



House of Commons

Business, Innovation and Skills  
Committee

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# The Skills Funding Agency and further education funding

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**Tenth Report of Session 2009–10**

*Report, together with formal minutes, oral and  
written evidence*

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## The Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills. On 5 June 2009, the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills become the Department for Business, Innovation and Skills. On 1 October 2009 the Business and Enterprise Committee was renamed the Business, Innovation and Skills Committee to reflect that change. The Committee retained the same membership as the Business and Enterprise Committee.

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### Committee staff

The current staff of the Committee are: James Davies (Clerk), Ben Williams (Second Clerk), Aruni Muthumala (Economist), Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Eleanor Scarnell (Committee Assistant), Jim Hudson (Committee Support Assistant) and Laura Humble (Media Officer).

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# Contents

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<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>1 Introduction</b>	<b>5</b>
<b>2 Creation of the Skills Funding Agency</b>	<b>6</b>
Introduction	6
The nature of the Skills Funding Agency	7
The Skills Funding Agency: management of further education funding	9
SFA management of the further education capital budget	11
Complexity in the FE system	12
Delivery functions and partners	12
Simplification?	13
The Skills Funding Agency and the Young People's Learning Agency	15
Funding Streams: the SFA and the YPLA	18
Capital Funding: the SFA and the YPLA	20
The National Apprenticeship Service	21
<b>3 Skills Strategies</b>	<b>23</b>
Introduction	23
National Strategic Skills Audit	23
Regional Skills Strategies	24
Tensions within the skills strategy system?	25
<b>4 Administration of the Change Programme</b>	<b>28</b>
Introduction	28
Consultation on the design of the SFA	28
Transitional Arrangements	29
Costs of transition	31
Staffing	33
A change of culture	34
<b>5 Conclusion</b>	<b>36</b>
<b>Conclusions and recommendations</b>	<b>37</b>
<b>Appendix: Delivery partners in further education</b>	<b>41</b>
<b>Formal Minutes</b>	<b>44</b>
<b>List of Reports from the Committee during the current Parliament</b>	<b>47</b>



## Summary

In this Report we consider the new structures which the Government has put in place to administer further education. In particular, we assess the new Skills Funding Agency (SFA), one of two organisations—the other being the Young People’s Learning Agency (YPLA)—created to replace the Learning and Skills Council.

We are not convinced that the new system is a step in the right direction. There are now significantly more organisations and bodies involved in the delivery of further education which will increase complexity in the system rather than simplify it. As a result it could be both cumbersome and unwieldy.

At the heart of this complexity lies the division of responsibilities between the Skills Funding Agency and the Young People’s Learning Agency. We have grave concerns about the logic or probable effectiveness of having two organisations running further education, and we have yet to be presented with a convincing argument in support of this approach. We are particularly concerned that the need to co-ordinate the work of the SFA and YPLA on issues of policy, administration and shared services will lead to unnecessary long-term bureaucracy. Furthermore, we are highly sceptical that the creation of two agencies to replace one can possibly achieve long-term cost savings expected by Government.

The Government’s ambition to reducing the number of bodies involved in the skills world “by up to 30” is welcome. We recommend that the Government provide us with detailed information on the work it has done to realise this aspiration, together with an indicative list of those bodies it believes it can remove from the system.

The National Apprenticeship Service will now be housed within the Skills Funding Agency, but it will retain its autonomy—including budgetary control. We do not see the logic in this decision. We believe that having a separate entity working within the SFA will only add to the already complex structure of further education delivery. It will also pose significant management and accountability issues for the Chief Executive of the SFA.

There are certain aspects of these changes which we welcome. The single account system for colleges, together with dedicated Account Managers, has the potential to simplify the administration of funding for colleges and to simplify their contact with the funding bureaucracy. We also note that the Department has introduced additional controls over the further education capital budget which it believes will avoid any repeat of the mismanagement of that budget which was evident under the Learning and Skills Council.

We give a cautious welcome to the National Skills plans, produced by the UK Commission for Employment and Skills, and regional skills plans, produced by Regional Development Agencies and Local Authorities. These plans have the potential to provide a valuable insight into the skills needs of the UK at a national, regional and local level. However, the lines of communication appear both complex and highly concentrated on public sector organisations. It is vital that the views and needs of business are represented to the fullest extent and that the Government needs to demonstrate that the business community is fully involved in the process plans.

The Government's transition plan for this change has been well managed. We welcome the genuine consultation that took place with delivery partners and their confidence that the hand-over on 1 April will run smoothly. We also welcome the evidence of a change in approach towards colleges at the top of the organisation, but recognise the need for this to take place throughout the organisation.

We recognise the benefits of retaining experienced and specialist staff within the further education structure. However, given the level of shared services in the new structure, we are surprised that the reorganisation of further education did not deliver a solitary reduction in overall staffing levels.

It must never be forgotten that complexity and repeated organisational change almost inevitably deter the users of any public service, and this is especially true of those most in need of help from those services, in this case learners and smaller businesses. Ultimately the success of the new structure will be judged on its ability to deliver the demand-led service for skills, not on the efficiency of the component parts of the new structure. The two new organisations may work perfectly well but the unanswered question will be whether it would not have been preferable from the point of view of the people and organisations that really matter in all this—colleges, learners and businesses—to stick with the devil they knew, which was the Learning and Skills Council.

# 1 Introduction

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1. In October 2009 our Committee's remit was expanded to include further and higher education, reflecting the Machinery of Government changes which created the Department for Business, Innovation and Skills. We take seriously this new area of responsibility and this is reflected in the fact that we have sought to incorporate an increased focus on both higher and further education in our ongoing work as well as, in the short time available to us, conducting this focused inquiry. It deals with the changes being made to the funding of post-19 skills training with the creation of the Skills Funding Agency. As the changes are being made on 1 April this year, this is necessarily an interim report.

2. We held two evidence sessions, one with the Association of Colleges, the Local Government Association, the South East of England Development Agency and the UK Commission for Employment and Skills, and the second with the Skills Funding Agency, the Learning and Skills Council and the Young People's Learning Agency, followed by Kevin Brennan MP, Minister for Further Education, Skills, Apprenticeships and Consumer Affairs, Department for Business, Innovation and Skills.

3. In addition, we received a number of written submissions. We thank everyone for contributing to our inquiry.

## 2 Creation of the Skills Funding Agency

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### Introduction

4. In 2004 the Government commissioned Lord Leitch to undertake an independent review of the UK's long-term skills needs. An interim report was published in December 2005 and the final report, *Prosperity for all in the Global economy—world class skills*, in December 2006.<sup>1</sup>

5. Lord Leitch's final Report concluded that “our nation's skills are not world class”<sup>2</sup> and proposed a series of objectives for 2020:

95 per cent of adults to achieve the basic skills of functional literacy and numeracy, an increase from levels of 85 per cent literacy and 79 per cent numeracy in 2005;

exceeding 90 per cent of adults qualified to at least Level 2, an increase from 69 per cent in 2005. A commitment to go further and achieve 95 per cent as soon as possible;

shifting the balance of intermediate skills from Level 2 to Level 3. Improving the esteem, quantity and quality of intermediate skills. This means 1.9 million additional Level 3 attainments over the period and boosting the number of Apprentices to 500,000 a year; and

exceeding 40 per cent of adults qualified to Level 4 and above, up from 29 per cent in 2005, with a commitment to continue progression.<sup>3</sup>

6. *World Class Skills*, the Government's response to the Leitch review, was published shortly after the formation of the new but short-lived Department of Innovation, Universities and Skills, in July 2007.<sup>4</sup> It committed the UK “to joining the world's ‘premier league’ for skills”.<sup>5</sup> The response also set out the proposal for re-shaping of the Learning and Skills Council, noting that the newly created Department for Children, Schools and Families was bringing together policy (and funding) for children and young people. A commitment was given to consult on post-19 education and training arrangements.<sup>6</sup>

7. The Government's consultation paper, *Raising Expectations: enabling the system to deliver*, was published in March 2008.<sup>7</sup> It proposed the abolition of the Learning and Skills

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1 Leitch Review of Skills, *Prosperity for all in the global economy—world class skills: Final Report*, December 2006

2 Leitch Review of Skills, *Prosperity for all in the global economy—world class skills: Final Report*, December 2006, Foreword

3 Leitch Review of Skills, *Prosperity for all in the global economy—world class skills: Final Report*, December 2006. Executive Summary

4 Department for Universities, Innovation and Skills, *World Class Skills: Implementation of the Leitch Review of Skills in England*, CM 7181, July 2007

5 Department for Universities, Innovation and Skills, *World Class Skills: Implementation of the Leitch Review of Skills in England*, CM 7181, July 2007, Foreword

6 Department for Universities, Innovation and Skills, *World Class Skills: Implementation of the Leitch Review of Skills in England*, CM 7181, July 2007, para 3.52

7 Department for Universities, Innovation and Skills, *Raising Expectations: enabling the system to deliver*, Cm 7348, March 2008



Council (LSC) and its replacement with two successor bodies, one of which was the Skills Funding Agency (SFA), by 2010:

we will create a new Skills Funding Agency. It will be a focused, streamlined agency, close to Government and with an operational role. It will have national and regional presence, deploying its activities and resources flexibly to reflect the fact that skills needs are manifested in sectoral, regional and sub-regional patterns, and rarely follow local authority geographies.<sup>8</sup>

8. A key role of this new Skills Funding Agency would be to ensure that public money was routed swiftly, efficiently and securely to FE Colleges and providers:

It will build on the considerable successes of the LSC. It will be responsible for ensuring that public funds are best used to complement the much larger private investment which is made in adult skills and training. The majority of its funding will flow in direct response to customer choices through Train to Gain and Skills Accounts.”<sup>9</sup>

9. In late July 2008 the then Department for Innovation, Universities and Skills published *Raising Expectations: Enabling the System to deliver, Update and next steps*,<sup>10</sup> which gave further details on FE and Skills Reforms. The proposals to create the new Skills Funding Agency and a Young People’s Learning Agency (YPLA)—to coordinate funding for children and young people under the age of 19—were then given effect by the Apprenticeships, Skills, Children and Learning Bill, which received Royal Assent in November 2009.<sup>11</sup>

## The nature of the Skills Funding Agency

10. Unlike the Learning and Skills Council, which was a Non-Departmental Public Body, the Skills Funding Agency will be an agency of the Department for Business, Innovation and Skills. Its staff will be civil servants, and the Chief Executive of the Agency will be a statutory post holder.<sup>12</sup> The Department describes the status of the Agency as being at “shorter arms length” from the Department than its predecessor, which, it argued would enable it to provide “a faster and more effective response to policy, while reinforcing the autonomy of the FE sector.”<sup>13</sup>

11. In its memorandum, the Department explained that Ministers would set the overall strategy and objectives for further education along with the budget available to achieve

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8 Department for Universities, Innovation and Skills, *Raising Expectations: enabling the system to deliver*, Cm 7348, March 2008, para 26

9 Department for Universities, Innovation and Skills, *Raising Expectations: enabling the system to deliver*, Cm 7348, March 2008, para 27

10 Department for Universities, Innovation and Skills, *Raising Expectations: enabling the system to deliver: Update and next steps*, Cm 7348, July 2008

11 Apprenticeships, Skills, Children and Learning Act 2009

12 Ev 41

13 [http://tna.europarchive.org/20080821115627/http://www.dius.gov.uk/further\\_education/fe\\_reform/~//media/publications/S/SFA-update](http://tna.europarchive.org/20080821115627/http://www.dius.gov.uk/further_education/fe_reform/~//media/publications/S/SFA-update)

them.<sup>14</sup> The strategy and objectives will be published in an annual *Skills Investment Strategy* which will be informed by “bottom-up” issues coming from the regions and localities—through regional plans—alongside “top-down” issues informed by annual reports by the UK Commission for Employment and Skills.<sup>15</sup> We consider these plans in more detail in Section 3 of this Report. David Cragg, the interim Chief Executive of the Skills Funding Agency, explained that in formulating its policy for further education, the Department would “enshrine in a single priority statement” what the balance should be nationally, regionally and locally.<sup>16</sup>

12. Once the Government’s strategy and budget has been decided, it will be the responsibility of the Chief Executive of the Skills Funding Agency to agree an annual delivery plan with Ministers<sup>17</sup> and for the SFA to deliver on that plan.<sup>18</sup>

13. David Cragg made clear that the statutory role of the Chief Executive of the Skills Funding Agency was to deliver on the guidance and policy of the Secretary of State.<sup>19</sup> Unlike the Learning and Skills Council, the Skills Funding Agency would not respond individually to the nine individual Regional Development Agencies, nor would it respond separately to the UK Commission for Employment and Skills. David Cragg believed that this approach provided a direct link with Government which would provide “much better integration taking on board the big, long-term issues in terms of economic and business priorities as well as some of the spatial and contextual issues which will come bottom up from the regions.”<sup>20</sup>

14. The Department has placed significant emphasis on the delivery function of the SFA. It told us that the Agency would be “customer focused” and would concentrate on “promoting the services it houses to the right customers.”<sup>21</sup> It asserted that this change of emphasis would simplify the administration of further education for both learners and employers, so that each could easily “identify the service which is right for them, rather than the organisation which funds the system.”<sup>22</sup>

15. The Skills Funding Agency will provide these services through what the Department describes as four ‘gateways’:

- Train to Gain—a service available to employers through Businesslink advice, a national database website and local training organisations or, for large employers, from the National Employer Service;

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14 Ev 41-45

15 Q 124

16 Q 124

17 Ev 43-44

18 Q 124

19 Q 124

20 Q 124

21 Ev 42

22 Ev 42

- National Apprenticeship Service—a service available to employers and learners through a national field force, a web-based vacancy matching service and local training organisations;
- Adult Advancement and Careers Service—a service available to people through a national telephone helpline and face-to-face support through sub-contracted expert advice and guidance providers; and
- Direct access to provision—people will continue to have direct access to learning through local colleges and training organisations.<sup>23</sup>

## The Skills Funding Agency: management of further education funding

16. The Skills Funding Agency will deliver the Government’s priorities and objectives for further education within a budget set by the Department.<sup>24</sup> Funding will be managed through a new single account management system and unlike the Learning and Skills Council it will be managed at a national level in order to remove “the current regional variations used in the LSC, which add to bureaucracy”.<sup>25</sup>

17. In general, colleges and training organisations will be allocated a “funding envelope”, with contracts lasting up to three years for the highest performing organisations. The Department argued that:

Within that overall envelope, colleges and training organisations will have the freedom to respond to individual and employer demand, including the demand articulated in regional strategies, drawing-down funding when individuals enrol and complete their courses.<sup>26</sup>

18. The Skills Funding Agency will maintain a list of approved colleges and training organisations to enable them to deliver publicly funded learning.<sup>27</sup> The level of financial autonomy given to those colleges and organisations will depend upon their track record and performance.<sup>28</sup>

19. The highest performing training organisations will be given greater autonomy through what the Department described as “simpler funding and monitoring arrangements, based on proportionate inspection and assurance”.<sup>29</sup> However, those organisations will be under an obligation to provide higher levels of information on their performance so that

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23 Ev 42

24 Ev 43–44

25 Ev 42

26 Ev 42

27 Ev 42

28 Ev 42

29 Ev 42

“employers, learners, funders, commissioners, inspectors and auditors can make good decisions that give them, and their stakeholders, value for money”.<sup>30</sup>

20. SFA funding will be administered by a dedicated Account Manager, assigned to individual colleges or organisations.<sup>31</sup> According to the Department, the Account Manager will manage “all the activity being funded, including Apprenticeships.”<sup>32</sup>

21. In oral evidence Martin Doel, Chief Executive of the Association of Colleges, gave a general welcome to the introduction of Account Manager and reported that “the only conversations that colleges have had regarding the single account manager within the SFA have been positive”.<sup>33</sup> However, he was concerned that it could be undermined by the existence of different account managers operating in a similar fashion in other parts of the funding structure:

There is a single account manager within the SFA, there is also a single account manager within the local authority, there is a single account manager within HEFCE and there is a single account manager when you are dealing with individual businesses that you deal with. That adds up to four, at least, as we begin.<sup>34</sup>

22. The University and College Union also gave a cautious welcome to the creation of Account Managers. It supported the concept of a single point of contact which, it believed, could “cut down at least some of the bureaucracy of the previous LSC-provider relationship.”<sup>35</sup> However, the Union believed there was insufficient clarity on the Account Manager’s role:

We are concerned that the Account Management Teams will be grouped into three portfolio areas, each covering three regions. This may not be the kind of personal single contact that providers were looking to.<sup>36</sup>

23. The management system for funding further education appears to be an improvement on that of the Learning and Skills Council. However, the division of the LSC’s funding responsibilities between the SFA and the YPLA, which we consider in more detail later in this Report, could undermine this positive development.

