distinguished, and it makes sense to do so, then this can be done¹⁶.
- 337 Again, an outline example of this approach is given in Annex 2 (sheet “Other allocations” on the example spreadsheet).
- 338 Where equipment (or for that matter consumables) is likely to be bought specifically for an *individual* named student, then naturally the cost of that equipment/consumables can be included directly in that student's fee rather than being included in the averaging process. Similarly if anticipated qualification fees can be traced through to the student concerned then these can be identified separately.¹⁷
- 339 Similarly, if students are to be charged for specific personal equipment, or for (lunchtime) meals, these can be separately priced: again Annex 2 has an example.

¹⁶ E.g. if half the students follow an “outdoor” curriculum and half an “indoor” one then the costs of “outdoor” consumables can be charged to “outdoor” students only.

¹⁷ Or, alternatively, agreement obtained to bill the actual incurred cost of specific equipment/consumables and/or the actual qualification fee later.

- 340 The only other heading in Annex 1 meriting discussion is “revenue contribution to equipment”. To the extent that local authorities wish to distinguish between direct student-specific costs and other costs of running the college (and we will have more to say about that below) it may be advantageous to calculate the overall cost of providing equipment for student and class use (including teacher/other staff use outside class) and “charge” each student a fee towards the cost of maintaining and in due course replacing that equipment.
- 341 The argument here is that if such equipment were rented by the hour (as conceivably it could be) then it would certainly be a direct cost of an hour’s learning, to be divided equally among the students benefiting from it: the fact that it has been bought outright by the college should not alter the cost treatment.

4 Unit prices (ii): non-student specific costs

Introduction

401 At this point in the costing process envisaged in this paper, the specialist college will have chosen a number of headings from Annex 1 as relevant to its activities; applied a number of student-specific costs to them; and (using the suggestions above as appropriate) worked out a unit cost that will enable these student-specific costs to be met, providing sufficient volumes of units are supplied (and paid for) during the budget year in question.

402 However there are still many costs incurred by the college that remain unmet. There is nothing in the prices, as so far set, to cover:

- Management and administrative staff (including the part salaries of staff who have a part management role, see paragraph 322)
- Premises and the staff required to maintain them
- Overall college costs, including governance costs and costs of compliance
- Depreciation
- Costs of servicing capital, desired surplus, contribution to parent charity etc.

403 These are sometimes referred to, particularly in local authority correspondence, as “overheads”. In our view the term is best avoided. They are simply costs which it is not *practical* to associate to individual students. They are certainly incurred with the benefit of students in mind, and for no other purpose. It is just that it is (to a greater or lesser extent) simply not worth the administration required to set out the financial path which would allow a direct allocation of costs to be reflected in the price.

404 To take just one example – and Ofsted’s view is very clear on this – the Principal of a college is employed to maximise the effect of the students’ learning experience. This he or she does in many ways, including by leading and managing the staff who in turn support the student. Without a Principal, the college – and therefore the students’ learning – would in due course suffer. Therefore the Principal’s salary is a direct input into the student’s learning, which could be allocated either on the basis of one n th share to every student’s programme or on some other basis. But it is simply not convenient to do so.

405 The same argument could be applied to any aspect of college expenditure. Why do we employ Adam¹⁸ to cut the grass if there is not some causal chain between a neat

¹⁸ Or Eve. Note also that staff whose role is apparently “support” or “premises related” may also have an important role in supervising work experience for students.

site and student progress (not to mention their safety) – albeit that some of the links in that chain may be circumstantial rather than direct?

- 406 For the purposes of this analysis, therefore, there is no hard and fast distinction between “direct costs” and “overheads”. Rather, there are on the one hand some student specific activities that form the basis of the student’s programme, can be priced, and therefore form the basis of discussion between local authority and college; there are on the other hand some non-student specific costs that all students essentially incur, which are unavoidable (you cannot have a Principal for half the students and not the other half) and which it therefore does not make sense to consider separately. We therefore need to ensure that the prices charged for the student specific units of activity (discussed in Section 3) cover the full cost of running the College. At present, and at the conclusion of the calculation in Section 3, they will not yet do this.

Calculating the balance

- 407 The first step towards addressing this is to see how many costs from the overall College budget remain unallocated. (It may be helpful at this point to follow through the “worked example” provided in Annex 2.)
- 408 The starting point here is the full College budget for the budget year in question, configured to “match” the anticipated income from student fees. Thus this is not just as simple as an “expenditure budget”: it may, for example, include small amounts of income from College or student activities. It may also include a “margin of safety” surplus to ensure fixed costs are covered in the event that actual activity falls somewhat short of target: see paragraph 417 below.
- 409 From this budget, all the student-specific costs already taken into account in modelling the unit prices to be set for input activities (Section 3) can be “ticked off”. If the college succeeds in “selling” the anticipated volume of these units at the price chosen, and if the price is correct, these costs should be covered.
- 410 What remains is (to all intents and purposes) a “lump sum” of cost to be covered by enhancements to the prices set in Section 3. Put simply, the unit prices set in Section 3 need to be increased, in whatever way is necessary, in order to ensure that when the anticipated volume of these units is delivered the *whole* cost of the College, and not just the student-specific costs already taken into account, are met.
- 411 The simplest approach might appear to be an across-the-board percentage increase. For example, if the student-specific costs used in the calculations so far amount to 70% of the overall annual budget of the College, multiplying all the prices arrived at so far by 100/70 would fit the bill. However such an approach is open to challenge.
- 412 Consider one example – learning resources. There is some work in sourcing and ordering the resources that students (and their teachers) need, but not a great deal

compared to the cost of the resources themselves. Yet the above approach would add 43%¹⁹ to the price of resources before adding them on to the student fee calculation.

- 413 The suggestion here, then, is that the non-student specific costs of running the College should be met by enhancing the *hourly unit prices of student-specific staff* (only) by a sufficient percentage to yield the lump sum required by paragraph 410. This is the second stage of the two-stage process to calculate the “true price” of a staff hour that was begun in Section 3 (paragraph 315).
- 414 There is no absolute requirement to use the same enhancement percentage for all groups of staff, but (unless the college already bases its budget on a “departmental” structure and has the relevant financial information readily to hand) it is often convenient to do so.²⁰

Summary

- 415 To summarise this report so far, therefore:
- If colleges are to enter into a convincing dialogue with local authorities in respect of an individual student, they need to provide details of what their proposed programme for the student would involve, in terms of student-specific staff and other inputs, and link the fee they propose to charge to “unit prices” based on these inputs
 - The prices for student-specific staff inputs should be linked to the costs of employing these staff, but take into account:
 - ❖ The number of hours that these staff can reasonably be expected to be working directly with students (almost always less than their contractual hours)
 - ❖ An appropriate enhancement needed to cover the non-student specific costs of running the college
 - The prices for non-staff student-specific inputs should be calculated on the basis of as full a costing as possible, including such costs (e.g. staffing, premises and equipment in the case of meals) as can be attributed, and not subsequently enhanced

¹⁹ $(100 \div 70) - 1$

²⁰ An exception might be if (for example) a particular kind of therapist was bought in from a third party company specifically to meet the needs of an individual young person. In this instance it might be fairer simply to pass the costs of this therapy service directly on to the local authority concerned, perhaps adding a small “arrangement fee” only. There are a number of reasons for doing this, but the most convincing is based on the possibility that the local authority might reasonably choose to commission the service from the third party direct. If it did so, the college could hardly charge the local authority a substantial fee for allowing the therapist concerned to come onto college premises.

- As a general rule, where products or services are “bought-in” and subsequently allocated directly to students it seems unreasonable to add an enhancement percentage to them.
- 416 One point needs emphasising again. When all the unit prices have been set, and estimates made of the volumes of units that the budget year’s students will require to deliver their programmes, the prices should yield sufficient income to meet the budgeted revenue costs of the college (as defined above). If they do not do so, it suggests that the calculation has been inaccurate or incomplete. Equally, if subsequently the volume of units allocated to the budget year’s students falls below that used for price setting, the college will see a shortfall in income that is not necessarily going to be matched by reductions in expenditure unless specific action is taken to this effect.
- 417 It is therefore important to build in a “margin for error” in setting the prices, either by being particularly conservative in estimating the number of delivery hours a particular group of staff might achieve (see paragraph 317), by allowing a “margin of safety surplus” (paragraph 408) or both.
- 418 The margin for error should reflect the uncertainty that the college typically experiences. If, for example, the college is traditionally “full”, it may be reasonable to calculate prices on the basis of “90% of capacity” or even higher. If however student numbers have been highly volatile in previous years then a more prudent estimate may be called for.²¹
- 419 In particular, colleges that are charities need to meet the various requirements of the Charity Commission concerning financial stability (including reserves) and will need to ensure that pricing policies allow these requirements to be met and maintained, even if the number of students in the college falls somewhat below target for any reason.

²¹ This raises the interesting question of how a college should react if it admits significantly more students than it expected to. Theoretically, its (fixed) non-student specific costs will now be “over-covered” and it may make more of a margin than it predicted. Does this suggest fees should be reduced (possibly in a future year) or should any surplus balance be held for development purposes? Certainly the suggestion (which has been seen) of “admitting further students at marginal cost” should be strongly resisted as inequitable to those LAs that have already contracted to pay the full price.

5 Negotiating with individual local authorities

Introduction

- 501 Armed with an understanding of what its provision costs, and a set of prices for the “input units” that go to make up individual students’ programmes, a college is now in a good position to negotiate placements and funding with its local authorities. In doing so, of course, it has to work within the three element framework for High Needs funding as set out in the DfE/EFA funding methodology. It also has to take into account the very different approaches which (on present evidence) local authorities seem to be taking to the negotiations concerned.
- 502 Unlike this paper so far, which is largely costing and pricing theory, this coming section needs to be read with caution in case matters have changed since it was written. In particular, this section sets out to apply logic to circumstances where logic may not in the end turn out to be the best guide. Nor can it anticipate every possible negotiating position – or every possible request for information – that colleges may experience. But within these limitations we will do what we can.

