

Skills Conference: 2 November 2010
25 minutes on the national skills landscape

Thank you, to our hosts, West Nottinghamshire College, for inviting me here today. Recent events signal that the skills landscape is in for some pretty significant change so is a good time to consider the challenges and opportunities. I hope the broad mix of people here today can help us all to make sense of the future.

Nearly two weeks have passed now since the Comprehensive Spending Review and I want to touch on that first. To remind you: the overall picture is that £1.1bn or 25 per cent of public funding will come out of adult further education in the next 4 years - on top of the £240m reductions that it suffered this year. On the young people's side, the non-schools education budget will go down by 12 per cent in real terms so that's probably a pretty good indicator of what will happen to further education for young people – *at best*.

(Pause)

So what will be the result of this serious reduction in funding; what character will the skills landscape have? I have heard much speculation about matching reductions in the quantity and quality of the offer; failing institutions and organisations; fewer learners and less choice for those left; the disadvantaged turned away - and the unemployed and underemployed abandoned.

In my view, that cannot be the character of the future - that is a counsel of despair and one that should be rejected by everyone in this room.

Further education providers will simply have to become even more cost effective. We cannot accept a response that is simply “do less for less”; the only option is to “do better and *more* for less”. We must look at the funding situation not as a struggle to survive - but as a challenge to improve. To look at it in any other way underestimates the abilities of people like you.

So, over the next 4 years, our landscape must become not a wasteland but instead become even better than it is today. How can this be achieved? I believe the answer is in two words: freedom and collaboration.

Freedom will allow the sector to manage declining resources to best effect – meaning money will be spent on exactly what is needed by customers and nothing else. It will also allow colleges and providers flexibility to use innovation to become both more efficient and more effective. There have already been some important freedoms granted, and more to come. But a key freedom will be around the funding system. To allow you to do better for less, we need to get out of the way and let you run your businesses in new and creative ways.

Without stealing the thunder of Government announcements next month, I can say that we have consulted extensively on strategy and funding and the result is a fairly consistent steer that the new adult skills funding system should follow four basic principles.

These are:

1. Install a simple and flexible system that embeds accountabilities and incentives so that without interference, the system will itself deliver the outcomes learners, businesses and communities need.
2. Trust that this system will work.
3. Disseminate intelligence and information, advice and guidance to help providers and customers make good decisions, but also gather intelligence so we can publish what is being delivered, and monitor the system as a whole.
4. Be prepared to intervene in the hopefully rare instances when bits of the system look like they might need help.

To deliver on this means that it is likely that funding for adult FE will become more of a “payment by results” system. How would that work? Well, pretty simply really. We would provide a menu of outcomes - including employment outcomes - that would attract public subsidy. When developing their own business plans, colleges and providers would consult with their community and/or sector about the nature, volume and trajectory of outcomes needed.

We would fund those business plans by providing a block of cash based on a handful of learner categories. Colleges and providers would then be able to use that cash as they see fit to deliver their plans. The catch is that part of the funding payment would depend on actually delivering the planned outcomes.

This approach would require the sector actively to engage with their communities, including employers, JCP, local authorities and Local Enterprise Partnerships (LEPs) – and also quite possibly sectors. The intent is to focus declining public funding on the employment, Apprenticeship and education progression outcomes that are actually needed, rather than simply qualifications – but also to switch provider accountability from Whitehall to local communities – giving the learners and employers what they need.

And so a simpler funding system will help colleges and providers to become more cost effective. Of course, it would be wrong for funding bodies, like my own, not to accept that the challenge to become better and less expensive applies to them as well.

Last week we reduced our headcount by 15 per cent and we will continue to shrink. What will allow us to do this is the radically simpler funding and regulation system. It will also allow you to spend less in dealing with us.

The other key word I mentioned is collaboration. I would like to spend a few moments on why I believe collaboration will lead to a better future. First, let me hasten to say I do not equate collaboration with merger. The merging of institutions is only one form of collaboration. Mergers result in clarity about management and governance, and can be good outcomes so long as they are done in a way that manages the risks and delivers the benefit. They also need to take account of the desire to provide locally branded delivery in suitable configurations.

But there are other options besides mergers that can create many of the benefits of merger, but faster and with less risk. They also retain the important local representation for the organisation and enable a larger number of bodies to be successively involved in less time than full merger would take. Such options include:

- Contractual federations among colleges or among colleges; private providers; universities; schools and academies that preserve legal entities but combine management;
- Operation of a group of colleges and other organisations via a contract with another college or private provider; or
- Consortia of such organisations that create one point of contact for contracting purposes that delivers uniform quality and are more efficient to administer.

The key requirements of these collaborations from my point of view are that they must:

- Provide one point of contracting for the Agency
- Agree a common strategy that allows local delivery
- Have the governance to enable the decisions on management, curriculum, corporate services and estates that will yield better provision for less money

- Enable the entity to take advantage of the opportunities that scale can bring such as investment in restructuring; DWP contracts; absorbing sector underperformers; borrowing to invest in innovation, estates and new curricula.

Besides mergers and other collaborations, there are of course other less ambitious options that can yield savings but not, by themselves, to the same degree. These could include:

- Joint provision of back office services
- Outsourcing back office services
- Allowing a college or private provider to run a curriculum area they specialise in for another institution
- Negotiating agreement among providers in a locality to agree curriculum specialisations
- Partnering on some level with other education institutions such as schools, academies and universities
- Using other government institutions' estates to deliver.

Different solutions or combinations of solutions are needed for different circumstances. And I am pleased to see that some of these things are already going on and are starting to improve delivery and reduce costs.

Another thought that sets the pulse racing is the prospect of bringing the classroom, the lecture room and the boardroom closer together – possibly glued together with innovative technology. Businesses already sponsor students, only last month a supermarket chain said it was sponsoring

students in HE. Well how about FE; how about businesses sponsoring whole institutions?

(Pause)

There are many challenges ahead and it will be tough. But I believe it is incumbent on everyone here today to begin painting the new future, better landscape; that has to be right, you ARE the landscape. What you have before you is an unprecedented opportunity to shape the future of - at the very least - further education in this country.

So, even though nearly two weeks have passed since the CSR - which could have been a lot worse, I remain an optimist - a firm believer in the ability of the sector to skilfully paint a picture of the future landscape that will be a masterpiece that will be seen by all as reinvention through creativity, innovation and boldness.

Thank you

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