**24. The single account system has the potential to simplify the administration of funding by introducing national standards for the allocation of resources which were absent under the Learning and Skills Council. However, the fact that funding will no longer come from a single Government source but from two Departments has the potential to seriously undermine any benefits which may accrue from this change.**

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30 Ev 42

31 Ev 42

32 Ev 42

33 Q 41

34 Q 40

35 Ev 109

36 Ev 109

25. Equally, the introduction of SFA Account Managers for individual colleges has the potential to assist colleges and to simplify their contact with the funding bureaucracy. That said, SFA Account Managers have been presented as the single point of contact for colleges and providers. This is not the reality of further education, as colleges already deal with account managers from other organisations, especially Local Authorities. It is vital that SFA Account Managers work in a way that simplifies the process rather than adds to its complexity. We recommend that the Government provide an early update on the effectiveness of this single point of contact for colleges.

## SFA management of the further education capital budget

26. The FE capital programme has been the subject of reports from other select committees. In 2008, the Innovation, Universities, Science and Skills Committee scrutinised the debacle of the LSC's management of capital funding. Its Report concluded that:

there was a catastrophic mismanagement of the LSC capital budget during 2008 and neglect of oversight by those in the most senior positions in the LSC.<sup>37</sup>

27. The Department was at pains to point out that in transferring this role to the SFA it has learned the lessons of the LSC's failure to manage the capital budget. It asserted that it has put in place "robust forecasting models and measures to strengthen the financial management of the programme."<sup>38</sup> As a result, the Department believed that the programme was now on "a firm footing for the future and that the previous problems with the programme will not be repeated."<sup>39</sup>

28. Geoff Russell was appointed Chief Executive of the LSC in the aftermath of that mismanagement. He believed that a major factor behind the problems with LSC management of the capital fund was that while it was "very well placed to deliver money on a regional basis" it was not well placed "to do a rationing exercise with centralised command and control."<sup>40</sup> He explained that when he took over the running of the LSC this was one of the first problems he addressed:

I changed that very quickly. I put one person in charge of it. The budgeting, modelling and decision-making was done by a small team with one person reporting to me and we put in a much improved system of financial control and budgeting."<sup>41</sup>

Geoff Russell will transfer to the SFA on 1 April which will provide the SFA with some much-needed continuity in the oversight of the capital budget. However, the split between the SFA and the YPLA may yet prove to be an equally difficult challenge, as we discuss in more detail later in this Report.

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37 Innovation, Universities, Science and Skills Committee, Seventh Report of Session 2008–09, *Spend, spend, spend? – the mismanagement of the Learning and Skills Council's capital programme in further education colleges*, HC530, para 40

38 Ev 44

39 Ev 44

40 Q 140

41 Q 140

29. We note the Government's assertion that additional controls have been introduced to manage the further education capital budget. It is vital that these new controls stop the possibility of a repeat of the Learning and Skills Council's lamentable mismanagement of the capital budget. We expect the Department to update our successor Committee, on a regular basis, on the management of that budget.

## Complexity in the FE system

### *Delivery functions and partners*

30. The SFA is just one of a number of organisations and agencies which will deliver the Government's strategy and objectives for skills. Our witnesses expressed concerns that problems were likely to arise from complexity of the new arrangements, and in particular the split at 19. We consider these concerns below.

31. Set out below is an extract from a Departmental update on the establishment of the SFA. It details how the new functions and responsibilities will be delivered in the new FE and skills structure.<sup>42</sup>

Function	Now	Post 2010
Responsibility for delivery of targets	Learning and Skills Council	Department for Business, Innovation and Skills
Funding Colleges, providers and NSAs	Learning and Skills Council	Skills Funding Agency
Sponsorship of FE	Department for Business, Innovation and Skills/ Learning and Skills Council	Department for Business, Innovation and Skills
Performance Management	Learning and Skills Council	Department for Business, Innovation and Skills— determining the system Skills Funding Agency, liaising with Young People's Learning Agency on 16-19
Supporting colleges and providers performance	Learning and Skills Council/Learning and Skills Improvement Service	Learning and Skills Improvement Service
Advising on skills needs, including regional skills needs	Learning and Skills Council	UK Commission for Employment and Skills
Determining regional skills requirements	Learning and Skills Council	Skills Funding Agency—in the light of UK Commission for Employment and Skills analysis
Developing regional skills and employment plans	Learning and Skills Council	Skills Funding Agency working with Regional Development Agencies, Regional Skills Partnerships etc

42 Reforms (acronyms have been spelt out in full in this Report)  
[http://tna.europarchive.org/20080821115627/http://www.dius.gov.uk/further\\_education/fe\\_reform/~media/publications/F/FE%20and%20Skills%20System%20](http://tna.europarchive.org/20080821115627/http://www.dius.gov.uk/further_education/fe_reform/~media/publications/F/FE%20and%20Skills%20System%20)

Responding to individual and employer skills needs and providing a efficient and effective support services	Learning and Skills Council with Regional Development Agencies, Regional Skills Partnerships etc	Colleges and providers cooperating with Local Authorities, Education Standards Boards and each other
Working with Local Authorities on Multi Area Agreements	Colleges and providers	Skills Funding Agency
Marketing and Communications	Learning and Skills Council	Department for Business, Innovation and Skills
Regulate qualifications	Learning and Skills Council	Office of Qualifications and Examination Regulation
Provide management information and strategic analysis to inform strategic and commissioning Planning	Qualifications and Curriculum Authority	Skills Funding Agency
Research	Department for Business, Innovation and Skills/ Learning and Skills Council	Department for Business, Innovation and Skills— strategic skills UK Commission for Employment and Skills— managing skills research function
Evaluation	Department for Business, Innovation and Skills/ Learning and Skills Council	Department for Business, Innovation and Skills

32. In its supplementary memorandum, the Department provided further information on the role that would be played by the Department for Business, Innovation and Skills, the UK Commission for Employment and Skills, Sector Skills Councils, Regional Development Agencies, the Skills Funding Agency, Employment and Skills Boards, Local Authorities, Colleges and Training Organisations, Ofqual, the Learning and Skills Improvement Services, Betca<sup>43</sup> and Ofsted.<sup>44</sup> However, that list, despite its length, does not include the Department for Children, Schools and Families, the Young People's Learning Agency or HEFCE, which has a direct influence in a small number of cases.<sup>45</sup>

### ***Simplification?***

33. When we discussed the new structure with our witnesses, those outside of Government were not convinced that the process was being either simplified or streamlined. Martin Doel, Chief Executive of the Association of Colleges, was aware that the range of services provided by colleges and other providers—and the breadth of the skills agenda—meant that any further education structure would have “an inherent complexity”,<sup>46</sup> but argued that it was “very hard to see how the totality of the system will be more streamlined.”<sup>47</sup> This

43 Betca is the government agency leading the national drive to ensure the effective and innovative use of technology throughout learning.

44 See Appendix.

45 See Q138.

46 Q 11

47 Q 4



view was supported by the Local Government Association who believed that the complexity of bodies did not indicate “a streamlining” of the system.<sup>48</sup> Ioan Morgan, representing the Association of Colleges, also questioned the assertion that the new structure would simplify FE provision. He argued that “we do not see this as streamlining, we see it as, potentially, muddying the waters.”<sup>49</sup> These views were only partly tempered by Michael Davis from the UK Commission for Employment and Skills, who believed that in some respects the new system represented an improvement. However, he also noted that further work needed to be done to both streamline the system and to remove unnecessary complexities.<sup>50</sup>

34. Geoff Russell, the incoming Chief Executive of the SFA, acknowledged that retaining the status quo—such as a single organisation along similar lines to the LSC—was a model that the Government could have chosen, and added that the LSC had worked well in that guise when funding was less constrained. However, he argued that it was not a suitable design for times of financial stringency:

It was remarkably well designed at a time when there was a lot of money and it was devolved with nine autonomous regions. That was why it worked even though it was so large. It had nine independent regions. [...] but money began to get tighter and suddenly you could not afford to have nine independent decisions being made with pots of money that would lead to disparities across the country and the LSC needed to change its organisational design very quickly and that is the territory in which we find ourselves now.<sup>51</sup>

He went on to argue that a large single organisation, like the LSC, was unable to react quickly enough, given its size and complexity, to the “changed environment in which we operate”.<sup>52</sup> He concluded that it was “too large to be sufficiently agile to react to changed circumstances in terms of the economy and increasing participation and, therefore, there is a benefit to focus.”<sup>53</sup>

35. The Minister also acknowledged that the system of administration was “incredibly complicated” with a large number of bodies involved in the delivery of further education. However, he believed that the reorganisation of FE funding and policy was designed to address that problem:

One of the themes of what we are trying to do is to find ways to simplify it, but that in itself is complicated. One can simplify things by creating one huge body, which was what the LSC was originally, but sometimes simplification means having a body with a mission that everybody understands rather than just reducing everything into a single body.<sup>54</sup>

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48 Q 4

49 Q 4

50 Q 4

51 Q 116

52 Q 122

53 Q 123

54 Q 154



36. When challenged to list all the organisations involved in the funding, delivery and strategy for skills, the Minister conceded that it was “massively complicated”<sup>55</sup> but asserted that the Government was committed to “reducing the number of bodies involved in the skills world by up to 30.”<sup>56</sup>

**37. The new structure for further education was due to go live on 1 April—shortly after we agreed this Report. It would therefore be premature for us to pass judgement at this time on its ability to deliver a seamless and efficient service. However, the restructuring undertaken by Government has clearly increased the complexity in the system rather than simplified it and there is a danger that this will make it more difficult for the system as a whole to deliver the Government’s objectives, or to meet the expectations of learners and employers.**

**38. We would welcome the realisation of the Government’s commitment to reducing the number of bodies involved in the skills world “by up to 30”, but we are highly sceptical that this will be achieved. Indeed, the current expansion in the number of bodies involved in the skills agenda has been brought about by the Government itself. We recommend that the Government provide us with details on the work it has done to realise this aspiration, together with an indicative list of those bodies it believes it can remove from the system.**

## **The Skills Funding Agency and the Young People’s Learning Agency**

39. At the centre of the concerns about the new structure is the decision to split the work of the Learning and Skills Council into two new organisations, the Skills Funding Agency (SFA) and the Young People’s Learning Agency (YPLA). The SFA will have responsibility for 19+ provision and will be overseen by the Department for Business, Innovation and Skills while the YPLA will have responsibility for 14–19 provision and will report to the Department for Children, Schools and Families.<sup>57</sup> Unlike the SFA, the YPLA will be established as a Non-Departmental Public Body (NDPB) with a remit to support Local Authorities in the discharge of their planning and commissioning functions and to ensure funding and budgetary control within the system.<sup>58</sup> The YPLA will set the budgetary framework but the delivery of that funding will be delegated to Local Authorities (LAs).

40. A number of our witnesses were either critical of this move or confused about the rationale behind it. Martin Doel, Chief Executive of the Association of Colleges, argued that this division of responsibilities was borne out of a false distinction between the skills agenda for 16-19 year olds and the agenda for 19 year olds and older.<sup>59</sup> He believed that there was “precious little logic or demonstrated requirement for the overall design to split the funding groups up”,<sup>60</sup> and concluded that the split owed more to the division of the then Department for Education and Skills into two separate Departments:

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55 Q 154

56 Q 155

57 For further information see [www.dcsf.gov.uk](http://www.dcsf.gov.uk).

58 [http://www.dcsf.gov.uk/14-19/documents/summary\\_new\\_system.pdf](http://www.dcsf.gov.uk/14-19/documents/summary_new_system.pdf)

59 Q 11

60 Q 11

If one were just to take a dispassionate view looking backwards on that, one might go back to the division of the Department for Education and Skills into two departments. It almost all follows, as an ineluctable logic, that you will have two different funding agencies corresponding with two government departments. I do not know if that is the rationale that operated in ministers' minds, but it is very difficult to actually find a trail back to the original decision.<sup>61</sup>

41. The Association of Colleges further asserted that this artificial division would make a complicated further education system “more rather than less confusing” because colleges would now have to work with “two national agencies where there was previously one”.<sup>62</sup>

42. The University and College Union, which represents academic staff in further education, was also wary of this division of responsibilities:

Under the ‘old’ LSC system, colleges faced one bureaucracy and one body that required statistics and returns; they will now need to feed statistics and data to at least two systems. FE colleges could also face dealing with up to five new bureaucracies or ‘sub’ bureaucracies—the SFA, the YPLA, the National Apprenticeship System, the Adult Advancement and Careers Service and the National Employer Service, while meeting the demands of over 140 local authorities. UCU remains sceptical that the stated aim of reducing bureaucracy will be met given the aforementioned system.<sup>63</sup>

43. The 157 Group<sup>64</sup> also described this separation as “extremely unhelpful” and believed that it would “undoubtedly have an impact upon FE providers”.<sup>65</sup> In a similar vein, the Alliance of Sector Skills Councils expressed its concern about the complexity of the new arrangements, in particular the split between the SFA and the YPLA and the handing over of responsibility of pre-19 funding to Local Authorities.<sup>66</sup>

44. In our second evidence session we discussed the working arrangements with Peter Lauener, Chief Executive of the Young People’s Learning Agency, and David Cragg and Geoff Russell, from the SFA.

45. David Cragg acknowledged the concerns of the college representatives and declared that the two agencies would need to be “very closely aligned”.<sup>67</sup> He also was well aware of the fact that a close working relationship between the two was “crucial” to the success of the new structure.<sup>68</sup> Peter Lauener told us that the two bodies already had “done a lot of work to put in place practical arrangements over the past few months” and that those

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61 Q27

62 Ev 51

63 Ev 108

64 The 157 Group consists of 27 of the largest General FE Colleges in England.

65 Ev 112

66 Ev 48

67 Q 102

68 Q 102

arrangements had already begun to be embedded in the two organisations.<sup>69</sup> Geoff Russell also highlighted the importance of these working relationships:

We are inextricably bound because if we do not work together on the funding young people will not have delivery vehicles for their training and education and if the SFA and YPLA do not ensure funding is balanced out in a sensible way colleges fall over.<sup>70</sup>

David Cragg explained that arrangements were underway to ensure that the SFA and the YPLA would benefit from shared services in a number of areas; for example a single source of information management and data on colleges both for “learner information” and finance. Furthermore, he told us that the joint agreements would also be signed with Local Authorities on audit arrangements so that they:

do not duplicate the number of audits that take place. In that regard there will be a code of practice and mutual acceptance of lead audit bodies between local authorities, the Young People’s Learning Agency and the Skills Funding Agency.<sup>71</sup>

46. In explaining the rationale behind the establishment of two agencies, the Minister refuted claims that it was merely a reflection of the different responsibilities of two Government departments.<sup>72</sup> While he gave us a detailed analysis of the logic behind each Agency, we remain unclear as to the need for two separate organisations rather than a single organisation with clear direction and better management.

47. **A key aspect of the new structure is the creation of the Skills Funding Agency and the Young People’s Learning Agency to administer the role previously held by the Learning and Skills Council. These two organisations represent the division of responsibilities between the Department for Business, Innovation and Skills and the Department for Children, Schools and Families, although the existence of different departments is not the justification given for having two agencies. We have grave reservations about the logic or probable effectiveness of having two organisations running further education, given the degree of overlap between the two. We have been given no convincing argument in support of this approach. We are particularly concerned that the need to co-ordinate the work of the SFA and YPLA on many issues of policy, shared services and management will lead to unnecessary long-term costs and bureaucracy.**

48. **We cannot yet come to a conclusion on the efficiency of this approach, because neither the SFA nor the YPLA have a record to judge. However, we urge our successor Committee to monitor closely the relationships between the SFA and the YPLA at an early point in the next Parliament.**

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69 Q 125

70 Q 125

71 Q 125

72 Q 159

### *Funding Streams: the SFA and the YPLA*

49. Our witnesses believed that the impact of the split between the SFA and the YPLA will be most keenly felt in the provision of funding for colleges. The Association of Colleges highlighted the fact that:

the SFA will regulate the 260 further education colleges but will provide less than 50% of their revenue funding. The largest share of College funding will come via local authorities and will be paid for the education of 16-18 year olds.<sup>73</sup>

In a similar vein, Ioan Morgan, Principal of Warwickshire College, highlighted the fact that colleges would not deal with just one Local Authority:

We deal with something like 86 local authorities as a college; we have students from 86 authorities.<sup>74</sup>

50. This point was echoed by the 157 Group which described the two funding streams as “extremely unhelpful” and believed that the separation would “undoubtedly have an impact on FE providers.”<sup>75</sup>

51. The Minister explained that the reorganisation would make the funding system “more flexible”.<sup>76</sup> He gave the following example of how this flexibility would work in practice:

Taking the adult learner-responsive budget, up until now there has been very little flexibility to transfer between different headings within it. If you look at the Skills Investment Strategy document you will see headings like Skills for Life: full level 2, level 3 and level 4, and up until now colleges have had very little leeway to transfer within that. From now on colleges will be able to work freely within the adult learner-responsive section and the employer-responsive section of their budgets, which is the bit to do with employers rather than learners who come to the college.<sup>77</sup>

Furthermore, if a college is judged to be outstanding it would be given even greater flexibility to “work freely within the whole of that picture”.<sup>78</sup>

52. This flexibility has been given a partial welcome from colleges. Ioan Morgan, Principal of Warwickshire College, representing the Association of Colleges, explained its importance:

If we are forced to have money in boxes, principals of trusted colleges have got to be allowed to open those boxes and share that money around to local and regional priorities.<sup>79</sup>

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73 AoC calculations from College accounts and LSC funding allocations.

