

## **Geoff Russell's speech at the Association of Colleges Finance Directors' Conference**

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Good morning and thank you for inviting me here today.

As some of you may know, I spent most of my career in the finance profession, providing services to others. And while I had a number of internal management roles, and also spent a couple of years in the Treasury promoting financial management in Whitehall, it was only a few years ago that I was rather suddenly dropped in to lead an organisation.

So I do know just exactly how important Finance Directors and finance professionals are in the success of their organisations – and that's as true for Further Education as for any business sector. It's because I understand the importance of what you do that I was pleased to be able to come today. And my colleague Paul McGuire, who many of you know, will be here tomorrow talking to you about various issues including the comprehensive spending review (CSR) settlement and the financial health of the sector.

Between us, Paul and I wanted to give you some insight into the changes and the challenges that are coming. And there will plenty of both; but every challenge is an opportunity - for your college - and for you.

And so to cut to the chase - my key message today is that I believe we are at a crossroads – and the world we're moving to means your role is even more vital. And that is not just in ensuring your college gets through the next few years – it's much more than that. It's about challenging and supporting your colleges to take advantage of change and to change themselves.

Let me say it again - take advantage of change to make change. Seize the opportunity to take your college and the sector as a whole to a place where it will be recognised as the most innovative, enterprising and efficient education in the country. But know that if we fail to grasp this nettle – and it is a nettle - we risk missing a remarkable opportunity.

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And as I said a minute ago - I am afraid much of the responsibility for rising to this challenge falls to you. Without the crucial support and advice you provide to your colleagues, your college will not just miss an opportunity – it could quite possibly decline rather than thrive.

And this country cannot afford for that to happen. You all know how valuable an asset further education (FE) is to the growth of our economy and the mobility of our society. Our Minister, John Hayes, has spoken about the value and reputation of FE. He said:

*“FE Colleges are the great unheralded triumph of our education system... Our mission is to free colleges to be more responsive to learner choice and employer demands. This is vital to build provision sufficiently nimble to respond to dynamic demand.”*

FE already has a strong reputation with the people and communities it serves. However, it has a growing responsibility to promote and create further demand for the services it offers to employers and encourage more people into learning that delivers the outcomes those employers and the economy need.

For the Agency's part, we must continue to set FE colleges and independent providers free from the burden of unnecessary process, so that you can focus on innovative ways to deliver the mission even better than before - for less than before.

But crucially, the Agency must also get the funding incentives and accountabilities right, so that maximising your bottom line leads you freely, efficiently and effectively to use public and other sources of funding to do what your customers - hence communities - need you to do.

We have already made a number of changes to make things simpler and more efficient for you and for us. But well beyond just these, a radically new funding system is beginning to take shape – focused not on agencies funding inputs like guided learning hours so you generate qualification outputs, but focused instead on outcomes. And not the outcomes we want - but the outcomes learners, employers and communities want.

Outcome led funding will allow us to throw out most of the existing rule book; will allow us to shift much of the reporting to simply collecting some of the data you will need anyway to run your businesses; and will also allow us to reduce the assurance burden. It will be a system we will trust to work - and we will trust you to get on with it. It will allow us to get out of your way and watch rather than plan and to nudge rather than meddle - but it will also require us to intervene decisively to withdraw funding if poor management or inadequate governance fails learners. In summary - a simpler system that runs itself - with support and occasional challenge from us.

But rather paradoxically, it is extremely difficult to create something simple. Especially in public services, where simplicity has to be balanced against fairness. So we will be doing this carefully and thoughtfully, in consultation with the sector. We begin in August by piloting outcome funding incentives and this will be the first chance for you to help us get it right.

And we have to get it right - because in my view, this is our one great hope to put in a simpler system that enables fewer rules and fewer checks, but most importantly, enables both of us to do a better job with less money.

And the Agency is already betting that it will work – we are moving to a new business model and new ways of working. This will allow us by December to have shrunk our original staff complement by 40%, and our cost base before long will be half or less what we spent last year. And we could be even smaller, but most people do not appreciate that we have one of the biggest IT departments in Whitehall - more than 150 people spending more than £100m annually. This is because we provide vital services to the YPLA, as well as the entire education sector and very soon, to the entire public sector with our citizen ID product. Happily it is also one of the most effective IT departments as well.

So our new business model is helping us respond to the reality that in the public sector there is financial challenge and a change of philosophy about what should be funded. Our new business and funding model will also enable and encourage colleges to respond to this change – but it will not be easy.

It is going to take hard work for colleges to maintain, let alone increase resources in the next few years. This is a challenge for Finance Directors, but also a profound opportunity for institutions to gain greater financial and management strength and transform not just themselves, but the entire educational landscape.

You are a key part of this. You must help your institutions to explore new markets, to collaborate in new ways with all kinds of partners and to develop new products – in England and abroad. And this must all be seen through the prism of the need for dynamic relationships with customers. Because in a world of fee paying learners and employers, and outcome led funding - instead of coping with the capricious whims of funding bodies - you and those competing against you will be at the mercy of ever changing customer demand.

So how will you deal with all these new challenges and opportunities? Well, I think they require a new level of entrepreneurial business management in colleges. And colleges that take the tough decisions soonest will prosper – and it will take powerful financial management to drive those tough decisions through.

And that's where you come in. There will be an increasing need for better financial insight and foresight; a need for new and better management information; careful due diligence on products and partners, and stronger financial challenge and support.

So, there is a much greater role for Finance Directors in ensuring that the business takes advantage of the new opportunities of tomorrow, while at the same time dealing with the financial challenges that we face today.

The Agency will deliver a better and simpler funding system. And we will work with you around the outcomes you deliver and the financial health and efficiency of your business. These will be critical measures that we will monitor to ensure our stewardship duty is fulfilled. But we will monitor and support – not direct. We will rely on you and your colleagues to decide how to efficiently respond to the demands of your customers.

That I think there is a considerable challenge ahead of us will not surprise any of you. But let's not forget that the Further Education sector is already the most cost effective part of the education system in this country. Its success is built on a keen understanding that to deliver the social mission requires business acumen, efficiency and a ruthless drive for delivery.

And so in a situation where across the whole education landscape, money is less plentiful and customers increasingly demanding - effective, low cost providers win. You must use that competitive advantage.

So my challenge to you is to question the status quo; push for innovation; be entrepreneurs; take some calculated risks and then take the prize – and that prize in nothing less than establishing FE as the dominant voice in education and skills in this country.

But none of this will happen without the people in this room – individually, but also very much collectively - stepping up and using the huge pool of talent and experience you represent to take FE to a new level.

It's you who must add the value.

Thank you.

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***As with all Skills Funding Agency speeches, check against delivery.***

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