The negotiating position

- 503 It is worth starting with a brief reminder of the negotiating position that applies when a college is approached by a local authority with a view to placing a student. This reminder is not in any sense intended to suggest that the negotiation should be based on conflict – indeed, it is important that good relationships between LAs and colleges are built and maintained – but the discussion may help to set the context for what follows.
- 504 Local authorities, as noted in paragraph 202, have an obligation to support high needs students (with LDAs or EHCPs²²) up to the age of 25. In the current LDA guidance, it states that having determined that a young person requires a LDA a local authority must continue to support the young person up to the age of 25 if they stay in further education or training (provided they still have learning difficulties)²³. Once students are over 16, the LA can fulfil this duty either within its own special school system, with another authority’s special school or an independent special school up to the age of 19, or (particularly for students of 19 or over) in a college. This may be a general FE college or an independent specialist college.
- 505 Whatever provision the local authority chooses to make, it needs to negotiate an appropriate placement with the provider of its choice. With the possible exception of

²² As already noted, EHCPs are planned to replace LDAs under the new arrangements.

²³ See the guidance at <http://www.education.gov.uk/aboutdfe/statutory/g00203393/lda>. Note also that a student may have an LDA but not actually qualify as “high needs” since his or her needs can be met without requiring high needs funding levels (i.e. for less than £11,000 or so in total).

its own special schools²⁴, the authority cannot currently compel its chosen provider to accept the student in question (although under the SEN reforms, a student will have the right to request a specialist college place, and a provider named in an EHCP will have a 'duty to admit'²⁵). Nor can the LA prescribe a fee. Instead, all three of:

- The suitability of the provider in question and its potential ability to meet the student's needs
- The actual programme that the student will follow
- The fee that the local authority will need to pay the provider

will need to be mutually agreed.

506 Some points immediately follow. First, the prospective provider²⁶ need not – indeed, arguably must not – agree to provide a placement for a young person if it does not believe it can meet his or her needs. The *provider* will be fully accountable for the progress the young person makes or fails to make, and cannot hide behind any suggestion that the local authority “insisted” or that the placement was “against the provider’s better judgement”.

507 Secondly, one of the reasons that an independent provider may come to the conclusion that a young person’s needs cannot be met is because the provider will not have the financial resources to do so: in other words, the cost of meeting the young person’s needs is more than the local authority appears prepared to pay.

508 Of course, if the identified shortfall between the likely cost of provision and the greatest price the local authority is prepared to pay can be met in other ways – for example through some kind of provider bursary, through charitable funds or from some other source – then the independent provider is entitled if it wishes to proceed on this basis. But it should be borne in mind that:

- Other local authorities might well take a very dim view of any working surplus on *their* fees being applied to subsidise a fellow local authority who is not prepared to pay “what it costs”

²⁴ The way in which a local authority negotiates placements within its own special school system is itself complex, and depends (for example) in part on whether the school concerned has academy status. It is entirely outside the scope of this paper.

²⁵ It is far from clear, at the time of writing, how this will work in practice in the context of independent specialist colleges. For example, it is hard to see how a college could have a “duty to admit” at a fee determined unilaterally by the local authority – for what is to stop the local authority offering £1000? – yet if the “duty to admit” is conditional on college and LA *agreeing* a fee then self-evidently a college could (if it wished to be perverse) ensure that such agreement was never reached by simply insisting upon an unreasonably high fee.

²⁶ Again, excluding local authorities’ own special schools etc., for which the position is more complex.

- Contributors to providers' parent charities probably expect their donations to be used to provide *additional* resources to students, not to reduce the basic amount that a local authority might pay
- The ability to invite students and/or their parents to contribute towards the cost of provision is very limited, and there should be no pressure put on parents to do so – except in very specific circumstances, for example in the context of direct payments ²⁷.

509 In conclusion, therefore, the placement negotiation between local authority and independent specialist college as potential provider is not entirely unequal. The college will not survive unless local authorities place students with it. But the local authority will be in a very difficult position if it derails otherwise perfectly satisfactory placement negotiations through insisting on fees that demonstrably will not cover the provision needed or costly and time consuming bureaucracy that cannot be justified.

510 And while there are uncertainties over how the currently proposed legislation is intended to operate – how, as pointed out above, will the 'duty to admit' apply when provider and local authority cannot agree on a price? – the fundamental principle of an agreement between provider and local authority must be part of any new system as much as it is part of the system at present.

The basis of negotiation

511 None of this is intended to imply that constructive negotiation should not take place between the local authority and the prospective placement college, or that the college should operate a "this is our price, take it or leave it" attitude to student placements. Rather, it is perfectly acceptable for a certain amount of discussion to take place between local authority and college.

512 For example, the negotiation may proceed like this. The college will assess the student (in whatever way is customary) and on the basis of this assessment prepare a draft learning programme for him or her. This learning programme can be analysed in terms of input units (as discussed in this report) and a copy of the proposed programme, together with its price as calculated from the unit prices, sent to the local authority.

513 The college will want to point out that the programme schedule is approximate, and intended as a guide only rather than a specific undertaking. On the one hand, no extra charges will be raised if the student needs two or three more physiotherapy hours than have been estimated. On the other, if teaching hours are one or two

²⁷ Though there is no reason, to the best of our knowledge, why students at independent specialist colleges should not face the same range of charges as they would face at a general FE college. These typically include all meals, any specialist personal equipment and uniform (e.g. hairdressers' scissors and chefs' knives), and some costs of materials if work is retained, etc. Of course arrangements may need to be made for those students/parents unable to pay, and the bursary fund available to specialist colleges may be able to help.

short, or if there are occasionally five in the class rather than four, no recalculation will be offered.

- 514 [Some general statement of “terms and conditions” that talks about “material changes to this programme being discussed with the local authority at the earliest opportunity” (or at the next scheduled review date) may need to be included in the agreed contract between college and local authority. It may be necessary to define “materiality” in this context. But then colleges have always been under an obligation to tell local authorities in advance what they intend to provide for a given student, and report on any changes to this over time: this is nothing new.]
- 515 The local authority can now discuss with the college the extent to which all these inputs are necessary and in particular what outcomes and benefits (on the basis of its experience with other students) the college expects this particular student to gain from them. If money is tight (when is it not?) the local authority can explore the marginal effects of adjustments to the programme concerned, for example:
- Is an average class size of four really necessary for this particular student?
 - If the learning or other support offered to the student were reduced from that proposed, what might be the effect on progress, and/or what additional risks might be incurred?
 - What might be the negative effect of reducing the overall number of annual learning hours, and how does this compare to the money that might be saved²⁸?
- 516 These questions (and others like them) are reasonable, and can be reasonably answered. On the basis of the answers, the local authority might accept the programme as first submitted, and approve the fee. Or the college might re-draft the programme based on one or more of the reductions discussed. Naturally student (and where relevant parent) consent will be needed for the programme as finally decided upon by college and local authority, and students/parents may well themselves have views which necessitate a further round of negotiations.
- 517 In any event, the outcome should be an agreed programme, at an agreed fee based on the college's unit pricing schedule, that also has student/parent support.
- 518 Whatever the outcome of negotiations, it goes without saying that a college should not agree a programme that does not (in its view) offer adequate support for learning to take place, or one that exposes a young person to unacceptable risk.
- 519 It will also be important to be sensitive towards the needs of the learner and his/her family during these discussions. Clearly learners will need to be involved, but for a learner to be party to a “robust” discussion in which different specifications of

²⁸ If any. The college will want to alert the LA to the possibility that reduced “college hours” may lead to requirements for greater support in the student's home, reducing any savings achieved (and possibly leading to greater expenditure overall).

programmes, and perhaps different programme lengths, are proposed, amended and argued over could be distressing.

520 We can now turn to a number of areas where particularly careful negotiation may be necessary.

Elements 1, 2 and 3 in an independent specialist college context

Calculating Element 3 from Elements 1 and 2

521 One of the areas in which local authorities seem to be most at variance with each other (and potentially with the interests of independent specialist colleges) is in their treatment of Elements 1, 2 and 3 of the high needs funding arrangements. This is an area where it appears best practice (indeed correct practice) is still being formulated.

522 There is little doubt that the three element approach to high needs funding was designed with general further education colleges in mind. The principles appear to be that:

- Element 1 is intended to be (and indeed is) the funding that a college would have received in respect of a particular student in any case. It is calculated according to the programme offered and also takes into account students' prior achievement and their home location (disadvantage funding being allocated by postcode). It further takes into account (expected and averaged) retention achieved by the college concerned. The funding therefore varies from college to college but is usually in the range of £4000 - £5500.²⁹ It is based on a college's ILR returns and is therefore "lagged" (i.e. refers to the previous year's numbers). It is for **places**, not individual named students.
- Element 2 is 'additional support funding' and is set at £6,000 per learner (a calculation loosely linked to previous school/GFE support levels). This element will also be paid directly to colleges by the EFA and will be calculated on the basis of LA forecast numbers although again it is for **places**, not individually named students.
- Element 3, of any amount that might reasonably be required, is a "top up" that the local authority negotiates with and pays direct to the college to meet any further costs of "high needs" students. Element 3 is student-specific.