74 Q 31

75 Ev 112

76 Q 183

77 Q 183

78 Q 183

79 Q 5

53. David Cragg, the interim Chief Executive of the SFA, argued that the new structure would assist in the exploitation of “further opportunities for simplification, for example simplification of budgets which have been excessively complex with lots of ring-fenced blocks”.<sup>80</sup> Geoff Russell, who will succeed David Cragg on 1 April, supported this view. He believed that “it would be crazy for a college to fall over with money in its bank account because it could not use that money to deal with other issues.”<sup>81</sup>

54. When presented with the example of a provider which had to sack staff in one area of adult learning despite the fact that it had under-spends in other areas of adult learning Geoff Russell responded “that is exactly what we are trying to remove. The sector has asked for it and we have committed to doing it in the Skills Investment Strategy”.<sup>82</sup>

55. Martin Doel acknowledged that the Government had made some progress<sup>83</sup> but pointed out that although this new flexibility had been extended to areas such as Adult Responsive Learning and Employer Responsive Learning,<sup>84</sup> it did not extend to managing funding between the SFA and the YPLA. He argued that this was a significant issue for colleges as there was:

no ability to buy money from 16-19 [to] adult provision. Everyone we have talked about so far is just working in the 19-plus. The ability to move money around between those two, effectively, departmental stovepipes is missing.<sup>85</sup>

56. Ioan Morgan believed that if colleges had the ability to move funds between 14–19 provision—provided by the YPLA through Local Authorities—and SFA funding, there would be “a much greater chance of achieving the Leitch targets”.<sup>86</sup> He was strongly of the view that greater autonomy was the answer for colleges:

For heaven’s sake, give us the freedom, give us the tools to get on and deliver for industry and for the social agendas that we can deliver.<sup>87</sup>

57. The Minister was aware that the Association of Colleges wanted greater flexibility, and asserted that colleges were “free to spend [their funding] as they wish according to their managerial judgment.”<sup>88</sup> However, this came with the caveat that colleges “deliver on what they say they will do in relation to numbers of adult learners and young people”.<sup>89</sup>

58. It is clear that the Department has yet to be convinced of the arguments to extend flexibility across YPLA and SFA funding streams, though the Minister did offer some comfort to the Association of Colleges in this area:

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80 Q 132

81 Q 134

82 Q 136

83 Q 44

84 Ev 56

85 Q 44

86 Q 5

87 Q 43

88 Q 183

89 Q 183

I am aware they would like us to go further. Clearly, that will be the direction of travel as more and more colleges gain that outstanding status and are given greater flexibility beyond what is available to all colleges.<sup>90</sup>

**59. Simplification of funding for colleges is a very important objective, so we welcome the steps that the Government has taken to build flexibility into the system. However, we are fully aware that the Government's plans fall short of the expectations of colleges. Not only will they now have separate funding streams from the SFA and the YPLA, they will also have to deal with multiple numbers of Local Authorities. We look to the Government to build on its plans and to introduce greater flexibility in the future, including the ability to transfer funds between Local Authority provision and SFA provision. Should these separate funding streams cause difficulties, we will expect the Government to review the relationship between the SFA and YPLA as a matter of urgency.**

### ***Capital Funding: the SFA and the YPLA***

60. Martin Doel, representing the Association of Colleges, believed that the split between SFA funding and YPLA funding was not a practical solution to the problems which colleges had to address in managing their capital budgets:

You do not, when you are in a college, manage a little building over here that is for the SFA and a little building that is over there for the YPLA, a little bit of the estate for 16-19 year olds, one bit for apprenticeships and one bit for adults. It does not work like that.<sup>91</sup>

61. He continued:

What we have insisted [...] is that we do not have a building that has a YPLA part of the building and an SFA part of the building separately funded. You will need to have a combined capital strategy applying to the college sector, because you will need to combine those funds in order to come together to build a single building. In terms of going forward, therefore, you need a combined capital strategy.<sup>92</sup>

62. Martin Doel told us that he had already made this point to both the Secretaries of State for Business, Innovation and Skills and Children, Schools and Families who had “acknowledged” these concerns.<sup>93</sup>

63. Ioan Morgan also believed that the arrangements for colleges’ capital budgets had been made more complicated. In particular, he was concerned that even if a college’s plans were approved by the SFA, they could now be overruled by a Local Authority that “does not support a particular development linked to 14 to 19”.<sup>94</sup> He described this as “a huge

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90 Q 183

91 Q 11

92 Q 49

93 Q 44

94 Q 51

anomaly” which would allow Local Authorities to intervene and veto colleges’ plans.<sup>95</sup> Councillor Sparks defended the role of Local Authorities in this respect. He believed that the way forward was for all interested parties to “[get] round the table in a local partnership to ensure that everybody is agreed on what the objectives are”.<sup>96</sup>

64. The Department was well aware of these concerns, but asserted that it had addressed them in the working arrangements for SFA planning of capital budgets. It explained that it would publish an overarching single capital strategy for post-16 education and training in England—excluding the higher education sector—in which it would consult with both the Young People’s Learning Agency and the Skills Funding Agency.<sup>97</sup> The FE sector is currently being consulted, through the Association of Colleges’ Capital Task Group, on how future funds should be best allocated and the Department was confident that it will achieve the best possible value for money while at the same time keeping bureaucracy to a minimum.<sup>98</sup>

65. In addition, David Cragg explained that there would be a joint capital strategy between the two Government Departments which would be given effect via a joint implementation strategy between the SFA and the YPLA. He asserted that if the capital project related to further education it would “sit four square with the Skills Funding Agency’s responsibilities” but acknowledged that “a joint approach with Local Authorities that looks at the whole fabric of the post-16 education and training estate” would also be necessary. He told us that arrangements to develop this approach were already being put in place.<sup>99</sup>

**66. The previous mismanagement of the capital fund by the LSC resulted in significant damage and disruption to colleges. Although the Government is confident that it has strengthened oversight of the capital budget, it has also introduced a more complex system, with many more stakeholders. It is vital that the various funding streams which make up a college’s capital budget do not affect a college’s ability to expand or enhance its estate. While we welcome the close working between the YPLA and the SFA we remain deeply concerned that capital funding streams from both organisations, together with Local Authority involvement, just cannot deliver a simplified or efficient system of capital investment for colleges. Indeed, the management of capital budgets at college level has been made significantly more complex.**

## The National Apprenticeship Service

67. The National Apprenticeship Service (NAS) has end-to-end responsibility for Apprenticeships in England. It employs 400 people<sup>100</sup> who provide a dedicated, responsive service for both employers and learners with an additional responsibility to increase the number of apprenticeship opportunities.<sup>101</sup> As part of the restructuring, the NAS will be

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95 Q 51

96 Q 51

97 Ev 44

98 Ev 44

99 Q 143

100 Ev 45

101 <http://www.apprenticeships.org.uk/About-Us/National-Apprenticeship-Service.aspx>



'housed' within the SFA. However, it will have a separate identity and will work independently to the SFA.

68. Geoff Russell told us that while the NAS was located in the SFA, "the authority, responsibility and power for the delivery of apprenticeships" resided with the Chief Executive of the NAS.<sup>102</sup> Furthermore, as Chief Executive of the SFA he will not be responsible for the NAS budget which has also been delegated to the Chief Executive of the Service.<sup>103</sup>

69. When we questioned Geoff Russell about the logic of this move, he responded that it was a "trade-off" between centralised control on the one hand and "specialisation, focus and tailored delivery of a particular product" on the other.<sup>104</sup> David Cragg, the interim Chief Executive of the SFA, believed that the most important factor was that "there is an integrated process for the delivery of the apprenticeship programme".<sup>105</sup> In respect of the SFA and the NAS, he provided the following illustrative division of responsibilities:

The National Apprenticeship Service has the overall externally-facing responsibility for generating demand and managing that relationship in the marketplace. The management of the college and provider network that delivers apprenticeships is absolutely and explicitly in only one place, and only in one place, which is the core of the Skills Funding Agency.<sup>106</sup>

**70. We do not see the logic behind bringing the National Apprenticeship Service within the Skills Funding Agency whilst allowing it to retain its autonomy—including budgetary control. Either the NAS should be part of the delivery service of the SFA or it should be a separate body. We believe that having a separate entity working within the SFA will only add to the already complex structure of further education delivery. It will also pose significant management and accountability issues for the Chief Executive of the SFA which concern us deeply.**

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102 Q 118

103 Q 119

104 Q 120

105 Q 121

106 Q 121



## 3 Skills Strategies

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### Introduction

71. As we set out at the beginning of this Report, the Government's decisions on priorities and objectives for further education will be informed by national and regional plans. The UK Commission for Employment and Skills (UKCES) will advise Government about the future strategic skills needed at the national level, with Regional Development Agencies (RDAs), working in partnership with Local Authority Leader Boards, Sector Skills Councils and others, producing regional skills strategies.

### National Strategic Skills Audit

72. The National Strategic Skills Audit will be prepared for the Department by the UK Commission for Employment and Skills and will be delivered on an annual basis. The first National Strategic Skills Audit, *Skills for Jobs: Today and Tomorrow, The National Strategic Skills Audit for England 2010*, was published on Wednesday 17 March 2010.<sup>107</sup> In it, the UKCES articulated its hope that the Audit would:

help those working in the skills system, employers and individuals not only to respond effectively to current needs, but to be better able to anticipate future requirements, and even to actively shape them.<sup>108</sup>

73. The annual Audits will take a long-term perspective on skills needs; provide clear messages about current and future skills needs in England; identify key drivers of change and important trends; and consider areas for action and direction for the future. Michael Davis, the Director of Strategy and Performance at the UK Commission for Employment and Skills, told us that the Audits would provide “insight and foresight about emerging skills needs for the medium term” and that this would be “informed by the work of Regional Development Agencies, the labour market and the Sector Skills Councils.”<sup>109</sup> He also confirmed that they would assess “the long-term view about where we see future skills opportunities for the labour market and about where there may be mismatches in skills currently”.<sup>110</sup>

74. Once published the Department would use the Audits, along with information on regional skills priorities, to determine its overall skills investment plan, which would in turn be delivered by the Skills Funding Agency.<sup>111</sup> In its memorandum, the Department explained how these Reports would influence funding strategies:

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107 UK Commission for Employment and Skills, *Skills for Jobs: Today and Tomorrow, The National Strategic Skills Audit for England 2010*, March 2010

108 UK Commission for Employment and Skills, *Skills for Jobs: Today and Tomorrow, The National Strategic Skills Audit for England 2010*, March 2010, p 4

109 Q 48

110 Q 60

111 Q 48

the skills priorities identified by the UK Commission for Employment and Skills (UKCES) and set out in the regional strategies will be agreed by BIS and confirmed in the annual ministerial Skills Investment Strategy, against which the Skills Funding Agency will fund colleges and training organisations.<sup>112</sup>

75. Although the UKCES will produce Audits, the Minister confirmed that the policy decisions would be made by Ministers,<sup>113</sup> and made clear that there would be no obligation on Ministers to accept the findings of the Commission.<sup>114</sup> The Minister assured us that the Audits would be taken into account<sup>115</sup> but argued that:

Ultimately, when that information comes to Government then Ministers will need to take decisions on what the priorities should be. It would be perverse not to take decisions based on all the information from a system set up to provide one with it, but as ever there are nuances with any decisions Ministers must take.<sup>116</sup>

## Regional Skills Strategies

76. Regional Skills Strategies will be produced by Regional Development Agencies (RDAs), working in partnership with Local Authorities, with Local Authorities having joint sign-off responsibility for the plans.<sup>117</sup> Through their co-chairing of the Regional Planning Groups, Local Authorities and Regional Development Agencies will be expected to ensure a clear alignment between Local Authority 14–19 provision and the Skills Funding Agency provision of funding.<sup>118</sup>

77. The South East of England Regional Development Agency (SEEDA), the RDA which takes the lead on further education, argued that this new relationship:

provides a significant new opportunity to streamline strategy setting; ensuring skills are embedded in economic development more widely and enabling all partners and stakeholders to contribute through a single process.<sup>119</sup>

78. SEEDA confirmed that in carrying out this role, RDAs would work with the new Skills Funding Agency to ensure the deliverability of regional priorities.<sup>120</sup> However, the LGA was concerned about the involvement of the SFA. It argued that there was a lack of clarity on the role of the SFA, in particular:

how the new Skills Funding Agency will operate below the national level; and

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112 Ev 41

113 Q 197

114 Q 198

115 Q 199

116 Q 197

117 Ev 102

118 Ev 102

119 Ev 100

120 Ev 100

how the Skills Funding Agency will relate to the role of Regional Development Agencies (RDAs).<sup>121</sup>

SEEDA explained that the Regional Development Agencies were already working closely with the shadow Skills Funding Agency on how regional skills priorities could influence the planned spend of the Skills Funding Agency in 2010–11.<sup>122</sup> It went on to say that Regional Development Agencies would work with the UKCES to ensure that the Skills Funding Agency had access to both sectorally and spatially specific data.<sup>123</sup>

79. Both our witnesses from the UKCES and SEEDA were clear that close working between the two on the regional plans and the national strategy would be an important factor in their success. Pam Alexander, Chief Executive of the South East of England Development Agency explained that RDA research would “feed [...] into the work that the UKCES and the Sector Skills Councils are trying to do, as well as using it to drive our own regional skills strategies”.<sup>124</sup>

80. Oona Muirhead, also from the South East of England Development Agency, stressed that there would be a significant level of information exchange between the UKCES and the RDAs:

I would really want to stress that we are all intent on using the same data and evidence and sharing it. This is not about us each producing a strategy based on different evidence from employers, *et cetera*. [...] We are pooling all of this [...] so that we are basing that regional as well as national and local perspective on the same set of evidence and data”.<sup>125</sup>

## Tensions within the skills strategy system?

81. The skills strategies offer the potential to provide Government with much needed evidence-based information on the future skills needs of the UK at both a national and regional level. However, for that to be realised, wide and relevant consultation with interested parties, organisations and business will be a vital component. A number of organisations wrote to us with their concerns about this engagement.

82. The University and College Union gave a cautious welcome to the new responsibilities but was concerned that the system would be “cumbersome and somewhat opaque”.<sup>126</sup> It argued that “a clear communications strategy on the part of the Government, RDAs, the SFA and Local Authorities will be essential and an urgent requirement”.<sup>127</sup> In a similar vein, the Association of Colleges questioned “the viability of such a complicated chain for consultation”.<sup>128</sup> It was also concerned that the relationship between the SFA, RDAs and

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<sup>121</sup> Ev 82

<sup>122</sup> Ev 101

<sup>123</sup> Ev 101

<sup>124</sup> Q 80

<sup>125</sup> Q 81

<sup>126</sup> Ev 110

<sup>127</sup> Ev 110

<sup>128</sup> Ev 109

Local Authorities would vary from region to region which could undermine the delivery of further education:

Some regions are more cohesive entities than others; some are more effective than others. There is a risk that a greater role for RDAs in an already complicated system could slow up decision-making and make it more difficult for Colleges to respond to employer and community demand.<sup>129</sup>

83. Other organisations were concerned about the level of input from colleges and business. The 157 Group warned that involvement by colleges was crucial to the success of the strategies:

Colleges are central to the regional skills strategies and to the proposed single integrated strategies. We would encourage discussion on how FE should be represented at the table.<sup>130</sup>

84. At the same time, the Alliance of Sector Skills Councils was of the view that “listening to the needs of employers will be key to achieving the aims of the Skills Funding Agency”.<sup>131</sup> The Alliance was unconvinced that the new structure would be able to engage with business:

There is a real danger that the new system will be just as complex and baffling as the old one, with too many organisations with overlapping and unclear roles. There are an increasing number of employer-facing organisations working in each region, and this poses significant difficulties for clear and consistent engagement and communication with industry.<sup>132</sup>

Furthermore, the Alliance highlighted its own expertise in Labour Market Intelligence (LMI) which it believed was currently underused by Government. It wanted to see that part of its work used “as a primary resource to inform future planning and funding rounds”.<sup>133</sup>

85. Pam Alexander, Chief Executive of the South East of England Development Agency, was confident that the new approach would be to the benefit of employers and business. She asserted that the RDAs were established to:

represent the business voice and we work with businesses all the time. They are the key players in determining what we see as the business needs that will drive economic development.<sup>134</sup>

SEEDA also acknowledged the importance of drawing on the expertise and knowledge of the FE sector when shaping these skills strategies and priorities.<sup>135</sup>

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129 Ev 52

130 Ev 114

131 Ev 47

132 Ev 48

133 Ev 49

134 Q 91

135 Ev 101

86. The Minister was of the view that it was “absolutely essential” that business had a strong voice through both the Regional Development Agencies and the Sector Skills Councils<sup>136</sup> and that without it “the plans will not be effective”.<sup>137</sup> He also acknowledged that tensions between national and regional priorities were a possibility but asserted that his role was to ensure that the system worked. He told us that he had made clear to the Regional Development Agencies, the Local Government Association and the Sector Skills Councils that they were expected to work together and not propose “special pleading for their particular sectors or the bodies they represent”.<sup>138</sup> Furthermore, he made clear that he was “last resort to resolve any difficulties”.<sup>139</sup>

**87. The national and regional plans produced by the UKCES, the RDAs and Local Authorities have the potential to provide the Department and the SFA with a valuable insight into the skills needs of the UK at a national, regional and local level. However, the structures which have been put in place appear complex and cumbersome. They also appear to be highly concentrated on public sector organisations. It is vital that the views and needs of business are represented to the fullest extent, not just through the Sector Skills Councils, which are also part of the process, or through their involvement with RDAs, but at local level as well. If they are not, then the plans will be of little use to learners, employers or colleges and will not be able to inform the priorities of the Government and the SFA. The Government needs to demonstrate that these plans have the full engagement and support of the business community.**

**88. The Government must also be prepared to move quickly to simplify the process underpinning the national and regional skills plans should the fears of some of the partners in that process be realised and the increased complexity prevent effective delivery of a skills strategy in specific local labour markets.**

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136 Q 201

137 Q 201

138 Q 200

139 Q 200

## 4 Administration of the Change Programme

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### Introduction

89. As part of this inquiry we undertook to scrutinise the way in which Government approached the reorganisation of further education. In this section we consider the involvement of delivery partners in the creation of the SFA, the transitional arrangements which the Department put in place, the management of staff and the costs of the change programme.

