

Geoff Russell speaks at the CBI/EDI Executive Lunch (West Midlands)

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Good afternoon

Thank you for inviting me to the CBI in the West Midlands. This is my first speaking engagement of 2011 and I am delighted it is before an employer audience. As I'm more interested in discussing your questions than delivering a long speech, I will be as brief as is decently possible.

I am sure you have already heard many speakers talk of "tough times" so I shall not dwell on that. From where I sit, I am broadly optimistic about the future of our economy. But we need to get some basics right. You also don't need me to tell you about the importance of skills in securing the long term competitiveness of the country. That's why private and public sector spend huge amounts of money on skills.

In fact, employers in England spend some £40 billion in training every year; on Government's part, we have spent close to £100 billion on skills over the last decade. And in truth, regardless of the fairly constant criticism of the skills system in recent years, skills gaps and shortages amount to some 60,000 jobs. That is not to be ignored, but nor is it a significant proportion of the work force. So one might conclude that the money we both spend largely seems to be doing the job.

Unfortunately, our international standing continues to slip, with the expectation that we will be 20th of the 30 OECD countries in low level skills; 21st in intermediate and 11th in high level skills by 2020. The hard truth is that we are barely keeping our heads above water and the competition is swimming ahead. And you may have read in today's FT that we slipped down the league table for inward investment – from second to fifth - and that a survey of 300 senior executives of foreign companies in the UK cites skills as one of the three factors that they observe closely. These facts are not pretty and have potentially dire consequences for the future of this country.

So what do we do? I would observe three things.

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First, while Government can encourage, facilitate, and enable; and it can fund those things that employers should not have to; the prime responsibility for the skills of the nation rest - and has always rested - with employers. And while most businesses know that employee training plays an important role in productivity, in general, business spends too much on skills maintenance and not enough on investment.

And I have to say that your £40 billion a year includes public sector employers - and the MoD and NHS alone account for some £10 billion of it. I would also observe 12% of employees are genuinely underemployed because their qualifications are higher than those required for the job they are doing. So it seems a great deal of money has gone into producing too many skilled people for business. Can that possibly be the right place for us to be?

Second, while the level of publicly funded skills education and training over the past decade has never been higher, the deficit is forcing us to reduce it significantly over the next 4 years – roughly by 25%. There is no sense in being a highly skilled bankrupt nation.

Third, Government must take responsibility for using the money it does have better. We have too long had a complicated, expensive and bureaucratic funding system focused on qualifications that someone in Whitehall determined - that quite often produced what employers did not need and what learners did not want. We cannot afford to do this any longer.

So what does all that mean?

Well, it means that while we are in this together, and Government will still spend some £8 billion next year on funding training organisations, and will still spend a great deal as an employer – you must either spend more on skills, or spend better – or both.

For Government's part, we also need to spend our share better. The Coalition has given me explicit orders to create a simpler, cheaper and more effective way of putting taxpayers' money into skills. To do that the funding system and the body the runs it has to change. We must fund economic outcomes rather than just qualifications; we must empower employers and learners to make it easier for them to engage directly with the skills system so they get what they need; and we must trust providers to deliver it. And the Skills Funding Agency must become smaller, cheaper and more of a facilitator through relationships and information.

So that's what Government is going to do to put its adult skills house in order. We have already made good progress and I will briefly return to some of the changes we are implementing in a minute.

For your part, I think you must play a greater role. You need – with support from us – to raise your aspiration for and commitment to skills. How is this going to happen?

Not that long ago, corporate social responsibility, carbon reduction and equality and diversity were things that did not particularly preoccupy business. A combination of Government encouragement; appeal to the consumer and strong leadership on the part of some influential business people means these issues are now integral to today's market place.

So together, business and Government need to make and win the argument for economic growth and security through greater and better investment in skills. But the majority of that investment has to come from you. We need to get to a place where major skills investment is synonymous with successful and responsible businesses. If we don't, we risk relegating ourselves to the third tier in a merciless world.

I said I would come back briefly to the changes that we are implementing to adult skills funding. To make the new system work, it is important that the role of business is clear.

Before Christmas the Coalition Government published what it called one of the most important documents yet published by the administration – the **Skills Strategy**, together with the investment strategy that underpins it. You may have missed this as it was drowned out by the news of a nice, upwardly mobile couple announcing their engagement.

The skills strategy is designed to help us help you to buck the trend that is letting us slip down the international rankings and economic growth is at its heart. It must ensure that our funding efficiently delivers the skills that business really needs, by making the relationship between you - the customer - and the training provider one that is direct, dynamic and successful.

My job is to ensure that all of the publicly funded training institutions in England are enabled to do just that. We are radically simplifying the funding rules; focusing on outcomes rather than outputs; reducing the bureaucracy and incentivising colleges and training organisation to engage directly with employers and other stakeholders in the communities they operate in, as well as nationally at a sector level. And then I get out of the way. So we are creating a more responsive system, as well as taking out cost for the sector and enabling me to reduce the size and cost of my organisation significantly so more can go into learning.

The important change for many employers to recognise is that instead of articulating skills needs through intermediaries as was often the case in the past, direct engagement with colleges and private training providers will be the main method of securing the skills your current and future employees need. There are colleges and training providers in your town, your city, your region that can meet your local needs and can meet your needs across the country – many are represented here today.

In addition to changes to the funding process, a central part of the skills strategy is apprenticeships. They are a recognisable work based learning brand and a proven product. 80 per cent of those who employ apprentices agree that they make the workplace more productive and believe that apprenticeships lead to a more motivated and satisfied workforce. So the Coalition has given me the highest possible priority to get more businesses to understand their value.

Happily, businesses in the West Midlands recognise the impact that apprentices have. There are nearly forty-two thousand, a 15 per cent increase on last year employed by twelve thousand Midlands employers - double last year's figure.

But please do the maths; most apprentices are in small businesses. While many larger employers have some apprentices, most could employ many more. There are over 200 different jobs roles available through apprenticeships, each of which can add value to your business. I urge every large employer in the room to employ an apprentice, and if you already do, expand your programme.

Of course, sometimes the needs of business are more basic. We must ensure that you are able to access support to equip staff who do not have basic skills. As Susan Anderson of the CBI has said, the experience of business is that the education system has not always equipped people with the basic skills to work so we will continue to fund provision to address this through support for employers in addressing basic skills needs.

I have only touched on the key aspects of the significant changes the Government is bringing to the skills it funds. But I am confident that the system will do a much better and more efficient job at delivering what you need. What I hope you recognise is the much greater role of business must take on, with our support, so that together we can protect the future prosperity of our country.

Thank you.

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