523 The over-arching principle behind the design of this funding methodology, it appears, is that the student concerned is still (more or less) following the same course as his or her peers (this is where Element 1 comes in) but faces additional costs in doing

²⁹ For full-time students. Similar calculations apply to part-time students, who are still in a minority in specialist colleges – though their number is increasing.

so, which Elements 2 and 3 then meet. (Note for clarity that Element 2 is only paid where there is *some* Element 3 to be paid also: students whose needs can be met for less than what would be the total of Elements 1 and 2 are funded via a different route. See footnote 23.)

- 524 This context does not relate at all, of course, to the experience of any independent specialist college. Programmes at specialist colleges are not “topped up” versions of mainstream programmes that students without significant additional learning needs may also be following, but are designed “from the ground up” to meet the needs of “high needs” students from the start. None of the above principles therefore apply.
- 525 Thus in our view it is clear that the local authority negotiates with the independent specialist college in respect of the *whole* programme to be delivered to the student, and its *whole* price, and then both parties should subsequently take allowance of funds received direct from EFA. This is the view taken by the EFA in its various publications – see for example “2014-15 Revenue Funding Arrangements: Operational Information for local Authorities (8 July 2013)”³⁰, where paragraphs 81 to 83 refer.
- 526 This has two immediate consequences, one favourable to colleges and one not. First, since the negotiation and agreement is over the *whole* price to be paid, it appears to be up to the local authority to ensure that Element 2 is available to part-fund the student, either by “forecasting the place” with the college before the deadline for commissioning places or by subsequently negotiating with third parties. The specialist college can help with these negotiations but it is ultimately up to the local authority to see them through. If Element 2 funding is not secured because the LA under-forecasts, then the local authority, rather than the college, must pick up the bill. [This point is currently being confirmed with the EFA.]
- 527 Secondly, however, since the whole price to be paid is part of the negotiation the local authority is entitled to take account of the *actual* amount of Element 1 funding paid by the EFA to the specialist college.
- 528 In point of fact, EFA have ruled that a “standard value” of £4977 should be used for Element 1 in 2013-14, which will remove the need for LAs (and colleges) to have to take into account variations between colleges or indeed between different programmes followed by students in the same college³¹. This is not entirely an equitable arrangement but is probably a justifiable simplification in the overall scale of things.

³⁰ Currently at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224728/2014-15_Revenue_Funding_Operational_guidance.pdf.

³¹ See <http://media.education.gov.uk/assets/files/pdf/1/additional%20information.pdf> (also accessible from the “High needs” page identified in paragraph 104). Paragraph 9 of the document refers.

529 To those local authorities who might be tempted to negotiate with independent specialist colleges purely on the basis of Element 3, and treat Elements 1 and 2 as a given (or for that matter who want to ask “just what it is that each element pays for”) we would say the following. It may be possible (though we doubt it) to negotiate with a general FE college on this basis, on the grounds that everyone understands exactly what Element 1 is to pay for, and EFA takes it upon itself to provide Element 2. But within a specialist college there is (as we have argued) no such distinction between the elements. Element 1 contributes (say) £5,000 to the total cost and Element 2 £6,000. If the overall price for the programme is £30,000 then Element 1 contributes $\frac{5}{30}$ ^{ths} and Element 2 $\frac{6}{30}$ ^{ths}. The question of *which* five or six thirtieths is contributed by each element is essentially meaningless.

Overheads

530 Much the same principles apply where local authorities (as some are) talk about Elements 1 to 3 in an “overhead” context. Some authorities are suggesting that Element 3 cannot be used for “overheads” but should relate to the direct hourly cost of employing staff; others have even said that the price negotiated with them (including potentially *all* of Elements 1, 2 and 3) should not contain any overheads at all.

531 We have already mentioned our dislike of the distinction between “direct costs” and “overheads”, and suggested in its place an approach which acknowledges that *all* expenditure incurred by a specialist college contributes to the student learning experience (else why incur it at all?). Our preferred view, as already noted, is that what local authorities might term “overheads” are instead costs which could (in a perfect world) be attributed directly to the activity of student learning but where the technical complexity of doing so outweighs the advantages.

532 However we have to admit that this is a point of view, and not a knock-down argument, and local authorities may not share it. Specialist colleges may also need to counter the positions in paragraph 530 in a more direct way.

533 In the end, if local authorities are not prepared to pay the prices set by specialist colleges (using the methodology in sections 3 and 4, or in some other way), and colleges cannot afford to decrease their prices to a point acceptable to the local authority, then negotiations have broken down and no student placement can be made. But wherever possible we will want to avoid this position, particularly if it is due largely to alternative understandings (indeed, potential misunderstandings) of “overheads”.

534 Thus the local authority that refuses to accept the idea of any “overheads” appearing in any (internal) calculation at all, and therefore looks to ensure that the hourly unit prices used by the college match pretty closely what the local authority would expect to pay the staff concerned by the hour, should be asked who (in its opinion) it thinks should pay for all the other costs. (It can perhaps be reminded of the students

sitting on the grass, see paragraph 326.) If the authority is not prepared to meet these costs, does it believe its fellow authorities will be prepared to meet its share of these costs out of their budgets?

- 535 The local authority that asks colleges to make sure that Element 3 (in particular) contains no provision for “overheads”, and even perhaps imposes the stricter condition that Element 3 prices should directly relate to the salaries of the staff concerned, is more difficult to answer.
- 536 In the context of a general further education college, for instance, it is indeed more than likely that Element 1 will have met most of the college’s general “overheads” (as an LA might define them) and Element 2 will take up any remaining. By the time the college gets to Element 3 it will probably be employing additional staff, maybe even on an hourly basis, specifically to support the student concerned and – notwithstanding the arguments about continuing professional development, staff meetings, administration, etc. above – might be prepared to settle for a match between the salary costs of the additional staff and the Element 3 amount applied for. Furthermore, large GFEs cover their ‘overheads’ from their total budget for anything up to 10,000 students, and the HNS income stream is a relatively minor amount.
- 537 Here, the specialist college will simply have to explain to the local authority concerned that in its sector things do not work that way. It can say:
- That while in a general FE college provision to high needs students is a marginal business³², it is the whole business of a specialist college; specialist colleges need to cost their activities in a different way
 - That – if a standard definition of “overheads” must be accepted – specialist colleges are in most cases likely to be running with overhead rates not to different from most other education institutions – i.e. around 25-30%. These percentages do not vary much by size of programme³³. If for example the figure of 30% is chosen as an upper bound, then any specialist college can assure its local authorities that in the case of any programme costing less than £36,000 or so Elements 1 and 2 are indeed (mathematically) sufficient to cover the “overhead”³⁴. But by the same token in any programme costing over £40,000 or so they are most unlikely to do so, and nothing whatsoever can be done about this

³² In the accounting sense of the word: a marginal business is one that only has to cover its direct costs, and which would not in any way affect the prosperity or survival of its parent if it were to close. Both of these are likely to be true in the context of “high needs” activity within a general FE college. This is not in any way to question general FE colleges’ commitment to these students.

³³ Both these hypotheses could be demonstrated, though at some research cost, if one were seeking to be definitive.

³⁴ 30% of £36,000 is £10,800, and Elements 1 plus 2 should come to this.

- That in calculating the cost per hour of staff input *before* “overheads” are taken into account it has allowed for staff training, staff absence etc: the prices quoted are based on the actual, rather than the notional, costs of deploying staff and as such are fair and accurate.

Charities and charitable contributions

- 538 Many colleges are charities, or “belong” to a parent charity, and it is common (though not universal) for a college’s charity to be involved in fundraising at least partly to support the activities of the college. Most often the charity’s contribution comes in the form of capital fundraising, usually for new buildings or equipment. How should this be taken into account when setting unit prices?
- 539 In our view, the moral position is clear. LAs are required to meet the full costs of provision at specialist colleges (less Elements 1 and 2), and these full costs could certainly include servicing the debt that is incurred when colleges borrow money in order to construct buildings (or whatever) – and, for that matter, funding the depreciation on capital buildings or plant employed. This would be the position in a general FE college.
- 540 In practice, many charities fund-raise rather than borrow in order to construct new buildings. In doing so, they effectively “save” their LA clients the interest that would otherwise be incurred. If they go further than this, and do not charge depreciation, they are in fact making their LA clients a free gift of the use of the capital asset for its lifetime.
- 541 It is of course entirely up to the charities concerned whether they choose to do this. But if they do, it is only reasonable to point out to client LAs the considerable contribution to students’ education that it represents.
- 542 See also the second bullet point of paragraph 508.

“Funding bands”

- 543 Based on documentation we have seen, some local authorities appear to want to adopt (or maintain) a “banded” approach to funding placements in specialist colleges. Briefly, their paperwork contains a list of half a dozen or so funding bands, sometimes with criteria relating to placing an individual within these bands, and the specialist college concerned is invited to consider, based on its evaluation of the student’s needs, which band the student should be placed in. (The local authority itself may suggest a band based on its own assessment.) This then determines the fee.
- 544 In theory, it might reasonably be held to determine the provision made for the student also. However the local authority is unlikely to have enough information about the internal costings of specialist colleges to have made this link, so in effect

the specialist college may find itself expected to do the best it can with the “band” fee payable.