### Consultation on the design of the SFA

90. The Department asserted that during the design phase of the SFA, it had worked closely with employers and other partners in the FE sector to ensure that they could “influence the design of the Skills Funding Agency and provide early feedback on the impact of the changes; ensuring services are not compromised.”<sup>140</sup> David Cragg, the interim Chief Executive of the SFA, told us that “there was a good deal of consultation and a series of regionally-based events around the original formulation of the policy.”<sup>141</sup> In addition to these events, oversight of the policy had been led by both the then Department for Innovation, Universities and Skills, and later by the Department for Business, Innovation and Skills through a “fairly broad-ranging stakeholder group” which included the “Local Government Association, nominations from the colleges, the provider sector and senior business people.”<sup>142</sup> In the summer of 2009, when the design of the SFA was in its final iterations, a “whole roadshow of activities”, was led by both Ministers and senior officials.<sup>143</sup> Particular attention had been placed on consultation with the Association of Colleges and the Association of Learning Providers in order to develop what David Cragg described as “intensive working arrangements”.<sup>144</sup> David Cragg concluded that this approach had “significantly improved” the Agency’s relationship with both Associations.<sup>145</sup>

91. Martin Doel, Chief Executive of the Association of Colleges agreed that, in general, the consultation process had been a positive experience and that there had been a determined effort to involve his Association in the design of the SFA. However, he cautioned that while the design of the SFA was important, the need for cultural change in the new Agency should not be underestimated.<sup>146</sup> In a similar vein, both SEEDA and the UKCES appeared to be content with their involvement with the SFA.<sup>147</sup>

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<sup>140</sup> Ev 43

<sup>141</sup> Q 100

<sup>142</sup> Q 110

<sup>143</sup> Q 110

<sup>144</sup> Q 110

<sup>145</sup> Q 110

<sup>146</sup> Q 13

<sup>147</sup> Qq 13–15

92. By contrast, Councillor Sparks, representing the Local Government Association was less impressed. When asked about the LGA's involvement in that consultation he responded "I can report back that councils are reporting that the SFA has not been in touch, in marked contrast to other agencies in relation to this".<sup>148</sup>

93. David Cragg declared himself "amazed" when presented with the LGA's assertion.<sup>149</sup> He explained that, at a senior official level "the LGA was on the steering group for the establishment of the Skills Funding Agency from day one".<sup>150</sup> Not only did he believe that the LGA was consulted, he asserted that it was "very much in the middle of the process".<sup>151</sup> Peter Laueuner stated that the LGA had also been heavily involved in the design of the YPLA structure:

The regional role was clear from the start and that is where we inject the skills and economic dimension to make sure it all adds up. Because 16–19 learners travel a lot we needed a sub-regional level. We did not lay down the design of that; it came from local authorities. They were invited to say what the right grouping was in their areas. The answer was 43 sub-regional groups as it happens.<sup>152</sup>

**94. We welcome the fact that, on the whole, the delivery partners consider that the Government conducted genuine consultation with them in the design stage of the Skills Funding Agency. Although we have serious reservations about the ability of the new structures to deliver a streamlined funding system, we welcome the fact that the Government has sought to engage with its delivery partners at an early stage.**

## Transitional Arrangements

95. Planning for the handover of responsibilities from the LSC to the SFA has been a long time in preparation. In May 2008, a joint Departmental Machinery of Government Programme was established to ensure consistent and co-ordinated implementation of the new structures and processes.<sup>153</sup> A Joint Transition Management Group was also established to "ensure that all of the detailed tasks regarding organisational structures, staff and resourcing for the Skills Funding Agency, Young People's Learning Agency and Local Authorities were completed in a timely, coherent and consistent way".<sup>154</sup>

96. Early in the transition process, it was recognised that in a number of critical areas it would be essential to establish strong joint working arrangements between the Skills Funding Agency and the Young People's Learning Agency. In its memorandum, the Learning and Skills Council argued that this work was "fully scoped" as part of the Transition Plan, and that working arrangements were agreed with those concerned in

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148 Q 15

149 Q 112

150 Q 112

151 Q 113

152 Q 113

153 Ev 42

154 Ev 77

order to “avoid confusion or duplication at provider level, particularly for colleges”. This work included:

- a. Joint capital planning
- b. Performance management including implementation of Framework for Excellence and FE intervention
- c. FE regulation/sponsorship including mergers, federations etc
- d. National Apprenticeship Service 16-18 commissioning in conjunction with Local Authorities.<sup>155</sup>

97. In September 2009, a ‘shadow’ SFA was established to work in parallel to the LSC.<sup>156</sup> The Department argued that this “lead-in time” has allowed the Agency to begin work on “embedding the new system and culture” which would enable the SFA to be fully functional “from day one.”<sup>157</sup>

98. In its memorandum, the Learning and Skills Council asserted that despite the “complex and challenging” nature of the transition programme it had proved to be a success and had delivered “many positive outcomes”.<sup>158</sup> Furthermore, it was confident that learners, employers and colleges and providers had not experienced any interruption of service during the transition”.<sup>159</sup> The Department cited two Office of Government Commerce (OGC) reviews as evidence of the success of the transition process:

the last one in Summer 2009 confirmed that the programme was well on track and received an amber green rating. Since then, the programme has assessed the set up of the Skills Funding Agency (and the Young People’s Learning Agency (YPLA)) against the good practice criteria developed by the National Audit Office, this showed that the Skills Funding Agency and the YPLA are both on track to be fully operational by the end of March 2010.<sup>160</sup>

99. When asked if the SFA was in a position to deliver on 1 April 2010, David Craig asserted that the SFA was “absolutely up to speed and on track”.<sup>161</sup> In general, this view was shared by our witnesses representing the delivery organisations. Oona Muirhead, Executive Director for Strategy and Resources, South East of England Development Agency was confident that the transition from the LSC to the new structures would not be problematic. In particular, she asserted that SEEDA had its arrangements “well in hand” and that the transition was “going pretty smoothly”.<sup>162</sup> A similar view was given by Councillor Sparks

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155 Ev 80

156 Ev 78

157 Ev 43

158 Ev 77

159 Ev 77

160 Ev 43

161 Q 100

162 Q 28



who told us that, in relation to the LGA's involvement with the DCSF, reports from local authorities on preparedness had been "satisfactory".<sup>163</sup>

100. The Association of Colleges agreed that the handover of responsibilities from the LSC to the SFA on 1 April would be a "relatively smooth event". However, the Association's Chief Executive, Martin Doel, believed that the acid test for the Skills Funding Agency would not be its formal creation on 1 April but in the following year when it would, for the first time, deliver the Government's funding arrangements for further education.<sup>164</sup>

101. Despite the general view that the handover would be smooth, Ioan Morgan, Principal of Warwickshire College, representing the Association of Colleges highlighted one particular area of concern, that of payments to colleges on 1 April, which he asserted had been given "fairly late consideration".<sup>165</sup> Peter Lauener acknowledged that payments to colleges were an immediate concern but remained "absolutely confident" that they would be made.<sup>166</sup> Furthermore, he was well aware that it was extremely important in terms of reputation that all payments were made on time,<sup>167</sup> and that any mistake would become a "cause célèbre".<sup>168</sup>

**102. We welcome the confidence of both the Government and the delivery partners that the handover of responsibility to the SFA on 1 April will run smoothly. However, mistakes and errors at the outset have the potential to undermine confidence in the new structures. We expect the SFA to update our successor Committee on its experience of the handover early in the new Parliament.**

## Costs of transition

103. In May and October, the Department wrote to the Public Bill Committee scrutinising the Apprenticeships, Skills, Children and Learning Bill with updates on the costs of transition from the LSC to the new structure. In May, the Department told that Committee that the Department's expectation was that "the transfer to the new arrangements would be cost neutral".<sup>169</sup> This was followed-up in October when the Department stated that:

the costs of running the new arrangement will be cost-neutral with an indicative administrative cost budget set at the same level as the LSC currently operates within.<sup>170</sup>

104. In addition to this, the Department told us that it also intended to make efficiency and value for money savings through a range of services which will be shared by a range of organisations:

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163 Q 31

164 Q 29

165 Q 30

166 Q 107

167 Q 108

168 Q 109

169 Letter to Public Bill Committee, May 2009

170 Letter to Public Bill Committee, October 2009

For example, the Skills Funding Agency will be responsible for delivering the following shared services to the Young People's Learning Agency: HR, facilities and internal IM requirements. The Skills Funding Agency will also deliver a range of sector wide services which will support further efficiencies. These include the FE data service which collects, disseminates and reports on FE data, the learner registration service which assigns the unique learner number enabling the 14-19 diploma and the Qualifications and Credit Framework, and the Framework for Excellence which measures the performance of colleges and training organisations.<sup>171</sup>

The Department also asserted that the costs associated with the restructuring would be met from “within current LSC, BIS and DCSF resources with some re-prioritisation”.<sup>172</sup> The Minister explained that this “re-prioritisation” would involve budgets being moved away from funding repeat qualifications for adults towards funding of first qualifications for adults.<sup>173</sup>

**105. We note that the “re-prioritisation” of adult education is not without its own significant consequences and has involved some painful choices for FE colleges. While we appreciate that, in a tough climate for public spending, difficult choices must be made, we are not convinced that, in a rapidly changing world where the Government seeks an increasingly flexible labour market, it is right to pay for bureaucratic change by denying many adults the new skills they need to meet the challenges of that world.**

106. In addition to this, the Department stated that it expected to achieve cost savings in the next few years following a reduction in the LSC estate from 50 buildings down to 21.<sup>174</sup> Those savings, we were told, would be “used to support [the Government’s] reforms and deliver significant benefits to learners and employers”.

107. The Minister acknowledged that the Department had incurred transition costs, which were estimated at £3 million to standardise transfer terms to Local Authorities; £2–3 million for pensions; and £36.8 million for premises.<sup>175</sup> He also confirmed that these costs would be met from existing budgets,<sup>176</sup> and that the new structures would be “cost neutral for the Exchequer”.<sup>177</sup>

108. The Minister confirmed that savings would be made from the reduction in the size of the LSC estate.<sup>178</sup> In a supplementary memorandum the Department estimated that it expected to generate approximately £17 million in annual savings from the rationalisation

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171 Ev 43

172 Ev 43

173 Q 174

174 Ev 43

175 Ev 45

176 Ev 45

177 Ev 45

178 Q 178

of premises, IT and shared services, and streamlined contracting and data collection processes.<sup>179</sup>

**109. The Department is confident that not only will the transition process be cost-neutral but that the new structure will make year-on-year savings. The transition process will conclude on 1 April. We are deeply sceptical that the creation of two agencies to replace one can possibly achieve long-term cost savings. We recommend that the Department, at the earliest opportunity, provide our successor Committee with a full breakdown of the costs of transition together with confirmation that these costs were borne out of existing budgets. This breakdown should also include an assessment of any additional costs imposed on Local Authorities and on individual colleges, both transitional and on-going.**

## Staffing

110. The Learning and Skills Council employed around 3,330 members of staff.<sup>180</sup> A significant amount of planning was undertaken to transfer this workforce to the SFA, YPLA and other organisations. In a supplementary memorandum the Department set out how the staff would be relocated:

DIUS and DCSF Ministers have agreed an overall staffing need of some 3,300 for the new 16-19 and post-19 systems. These numbers are in line with existing LSC staffing levels and reaffirms our commitment to retain the expertise of LSC staff in the new arrangements wherever possible.

We expect around 1,000 posts to transfer to local authorities, 500 to be in the YPLA and 1,800 to be in the Skills Funding Agency including 400 posts in the National Apprenticeship Service.

Since then, as part of the new role for RDAs in regional strategic skills, over 50 posts have been transferred to them.<sup>181</sup>

111. In written evidence LSC set out in detail how it managed the transfer of staff from the LSC to these organisations. Its Transition Plan, endorsed by both the Department for Business, Innovation and Skills and the Department for Children, Schools and Families, set out the principles which would be adhered to throughout the process. This approach sought to maximise the retention of LSC staff and their expertise.<sup>182</sup>

112. There were four phases of the transition:

Phase 1, matching functional blocks within the LSC to be transferred to other organisations.

Phase 2, matching individual posts to the new structures. This included individuals being matched to available roles.

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179 Ev 45

180 Ev 45

181 Ev 45

182 Ev 78

Phase 3, review of individual matching and review process.

Phase 4, confirmation of individuals' new positions and posts.

The LSC concluded that the process was successful with the overwhelming majority of LSC staff now confirmed "in a post in the Skills Funding Agency, the Young People's Learning Agency, a Local Authority or other organisation".<sup>183</sup>

113. The Department explained that in reallocating staff, it was "clear that we were not seeking to make staffing reductions at the same time as implementing this complex change".<sup>184</sup> The Minister confirmed that the restructuring "was not designed to lead to staff reductions but to place all of those people within the current system in the new one."<sup>185</sup> However, he went on to say that "having got to this stage, obviously all the organisations will have to look from here on in at the administrative savings that can be made now they have been put in place."<sup>186</sup>

**114. We recognise the benefits of retaining experienced and specialist staff within the further education structure. However, given the level of shared services in the new structure, we are surprised that the reorganisation of further education did not deliver a solitary reduction in overall staffing levels. The Government has confirmed that administrative savings will be made in the future and we recommend that it provides our successor Committee with an early update on proposals for those savings early in the next Parliament.**

### ***A change of culture***

115. A number of our witnesses regarded the approach taken by staff in the new organisations as being vital to the success of the new Agency. In particular, they highlighted the need for a "culture change" in approach. Martin Doel recognised the fact that there was a demonstrable effort at the top to change but added that instilling that change throughout the Agency would be more difficult to achieve.<sup>187</sup> He believed this to be a crucial aspect of the new Agency, "I would not underestimate the degree of cultural change that is required in some of the people involved in the process".<sup>188</sup>

116. Pam Alexander from SEEDA also recognised the need for a change in approach

of course, there are always barriers to culture shifting, but the directing of the funding, the traction that the different objectives has on the funding and the targets about the outcomes will be what, at the end of the day, drives culture to change".<sup>189</sup>

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183 Ev 79

184 Ev 45

185 Q 181

186 Q 181

187 Q 13

188 Q 13

189 Q 35

117. However, Councillor Sparks was less enthusiastic. He described the SFA in the following terms:

It might be a different flavour, it might be in a different bottle, but it is the same building and virtually the same people. What has changed?<sup>190</sup>

**118. It is clear from our witnesses that for the new Agency to be successful there will need to be a significant change in its culture, and in its staff's engagement with colleges. We welcome the Association of College's endorsement of a change in approach at the top of the organisation. Equally we recognise that this needs to be forced through the entire organisation.**

## 5 Conclusion

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119. In this short, focused inquiry we have considered the new structures which the Government has put in place to administer further education. While the transition from the Learning and Skills Council to the Skills Funding Agency appears to have been well managed, the result has been the creation of an even more complex structure. The relationships and lines of communication between the large number of delivery partners with oversight by two Government Departments will need to be closely managed and monitored. “Hiding the wiring” of such a large bureaucracy from those it serves is going to be a challenging task for all concerned. It must never be forgotten that complexity and repeated organisational change almost inevitably deter the users of any public service, and this is especially true of those most in need of help from those services, in this case learners and smaller businesses.

