

**Geoff Russell Speech at Association of Colleges Conference
13 December 2010
How to deliver great results and protect the bottom line**

Good morning and thank you for inviting me here today.

A month ago I spoke at the AoC national conference – shortly after John Hayes launched both the Skills Strategy and the Skills Investment Strategy. Minister Hayes was in no doubt – and I agree with him – that these were the most important documents that the coalition government had published – establishing skills as a key tool for government in accelerating growth and promoting fairness.

Sadly, the media didn't share our view; that day's headlines were dominated by the announcement of an engagement; but that's the media for you. The strategy documents, the result of extensive consultation on the Coalition's radically new approach for adult FE, set out both the principles and practicalities. They also explained how the Skills Funding Agency, as the funder and regulator, would become a smaller and lighter touch funder and regulator, helping to inform decision making in a truly customer driven system, and intervening only when a part of the system fails.

Skills Funding Agency

Cheylesmore House Quinton Road Coventry CV1 2WT
T 0845 377 5000 www.skillsfundingagency.bis.gov.uk
An agency of the Department for Business, Innovation & Skills

What emerged clearly for me at the conference was the critical role of further education in both underpinning and accelerating economic growth. What is also clear to me is that the FE sector is closer than any other public service to the Coalition's vision of a customer focused, democratically accountable system whose strength is that it consists of competitive businesses with a social mission. This is precisely why the economic and political environment we are in gives FE a remarkable opportunity to capitalise on what it does best. But there are still some things we both need to do to seize that opportunity.

On the Agency's part, we must make sure the new world you inhabit is a one of greater freedom and flexibilities so you can make the choices that will determine the health of your bottom line. But we must also get the funding incentives and accountabilities right, so that maximising your bottom line leads you freely, efficiently and effectively to use public money to do what your customers - and hence society - needs you to do. And once that system is in place, we need to trust that it will work, and we must get out of your way and let you get on with it.

Because of reduced public sector finances, but also because the world is a tougher, more competitive place, you must recognise that you cannot go on as you were. In a world with less money, but with the freedom to innovate and where many more customers will be paying themselves, you will have to do things differently to maintain and increase your bottom line. In other words, the sector must make a step change in the way it does business, in almost every way.

Like the Agency, you must change so your customers prosper in a world of less money. That means raising the bar on the value of

vocational learning. If you do not use your freedoms and innovate; if we both do not deliver better with less - we will fail learners - who will suffer from funding cuts rather than benefit from higher quality provision at less cost.

So what is my take on the key changes the sector must make?

On the revenue side, you will have to develop new, innovative and entrepreneurial content and pedagogy to provide experiential and entrepreneurial learning, skill sets and attitudes that equip learners to add tangible value to employers through initiative, enterprise and energy. This is crucial because the same tough world that is cutting FE budgets is also making the employment market more demanding for learners.

You must also get better information on how well what you do works for employers and learners; you must use that data to improve weak offers and sell strong ones and think hard, probably for the first time, about how to differentiate the total experience you provide to various types of customers. And you have to communicate why the experience you offer is better than the one down the road. In short, you need to get much better at marketing.

On the cost side, you will have to become ruthlessly efficient, optimising class sizes; using more technology based learning; making more effective use of teaching staff; taking out back office costs; rationalising estate and prioritising what is most important.

So it's going to take hard work on both revenues and expenses to thrive in the next few years. My own view is that to do this with the

money and time available will require serious collaboration among all types of players in a way that is unprecedented for FE in England. This is a challenge, but also a profound opportunity for institutions to gain greater financial and management strength and use it to transform not just themselves, but also the wider educational landscape here and abroad.

So that was the big picture stuff. And the potted version is: stop protecting your bottom line – grow it.

Let me move away from strategy and on to a few of the specifics that will emerge over the next 18 months that could have a big impact on your finances. The first is the outcome incentive payment.

The OIP is the key mechanism to balance freedoms with accountability. It incentivises - but does not force – you to use public funding towards delivery of what learners and employers want in the markets you operate in. It will work pretty simply: a material proportion of the adult allocation you get from us will be contingent on the achievement of defined and measurable outcomes that you agree with the employers, partners and stakeholders in your marketplace. It will be paid automatically, but could be suspended if you do not deliver on outcomes.

In 2011-12 this will be piloted solely on the outcome of getting unemployed people into work, but in the future the OIP will be paid on the achievement of a wider group of outcomes, likely to include qualification and apprenticeship achievements; progression at work and progression into higher education or higher level further education.

Employment outcomes will include self employment or business start ups. 2011-12 will be used as a pilot targeted at the unemployed, but we will probably also run the other outcomes on a shadow basis to get the kinks out and we will consult with the sector to make sure we do.

So delivering outcomes - and not just qualifications - will protect your bottom line and if you exceed on delivering your outcomes, we will likely retain a pot of money in the centre as a bonus to incentivise exceptional performance.

And of course, some colleges and providers are already very good at focusing on outcomes, working closely with the employers and stakeholders in the markets they operate in to determine sensible short and medium term plans. I have seen good examples of this, including at Richmond Adult Community College and Leicester College and many training organisations do this as a matter of course. But we need to improve and extend these practices across the sector.

There is a tremendous dividend to be realised by working directly with unmediated demand. Getting up close and personal with your customer – employer or individual – gives you the information to create solutions that better meet their needs. Demand is no longer expressed through the bureaucracy of national planning; it is for you to find, respond to and exploit in your market place.

Again, good colleges have already moved in this direction. K College in Kent operates a database of 20,000 local SMEs, with a team of people knocking on doors looking for opportunities for the college to meet employer demand and charge for it. And Bridgewater College

has tailored a programme and built a facility for training local people to provide the current and future skills needs for the nuclear power plant to be built there and for the industry more widely.

Another factor affecting the bottom line is the vital need to charge the full fee that is expected from individuals and employers for courses that are not subject to 100 per cent subsidy. Of course, this will become the norm for many of the higher level courses once fee loans are in place, but there will still be the need to collect from those that should pay - and also the opportunity to charge a full price for the new innovative products that you develop.

The final point I want to highlight is about efficiency. FE is already pretty efficient, but as I mentioned earlier, it will have to do more. When there is less public subsidy for learning, it is not good enough to just shrink and do less with less. So the Agency will not only ask the usual questions about financial health and the quality of delivery. We will also be asking about efficiency, assessing a small number of key benchmarks for all providers compared to the standards of the best. And we will take steps to motivate improvement for those that fall significantly below comparable institutions.

I hope I have provided some insight into the new environment for the sector and some of the things you will have to do to manage your bottom line. It is crucial that you begin now to adapt so that you can continue to deliver. This is because further education is the backbone of our skills system: supplying skills to those from 16 to 90+; whether it's a first qualification or a second chance; whether it's delivered in the classroom or on the shop floor; teaching a teenager or a redundant

engineer. Our future prosperity and competitiveness as a nation, as businesses, as individuals and yes, as colleges and providers depends upon us redefining and adapting to the new “FE”.

That new definition has to include **further efficiency; future enterprise; freedom for providers and empowerment for customers; and it must mean faster and enduring changes that will take the sector to a new level in both reality and reputation.**

Thank you.