- 545 Some at least of the local authorities adopting this approach may be wishing to continue with the former “matrix” funding arrangements until such time as they develop a replacement. But for others, the approach is designed to be compatible with arrangements for their own maintained special schools – it has been traditional to fund local authority special schools in this fashion.
- 546 For an independent specialist college, a local authority “band” structure may not necessarily appear to be a problem. It can design what it believes to be an appropriate programme for the student in question, follow the pricing approach outlined in this document, and then claim the nearest available “band” funding. However, if the nearest available band is below the price calculated then effectively the college is expecting other local authorities to cross-subsidise this one (see above, paragraph 508). This may become obvious if other students are following a similar programme and their local authorities are paying the full appropriate price. Equally, if the college “rounds up” the price it calculates to the next band above, it is (technically) overcharging.
- 547 It may be possible to find an acceptable way through this, for example for the college to say “this is clearly a Band X student by your definition, but we are going to charge slightly less than the Band X amount you quote”. Or the provision that it is proposed to make for the student can be reduced/enhanced a little, so that it fits more closely with the next lower/higher band available. Ideally however this local authority should be persuaded to move away from its banding structure entirely, at least as far as independent specialist colleges are concerned, on the grounds that it may not represent good value for money for the local authority.
- 548 A particular problem arises if the highest band in the local authority’s scheme does not provide sufficient funding for the programme designed by the college. Here the simplest answer may be the right one: the placement simply cannot proceed.
- 549 However it should be borne in mind that the bands adopted by the local authority are simply a local convenience and can be set aside by it at will; that probably the local authority will have made reference to “exceptional cases” when drafting the original internal paper that set up the band structure, and may have temporarily forgotten this; and that (if the college has any confidence in its internal assessment) it is likely that all other potential providers – including other specialist colleges – will also be unable to offer a place to the student for the fee available. The ball is then firmly in the local authority’s court, and it is likely that some form of settlement will be reached.
- 550 Needless to say a college that decides it cannot meet a particular student’s need for the highest band of funding offered will run the risk (if indeed it is a risk) that another college will decide it can do so.

Multi-year programmes

- 551 One of the impacts of transferring high needs funding from YPLA (and its predecessors) to local authorities is the differing approach that the latter may take to multi-year programmes. Many colleges quite reasonably design multi-year programmes, with progression from year to year, for their students: it is reported that some local authorities are perhaps more reluctant to commit to funding these than were the YPLA or LSC in the past. Indeed a particular student's EHCP may actually appear to specify, in advance of a college being contacted, that a one-year rather than a two-year programme is appropriate.
- 552 Certainly it is reasonable that an LA should expect to see its students making progress, and is entitled to review the progress students make (or query why a particular student does not seem to be making any). The issue appears to be the extent to which local authorities' obligation to see what progress is being made by their students on an annual basis (through "annual review" or whatever) in their view *precludes* issuing multi-year agreements on the grounds that provision may need to change at the end of any one year (else why review?).
- 553 This issue will naturally form the subject of a debate between college and local authority. However for colleges to *insist* on multi-year agreements (where appropriate) may not be sustainable. Instead, it is suggested that the issue is presented fairly, and referred back to the local authority concerned, for example:
- "If this coming year's programme is regarded as the first of a two-year programme, we would design it in the following way; we would include the following specific modules in the first year; the second year would look something like this; progress by the end of the first year would hopefully be as follows; and by the end of the second year ..."
 - "Alternatively, if the coming year's programme is regarded as a stand alone programme"
 - "The adverse consequences of terminating a two year programme after one year, compared to offering a one year programme in the first place, are ..."
 - "Equally, if a one year programme is offered and then subsequently another one year programme is approved, then the following opportunities will have been missed ...".
- 554 Notice that the advantages of two years in college as opposed to one year are not included: these are a given, and not relevant to the discussion. And if college staff believe that a particular student's additional needs are such that progress will only start to be made after a considerable adjustment period, and therefore that one-year programmes are of little or no value, then they should say so.
- 555 There are two kinds of misjudgement that can be made here: offering a two year programme to someone who in the event gets only half of it; or offering two one-

year programmes end on end when a planned two year programme would have been better. The first is less likely but more serious; the second is more likely but less serious (since nothing is left incomplete). The right approach, we would suggest, is to explain the consequences of both kinds of misjudgement to the local authority concerned; get the local authority to assess the probability of either outcome; and mutually agree to take responsibility for the most appropriate way forward.

- 556 In addition, colleges might want to point out that a succession of one-year placements (even with the same provider) incurs a significant administration burden for all parties at a time when everyone – including LA staff – is already over-worked and under pressure. Authorities who wish to contract for one year and then “see how it goes” could also be asked to bear in mind that their own procedures may require discussions about the second year to start as early as November in the year before, when no judgement as to “how it is going” can possibly be made.
- 557 However there is another side to the coin. In the past it has not been unknown for a college to request an extension of a planned two-year programme by another year very late in the second year. This is arguably unreasonable in the context of LAs as commissioners: just as LAs should make early decisions about whether additional years are to be funded, so colleges should make early requests for such decisions to be considered.

Other “filling in the form” issues

- 558 Judging from the documentation review that we carried out as part of this project, most local authorities have, or will shortly have, some form of “placement form” that they would like colleges to complete in advance of a student being placed with them. However these forms vary widely from local authority to local authority, particularly in the complexity of the information they require.
- 559 With the exception of local authorities that seek to impose a “band structure” on their external providers (see paragraph 543), most local authorities seek to collect information about what the college intends to provide and how the proposed fee relates to this provision.
- 560 The intention of this paper is that if colleges have analysed their programmes, and subsequently priced them, in terms of the input units of Annex 1 they will have sufficient information immediately to hand to fill in almost any conceivable input-based form issued by a local authority – that is, any form which is drafted in terms of the experiences and support that the student is intended to receive.
- 561 Probably the internal pricing of programmes (as defined by Annex 1 input units) will be more complex than the information requested: different headings can therefore be added together for the purposes of the form concerned.

- 562 Colleges can also if they choose include their own “unit pricing” calculation, calculated on an Annex 1 basis³⁵, when they return the form provided by the local authority. This may help local authorities become familiar with the unit pricing process, and in turn perhaps help standardise the approach that has been argued for in this paper.
- 563 However, some authorities whose documentation has been reviewed for this project appear to be interested in the internal costs of their potential providers, and not just in the fee they are going to be charged. This interest manifests itself in two ways:
- A general requirement for some explanation of how (e.g.) the price per hour of structured delivery sessions has been arrived at (in other words, a copy of the “Annex 2” calculation)
 - A set of even more detailed requirements, sometimes on an extended proforma (which may or may not be compatible with the internal financial structure of the college), which seek to give the local authority a more detailed financial picture of how the college works.
- 564 There is no overarching reason why local authorities are “entitled” to this information, and it seems fair for a college to ask the local authority in question why it wants it, and what use will be made of it. (There are also issues of commercial confidentiality, and colleges may want to know how widely the information will be promulgated or made public, particularly to potential competitors). It is also reasonable for a college to ask (purely for information, and not provocatively in any sense) what the consequences would be of not supplying the information concerned.
- 565 If the reply comes back that “without this information, we will not be able to place the student with you”, then clearly some care will be needed. A Natspec agreement that member colleges will not normally supply local authorities with internal cost information (which would need to be defined) would clearly influence what happens next, as would the knowledge that what a particular college was offering was in some way unique, or at least difficult to replicate within easy reach of the local authority concerned. In the absence of at least one of these (ideally both), however, a college is in a weaker position. There is then no absolutely hard and fast reason why a college should not supply at least some outline details of the link between its internal costings and the unit prices it has set, if it is sure that to do so will not jeopardise its position.
- 566 Subsequent negotiations, however, should nevertheless strictly follow the template of paragraph 511 above. Local authorities do not have a brief to comment on the internal costing structure of independent colleges (though they may, of course, compare the unit prices that colleges use in their pricing calculations and make decisions on placement in the light of this comparison).

³⁵ But not, we would suggest, the detailed staff price calculations (modelled in Annex 2).

- 567 But it should be recalled that any “placement forms” or whatever supplied by the local authority are merely to help it in the negotiations of paragraph 505 above. It is true that local authorities have various statutory duties laid upon them to ensure value for money in delivery of services, and must collect information to do so: but the *way* in which that information is collected is entirely at the local authority’s discretion. Prospective providers will want to be helpful to local authorities in providing them with the information they need, and clearly filling in a prepared form *is* a helpful way of doing this – but only so far as the questions are relevant, and can be answered meaningfully.
- 568 Colleges may be worried that “by not filling in the form correctly” they are jeopardising the chance of the young person concerned getting the place he or she badly needs. There is theoretically a risk of this. But if it wished to make a fuss the local authority might well then find itself placed in the difficult position of explaining to the student or his/her parents – and possibly to a third party through some appeal mechanism – how the placement process foundered entirely on their stubbornness over a detail of bureaucracy. The form has got to be very important to the local authority to be worth this.

6 Conclusion

- 601 This paper has set out an approach to the internal costing and external pricing of programmes within independent specialist colleges that hopefully will at the same time deliver robustness to the pricing process and also enable colleges to approach negotiations with their placing local authorities from a position of appropriate strength.
- 602 As has been mentioned already, it is based on experience of a very new funding approach, at a very early stage of its development. Many of the cautions in this document, and some of its suggestions, may soon cease to be relevant. Equally, issues not envisaged here may become important, and issues only referred to in passing may come to dominate negotiations between colleges and local authorities in unforeseen ways.
- 603 Nevertheless, it is hoped that the suggested approach in this document may be of interest to Natspec member colleges, and may help them to establish a coherent and effective approach to placement negotiations for 2014/15 and beyond.

acl consulting
January 2014.

Structured headings for the conversation with local authorities

This Annex contains a structured list of suggested input headings for unit prices. The aim is that colleges select from this hierarchical list those headings that best suit their individual approach and then (using the methodology in the main report) derive unit prices for each of their chosen headings.

This is deliberately a very full list. It is most definitely not suggested that all colleges should use all headings provided. For example, a particular college may wish to price all therapists working in structured teaching sessions at the same rate, and therefore use heading 1.13. Or it may wish to set different prices for different therapists, and therefore use a range of headings from 1.131 to 1.136.