120. We wish the new system success, but have grave concerns that the increased complexity may prove to be both cumbersome and unwieldy. Ultimately the success of the SFA and its ability to deliver the demand-led service for adult skills will be judged not on the efficiency of the component parts of the new structure but on the ability of colleges to provide a responsive service to learners and business.

121. The fact that the reorganisation appears to owe more to changes in the Machinery of Government—the separation of education between two Government Departments—than to any inherent logic or desirability gives us particular cause for concern. The two new organisations may work perfectly well but the unanswered question will be whether it would not have been preferable from the point of view of the people and organisations that really matter in all this—colleges, learners and businesses—to stick with the devil they knew, which was the Learning and Skills Council.

## Conclusions and recommendations

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1. The single account system has the potential to simplify the administration of funding by introducing national standards for the allocation of resources which were absent under the Learning and Skills Council. However, the fact that funding will no longer come from a single Government source but from two Departments has the potential to seriously undermine any benefits which may accrue from this change. (Paragraph 24)
2. Equally, the introduction of SFA Account Managers for individual colleges has the potential to assist colleges and to simplify their contact with the funding bureaucracy. That said, SFA Account Managers have been presented as the single point of contact for colleges and providers. This is not the reality of further education, as colleges already deal with account managers from other organisations, especially Local Authorities. It is vital that SFA Account Managers work in a way that simplifies the process rather than adds to its complexity. We recommend that the Government provide an early update on the effectiveness of this single point of contact for colleges. (Paragraph 25)
3. We note the Government's assertion that additional controls have been introduced to manage the further education capital budget. It is vital that these new controls stop the possibility of a repeat of the Learning and Skills Council's lamentable mismanagement of the capital budget. We expect the Department to update our successor Committee, on a regular basis, on the management of that budget. (Paragraph 29)
4. The new structure for further education was due to go live on 1 April—shortly after we agreed this Report. It would therefore be premature for us to pass judgement at this time on its ability to deliver a seamless and efficient service. However, the restructuring undertaken by Government has clearly increased the complexity in the system rather than simplified it and there is a danger that this will make it more difficult for the system as a whole to deliver the Government's objectives, or to meet the expectations of learners and employers. (Paragraph 37)
5. We would welcome the realisation of the Government's commitment to reducing the number of bodies involved in the skills world "by up to 30", but we are highly sceptical that this will be achieved. Indeed, the current expansion in the number of bodies involved in the skills agenda has been brought about by the Government itself. We recommend that the Government provide us with details on the work it has done to realise this aspiration, together with an indicative list of those bodies it believes it can remove from the system. (Paragraph 38)
6. A key aspect of the new structure is the creation of the Skills Funding Agency and the Young People's Learning Agency to administer the role previously held by the Learning and Skills Council. These two organisations represent the division of responsibilities between the Department for Business, Innovation and Skills and the Department for Children, Schools and Families, although the existence of different departments is not the justification given for having two agencies. We have grave

reservations about the logic or probable effectiveness of having two organisations running further education, given the degree of overlap between the two. We have been given no convincing argument in support of this approach. We are particularly concerned that the need to co-ordinate the work of the SFA and YPLA on many issues of policy, shared services and management will lead to unnecessary long-term costs and bureaucracy. (Paragraph 47)

7. We cannot yet come to a conclusion on the efficiency of this approach, because neither the SFA nor the YPLA have a record to judge. However, we urge our successor Committee to monitor closely the relationships between the SFA and the YPLA at an early point in the next Parliament. (Paragraph 48)
8. Simplification of funding for colleges is a very important objective, so we welcome the steps that the Government has taken to build flexibility into the system. However, we are fully aware that the Government's plans fall short of the expectations of colleges. Not only will they now have separate funding streams from the SFA and the YPLA, they will also have to deal with multiple numbers of Local Authorities. We look to the Government to build on its plans and to introduce greater flexibility in the future, including the ability to transfer funds between Local Authority provision and SFA provision. Should these separate funding streams cause difficulties, we will expect the Government to review the relationship between the SFA and YPLA as a matter of urgency. (Paragraph 59)
9. The previous mismanagement of the capital fund by the LSC resulted in significant damage and disruption to colleges. Although the Government is confident that it has strengthened oversight of the capital budget, it has also introduced a more complex system, with many more stakeholders. It is vital that the various funding streams which make up a college's capital budget do not affect a college's ability to expand or enhance its estate. While we welcome the close working between the YPLA and the SFA we remain deeply concerned that capital funding streams from both organisations, together with Local Authority involvement, just cannot deliver a simplified or efficient system of capital investment for colleges. Indeed, the management of capital budgets at college level has been made significantly more complex. (Paragraph 66)
10. We do not see the logic behind bringing the National Apprenticeship Service within the Skills Funding Agency whilst allowing it to retain its autonomy—including budgetary control. Either the NAS should be part of the delivery service of the SFA or it should be a separate body. We believe that having a separate entity working within the SFA will only add to the already complex structure of further education delivery. It will also pose significant management and accountability issues for the Chief Executive of the SFA which concern us deeply. (Paragraph 70)
11. The national and regional plans produced by the UKCES, the RDAs and Local Authorities have the potential to provide the Department and the SFA with a valuable insight into the skills needs of the UK at a national, regional and local level. However, the structures which have been put in place appear complex and cumbersome. They also appear to be highly concentrated on public sector organisations. It is vital that the views and needs of business are represented to the



fullest extent, not just through the Sector Skills Councils, which are also part of the process, or through their involvement with RDAs, but at local level as well. If they are not, then the plans will be of little use to learners, employers or colleges and will not be able to inform the priorities of the Government and the SFA. The Government needs to demonstrate that these plans have the full engagement and support of the business community. (Paragraph 87)

12. The Government must also be prepared to move quickly to simplify the process underpinning the national and regional skills plans should the fears of some of the partners in that process be realised and the increased complexity prevent effective delivery of a skills strategy in specific local labour markets. (Paragraph 88)
13. We welcome the fact that, on the whole, the delivery partners consider that the Government conducted genuine consultation with them in the design stage of the Skills Funding Agency. Although we have serious reservations about the ability of the new structures to deliver a streamlined funding system, we welcome the fact that the Government has sought to engage with its delivery partners at an early stage. (Paragraph 94)
14. We welcome the confidence of both the Government and the delivery partners that the handover of responsibility to the SFA on 1 April will run smoothly. However, mistakes and errors at the outset have the potential to undermine confidence in the new structures. We expect the SFA to update our successor Committee on its experience of the handover early in the new Parliament. (Paragraph 102)
15. We note that the “re-prioritisation” of adult education is not without its own significant consequences and has involved some painful choices for FE colleges. While we appreciate that, in a tough climate for public spending, difficult choices must be made, we are not convinced that, in a rapidly changing world where the Government seeks an increasingly flexible labour market, it is right to pay for bureaucratic change by denying many adults the new skills they need to meet the challenges of that world. (Paragraph 105)
16. The Department is confident that not only will the transition process be cost-neutral but that the new structure will make year-on-year savings. The transition process will conclude on 1 April. We are deeply sceptical that the creation of two agencies to replace one can possibly achieve long-term cost savings. We recommend that the Department, at the earliest opportunity, provide our successor Committee with a full breakdown of the costs of transition together with confirmation that these costs were borne out of existing budgets. This breakdown should also include an assessment of any additional costs imposed on Local Authorities and on individual colleges, both transitional and on-going. (Paragraph 109)
17. We recognise the benefits of retaining experienced and specialist staff within the further education structure. However, given the level of shared services in the new structure, we are surprised that the reorganisation of further education did not deliver a solitary reduction in overall staffing levels. The Government has confirmed that administrative savings will be made in the future and we recommend that it

provides our successor Committee with an early update on proposals for those savings early in the next Parliament. (Paragraph 114)

18. It is clear from our witnesses that for the new Agency to be successful there will need to be a significant change in its culture, and in its staff's engagement with colleges. We welcome the Association of College's endorsement of a change in approach at the top of the organisation. Equally we recognise that this needs to be forced through the entire organisation. (Paragraph 118)

# Appendix: Delivery partners in further education

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## The Department for Business, Innovation and Skills (BIS)

- Determine overall investment and priorities.
- Determine performance system (Framework for Excellence).
- Meet the Skills Public Service Agreement.
- Sponsorship of colleges and training organisations and their contribution to Department for Children, Schools and Families targets.

## The UK Commission for Employment and Skills

- Advise BIS on the current and future skills needs of the country, including what is identified in the Single Integrated Regional Strategies.
- Monitor and challenge Government performance on employment and skills.
- Manage the Further Education and Skills Research Function.
- Manage Sector Skills Councils and ensuring their effectiveness.
- Advise on Sector Skills Council relicensing.

## Sector Skills Councils

- Determine the skills required within their vocational area.
- Raise employer engagement with, demand for, and investment in skills.

## Regional Development Agencies

- Work with employers, local authorities, sector skills councils, Jobcentre Plus and all other relevant sources to identify demand at the regional, sub regional and local level.
- Produce Single Integrated Regional Strategies incorporating skills priority statements.
- Ensure that sub-regions and city-regions are able to shape policy in line with their own priorities.
- Spearhead multi-agency action to identify and resolve mismatches in the demand for, and supply of, skills.

- Be an advocate for skills. Actively engage with employers to raise their demand for, and investment in, skills (e.g. through the Skills Pledge).
- Manage the Skills brokerage service.

### Skills Funding Agency

- Fund colleges and training organisations through a Single Account Management System.
- Lead and provide customer focused services and underpinning systems. (e.g. Train to Gain, the National Employer Service, the National Apprenticeship Service and the Adult Advancement and Careers Service)
- Design and manage the underpinning systems for funding, settlement, data collection and exchange etc.

### Employment & Skills Boards

- Set the strategy for delivery of adult (post-19) skills in their area, taking into account key national priorities in *Skills for Growth* and other relevant strategies, such as the Single Integrated Regional Strategy.
- Actively engage with employers to raise their demand for, and investment in, skills.
- Provide feedback to Skills Funding Agency assessing how well the skills and employment system is responding to employer demand in its area.

### Local Authorities

- Statutory responsibility for assessing the economic needs of their areas, including skills and employment.
- Convene local area agreements, bringing together the action of other public bodies and colleges.

### Colleges and Training Organisations

- Meet the requirements of learners and employers.
- Collaborate with relevant bodies and each other to respond to demand.
- Collaborate with each other to provide a range of support services to the sector, including peer assessment, staff development programmes, shared services and improved procurement.

### Ofqual

- Regulate the qualifications offer.

**Learning and Skills Improvement Service**

- Support college and training organisations performance and facilitate self regulation (owned by the bodies it supports).

**Becta**

- Champion use of technology to support learning.

**Ofsted**

- Provide an independent view of college and training organisation performance.

# Formal Minutes

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**Tuesday 30 March 2010**

Members present:

Peter Luff, in the Chair

Roger Berry

Mr Brian Binley

Mr Michael Clapham

Miss Julie Kirkbride

Ian Stewart

Mr Anthony Wright

Draft Report (*The Skills Funding Agency and further education funding*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 121 read and agreed to.

Summary agreed to.

A paper was appended to the Report as an Appendix.

*Resolved*, That the Report be the Tenth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

Written evidence was ordered to be reported to the House for printing with the Report

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till a time and a date to be fixed by the Chair.]

## Witnesses

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### Tuesday 2 February 2010

Page

**Mr Martin Doel**, Chief Executive, and **Mr Ioan Morgan**, Principal of Warwickshire College, Association of Colleges, **Councillor David Sparks**, Chairman, LGA Regeneration and Transport Board, Local Government Association, **Ms Pam Alexander**, Chief Executive, and **Ms Oona Muirhead**, Executive Director for Strategy and Resources, South East England Development Agency, and **Mr Michael Davis**, Director of Strategy and Performance, UK Commission for Employment and Skills

Ev 1

### Tuesday 9 February 2010

**Mr Peter Lauener**, Chief Executive, Young People's Learning Agency, and **Mr David Cragg**, Chief Executive (interim) and **Mr Geoff Russell**, Chief Executive (from 1 April 2010), Skills Funding Agency

Ev 21

**Mr Kevin Brennan MP**, Minister for Further Education, Skills, Apprenticeships and Consumer Affairs, Department for Business, Innovation and Skills

Ev 31

## List of written evidence

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Page

1	Department for Business, Innovation and Skills (BIS)	Ev 41, 45
2	Alliance of Sector Skills Councils	Ev 47
3	Association of Colleges	Ev 50, 56
4	Association of Learning Providers	Ev 57
5	A4e Ltd	Ev 59
6	Catch22	Ev 63
7	Chartered Institute of Personnel and Development (CIPD)	Ev 65
8	ConstructionSkills	Ev 69
9	East of England Regional Assembly	Ev 72
10	EEF	Ev 73
11	Energy and Unity Skills	Ev 76
12	Federation of Small Businesses	Ev 76
13	Learning and Skills Council	Ev 77
14	Local Government Association	Ev 81
15	London Borough of Newham	Ev 83
16	London Skills and Employment Board	Ev 84
17	National Union of Students (NUS)	Ev 87
18	Remit Group	Ev 89
19	SCOPE	Ev 93
20	South East England Development Agency (on behalf of the English Regional Development Agencies)	Ev 99
21	TUC	Ev 103

- 22 University and College Union
- 23 157 Group

Ev 107  
Ev 112



# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2009–10

First Report	The Creation of the Department for Business, Innovation and Skills and the Departmental Annual Report 2008–09	HC 160
Second Report	Committee Annual Report 2008–09	HC 195
Third Report	Exporting out of recession	HC 266
Fourth Report	Broadband	HC 72
Fifth Report	Pub Companies: follow-up	HC 138
Sixth Report	Full speed ahead: Maintaining UK excellence in motorsport and aerospace	HC 173
Seventh Report **	Scrutiny of Arms Export Controls (2010): UK Strategic Export Controls Annual Report 2008, Quarterly Reports for 2009, licensing policy and review of export control legislation	HC 202
Eighth Report	Pub companies: follow-up: Government Response to the Committee's Fifth Report of Session 2009–10	HC 503
Ninth Report	Mergers, acquisitions and takeovers: the takeover of Cadbury by Kraft	HC 234

## Session 2008–09

First Report	Energy policy: future challenges	HC 32 (HC 317)
Second Report*	Pre-appointment hearing with the Chairman-elect of Ofcom, Dr Colette Bowe	HC 119
Third Report	Work of the Committee in 2007–08	HC 175
Fourth Report	Regional development agencies and the Local Democracy, Economic Development and Construction Bill	HC 89 (Cm 7463)
Fifth Report	The Postal Services Bill	HC 172 (Cm 7623)
Sixth Report	The Insolvency Service	HC 198 (HC 919)
Seventh Report	Pub Companies	HC 26
Eighth Report	Post Offices—securing their future	HC 371 (HC 1002)

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\*\* First Joint Report of Committee's on Arms Export Controls

\* First Joint Report with Culture, Media and Sport Committee

Ninth Report	Automotive Assistance Programme	HC 550 (Cm 7706)
Tenth Report	Enterprise Finance Guarantee scheme	HC 588
Eleventh Report	Risk and Reward: sustaining a higher value-added economy	HC 746
Twelfth Report **	Scrutiny of Arms Export Controls (2009): UK Strategic Export Controls Annual Report 2007, Quarterly Reports for 2008, licensing policy and review of export control legislation	HC 178

### Session 2007–08

First Report	The work of the Committee in 2007	HC 233
Second Report	Jobs for the Girls: Two Years On	HC 291 (HC 634)
Third Report	Post Office Closure Programme	HC 292
Fourth Report	Funding the Nuclear Decommissioning Authority	HC 394 (HC 994)
Fifth Report	Waking up to India: Developments in UK-India economic relations	HC 209(HC 1006)
Sixth Report	After the Network Change Programme: the future of the post office network	HC 577 (HC 1091)
Seventh Report	Keeping the door wide open: Turkey and EU accession	HC 367 (HC 1070)
Eighth Report **	Scrutiny of Arms Export Controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Ninth Report	Construction matters	HC 127 (HC 1187)
Tenth Report	Post Office finance: matters arising from evidence taken on 10 June 2008	HC 662
Eleventh Report	Energy prices, fuel poverty and Ofgem	HC 293 (HC 1069)
Twelfth Report	Post Office Card Account: successor arrangements	HC 1052
Thirteenth Report	Companies House	HC 456 (HC 206 Session 2008–09)
Fourteenth Report	Departmental Annual Report and Scrutiny of the Department for Business, Enterprise and Regulatory Reform	HC 1116

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\*\* First Joint Report of Committee's on Arms Export Controls

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# Oral evidence

## Taken before the Business, Innovation and Skills Committee on Tuesday 2 February 2010

Members present:

Peter Luff, in the Chair

Roger Berry  
Mr Brian Binley  
Mr Michael Clapham  
Mr Lindsay Hoyle

Miss Julie Kirkbride  
Lembit Opik  
Ian Stewart  
Mr Anthony Wright

*Witnesses:* **Mr Ioan Morgan**, Principal of Warwickshire College, and **Mr Martin Doel**, Chief Executive, Association of Colleges, **Councillor David Sparks**, Chairman, LGA Regeneration and Transport Board, Local Government Association, **Ms Pam Alexander**, Chief Executive, and **Ms Oona Muirhead**, Executive Director for Strategy and Resources, South East England Development Agency, and **Mr Michael Davis**, Director of Strategy and Performance, UK Commission for Employment and Skills, gave evidence.

