

## **LSIS Annual Conference 24 March 2011**

Geoff Russell's Speech on Freedoms, funding and accountability

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Good afternoon and thank you for inviting me to speak today.

I want to start by expressing my gratitude for the massive contribution you make in helping improve the lives of millions of learners in this country. It seems to me that the 8000 of you are a rather big society.

But I am afraid we need to call upon your energy and your expertise even more. Governance is critical to this sector. It always has been, but as you know and as Dame Ruth explained earlier, freedom comes at a price – and that price is greater responsibility for your own destiny.

The Prime Minister addressed the reasons why your role is so important back in July, only weeks after the election. He said:

*“...we want to change the old system of bureaucratic accountability to one of democratic accountability – accountability to the people not the government machine...”*

Accountability is an important theme of this government. And as you know, anything that touches on accountability is the essential business of governance - your business.

But as you also know, while accountability to central government is painful, resource intensive, tedious and frequently does not produce the intended outcome, it is certainly simpler.

We, the centre, published the guidance, told you the rules and set out what it was that constituted success. So accountability meant following the rules and meeting the target (which, by the way, you did extremely well).

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But with the transition to local democratic accountability, the challenge for governance becomes greater – because one of your key responsibilities is to set the strategy. Local accountability requires that you can be confident that your strategy is delivering what your customers need, what business needs and what the wider community deserves.

Fortunately, governors have always had a responsibility to be aware of the needs of the local economy. I know you take that duty very seriously and have responded to it despite the restrictions imposed by the centre. But going forward, governing bodies will have to play an even more active role in working with employers and stakeholders in setting the strategy for what your colleges deliver and whether, in the current fiscal environment, they can do it alone or need to do it in collaboration with others.

So the role you play, in a time of fiscal constraint and new political leadership has become even more important. But I believe that FE can lead the way in our country's public service reform. The sector is closer than any other public service to the Coalition's vision of a customer focused, locally accountable system whose strength is that it consists of competitive public and private businesses with a social mission. But we must go further.

The economic and political environment gives the sector a unique opportunity to capitalise on what it does best – successfully managing businesses with a social mission. And if you rise to this challenge, you will ensure that FE is firmly and irrevocably taken to its rightful place in our country's education system. That is certainly the vision of my boss, John Hayes. And he has made it abundantly clear to me that I must do everything I can to enable that vision to be realised.

So how do we do that? In a comment piece in the Guardian on Alison Wolf's recent report, Mike Baker argued that *"the best thing future governments can do is to just stop interfering and let schools, colleges, employers and awarding bodies work out what is best for students not aiming for university."*

Broadly, this is the direction of travel for Further Education. For the Agency's part, we must make sure that a reformed system brings greater freedom and flexibilities so *you* can make the choices that will determine how your institutions serve the communities you operate in.

This puts a much greater onus on governors to develop strategies based on what is needed today, but also tomorrow and in the future, and then making sure your college will have the capability to meet those needs.

However, it is important to say that there will still be a high level framework that sets some of the parameters for your decisions. The government will continue to make decisions about the types of learning that it thinks needs public subsidy and the degree of subsidy that can be afforded. These decisions are critical to the future operation of the sector, but they will enable it rather than define it. You will

choose from the menu of publicly subsidised learning what you want to deliver and which customers you wish to serve.

And it is also the case that the Agency retains the responsibility of ensuring that the sector has appropriate capability and capacity to provide suitable Further Education across the country. So we still need to be satisfied that colleges and providers will meet the needs of their current and future customers.

But increasingly, it will be the market that does this job for us. It will be competition that will drive down cost; drive up quality; and eliminate the need for expensive micromanagement from the centre. And while of course our system has always been competitive, it has been a competition to attract public funding and to meet the demands of the bureaucracy, whereas in future, it will be much more about a competition to attract and delight fee paying customers.

And for learners for whom the state will continue to pay and hence where there is less pure competition, we will ensure that for these learners, the funding system will incentivise delivery of achievement and employment outcomes. In this way the funding for your institution will be inextricably tied to how well you deliver what your customers want.

And on the issue of funding, please make sure you have carefully considered the impact of the fiscal environment that will prevail for the next 3 or 4 years. In the absence of some quite innovative changes in operating models for many of you, our view is that the number of colleges in outstanding financial health will drop by 50% and the number in financial trouble will increase by 100%, and sooner than you may think.

This means that you need to challenge your executive teams to demonstrate how they will survive a 25% cut in real terms funding over the next 4 years. The number of colleges that can improve, let alone protect the outcomes they deliver for learners without some significant changes in models I believe to be small.

And the combination of funding reductions, the new funding system and the market will shine a much brighter light on colleges and providers that do not take the tough decisions that are needed to operate as effectively and efficiently as possible. Where this leads institutions into financial trouble, the Agency will encourage a rapid change of management and/or governance – and possibly business model - or else we will withdraw funding.

Hence your strategy for the next 4 years should include considering working more closely with your neighbours – because collaborating with other colleges and other education institutions can reduce costs, improve revenues and enhance quality – for your learners as well as theirs.

So we will continue to work with you around the quality of delivery; the financial health of the business; and the efficiency with which you conduct it. These will be the critical measures that we will monitor to ensure that the government's stewardship duty is fulfilled. But we will monitor and support – not direct. We will

rely on you and your executive teams to decide how to respond to the demands of your customers and how to ensure you have the resources to do so.

So to sum up, I am sure you spotted well before today that all of this will be no small challenge. But we should not underestimate the opportunity that this presents. It's an exciting challenge and one we must meet in way that ensures we wind up in a much better place.

Fortunately, governors represent a formidable wealth of experience, commitment and the knowledge of your colleges and of what your communities' need - which will be crucial since you have a key role to play in the next few years. How well you do this, will determine the future for your colleges, as well as for the sector as whole.

The government is providing your freedom and the Agency is relinquishing all of the formal levers it holds. So you are in the driving seat. It is now for you, with our support and the support of organisations such as LSIS, to ensure that the challenges we face are a catalyst for transformation to serve learners even better. I am completely confident that you will do just that.  
Thank you.

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