For another example, colleges may or may not wish to draw the distinction between therapists allocated to structured teaching sessions (1.13) and therapists working in therapy sessions *per se* (1.7).

It is intended that any particular student's programme can be described in terms of the quantity of each input, and the proposed fee for the programme calculated from the prices set for the inputs concerned.

The chance to distinguish between day and residential inputs has been offered, and staff and non-staff inputs distinguished. The "unit" for each unit price is also shown.

No distinction has been drawn between "education" and "health" needs, or (equivalently) between what a local authority might believe it should pay for and what should be funded by the NHS. This is a major (and long-standing) issue, and out of scope of this report. Arguably, however, the set of headings below is comprehensive enough to serve both purposes.

In the main report it is recommended that the enhancement for indirect costs should only be applied to staff inputs: all non-staff inputs should be broadly recharged at cost.

| <i>Resource type</i> | | <i>Suggested allocation</i> |
|----------------------|------------------------------|--|
| 1 | Day provision: staff | |
| 1.1 | Structured Teaching Sessions | Annual hours, priced according to the student:staff ratio |
| 1.11 | Teachers | |
| 1.12 | Other tutors | Prices should be enhanced over and above student-specific costs so as to cover non student-specific costs also |
| 1.13 | Therapists | |
| 1.131 | Occupational Therapists | |
| 1.132 | Physiotherapy | |
| 1.133 | Hydrotherapy | |

| | | |
|------|-------|---|
| | 1.134 | Behaviour/Psychology |
| | 1.135 | Speech & Language Therapy |
| | 1.136 | Other Therapists |
| 1.14 | | Other staff |
| 1.2 | | Support in structured teaching sessions |
| | 1.21 | Learning Support Assistants |
| | 1.22 | Other support |
| 1.3 | | Support in other learning contexts |
| | 1.31 | Learning Support Assistants |
| | 1.32 | Other support |
| 1.4 | | IAG/transition support |
| 1.5 | | Independence and personal care support |
| | 1.51 | Independence support |
| | 1.52 | Personal care support |
| 1.6 | | Counselling |
| 1.7 | | Therapy sessions |
| | 1.71 | Occupational Therapists |
| | 1.72 | Physiotherapy |
| | 1.73 | Hydrotherapy |
| | 1.74 | Behaviour/Psychology |
| | 1.75 | Speech & Language Therapy |
| | 1.76 | Other Therapists |
| 1.8 | | Nursing and Medical |
| | 1.81 | Nurse |
| | 1.82 | General Practitioner |
| | 1.83 | Dietician |
| | 1.84 | Other |
| 1.9 | | Extended curriculum for day students |

| | | |
|----------|---|---|
| 2 | Day provision: non-staff | <p>Base the price on actual cost to the institution.</p> <p>In the case of meals, attribute all possible costs to the catering function and then price per meal if necessary.</p> |
| 2.1 | Meals | |
| 2.2 | Qualification Fees | |
| 2.3 | Teaching resources | |
| 2.4 | Specialist equipment (student specific) | |
| 2.5 | Revenue contribution to equipment | |
| 2.6 | Care consumables | |
| 2.7 | Costs of activities | |
| 2.8 | Contracts with third parties | |

| | | |
|----------|--|--|
| 3 | Residential provision: staff | <p>Annual hours, priced according to the student:staff ratio</p> <p>Prices should be enhanced over and above student-specific costs so as to cover non student-specific costs also</p> |
| 3.1 | Structured delivery sessions | |
| | 3.11 Teachers | |
| | 3.12 Other tutors | |
| | 3.13 Therapists | |
| | 3.131 Occupational Therapists | |
| | 3.132 Physiotherapy | |
| | 3.133 Hydrotherapy | |
| | 3.134 Behaviour/Psychology | |
| | 3.135 Speech & Language Therapy | |
| | 3.136 Other Therapists | |
| | 3.14 Other staff | |
| 3.2 | Facilitated life skills learning | |
| 3.3 | Facilitated independence skills learning | |
| 3.4 | Independence and personal care support | |
| | 3.41 Independence support | |
| | 3.42 Personal care support | |
| 3.5 | Therapy sessions | |
| | 3.51 Occupational Therapists | |
| | 3.52 Physiotherapy | |
| | 3.53 Hydrotherapy | |
| | 3.54 Behaviour/Psychology | |
| | 3.55 Speech & Language Therapy | |
| | 3.56 Other Therapists | |
| 3.6 | Nursing and Medical | |
| | 3.61 Nurse | |

| | |
|------|----------------------|
| 3.62 | General Practitioner |
| 3.63 | Dietician |
| 3.64 | Other |

| | | |
|----------|---|--|
| 4 | Residential provision: non-staff | |
| 4.1 | Serviced room charge | Allocate as many premises and other costs as possible to the serviced room charge. |
| 4.2 | Meals | |
| 4.3 | Teaching resources | Prices should be set "per night" as far as possible. |
| 4.4 | Specialist equipment (student specific) | |
| 4.5 | Revenue contribution to equipment | Meal costs can often be included in the "per night" charge also. |
| 4.6 | Care consumables | |
| 4.7 | Costs of activities | |
| 4.8 | Contracts with third parties | |

Setting unit prices: a worked example

Introduction

- 1 This Annex provides a “worked example” of how a college might go about setting unit prices for a forthcoming financial year. The example is illustrated using a multi-page spreadsheet. “Pictures” of the spreadsheet pages are given at the end of the Annex, but readers may wish to have the actual spreadsheet in front of them when working through this Annex; with this in mind, the spreadsheet can be downloaded from

www.aciconsulting.co.uk/natspec/pricing.xlsx

We will refer to row and column references in the pages of this spreadsheet where appropriate.

- 2 The spreadsheet is password protected, and the password is “element3” (without the quotation marks). Once inside the spreadsheet, none of the cells or formulae are further protected in any way.
- 3 Spreadsheets are very flexible tools, and as a result it is extremely difficult to avoid errors in their design (and indeed any errors made are usually very difficult to spot). We have made every effort to ensure the example spreadsheet is correct in its logic, but it is only intended as an example and acl consulting can take no responsibility for any mistakes it may contain. Any readers who use the spreadsheet or one like it in a “live” situation do so at their own risk. In any event, the spreadsheet is certain to need modification before it can be used “live” and these modifications are entirely outside our control.
- 4 Our standard recommendation in any case is that any spreadsheet model should be thoroughly checked, as far as this is feasible, using pencil and paper before its output is relied upon.

The model (i) – the revenue budget and its allocation

- 5 The model is best approached by first considering what institutional inputs are going to be ascribed to the individual student, and the way in which these inputs are going to be described.
- 6 It is assumed that the revenue budget for the year in question (we are going to use 2014/15) is broadly set, based on previous years’ budgets and outturns and indeed the emerging outturn for the current year. Of course, revenue will depend on student numbers and fees charged, and (at the margin) student numbers will themselves depend on fees (which we are about to set), so the argument, strictly speaking, is circular. But this has always been the case, and staffing and other

provision has always had to be adjusted dynamically to reflect changes in student numbers and student needs.

- 7 As the main report has noted, since every cost incurred by a college is directly or indirectly for the benefit of its students it would be possible to “charge” a student’s local authority or other sponsor a proportion of every “budget line”, using an appropriate allocational model. In practice, this is far too elaborate. The approach recommended in the main report is to divide the revenue budget into student-specific “direct costs”, which are “student specific”, that is tracked to an individual student, and non-student specific “indirect costs” which are not.
- 8 The first sheet on the spreadsheet model (“Budget Summary”) sets out such an allocation, as follows:

| | | |
|---|------------|-------------|
| <i>Student specific costs and resources</i> | | |
| Direct staff | £8,345,270 | |
| Direct non-staff | £776,211 | |
| Catering (staff and non-staff) | £366,221 | £9,487,702 |
| <i>Non student specific costs and resources</i> | | |
| Administration/indirect staff | £1,746,113 | |
| Premises | £1,442,013 | |
| Vehicles | £266,114 | |
| Other indirect non-staff | £1,107,442 | |
| Miscellaneous income | (£85,221) | |
| Depreciation/cost of funds | £988,221 | £5,464,682 |
| <i>Proposed revenue budget for the year</i> | | £14,952,384 |

- 9 It will be seen that this particular college has chosen to allocate some staff costs, some non-staff costs and catering costs (staff and non-staff) to individual students, and to regard all other costs (and miscellaneous income) as non-student specific. “Direct staff” in this context are staff that work with students in their core role, as opposed to administrative staff, management staff, etc. who do not.
- 10 “Direct non-staff” resources cover learning resources, student consumables (including, for this particular college, care consumables – the college has not chosen to distinguish them separately) which, as will be seen shortly, the college intends to allocate to students differentially on an individual basis.
- 11 “Catering (staff and non-staff)” resources are shown under “Student specific” since this particular college intends to show college meal prices separately on its fee estimates. Had the college chosen not to do this (as some will not), then this heading could have been transferred to non-student specific resources.

- 12 All other resources, to total the proposed revenue budget, are included in “Non student specific costs and resources”. The headings here are unimportant for our purposes, providing the total at bottom right is the entire revenue budget for the institution for the year in question.