**Q1 Chairman:** Welcome to this first of two evidence sessions into the Committee's inquiry essentially into further education funding in a new world but also into the delivery role for local government and Regional Development Agencies. You are quite an unwieldy panel, and I apologise for that, but we thought it best, as there will be moments when you have some differences of emphasis, that you were able to explore ideas together in a group. That may mean you each get slightly less time, but I hope we will actually gain more from the overall process. This is a short inquiry perforce because of the timing of the General Election, which is imminent, and I am very conscious of the fact that we are not inviting in the employers and the employees in the shape of the various Sector Skills Councils, we are not asking Work-based Learning Providers either. There are a number of people we would like to have had in, but we have had a lot of written evidence, which we are very grateful for. It would have been quite nice to have had some from the Commission. I know you offered some last week, but it would have been helpful. All the rest of you, thank you for your written submissions, the three of you, which we appreciate, and we will take full account of the written submissions in addition to the oral evidence. This is to test some of the ideas in public and get a flavour. Can I ask the usual question I ask on these occasions, which is to introduce yourselves briefly, starting from my left, your right, and as you describe who you are can you just say, briefly, what your role is going to be in skills delivery in the new world from April?

**Ms Muirhead:** My name is Oona Muirhead. I am from the South East England Development Agency. I am the Executive Director for Strategy and Resources. My role is presently to lead on behalf of the Regional Development Agencies in our lead role for skills—we co-ordinate across the regions—and, in the future, my role will be to bring together the regional Skills Strategy and the priorities out of that for skills providers.

**Ms Alexander:** Pam Alexander; I am Chief Executive of SEEDA, so I represent all of the nine RDAs on skills and innovation as well as, of course,

managing SEEDA in my own region.

**Mr Davis:** I am Michael Davis; I am the Director of Strategy and Performance from the UK Commission for Employment and Skills. We are a strategic advisory body. Our remit is to advise the UK Government on progress towards becoming a world-class nation in employment and skills and to review and advise on policies where remitted to do so.

**Mr Doel:** Martin Doel, Chief Executive of the Association of Colleges. The Association exists in order to represent the interests of colleges, those colleges being sixth-form colleges, general further education colleges and specialist colleges, which between them represent the majority provider of skills provision within England, Wales and Northern Ireland.

**Mr Morgan:** I am Ioan Morgan; I am Principal and Chief Executive of Warwickshire College, which straddles Warwickshire and part of Worcestershire, and we deliver a range of activity across all levels, including further education, higher education and we work very closely with major companies like Jaguar, Land Rover and Rolls-Royce, Aerospace.

**Councillor Sparks:** I am David Sparks; I chair the Regeneration and Transport Board at the Local Government Association. Our role in this particular area is that we look upon skills as being a key component of regeneration and we involve what is now 423 local authorities in England and Wales, and I am a Dudley councillor.

**Q2 Chairman:** Councillor Sparks, I know you are speaking for the whole LGA today, but just out of interest, where do you actually come from?

**Councillor Sparks:** Dudley.

**Q3 Chairman:** Excellent. We are very pleased to hear that.

**Councillor Sparks:** I am actually from Warrington originally.

**Chairman:** Thank you very much. That helps. Ian Stewart.

**Ian Stewart:** Good morning. The Government argues that the new structures will streamline the skills delivery process. Do you agree?

**Q4 Chairman:** I think we will have each of you on that one.

**Ms Alexander:** Could I start then, because I think the representation of the Regional Development Agencies here is as the business voice in relation to skills demand. Driving up the skills element of economic development is central to competitiveness and productivity and, therefore, we see it as very helpful that we are able to work with the Skills Funding Agency as it is coming into being to look at demand driving skills provision in the future from an employer's perspective, and clearly that has to be balanced with the individual demand for skills and the providers' ability to meet those skills. We do see that the new system has real opportunities to drive that bottom up from local needs and, in terms of long-term needs, looking at the strategic skills needs of the sectors which will drive up growth. We believe there is a real opportunity for streamlining and for making much clearer to businesses—who find the system extremely complex—how they can access the skills that they need for the future.

**Mr Doel:** I think individual elements of the system may be streamlined, and processes within it, but it is very hard to see how the totality of the system will be more streamlined. From a provider perspective, money will be arriving from a range of different agencies which colleges will have relationships with, from business through to the RDAs, through to local authorities, to the Skills Funding Agency, to the Young People's Learning Agency. In terms of interpreting and mediating all of those various inputs, it does not look very streamlined from the bottom up.

**Mr Morgan:** Certainly, from a provider point of view, we are a large, general, complex FE college. We have got a huge cohort of 14-19 year olds which will be funded differently from our other large cohort, which are adults, and we do not see this as streamlining, we see it as, potentially, muddying the waters, I am afraid, and from our perspective we think there are huge risks to learners in this and in the ability to take a strategic view for certain sectors.

**Councillor Sparks:** There are three points that we would like to make in response to the question. The first one is that it is too soon for us to be absolutely certain; secondly however the indicators are not good in terms of the feedback that we are having from individual local authorities and groups of local authorities, that there is a poor level of communication with the Skills Funding Agency, in particular; and the third point is that there is now a complexity of bodies and, if you have got a complexity of different bodies, that does not indicate a streamlining.

**Mr Davis:** If I may add to that, the Commission published in October (and I would be more than happy to send you a copy of it) some advice that we published to ministers, entitled *Skills, Jobs, Growth*, which specifically looked at simplification in England. We did conclude that there were aspects of

it that are too complicated, but we did also note that in the Skills Strategy many of those recommendations and thoughts were taken on, so I think it is about pressing on with the programme of simplification, seeing that there were some clear signals given in the Skills Strategy and that they need to be built on and implemented over the coming months.

**Q5 Ian Stewart:** Can I go back to Ioan and Martin, please. With the funding constraints, can Leitch be achieved? Anybody else can come in afterwards, but would you two start?

**Mr Doel:** I think I would make two points in this regard. We have had many years of increasing expenditure within schools, albeit not the same levels of increase in other sectors of education. We are now entering a period of more constrained finances. It seems somewhat anomalous to actually throw the whole organisational structure up into the air as you enter that period and people have to deal with a degree of organisational change which will have its own costs extracted from the system. At the same time, within reducing budgets, particularly (as just announced) adult learning responsive budgets, colleges are going to have to make efficiencies in order to continue to deliver to the learners in the communities that they support and businesses that they support. Their ability to do that, I think, will be constrained by the lack of freedom they have to operate between various budget streams, which, actually, potentially becomes more constrained in the future by the very many different agencies the money will be coming to them through. Their ability to manage within that headroom is actually being potentially more constrained as we go forward by their ability (using the in-word) not being able to vire between various streams within a financial year in order to deliver efficiencies. Just at the time when you want colleges to make efficiencies and to continue to deliver more for less, they are being constrained in their ability to do that because of some of the complications around the funding arrangements that they suffer.

**Mr Morgan:** From a college point of view, I think my first response to you is that I think there is a complexity which is not helpful now, but what I would say is one good feature is that colleges are firmly in the Department for Business Innovation and Skills (BIS). I think that is a good move, because it links colleges to where they should be in terms of their ability to respond to economic development needs and to supply skills for industry, but I think there are dangers that we might not achieve Leitch unless colleges are liberated and are trusted enough to actually move money between various pots. If we are forced to have money in boxes, principals of trusted colleges have got to be allowed to open those boxes and share that money around to local and regional priorities.

**Q6 Ian Stewart:** So you are an advocate for the trusted status?

**Mr Morgan:** Absolutely.

**Q7 Ian Stewart:** Could you tell us what type of courses will be affected at Warwick by the constraints?

**Mr Morgan:** There are two parts to that. Firstly, I think that the structural changes might make decision-making in terms of 14-19 year olds quite difficult in terms of strategy because if that funding is in the hands of local authorities there may be other decisions, competing interests, schools and others, that might detract from the ability of a college to be funded adequately. I also think in terms of taking a strategic view for something like land-based industries it is going to be quite difficult if it is a focused regional local funding, because there are strategic industries that need strategic decision-making. There are some concerns that I have about that, but my main issue is that if we are allowed to look at the boxes of money that come to us and use them more flexibly, there is a much greater chance of achieving the Leitch targets.

**Ms Muirhead:** I was going to draw attention to the element of Leitch which was about moving from a system based on qualifications to one which is looking at skills and the implications for the real world. I think that there are some clear signals and, indeed, plans in the Skills Strategy which are about setting out a basket of measures which would identify the real world outcomes for individuals in terms of, for example, wage gain and for productivity. I think if we move in that direction, in the medium-term we will be more able to deliver on what was underlying some of what was in Leitch, notwithstanding the issues about meeting the targets.

**Q8 Ian Stewart:** Before you go on to that and while we are on targets, Leitch has basically said we need 40% more skills training in this country. Will colleges and providers have the capacity to do that in these circumstances of financial restraints?

**Ms Muirhead:** The issue of financial restraints, which is one I was going to come on to, is really important, obviously, and very concerning for everybody. The one element that we fail perhaps sufficiently to acknowledge is the amount of money that businesses do currently invest in skills themselves and where that could be more encouraged. One of the reasons why we see the economic development aspects in the new skills system being important and relevant is in raising all businesses' awareness of the need to not just utilise their existing skills but also to invest in skills in their workforce. That is, obviously, not a panacea to the problems that we face in terms of public funding, but it is a really significant element that we need to take into account.

**Q9 Mr Binley:** Can I follow that up just a little? I apologise for butting in; I was concerned to hear this myth being perpetuated, or it seems to me being perpetuated, that businesses do not invest in skills. They invest in many more skills that lie outside the

formal processes, and I think it would do us well to recognise that and work with that. What are you doing in that respect?

**Ms Muirhead:** I apologise if I gave the impression that they were not. I was saying that they absolutely are and, indeed, we think that there is more that can be done. For example, one of the things that we currently do and that we will be able to do more when the skills function transfers to us formally on 1 April is that the Business Link advisers and brokers, when they are dealing with a business about the needs of that business—whether it be about do they have a good business plan/are they looking at the right kind of market place, *et cetera*, their products and services,—are talking to them also about skills in their workforce and whether they are sufficiently using and utilising the existing skills of the workforce and what upskilling might be needed to raise productivity, and that might be through publicly-funded and qualifications-led or it might, indeed, be a different form of upskilling.

**Q10 Ian Stewart:** Can I stop it there, because we are strapped for time now and I want to move on to the LGA. David, your organisation, the LGA, is on record as having said that the new system is too complicated, has too many bodies, *et cetera*. Which bodies would you remove, which bodies would you merge?

**Councillor Sparks:** I really cannot answer that question, because our view is that the way forward, based on the city regions in Leeds, in particular, and experience elsewhere, is very much based on which organisations work best in partnership locally. Our concern is that the Skills Funding Agency do not seem to be as on board as the other agencies and, because they are such a major and dominant player, this could make it very difficult to deliver locally. Our whole theme is that you need to have far more of a locally determined system based on the demands of local employers, the needs of the local economy and taking into account what the local provision is and what it needs to be.

**Q11 Ian Stewart:** Martin, you said the system is confusing. Will this confusion mainly be created by the splitting of responsibilities between the SFA and the YPLA, or is it actually more fundamental than that?

**Mr Doel:** If I start from the first point, the system will always, I think, have an inherent complexity in it because of the range of things that colleges and providers do and the breadth of the skills agenda. You cannot make something that is so broad in its provision ultimately simple. To do that would be almost to brutalise it in order to bring it down to very simplistic blocks. There is always going to be an inherent complexity within this; nonetheless, I think we need to sensibly portray it in a way in which people can understand it and access it more effectively. The distinction between a skills agenda for 16-19 year olds and one for 19 year olds and older is a false one, I think—there is a continuum from 16 forward—and, therefore, achieving some proper co-ordination between the work of the YPLA and the

SFA in the future will be particularly important for the skills agenda generally. From a provider perspective as well, when you have differing streams of funding coming to the institution, you can be destabilised by a decision on one side or the other in your ability to deliver the overall outcome. You do not, when you are in a college, manage a little building over here that is for the SFA and a little building that is over there for the YPLA, a little bit of the estate for 16-19 year olds, one bit for apprenticeships and one bit for adults. It does not work like that. The colleges are almost becoming the integrators for the various streams of funding and then trying to be able to respond to many customers. I think what they are asking for within constrained funding, which will have consequences, is to be able to integrate that most effectively and to respond. I think they are also asking, critically, for our RDA and Local Government Association colleagues to be seen as strategic partners who know a good deal about the labour market, a good deal about what younger and older people want and need in their lives and can have a conversation about informing the plan rather than just being presented with a plan to deliver against. Getting that debate going on and that integration, I think, is very important in the future. It is not going to be easy.

**Ian Stewart:** Can I say to all of you, I am supposed to ask you about your experience so far about the establishment of the SFA and the YPLA. You have just answered something on that, Martin, in your answer. Could the rest of you, when you are answering other questions, because we are really pressed for time this morning, also address your experience of that, please?

**Chairman:** The opportunity will come now.

**Lembit Opik:** One specific question to Martin. I used to run the training programme for Proctor and Gamble and we had to have a very wide range of skills, some of them involving improving pure research and other people learning about people skills and we did it in one cohesive whole. Why could we not apply the model that Brian would no doubt agree works in industry to the academic world?

**Q12 Chairman:** I am going to leave you to ask the Minister that question next week.

**Mr Doel:** My very sharp answer to that would be that colleges would like the opportunity to provide that integrated service, to have that one conversation with an employer.

**Chairman:** That is a helpful answer. Lindsay Hoyle.

**Q13 Mr Hoyle:** The department states that it has worked with employers and other partners in the FE sector to ensure that they could influence the design of the Skills Funding Agency. It is now 12 months on. What involvement has each of you had in the design of the Skills Funding Agency?

**Ms Alexander:** We have been working with them on the extent to which the strategies that they are going to be working to can be built bottom up from the work that we do with local authorities in the Regional Partnership Boards and the Economic Development and Skills Boards and how that can be

aligned with the advice that they will be getting from the UK Commission for Employment and Skills and the Sector Skills Councils to drive the investment strategies that are being produced. Clearly, this year it is slightly the wrong way round, the investment strategy is being produced before that advice has been given, but we are building a system where we will be taking six people each into the Regional Development Agencies to create those regional skills strategies and we have been working with them on how that will link to the rest of the system. Oona is very much involved with the programme board setting that up.

**Mr Davis:** I would add, the relationship between the Commission and the Skills Funding Agency will be via, as Pam has said, the Investment Framework that the Skills Funding Agency will oversee from the department. Our role is currently working on a set of strategic advice around medium and long-term skills priorities, which then, along with the work that Regional Development Agencies and others do, becomes the basis of the investment strategy. At a practical level, some of the research functions from the former Learning and Skills Council have been transferred into the Commission.

**Mr Doel:** Despite the recommendations of people like Sir Andrew Foster about colleges and principals being treated more like Vice Chancellors and being partners to policy development, the colleges have suffered, if you like, under a period of paternalistic direction from the Learning and Skills Council for a number of years.. There has, I think, been a determined effort to involve us more in the emerging design of the SFA than has previously been the case, but I would not underestimate the degree of cultural change that is required in some of the people involved in the process. They are formerly the LSC people, they have a way of doing business and it has been very difficult for us at the various levels that apply. There is a determined effort at the top of the organisation to be more transparent and open in these issues, but reaching right through to the organisation is more difficult to achieve. Going back to my earlier answers, there is a lot of conversation about developing the hypothesis, but if you think the hypothesis is wrong in the first place about having two agencies, you are talking about some of the detail rather than the underlying important issues.