The model (ii) – recovering non student specific costs

- 13 The approach recommended in the main text is that the non-student specific costs should be recovered from fees charged by applying an enhancement to “Direct staff” costs. Direct non-staff costs should, broadly, be passed on “at cost” to local authorities and other funders, without enhancement.
- 14 The illustration on the previous page shows that the total of non-student specific costs is £5,464,682. This needs to be “covered” by an enhancement to direct staff costs of £8,345,270. To do so, “Direct staff” costs need to be enhanced by 65.48%. The part of the spreadsheet that carries out this calculation is shown below:

| <i>Enhancement calculation</i> | | | |
|--------------------------------|---|--|-------------|
| | Non student specific costs and resources to be covered from enhancement | | £5,464,682 |
| | Direct staff | | £8,345,270 |
| | Enhancement needed | | 65.48% |
| | Total to be covered | | £13,809,952 |

- 15 When “Direct staff” costs are enhanced by this amount, the overall sum that will be covered is shown at the bottom of the box. This figure will be important later.

The model (iii) – setting prices for direct staff inputs

- 16 Each student’s fee calculation now needs to show the number of hours of support/involvement that student receives from the “direct staff” described above. To enable the student’s fee to be calculated, a price needs to be derived for each direct staff hour. This is the task that the second spreadsheet (“Direct staff funding allocation”) sets out to accomplish.
- 17 The spreadsheet is admittedly complex, but – we would hope – necessarily so. The following description must therefore be fairly detailed.
- 18 This particular college has decided not to use all the direct staff input headings in Annex 1, but just a subset of them, specifically
- 1.11 “Teachers”
 - 1.2 “Support in structured teaching sessions”
 - 1.12 “Other tutors”

- 1.5 “Independence and personal care support”
 - 1.8 “Nursing and Medical”
 - 1.7 “Therapy Sessions”
 - 3.4 “Residential: independence and personal care support”
- 19 Within each of these groups of staff, there are a range of staff (typically seniors, main grade staff, assistants, etc.) with different salaries and potentially with different degrees of involvement with students (as opposed to middle management roles, etc.)³⁶. However an individual student’s fee calculation will probably not want to distinguish between inputs from teachers as opposed to senior teachers, therapists as opposed to senior therapists, etc., so the spreadsheet calculates one price per hour for each group of staff. This helps to make the spreadsheet less complex.
- 20 The first three columns A to C of the spreadsheet list the staff designation, the number of such staff (FTE), and the notional/average salary for the staff grade in question (including pension and national insurance contributions, as is customary). This extract is from the first staff group, “1.11 Teachers”:

| Role/Post | No (FTE) | Gross cost per FTE |
|------------------------------|------------------------|--------------------|
| | | |
| | | |
| Staff group 1 | Education Tutor | |
| Principal Tutor | 4.00 | £43,972 |
| Senior Tutor | 5.40 | £40,979 |
| Tutor | 15.70 | £33,787 |
| Tutorial Assistant | 15.35 | £31,207 |
| Hourly Paid Assistant | 3.00 | £24,812 |
| | | |
| Staff Group 1 summary | 43.45 | £1,481,093 |

- 21 The totals shown are the total number of staff (for information and subsequent trouble-shooting only; not used in calculations), and the total cost of these staff.³⁷ This latter figure will also be used later.

³⁶ Senior management are included in non-student specific costs, as already noted in the main report.

³⁷ Self-evidently, the total figure (“£1,481,093”) is not the total of the five figures immediately above it, but is instead the total of 4.00 principal tutors at £43,972 (=£175,888), 5.40 senior tutors at £40,979 (=£221,286), etc. The Excel function SUMPRODUCT carries out this kind of calculation automatically. However if this is perceived to be confusing then an additional column, containing the calculated figures £175,888; £221,286; etc. can be added to the right and then totalled.

- 22 Each of these members of staff is expected to spend a certain number of hours per week “delivering” learning to students. These are the hours that will appear on students’ fee calculations in due course. This is, as pointed out in the main text, a smaller number than the staff member’s contractual hours. It can usually be derived from experience (or a “diary exercise” if absolutely necessary). It is important that the estimate of delivery hours is reasonable: if it is too high and unachieved in practice, the price charged for the member of staff will be too low and an income shortfall will result. As will be seen in the extract from Column D below, in the first staff group the number of expected delivery hours varies by staff grade.

| Weekly delivery hours |
|-----------------------|
| |
| |
| |
| |
| |
| |
| 16 |
| 18 |
| 22 |
| 22 |
| 22 |
| |
| |
| |

- 23 These weekly delivery hours can then be multiplied by an assumed number of weeks in the year (in the model case, 36) to yield an annual total per member of staff (column E). However, it is prudent to allow for a certain amount of staff absence through sickness, and the model allows for this in the next column (column F).³⁸
- 24 It is assumed, incidentally, that staff annual leave for student specific direct staff will take place outside the 36 weeks; and that continuing professional development will take place outside the delivery hours (between 16 and 22 per week in the above model). If this is not the case, these will have to be allowed for too.
- 25 The next column (G) gives the total number of hours from the staff at this grade – it is the product of the annual hours per staff (column F) and the number of staff concerned (column B). The total of this column is the total number of delivery hours for the whole staff group (all grades). Columns D to G for the first staff group are shown below.

³⁸ The figure used – 4.17% – is (out of interest) equivalent to one and a half weeks per year. In this model, the same figure is used for all staff, but using different figures for different staff groups (or even staff grades within groups) is possible should experience and available information warrant it.

| Weekly delivery hours | Annual delivery hours | With allowance for absence | Total hours this grade |
|-----------------------|-----------------------|----------------------------|------------------------|
| | 36 weeks | 4.17% | |
| | | | |
| | | | |
| 16 | 576 | 552 | 2208 |
| 18 | 648 | 621 | 3353 |
| 22 | 792 | 759 | 11916 |
| 22 | 792 | 759 | 11650 |
| 22 | 792 | 759 | 2277 |
| | | | |
| | | | 31,404 |

- 26 If the total number of delivery hours available for this staff group (31,404 in this instance) is divided into the total cost of the staff group (shown at the foot of column C) we get an average cost per delivery hour for the staff group overall. This is shown at the foot of the next column (column H): it is £47.16 for this staff group.
- 27 It is this figure that needs to be enhanced by the percentage calculated above (paragraph 14). In this instance the percentage is 65.48%, as previously noted, and the enhancement is £30.88, for a total of £78.05 per delivery hour.
- 28 It is worth pausing here and reviewing the calculation. If every hour available from group 1 is entered onto some student's fee calculation³⁹, and the college therefore manages to allocate all 31,404 hours, *and* the college charges each hour to the student's fee at the rate of £78.05, it will have income of $31,404 \times £78.05 = £2,450,947$. This is an important figure and shown to the right of the group. It is labelled "Price at 100% of target" because it assumes the college is able to allocate *all* of the 31,404 hours at its disposal. If it fails to do this, then it will suffer an income shortfall. This is why – to repeat a point made earlier – it is important to be conservative when setting the "weekly delivery hours" figures.

³⁹ This is a worthwhile time to note (again) the hopefully self-evident point that when a tutor hour is allocated to a group of four students each only "pays for" one fourth of an hour. Ditto when a support assistant supports two students simultaneously, a drama therapist works with a group of 8, etc.

| Total hours this grade | Average cost per hour | Enhance- ment (see notes) | Price per delivery hour | | Price at 100% of target |
|---------------------------|--------------------------|---------------------------------|----------------------------|--|----------------------------|
| | | | | | |
| | | 65.48% | | | |
| | | | | | |
| | | | | | |
| 2208 | | | | | |
| 3353 | | | | | |
| 11916 | | | | | |
| 11650 | | | | | |
| 2277 | | | | | |
| | | | | | |
| 31,404 | £47.16 | £30.88 | £78.05 | | £2,450,947 |

- 29 We have explored the calculations for Staff group 1 in (numbing) detail: the calculations for all other staff groups are the same. However the totals are now of interest.
- 30 First, the gross cost summary totals for each staff group (column C) can be added together: this is done at the foot of this column, in cell C 69. This figure represents the total cost of the direct (student specific) staff that we set out to allocate. The total is £8,345,270: reassuringly, this is the figure we started with (see the first figure in the table in paragraph 8). This means we have taken into account all the student-specific direct staff costs we said we would.
- 31 Next, the total of the very right hand column (“Price at 100% of target”) is also relevant. This figure is £13,809,952. This matches the “total to be covered” figure we arrived at in the table in paragraph 14. Again, so it should; but this is a useful check on our calculations. Should these figures (or the two in the previous paragraph) not have matched, then it is likely that a spreadsheet error has been made.⁴⁰

The model (iv) – other (non staff) student specific costs

- 32 As noted in the table in paragraph 8, our example college has chosen to recover two further categories of cost through specific prices on student’s fee calculations:
- Direct non-staff costs
 - Catering costs.
- 33 We will take the second first, since it is more straightforward.

⁴⁰ Alas, the converse is not necessarily true!

- 34 Assuming that all relevant costs of catering (staff and non-staff) have been included in the catering line in the paragraph 8 table, the next step is to estimate a number of meals to be delivered during the year. Again it is important to be conservative in this estimate.⁴¹ This having been done, the price per meal is (self-evidently) the cost quoted divided by the number of meals it is expected will be delivered. See the first box on spreadsheet “Other Allocations”, where an illustrative figure of 66,000 meals has been used.

| Student meals | | |
|--------------------------|--|----------|
| Class 2.1 "Meals" | | |
| Total to be allocated | | £366,221 |
| Target number of meals | | 66,000 |
| Price per meal | | £5.55 |

- 35 The figure of £5.55 is of course the *minimum* price that can be charged to cover catering costs: there is no objection to charging more if this is felt appropriate (or prudent).
- 36 For illustrative purposes, the allocation of the £776,211 in “other direct non-staff costs” has been made a little more complex. It would be perfectly possible to allocate these costs on a simple per-student basis; our model has 105 students so the allocation would be £7,392 each. However in order to illustrate what might be possible we have postulated an allocation where:
- 55 students receive a “basic” allocation of non-staff items (equipment, consumables, etc.)
 - 35 receive an “enhanced” allocation of +50% on this basic figure
 - 15 receive an “enhanced” allocation of +75% on “basic”.

The enhancement might reflect a greater need for medical/nursing consumables, following a particularly expensive educational programme (land-based, for example), or whatever.

- 37 The table below (from the same spreadsheet) shows how one can then calculate a “weighted number” of students, use this to calculate an allocation per “basic” student, and then calculate the allocation per “enhanced 1” and “enhanced 2” student. As will be seen, the example figures give a total of 133.75 “weighted students”, and thus a “basic” allocation of £5,803. The final column demonstrates that the per-student figures calculated, applied to the relevant numbers of students, do indeed yield the starting figure.

⁴¹ Of course, the estimate may already have been used to assess the catering costs – another example of the circularity referred to earlier. Incidentally, it may not matter if some costs that might reasonably be ascribed to catering e.g. kitchen premises maintenance) are omitted, since these costs will be collected elsewhere into non-student specific costs and covered by the enhancement just discussed – though this will (artificially) lower the price quoted for meals, which may be relevant if these are being recharged to students.

| Direct non-staff costs | | | | | |
|---------------------------------------|----------|-----------------------|-----------------|--------------------|---------------|
| Class 2.3 "Teaching Resources" | | | | | |
| Total to be allocated | £776,211 | | | | |
| Per-student allocation | | <i>No of students</i> | <i>Weighted</i> | <i>Per student</i> | <i>Totals</i> |
| "Basic" | | 55 | 55 | £5,803.45 | £319,190 |
| "Enhanced 1" | +50% | 35 | 52.5 | £8,705.17 | £304,681 |
| "Enhanced 2" | +75% | 15 | 26.25 | £10,156.03 | £152,340 |
| Totals | | 105 | 133.75 | | £776,211 |

Summary

- 38 In the course of this Annex we have derived the prices shown in the third column of the following table (which is on the fourth spreadsheet, "Summary and check"):

| Natspec Negotiating College Funding Project | | | | |
|--|----------------------|--------------|--------------------|--|
| Summary sheet | | | | |
| <i>If the College's agreed programmes for 2014/15 include the following priced elements at the quantities shown:</i> | | | | |
| Direct staff | | | | |
| | <i>hours</i> | <i>price</i> | <i>total</i> | |
| Education Tutor | 31,404 | £78.05 | £2,450,947 | |
| Education Support | 34,053 | £31.23 | £1,063,369 | |
| Education Instructor | 862 | £42.94 | £37,036 | |
| Personal Care | 191,561 | £36.28 | £6,949,739 | |
| Nursing | 8,614 | £73.58 | £633,758 | |
| Therapists | 17,629 | £74.68 | £1,316,517 | |
| Night staff | 32,812 | £41.40 | £1,358,587 | |
| Meals | | | | |
| | <i># of meals</i> | <i>price</i> | <i>total</i> | |
| Per meal | 66,000 | £5.55 | £366,221 | |
| Direct non-staff costs | | | | |
| | <i># of students</i> | <i>price</i> | <i>total</i> | |
| "Basic" | 55 | £5,803.45 | £319,190 | |
| "Enhanced 1" | 35 | £8,705.17 | £304,681 | |
| "Enhanced 2" | 15 | £10,156.03 | £152,340 | |
| <i>then overall net income should be</i> | | | £14,952,384 | |
| <i>which equates to the revenue budget from the first sheet.</i> | | | | |

39 Implicitly, the college has set itself a target of:

- Recruiting/retaining 105 students, divided between “basic”, “enhanced 1” and “enhanced 2” in broadly the proportions shown
- Allocating to those 105 students the 31,404 education tutor hours; 34,053 education support hours; 862 education instructor hours etc. it has calculated as being available
- Serving 66,000 meals

and most importantly

- Obtaining fees from these students’ local authorities or other sponsors based on these inputs at the prices quoted.

If it achieves all of these, it will cover its costs.

40 One final point. The calculation in this table has taken no account of “contingencies”, except implicitly in suggesting that conservative estimates should be taken of the number of delivery hours that direct student-specific staff are able to achieve (and, though this is less significant, the number of meals that will be delivered). As mentioned in the main report, it may be prudent to be more cautious than this. One approach might be to add 5% (or whatever) to all prices, as a cushion against things not working out entirely according to plan. However naturally in doing so a college increases all its fees by 5%, which may render it uncompetitive. In the end, pricing is not just a matter of calculating costs to be covered but involves complex judgements about value as perceived in the market and estimates of what the market will bear.

Illustrative pages from the spreadsheet workbook described in the text

Some of these pages have had to be reduced in size. The full spreadsheet workbook can be downloaded from

www.aciconsulting.co.uk/natspec/pricing.xlsx

and has password "element3".

Page 1 "Budget Summary"

| Natspec Negotiating College Funding Project | | | |
|--|---|------------|-------------|
| Sample College Budget Summary | | | |
| <i>for 2014/15</i> | | | |
| <i>Student specific costs and resources</i> | | | |
| | Direct staff | £8,345,270 | |
| | Direct non-staff | £776,211 | |
| | Catering (staff and non-staff) | £366,221 | £9,487,702 |
| <i>Non student specific costs and resources</i> | | | |
| | Administration/indirect staff | £1,746,113 | |
| | Premises | £1,442,013 | |
| | Vehicles | £266,114 | |
| | Other indirect non-staff | £1,107,442 | |
| | Miscellaneous income | (£85,221) | |
| | Depreciation/cost of funds | £988,221 | £5,464,682 |
| <i>Proposed revenue budget for the year</i> | | | £14,952,384 |
| <i>Enhancement calculation</i> | | | |
| | Non student specific costs and resources to be covered from enhancement | | £5,464,682 |
| | Direct staff | | £8,345,270 |
| | Enhancement needed | | 65.48% |
| | Total to be covered | | £13,809,952 |

Page 2 "Direct staff funding allocation"

| Natspec Negotiating College Funding Project | | | | | | | | | | |
|---|-----------------------------|--|-----------------------|-----------------------|----------------------------|------------------------|--------------------------------|-------------------------|-------------------------|-------------------------|
| Direct staff funding allocation | | | | | | | | | | |
| Role/Post | No (FTE) | Gross cost per FTE | Weekly delivery hours | Annual delivery hours | With allowance for absence | Total hours this grade | Average cost per delivery hour | Enhancement (see notes) | Price per delivery hour | Price at 100% of target |
| <i>Variables</i> | | | | 36 weeks | 4.17% | | | 65.48% | | |
| Staff group 1 | Education Tutor | Class 1.11 "Teachers" | | | | | | | | |
| Principal Tutor | 4.00 | £43,972 | 16 | 576 | 552 | 2208 | | | | |
| Senior Tutor | 5.40 | £40,979 | 18 | 648 | 621 | 3353 | | | | |
| Tutor | 15.70 | £33,787 | 22 | 792 | 759 | 11916 | | | | |
| Tutorial Assistant | 15.35 | £31,207 | 22 | 792 | 759 | 11650 | | | | |
| Hourly Paid Assistant | 3.00 | £24,812 | 22 | 792 | 759 | 2277 | | | | |
| Staff Group 1 summary | 43.45 | £1,481,093 | | | | 31,404 | £47.16 | £30.88 | £78.05 | £2,450,947 |
| Staff Group 2 | Education Support | Class 1.2 "Support in structured teaching sessions" | | | | | | | | |
| Mentor | 2.30 | £19,820 | 20 | 720 | 690 | 1587 | | | | |
| Assistant Mentor | 33.61 | £17,763 | 28 | 1008 | 966 | 32466 | | | | |
| Staff Group 2 summary | 35.91 | £642,587 | | | | 34,053 | £18.87 | £12.36 | £31.23 | £1,063,369 |
| Staff Group 3 | Education Instructor | Class 1.12 "Other tutors" | | | | | | | | |
| Instructor | 1.00 | £22,380 | 25 | 900 | 862 | 862 | | | | |
| Staff Group 3 summary | 1.00 | £22,380 | | | | 862 | £25.95 | £16.99 | £42.94 | £37,036 |
| Staff Group 4 | Personal Care | Class 1.5 "Independence and personal care support" | | | | | | | | |
| Care Manager | 6.00 | £37,248 | 10 | 360 | 345 | 2070 | | | | |
| Care Deputy | 10.82 | £28,603 | 15 | 540 | 517 | 5599 | | | | |
| Carer | 13.68 | £21,555 | 20 | 720 | 690 | 9439 | | | | |
| Care Assistant | 180.60 | £18,670 | 28 | 1008 | 966 | 174454 | | | | |
| Staff Group 4 summary | 211.10 | £4,199,685 | | | | 191,561 | £21.92 | £14.36 | £36.28 | £6,949,739 |
| Staff Group 5 | Nursing | Class 1.8 "Nursing and Medical" | | | | | | | | |
| Nurse Manager | 1.00 | £42,684 | 15 | 540 | 517 | 517 | | | | |
| Leading Nurse | 3.73 | £33,684 | 20 | 720 | 690 | 2574 | | | | |
| Nurse | 6.67 | £32,181 | 24 | 864 | 828 | 5523 | | | | |
| Staff Group 5 summary | 11.40 | £382,976 | | | | 8,614 | £44.46 | £29.11 | £73.58 | £633,758 |
| Staff Group 6 | Therapists | Class 1.7 "Therapy sessions" | | | | | | | | |
| Head of Therapy | 2.00 | £42,196 | 15 | 540 | 517 | 1035 | | | | |
| SLT | 0.47 | £55,080 | 20 | 720 | 690 | 324 | | | | |
| Senior Therapist | 4.00 | £42,684 | 20 | 720 | 690 | 2760 | | | | |
| Therapist | 9.40 | £32,496 | 20 | 720 | 690 | 6486 | | | | |
| Therapy Assistant | 6.15 | £17,646 | 24 | 864 | 828 | 5092 | | | | |
| Behavioural Therapist | 0.68 | £50,446 | 15 | 540 | 517 | 352 | | | | |
| Behavioural Assistant | 2.29 | £28,932 | 20 | 720 | 690 | 1580 | | | | |
| Staff Group 6 summary | 24.99 | £795,563 | | | | 17,629 | £45.13 | £29.55 | £74.68 | £1,316,517 |
| Staff Group 7 | Night staff | Class 3.4 "Residential: Independence and personal care support" | | | | | | | | |
| Night Nurse | 4.63 | £32,183 | 24 | 864 | 828 | 3834 | | | | |
| Night Staff | 30.00 | £22,399 | 28 | 1008 | 966 | 28979 | | | | |
| Staff Group 7 summary | 34.63 | £820,986 | | | | 32,812 | £25.02 | £16.38 | £41.40 | £1,358,587 |
| Total accounted for by this page | | £8,345,270 | | | | | | | | £13,809,952 |