**Mr Morgan:** Certainly from an individual college point of view, and I would share the view that latterly there has been an improvement, up until now I think colleges have been done-to in this process and have not been participants. My college, for example, has a £55 million budget, six campuses, 25,000 students and by no means the largest college. There are some big players there who wanted to have a professional engagement in this process and have not been able to do. Coming to the point, very briefly, that Martin made about Foster extolling us to behave like Vice Chancellors, I think, thank God we do not really, because there is a lot of bleating at the moment from the university sector about cuts and what you are finding is the college sector, which for politicians is one of the biggest tools that they have available to deliver social change, are not bleating. We are

wanting to work with government and make this happen, but there is a big resource in colleges that needs to be consulted and put as part of this process.

**Q14 Mr Hoyle:** So you feel frustrated or angry.

**Mr Morgan:** I have been continually frustrated in FE for over 25 years now, so the thing is improving.

**Q15 Mr Hoyle:** So that frustration continues. Does it make you angry now, if you have suffered such frustration?

**Mr Morgan:** I think I feel angry because I feel that here we have a sector with so much potential, that I am emotionally so attached to, because where I come from in South Wales further education was the way out of the pit, and that has not changed, it is about liberating and freeing some of the most disadvantaged people in our society, and colleges, quite frankly, are still being done-to in a pretty ineffective way and we are fed up with being political footballs.

**Councillor Sparks:** We have specifically asked our local authorities this question, and I can report back that councils are reporting that the SFA has not been in touch, in marked contrast to other agencies in relation to this. One further point on this in terms of personal experience, I worked until recently for 35 years as a careers adviser and I can tell you that one of the things that really is in my gut about this whole thing is that training has been distorted by bureaucracy over the years, and I think that what we will probably get here is another load of bureaucracy, quite frankly. It might be a different flavour, it might be in a different bottle, but it is the same building and virtually the same people. What has changed?

**Chairman:** Shall we end the session there!

**Q16 Mr Hoyle:** I think it is game over, Chairman! Where do we pick it up after that? Did you feel, for those who were involved, that your views were taken up?

**Ms Alexander:** Certainly it is still work in progress. That is absolutely clear. There is a lot of work still to do. We do think that we are making progress on creating the structure which will enable some of that bottom up expertise to be drawn into what happens to the instructions that are then given and the funding allocations that are made. For example, working with local authorities, all of our Economic and Development Skills Boards in each region will certainly involve the providers as absolutely central to the discussion. The Association of Colleges, for example, sits on our Economic Development Skills Board in the south-east and, if we can get traction for that provision of bottom up priorities, then I think that will be the way through this.

**Mr Doel:** I think colleges will do their very best in order to make this work, as they always have. I think the engagement we are now having with a number of the RDAs is wholly helpful. We have just done a study into what we consider best practice in the North-West Development Agency, the London Skills and Employment Board, to draw out characteristics of where that is working to apply

more widely, and we are grateful for that opportunity to contribute. I think the papers are with the committee for consideration together with the impacts.

**Mr Davis:** What I would perhaps do is draw the distinction between the practical setting up of the Skills Funding Agency and the strategy that government is seeking to set out, and the three things in that strategy that the commissioners report and encourage others to build on is the reference to real world outcomes—that is very up there in the start of the Government strategy that we want a system that is measuring success in terms of real world outcomes; I think that should be built upon—it talks a lot about how you empower customers through things like Skills Accounts, and so on, and, finally, as we have heard, about how we build greater trust in providers, and that is how you then build up the flexibility and the responsiveness to work with the greater investment that employers and individuals make in learning.

**Q17 Mr Hoyle:** At least we know nobody has pulled the drawbridge up, everybody has tried to make this work. It is twelve months on. Are there any real changes between now and 12 months ago? Could you give us any views of where you feel there has been a change or a significant difference, or not?

**Mr Doel:** It is always hard to discriminate the changes that were intended by policy and those that have occurred.

**Q18 Chairman:** Just to focus the question, as a result of the discussion you have had about the Skills Funding Agency, has it changed? Is it better?

**Mr Doel:** What I am saying is through those things the Learning and Skills Council has changed as a precursor body to the Skills Funding Agency. They have become more transparent as a consequence of those events.

**Q19 Mr Hoyle:** The change is for the better.

**Mr Doel:** The change is for the better, and we would hope to carry that through into the Skills Funding Agency and actually to build some benefit out of some very difficult circumstances through changed relationships. That is at the level of personal relationships almost beyond organisational structures. Organisations work through personalities quite often as well as the structures.

**Q20 Chairman:** What you are saying is you have got the Learning and Skills Council working effectively with you. It is now being broken. You hope the personal relationships will transfer to the new organisation.

**Mr Doel:** Absolutely.

**Q21 Mr Hoyle:** Does anybody want to add on that?

**Ms Alexander:** Yes, could I add on that? I do think that the policy frameworks that we have had, Partnerships for Growth and Skills for Growth, have really begun to put economic development at the centre of skills provision in a way that Leitch was suggesting it needed to be put and, therefore, the

framework is there to build on. We have talked about some of the ways in which we drive that bottom up demand and that the business voice is heard clearly, and not just in relation to public subsidised funding but also to enable businesses to see how they can access and create critical mass to drive some of the innovations that we are working with them on, for example, in higher education. I do think there has been a very big shift in purpose. What we are all working on is whether we can deliver that purpose effectively.

**Q22 Mr Hoyle:** What you are saying is there is real linkage now.

**Ms Alexander:** Yes.

**Q23 Mr Hoyle:** Previously you felt there was not.

**Ms Alexander:** Previously it was very hard to grasp, particularly with a system that was driven wholly by qualifications which are not necessarily what businesses are looking for.

**Q24 Mr Hoyle:** I will leave it at that. Thank you

**Councillor Sparks:** One thing I would like to report—it is more on the context and it refers to previous meetings of this committee in relation to our experience in terms of RDAs, et cetera—is that there has been an incredible amount of development on Regional Leaders' Boards in the last 12 months. Also the city region in Leeds and Manchester, as far as we are concerned, is extremely significant and we are expecting that that will be repeated elsewhere in other parts of the country.

**Q25 Chairman:** We should get a chance to explore that in more detail later when we go into the regional questions more explicitly.

**Mr Morgan:** Can I make one point? The emanation of this on the ground for providers, what has really happened in this first year of a change in budget is that we are getting funded for 14-19 year olds from a separate pot, and some colleges may do less well, some may do better out of that pot depending on the college structure. The other pot that comes in from the SFA is for our adults, and we are just going through that allocation process, and some colleges, a large number of colleges, all colleges are in cuts ranging from 10-25% and many of them up are up in that 25% area for adult learning. That is fine and efficiencies can be made, but there are serious courses—things like infection control for care homes—that are going to be affected by this. Whatever anybody says about “that is non-priority learning”, that is rubbish: there are significant social impact courses that are going to be lost, but that is aside, because we face that with professionalism. The issue is that nobody takes the overview of what keeps a college stable. Because you have got the separate funding pots, one is affected, one is positive, one is minus, in years that will change, but who has the overview that looks after the stability of the college as a business and keeps it there for the public?

**Q26 Mr Hoyle:** So the first question must be you are either in or you are out, but without having the ability to put the case.

**Councillor Sparks:** Indeed, and nobody is looking out for that strategic presence of public sector colleges.

**Mr Doel:** Colleges are being prevented almost from doing that for themselves because the funding comes in separate pots and they must accept one or the other, and colleges are being integrators and having the responsibility for the whole health of their business if they have the ability to manage the tools but they are not having the related freedom.

**Mr Hoyle:** It is the lack of an individual voice of being able to put the case that is the real frustration.

**Chairman:** We are moving on. Some colleagues are going to leave, by the way, because there is a Cadbury/Kraft rally going on—there are a number of competing attractions of a political nature today, for which I apologise—so do not take it as personal slight if that happens.

**Q27 Miss Kirkbride:** Just a quick question, and you may not want to answer it, but do any of you want to speculate as to why the Government have changed the arrangements in the way that they have, given your criticisms of them?

**Mr Doel:** I only joined the sector just as *Raising Expectations* was published and would observe there has been a good deal of consultation about how the design would have been raised and expectations might be delivered, but having asked my staff and my team what consultation went on before *Raising Expectations* was published, there seems to be precious little logic or demonstrated requirement for the overall design to split the funding groups up. If one were just to take a dispassionate view looking backwards on that, one might go back to the division of the Department for Education and Skills into two departments. It almost all follows, as an ineluctable logic, that you will have two different funding agencies corresponding with two government departments. I do not know if that is the rationale that operated in ministers' minds, but it is very difficult to actually find a trail back to the original decision.

**Councillor Sparks:** The Government, quite clearly, have recognised the work that you have done and others have done in relation to the regional competitiveness, or lack of regional competitiveness, within the UK, of which skills is a major component, and have, therefore, concluded that something needed to be done, that the system was not working. My own view, having studied this for years and been at the receiving end, is that you have an incredible bureaucratic inertia within Whitehall in relation to this particular area that goes right back to the beginning of the twentieth century with the Ministry of Labour and that, no matter what changes are advocated by whichever central government, the Whitehall machine then ensures that the bureaucratic result is what satisfies the bureaucracy more than what satisfies the Government, and I think that is essentially what you have got, but that might be just a jaundiced view.



**Chairman:** I think we had better not go down too many avenues because we have got some specific questions to ask that will allow for some interesting answers. I think we will move on to Mick Clapham.

**Q28 Mr Clapham:** Can I look at the transition, because obviously it has been very complex. You have all been involved. I wonder if each of you could say a little about your role in the transition process and, at the same time, say whether you feel that the handover next month is going to be smooth?

**Ms Muirhead:** We have only been involved in the transition since last summer when, as a result partly of the economic conditions but also bringing together into BIS of all of the levers of productivity, we started to get involved in the skills issues from the perspective of how do we use it to drive economic development. From our perspective, the transition of that demand side articulating the business voice will transfer smoothly from the LSC/SFA to ourselves. We have got arrangements well in hand for the staff to transfer across and things are going pretty smoothly. We are working very closely with SFA, as we have said, along with other colleagues represented here. I think there will still be lots more to do, but in terms of the next month everything is in hand.

**Mr Davis:** From the Commission's perspective, our operational role in the Skills Funding Agency is quite limited. We are taking on from the former Learning and Skills Council, as I said, a number of their research functions and ours is about defining the relationship going forward in respect of the Strategic Skills Audit.

**Q29 Mr Clapham:** Do you feel it is going to be a smooth handover?

**Mr Davis:** Yes, and the work that we have done so far is smooth.

**Mr Doel:** The key here is the association is representing, clearly, the view from the provider, and key in that element is identifying for the Government, I hope, unintended consequences of what they would have been doing and to mitigate some of those unintended consequences, and I think we have been listened to in that regard. I do actually think on 1 April it will be a relatively smooth event, but it would be: the proving year is the year after when the funding arrives from the Skills Funding Agency. The money will arrive from the Learning and Skills Council this year, much as it has done in previous years—this is a shadow year. The real proving year will be this time next year.

**Q30 Mr Clapham:** So the real test is going to be 12 months hence?

**Mr Doel:** Yes; that is right. It will appear smooth, whether or not it turns out to have been smooth. The test will be in 12 months' time.

**Mr Morgan:** One of my governors has recently had a major concern about who is actually going to sign the cheque on 1 April and was there a mechanism for us to be paid for our 16-19 year old students. That has been a fairly late consideration, but I think were

reassured now that that is likely to happen and it is going to be something like £19 million, so it is significant for us.

**Q31 Chairman:** Two months out, you are just getting anything like comfort you are actually going to get paid.

**Mr Morgan:** The governors of Warwickshire College represent some of the major companies. We have people from Aston Martin Lagonda, serious business people, looking after a serious business and they have been at times quite appalled by the way in which the timescale has not adjusted to the efficiencies needed, but we are getting there. One of their early concerns about this process is the expectation that a college can deal with its one local authority. We deal with something like 86 local authorities as a college; we have students from 86 authorities. This has been a potential high-risk nightmare for us, so there have been huge anxieties, but certainly I think we were proactive and we put a deputy principal into both of the authorities that serve us, Coventry and Warwickshire, to help with the transition process, so that has helped us a great deal. We are largely dealing with the same people, and we are comforted by that, but you need to know they are the same people moving to a different job.

**Councillor Sparks:** The specific involvement of the Local Government Association has been quite significant in relation to 16-19 in that we have had a dedicated team of people funded by the DCSF to help local authorities with that transition, and the report-backs from that have been satisfactory.

**Q32 Mr Clapham:** Presumably, Mr Sparks, the feelings of the local authorities is going to be that, if there are going to be any cuts, then they will be perhaps in 12 months' time when one sees the funding really coming from the SFA rather than from the Learning and Skills Council.

**Councillor Sparks:** Yes, the feeling of local authorities in this is twofold. Number one, exactly as you have described, but, number two, the structure of local government and the involvement of local government in this area has radically changed. It not just involves local government but the establishment of sub-regional partnerships of one kind or another, city region set-ups, et cetera, means that we have got something that is moving on and we are concerned that the structure that we are going to have has not moved on in the same way.

**Q33 Mr Clapham:** Could I turn to the feeling of the department and the LSC? The LSC is saying the connectivity between employers, colleges and providers is not going to be disrupted at all and has not been disrupted. Is that your experience, that there has been no disruption there?

**Mr Morgan:** I think it has been the providers' duty in the public sector to hide the wiring, because we are dealing with companies that expect to form a return-on-investment type of contract with us—we are going to train and you are going to get a return—and everything we can do to stop the complications there

and to hide the complexities of finances is our job, and I think we have tried to do that as a set of colleges quite professionally and well.

**Q34 Mr Clapham:** Would that be the general view, that that is the way that things have worked?

**Ms Alexander:** I think that businesses are, as my colleague says, not the slightest bit interested in how the system works, they want to know whether they can get what they need out of, it and I think that will be the test as we go forward: whether the new system has the flexibility to deal with in-year needs as well as dealing with the overall picture, and hiding the wiring is critical; some degree of stability going forward with the wiring is also critical. I think businesses would say once you have a structure stick with it.

**Q35 Mr Clapham:** One of the things that you were saying a little earlier is that the bureaucracy tends to actually neutralise what change may be intended, and because you are going to have the same people from the LSC in positions under the SFA that the culture may not change in the way that which we want to see it change. Would that be correct?

**Ms Alexander:** I know others will want to come in on this, but the culture will be dependent on the targets which are set, and that is one of the reasons why it is so critical to create a basket of objectives which are no longer just about qualifications but also about real world outcomes. Of course, there are always barriers to culture shifting, but the directing of the funding, the traction that the different objectives have on the funding and the targets about the outcomes sought, will be what, at the end of the day, drives culture to change.

**Mr Davis:** That emphasis on real world outcomes, I think, is something that you want to explore and take further because, without a doubt, there is a huge bearing of qualifications in terms of what both the system currently delivers, its ability to respond to, and meet, the needs of employers and of individuals, and you can change the structure, you can even change the individuals, but if the overriding measure of success is the qualification, then it will be very difficult to change the behaviour and practice of the individuals within it. That is not to then down play the qualifications, they are an important measure of success and, in terms of international comparisons, are one of the best measures that we have, but it is when they become the predominant behaviour that they risk becoming unhelpful.

**Q36 Mr Clapham:** In terms of the colleges, you feel that under the new arrangements that the service that you are able to provide is going to be a service that is likely to improve.

**Mr Morgan:** But there is a fundamental there, and that is the survival of the colleges. The cuts that we are going to take on board, we know we have got to deal with those cuts. We are in the public sector, we know what place we are in in terms of government finances, we are expecting that, but at the level at which they are being imposed it is not just boxing and coxing and minor adjustments, it is surgery, and

there is going to be a reduction in the provision if we are not very careful. I have got industrial clients who we have dealt with who are very nervous about the stability of their providers, and I think that is an issue that we have got to be careful about.

**Mr Doel:** To connect that point with the cultural issue, the former culture of doing things to colleges applied to what we are about to go into will result in suboptimal outcomes, even within a reduced budget. If colleges are seen to be partners in this process and have some ability to affect how things are done, then they will be able to mitigate the worst consequence of any funding cuts. Rather than actually just having them imposed upon them and dealing with those consequence, I think a real involvement in the culture change is important in order to get the best out of the board, and it is a self-evident almost kind of cliché that structures are easier to change than cultures

**Q37 Ian Stewart:** On the RDA stuff, Michael, to you, please. The Pre-Budget Report announced that Manchester and Leeds city regions would gain additional powers for adult skills. What exactly will they do, how will the rural city regions link with the new skills responsibilities for RDAs and, with the SFA involved too, is there not a danger that too many agencies will be involved?