Page 3 "Other allocations"

| Natspec Negotiating College Funding Project | | | | | | |
|--|----------|-----------------------|-----------------|--------------------|--|-----------------|
| Other allocations | | | | | | |
| Student meals | | | | | | |
| Class 2.1 "Meals" | | | | | | |
| Total to be allocated | £366,221 | | | | | |
| Target number of meals | 66,000 | | | | | |
| Price per meal | £5.55 | | | | | |
| Direct non-staff costs | | | | | | |
| Class 2.3 "Teaching Resources" | | | | | | |
| Total to be allocated | £776,211 | | | | | |
| Per-student allocation | | <i>No of students</i> | <i>Weighted</i> | <i>Per student</i> | | <i>Totals</i> |
| "Basic" | | 55 | 55 | £5,803.45 | | £319,190 |
| "Enhanced 1" | +50% | 35 | 52.5 | £8,705.17 | | £304,681 |
| "Enhanced 2" | +75% | 15 | 26.25 | £10,156.03 | | £152,340 |
| Totals | | 105 | 133.75 | | | £776,211 |
| <i>The shaded figures are those used in pricing students' programmes</i> | | | | | | |

| Natspec Negotiating College Funding Project | | | | |
|--|----------------------|----------------------|--------------|--------------------|
| Summary sheet | | | | |
| <i>If the College's agreed programmes for 2014/15 include the following priced elements at the quantities shown:</i> | | | | |
| Direct staff | | | | |
| | | <i>hours</i> | <i>price</i> | <i>total</i> |
| | Education Tutor | 31,404 | £78.05 | £2,450,947 |
| | Education Support | 34,053 | £31.23 | £1,063,369 |
| | Education Instructor | 862 | £42.94 | £37,036 |
| | Personal Care | 191,561 | £36.28 | £6,949,739 |
| | Nursing | 8,614 | £73.58 | £633,758 |
| | Therapists | 17,629 | £74.68 | £1,316,517 |
| | Night staff | 32,812 | £41.40 | £1,358,587 |
| Meals | | | | |
| | | <i># of meals</i> | <i>price</i> | <i>total</i> |
| | Per meal | 66,000 | £5.55 | £366,221 |
| Direct non-staff costs | | | | |
| | | <i># of students</i> | <i>price</i> | <i>total</i> |
| | "Basic" | 55 | £5,803.45 | £319,190 |
| | "Enhanced 1" | 35 | £8,705.17 | £304,681 |
| | "Enhanced 2" | 15 | £10,156.03 | £152,340 |
| <i>then overall net income should be</i> | | | | £14,952,384 |
| <i>which equates to the revenue budget from the first sheet.</i> | | | | |

Devising students' programmes using staff unit prices

- 1 The following table (left hand column content courtesy of one of the colleges on our Working Group) suggests a list of "activities" that might go to make up an annual programme for a student. A certain number of hours per year can be allocated to each relevant activity, and a note made of the staff that will need to be assigned to each activity (including staff directly supporting the student).
- 2 Naturally not all staff will be working exclusively with the student at all times. Thus in the first row ("Education teaching") a particular student may require an education support worker at a ratio of 1 (worker) to 2 (students) and a lecturer on a ratio of 1 to 5. This must be taken into account when pricing.
- 3 The hours, once allocated, can then be "priced" using the prices derived from the methodology of Annex 2. Finally, prices to cover non-staff direct costs can be added separately, again as illustrated in Annex 2.
- 4 If a fully systematic approach is adopted, the "hours per year" column can be checked to total 36 weeks x 5 days x 7 hours (or so) for a day student, or even 36 weeks x 7 days x 24 hours for a residential student.
- 5 In practice, it may be easier to work initially in "minutes per day" (distinguishing between weekday and weekend as appropriate) and then multiply up.
- 6 Naturally, designing a set of standard spreadsheets (one spreadsheet page per student) will simplify the calculations. If this is done, a useful approach is to have a separate column in the spreadsheet design for the hours required from each separate group of staff ("Education Tutor", "Education Support", "Therapist", etc.). The totals of these columns then show the total requirement from that staff group for the individual student concerned, and the price can be calculated from these totals.
- 7 These totals, added up across all prospective students, can then be compared to the total number of available annual delivery hours for the group of staff concerned, as calculated in each box on the spreadsheet "Direct staff funding allocation" (see Annex 2). This will confirm (a) that the proposed staffing establishment is adequate⁴², and that there will be no staff shortages; and conversely (b) that the college will be able to fund all the delivery hours, and therefore all the staff, identified in its price setting process.

⁴² At least numerically. There may of course still be timetabling issues, particularly at times of high demand for staff support (e.g. between 7 and 9 in the mornings in a residential setting).

| <i>Activity</i> | <i>Hours per year</i> | <i>Staff needed (including ratio if not 1:1). Draw on the list at Annex 1</i> | <i>Price</i> |
|-----------------------------------|-----------------------|---|--------------|
| Education teaching | | | |
| Education support | | | |
| Other Learning activity | | | |
| Other Learning support | | | |
| Skills development | | | |
| Mobility development | | | |
| Moving & handling | | | |
| Bathing/Showering/Washing | | | |
| Skincare | | | |
| Getting dressed | | | |
| Toileting | | | |
| Eating/Drinking | | | |
| Other Nutrition | | | |
| Breaks/Drinks | | | |
| Occupational therapy | | | |
| Mobility Aid support | | | |
| Speech therapy | | | |
| Physiotherapy | | | |
| Hydrotherapy | | | |
| Fitness support | | | |
| Swimming | | | |
| Other therapies | | | |
| Group therapies | | | |
| Emotional and behavioural support | | | |
| Medication delivery/support | | | |
| Medical procedures | | | |
| Night Monitoring/Support | | | |
| Residential support | | | |
| Leisure support | | | |
| Transition support | | | |
| Reviews | | | |
| Totals | | | |

Costing and pricing of other delivery models

- 1 As mentioned in Section 1, this report has focused on the costing and pricing of programmes offered within independent specialist colleges – whether day or residential, as the case may be. However there are a number of other ways in which specialist colleges support learners, which for example include:
 - Offering an extended programme to supplement the “day” programme offered by another college or other provider
 - Offering outreach services in various locations, again to support a student whose main placement is with another college or other provider
 - Offering training or consultancy (in whatever form) to other colleges or providers to help them support high needs students in general.
- 2 All the principles outlined in this report apply in all these circumstances. The only issue to be considered is the extent to which the prices set for these kinds of provision should cover indirect, non-student specific costs. There is no “right answer” to this, but commonsense as ever is a reasonable guide.
- 3 For example, if an extended programme is offered within college premises, then the appropriate unit prices as calculated for the college’s “regular provision” should be used. (These are likely to be the “residential” prices calculated for inputs listed in sections 3 and 4 of Annex 1.)
- 4 The same would apply to an in-service training or other programme offered within college premises.
- 5 If, however, provision is offered in other premises, then it seems unreasonable to include in the staff hourly rates charged any contribution towards college buildings and fixed plant. The calculations described in paragraphs 407 and following will therefore need to be “re-run” including the “human” non-specific costs (management, administration, etc) but excluding the “physical” ones (buildings, grounds maintenance, etc.). And it goes without saying that just the same allowances will need to be made for in-service training, sickness, etc. when calculating the basic cost per delivered hour as has been described in the main report.
- 6 These are however only principles. In particular, they ignore the benefits that might accrue to the college from closer relationships with other colleges/providers, or (for example) the benefits to one’s own practice that result from running in-service training for others.

- 7 Moreover, these are likely (for the time being) to be “marginal activities”, taking only relatively small amounts of staff time and (if relevant) making use of premises and other plant that are already “fully funded” by the fees paid in respect of “conventional” day and residential students.
- 8 It is therefore within a college’s discretion to charge for these activities at marginal cost, if it wishes to – that is, to charge only that fee which covers the *additional* expense the college incurs (or the resource it foregoes) in delivering the service in question. This might be as little as the staff salary concerned (plus allowance for on-costs).
- 9 It is hardly necessary to point out, however, that products or services delivered at marginal cost may well grow until they are frankly no longer marginal in the context of the college’s operations as a whole. To take just one example, if at some point in the future a quarter of staff time overall is spent on “outreach” priced at marginal cost then the full costs of management and administration will need to be recovered from the prices charged for the remaining three-quarters of activity. At this point the “marginal assumption” has well and truly broken down and there may be no alternative to a significant increase in outreach staff prices.