**Mr Davis:** I think that is a legitimate risk, that we set too many expectations about what can be done in a very short period of time. What I would say is that, in terms of determining skills priorities, there is a need for a sectoral dimension. An electrician who works in Manchester requires a similar skills set to an electrician who works in Reading or anywhere else, but the place in which they will be able to access learning, the extent to which there is a demand and other employers for work with will have a strong geographic dimension, and so I think that what government is seeking to do is to strengthen the role of that geographic aspect, but I accept that there is a legitimate risk that Manchester, with the RDA, will have to work out where those priorities between themselves sit.

**Ian Stewart:** What if we have a system of RDAs in city regions? How do we maintain standards?

**Q38 Chairman:** That is quite a big question. I think later on we will be asking questions on regional structure. Can I go back to the funding question before I hand on to Brian Binley. It seems to me what you have said today is that there are no savings in the bureaucracy that is being recreated as a result of the abolition of the Learning and Skills Council and the same people are doing the same jobs, wearing different hats, in different buildings probably more expensively and that employers (I took what Pam Alexander said here very interestingly), if anything, face a more complicated environment to understand the skills structure in. You meanwhile, Ioan Morgan, are faced with huge uncertainties about your funding streams. I am finding it quite difficult to comprehend what the game has been in this process at present, and that is what I am going to be asking myself during the rest of this evidence session.

**Mr Doel:** We raised very early in the process of *Raising Expectations* (and this may be a question that you might wish to pose to ministers)—it was not what I would expect to see in a normal business—a benefits realisation plan which baselined the number of people that were actually working to oversee the skills system. Its success could be judged against in two or three years' time and there was a working hypothesis that there would be no reductions in the number of people involved in this process. It seems to me that the Government was embarking upon a process of change with no means of actually determining whether or not it was successful or being able to judge the direction of travel.

**Mr Morgan:** It is very clear to colleges that the machinery of government changes right from the very start have not been cost neutral, they have been expensive and have taken away from the frontline. Am I the first today to mention the word “learner”, because it is the learners who have directly suffered due to that process because they have had frontline money taken from them for this process.

**Ms Alexander:** Could I respond to the point about employers? I hope I did not say that employers saw this as more or less complex; I think they view the whole skills structure as extremely complex and difficult to understand. One of the things we need to do is identify, through the brokerage that we do with them, the quick routes through. For example, we have a protocol with the National Apprenticeship Service through which we make sure that small companies come through Business Link for their support, larger companies are directed straight to the NAS, and I think it is that sort of thing which will get them to the right place.

**Q39 Chairman:** To use Ioan Morgan's phrase, “hiding the wiring”.

**Ms Alexander:** Yes.

**Q40 Mr Binley:** Back to funding. I believe the statements made by the department are, in fact, very confusing, but I am a simple businessman. On the one hand, we talk about a new single account management system, we then go on to say that there will be simpler funding and monitoring arrangements, and then we say the level of financial autonomy given to those colleges and organisations will depend upon their track record and performance. What is it? Have you got more freedom or are you going to have more interference? How is the monitoring going to work, because government knows an awful lot about creating packages that will solve problems; they do not understand you have to manage those packages to make them work.

**Mr Doel:** There is a single account manager within the SFA, there is also a single account manager within the local authority, there is a single account manager within HEFCE and there is a single account manager when you are dealing with individual businesses that you deal with. That adds up to four, at least, as we begin.

**Q41 Mr Binley:** The UCU says they did not believe there was sufficient clarity about the role of account managers—that is about management. Do you believe there is? That is what I want to get to. This is supposed to be a simpler system, giving you greater understanding of the money you are going to have, but the monitoring to respond to performance, because it is also going to be based on performance, does not seem to be clear at all. Are you happy about that?

**Mr Doel:** I think it still should be fully developed. The only conversations that colleges have had regarding the single account manager within the SFA have been positive. Going back to my first point today, in that part of the forest it has got a bit clearer, but the forest as a whole looks a bit impenetrable, so actually that conversation becomes sensible. In terms of the monitoring in performance management of colleges, there is still much to be thought about in terms of how they are performance managed across a number of agencies that are looking to the whole of the institution and the way it is performing. Ofsted has a role in this regard, the SFA will have a role in this regard, the Framework for Excellence, which is the model by which colleges may be judged, and the UKCES have a very interesting suggestion about course labelling as to how colleges might be assessed by the consumers: the businesses and the individuals that might go to the college. This is replete with initiatives which are almost being stitched together at the level of the college currently.

**Mr Morgan:** On the ground what is happening at the moment, where an account manager is identified colleges are putting in a huge amount of effort in trying to explain what they do and how they operate to try and engage those people for the future. We are doing a lot of that work, but I would say certainly as a sector we value trusted colleges being given more autonomy, and it is only in that way, I think, that we are going to deliver on the agendas that you have heard about.

**Mr Doel:** May I also say something about the trusted colleges' earned autonomy. I find the term used “skills for growth” slightly anomalous in so far as colleges were granted autonomy in 1993, and so to earn that which you have also been granted seems a bit, as I say, anomalous. In terms of the presumption that a group of outstanding colleges may be granted freedom to manage within an overall budget, it seems to me the opposite way around. There should be a presumption that all colleges are trusted. I think they have earned that trust over time and only those that are proven not to be able to deal with that additional freedom ought to have it held back or constrained. The direction of this seems to be a deficit model rather than one that is actually promoting trust and allowing colleges to deliver.

**Q42 Mr Binley:** But you made the point that you are having to do a lot of work to educate the account managers?

**Mr Morgan:** Of course, the business is so complex. I cannot think of an individual who can actually come in and really understand the extent of my business

very, very quickly for this turnaround, because there is a potential disaster. They have got to understand the business in some depth.

**Q43 Mr Binley:** I understand that. That is one of the concerns I have, but if the people making the decisions about the quality of your performance are not conversant with the problems that you face, how can we properly manage this process?

**Mr Morgan:** Personally, I think that if you are going forward and you are looking at monitoring quality, we have got a wonderful organisation in place to do that, and that is Ofsted, formerly Her Majesty's Inspectorate, and that is an external view on the quality of an institution, and if you just add to that some comment on the financial acumen of that organisation, what more do you want to liberate that college into a situation of facing up to the local skills and social agendas that it faces? For heavens sake, give us the freedom, give us the tools to get on and deliver for industry and for the social agendas that we can deliver. No organisation I know, other than FE (and of course I am biased, and you would expect me to say it, but I have really thought about this) can actually get in there quick and dirty and change and effect social agendas. We need the tools and freedom to do that.

**Mr Davis:** Notwithstanding the challenges that the colleges face in the immediate term, the Commission's view is that the sustainable approach on this is that we want individuals and employers to, in effect, be performance managing the system. We have this continual discussion about who manages providers; actually customers should manage providers. The reference to course labelling was simply an illustration of how, if we empower customers, put money with those customers, put all the performance management information with those customers, the sustainable route is that individuals and employers manage the system and providers provide greater transparency and accountability to their customers, and that is also how you simplify much of the process that exists mostly to manage things on behalf of customers rather than empowering customers to do it themselves.

**Mr Morgan:** You are only as good as your last contract. That is all you need to know.

**Q44 Mr Binley:** Can I move on to ask about the fact that the AoC pointed out that the largest scale funding for colleges will come from local authorities through the YPLA and not from the FSA. Can you tell me more about how these two revenue streams can be managed, because there seems to be a problem there? We have already talked about this to a certain extent, but I do not think we have found the answers to good management in this respect.

**Mr Doel:** The significant issue, I think, is we have talked about the ability to wire and use the budgets flexibly, and the Government have made some proposals in this regard, but, interestingly and absolutely there is no ability to wire money from 16-19—to adult provision. Everything we have talked about so far is just working in the 19-plus. The

ability to move money around between those two, effectively, departmental stovepipes is missing. The ability, therefore, to deliver real efficiencies and to deal with knotty sort of things, like the fact many A-level students do not complete their studies aged 18; they carry on to 19; so they move from one funding agency to another to complete the same course at different rates and different sources of funding.

**Q45 Ian Stewart:** Taking up places for the new adult learners, which is compounding the problem.

**Mr Doel:** Yes, so this becomes quite difficult to manage at the local level, albeit colleges, being of a relatively large size compared to schools, have a relatively strong capacity in terms of managerial ability, manage to hide the wiring to manage these and actually give an appearance of a single institution to the world attending to a range of learners and needs of businesses and communities. As I say, I think they are managing this on behalf of the agencies effectively. Notwithstanding that, to be fair, I have made this point in a couple of letters to the Secretaries of State and they have acknowledged the concern that the SFA and YPLA must work closely together to understand the impact of their own funding decisions upon the institution as a whole. You force that into them, you say they are going to do it, the SFA Board and the YPLA Board will work closely together, but I think you are working in some ways to make the best of a difficult situation rather than actually configuring a way which makes its easier to deliver.

**Q46 Mr Binley:** They sound to me like fine political words; they do not sound to me like good management sense, quite frankly, and we need to ask the Minister perhaps next week.

**Mr Doel:** He might say anything that took that long to explain cannot be right.

**Mr Morgan:** Can I take up one point very quickly there and just say one in ten undergraduates are studying in further education colleges. We are going to get a double whammy if we are not careful in colleges, because universities are also getting funding constraints. They pass their money to us in many colleges, some colleges are provided individually but many are passed on, and bear in mind that the significance of that is that the vast majority of undergraduates in colleges are closely aligned to businesses because we are delivering the foundation degrees aligned to skills needs, and so we have got to be very cautious that that area is not adversely hit.

**Q47 Mr Binley:** Just two very quick ones. First of all, it seems to me that the suggestion has been that we should use Ofsted more for monitoring and that is where the central thrust of monitoring should lie. I would have my doubts, because I think Ofsted is a very patchy instrument and I think it has lost a lot of credibility; but that is by the bye.

**Mr Doel:** May I just add something? It is not to cut across Ioan's experience, which is much greater than mine in this sector, but I think it would be worth considering whether or not there is value in having a

contextualised FE inspection service, which actually is more expert in looking at the sector, rather than Ofsted which is looking from early years through to age 99 effectively, what the college is delivering. An external inspection service gives confidence to the public, looks at the whole of the institution's output and therefore is valuable. Whether or not it needs to be Ofsted is another debate.

**Q48 Mr Binley:** We will note that and pursue that further. The final question is whether SFA decision-making on funding will be influenced by the annual skills audit compiled by the UK Commission for Education and Skills. Can I ask what role does the Commission expect to have in funding decisions? What role do you think they expect to have?

**Mr Davis:** From the Commission's perspective what we are working on, literally right now, is a strategic skills audit. We were asked to do that last autumn by BIS. It is intended to provide insight and foresight about emerging skills needs for the medium term and it has been informed by the work of Regional Development Agencies, their labour market and informed by Sectors. We have commissioned some horizon-scanning work as well. It is to provide BIS the information and then BIS will take with information from the regional skills priorities; then BIS will determine its overall skills investment plan, which it then provides to the Skills Funding Agency. What I would add to that is that we see that our strategic skills audit is information not just for Government but also for providers, employers and individuals. The point was asked earlier whether Government can achieve the Leitch ambitions? The Leitch ambitions are not just for public funding; they are for everyone. They are an aspiration that we all aspire to and everyone has a really important role in achieving that. We will have a role in disseminating that information, therefore, not just to Government but also to providers, to regional entities, as they develop their plans as well.

**Chairman:** I will ask you some more questions about that process a little later on. Can we turn to a subject that Mr Morgan and I have had personal experience of, capital programmes?

**Q49 Mr Wright:** In terms of a capital programme, I have just visited my college of further education in Great Yarmouth and visited the new Alchemy Centre, which is a fantastic centre, funded through the Government, and clearly it has moved forward. The difficulty was that they wanted to complete phase two. Of course, with last year's development with the LSC, the funding prevented that from happening. Even worse, my sixth-form college had plans to get rid of a number of their portacabins that they have because of the increase in number of students and they could not even get past the planning stage. I think this is a mirror image of what we saw throughout the whole of the country last year, when there were huge amounts of representations to the Minister. Now the Government says that they are confident that the new financial structures within the SFA will mean

that there will be no repeat of this. Are you confident, as the Government is, that we will not have a repeat of what we had last year?

**Mr Doel:** Structures are not the same as processes. We need to understand the processes and risk management processes that are in place. Structures will not actually protect against that inherently; so the changes we are making will not actually ensure that there is not a repeat of the capital fiasco—if you want to call it that—last year. What we have insisted—again, it goes back to the point about the SFA and the YPLA beginning to get joined up—is that we do not have a building that has a YPLA part of the building and an SFA part of the building separately funded. You will need to have a combined capital strategy applying to the college sector, because you will need to combine those funds in order to come together to build a single building. In terms of going forward, therefore, you need a combined capital strategy. You also need effective risk management processes between those two agencies and between the local authorities who are involved in this mix as well, which theoretically is more complicated than the task the Learning and Skills Council had in the past as a single overseer of what was going on, in terms of capital spend. Potentially it is worse, therefore, but we are insisting on a single capital strategy. I should also say at this point that we are continuing to press the case for colleges to access funds identified in the last budget for further capital expenditure within this CSR period. From our calculations and confirmation of conversations with the LSC, we believe there is to be £200 million still to be committed within this CSR period for capital builds within colleges, and there seems to be some delay in making the decision how that money will be allocated. Our suggestion to Government has been that, given that £200 million will not cover the capital needs of all colleges—like your own, or that in your constituency—it might be more sensible to break that up into smaller lots of funding, to allow colleges to leverage in more money through borrowing and matched funding from elsewhere, and effectively to mend the roof for the next three or four years—when capital funding in all sectors will clearly be very difficult—to allow them to stabilise their estate, to continue to deliver against the needs of their learners and their communities. However, we do need some early decisions on this. The capital crisis came to light in December the year before last, and we have been sitting here now from April, when money was allocated by Government, and there is still a remaining sum that has not been allocated. This cannot go on forever before Government decides what it is going to do with that money, which was allocated for a budget last April.

**Q50 Mr Wright:** Even the question of that allocation last April was brought into question because it became a competition between regions, in terms of how that was being allocated. The eastern region, for instance, did not get one penny piece, although there were cases throughout the region for colleges to receive that funding. Forgetting the £200 million that apparently is still within that pot—and I would

certainly share your concerns that it has not been allocated at the moment—that said, you mentioned the YPLA and the SFA coming together in terms of two single bids. Would you expect there to be two separate bids? Would there be a single bid or would there be a joint bid? How do you see it?

**Mr Doel:** First of all, to go back to the first point, to take Ioan's earlier point, I think colleges have been extraordinarily patient and mature about this situation. They could be, amongst that £200 million, just fighting for another ten projects to go through and fighting on an institutional basis for £20 million each, and the wider sector then suffers; but, as a group, they have decided—or they have indicated to us—that they would be prepared to divide it into smaller pots so that all of the regions and the great majority of colleges on a need basis do receive some benefit from the remaining funds. I think that is extraordinarily mature as an approach. I do not know whether the vice chancellors might agree between the Russell Group and others in that way. However, in terms of the application process, we need to close on this; and I cannot see any alternative but to have a single pot and a single application process, managed on behalf of colleges by the SFA. Interesting to see the new sixth-form colleges sector. Where will their capital funding be addressed? Will that be through DCSF and the YPLA? How will we ensure parity of treatment, in terms of the money going where the need is greatest? These things are still to be tested and it may be worth asking ministers what their thoughts are in this regard.

**Mr Wright:** I think that in the last round it was more to do with those colleges, some of which as I understand it had started the demolition process before they had been given the green light in terms of the allocation.

**Q51 Chairman:** Mr Morgan has had personal experience of that.

**Mr Morgan:** I would say there is some question about whether they had the green light or not. I think it would be churlish not to say that the sector has benefited greatly from the capital investment that the sector has received. When it was working well it was terrific. We have world-class buildings; we certainly as a college have benefited from some world-class buildings. But the nervousness is forward and related to the structural question that you are addressing. My governors are very concerned indeed that they now have a much more complicated capital picture. Let us not forget that we are independent corporations, with an independent governing body, who want to make strategic decisions about the future of their colleges. That can now be overruled by a local authority that does not support a particular development linked to 14 to 19 developments. There is a huge anomaly there that we need to look at in terms of structure; because you will get other people who can intervene and veto.

**Q52 Mr Wright:** On that particular point, the 14 to 19 year-olds and the local authorities, I could not imagine a local authority objecting to that. What circumstance would you think they would have for objecting?

**Mr Morgan:** It is not the experience in my area, but there is still suspicion amongst the college community. We are now in a much more heavily populated pond, if you like. We have schools in there vying for capital and so on. We are latecomers, since 1993, back to local authority control. There is still nervousness amongst governing bodies about an equitable handling of the allocation of resource; so there are decisions in there that we are still nervous about.

**Q53 Chairman:** Maybe we ought to ask Councillor Sparks this question. Will you also be making judgments about the capital for sixth-formers in schools as well as local authorities? That could lead to potential conflicts of interest arguably.

**Councillor Sparks:** I think it is incumbent on anybody who is making allegations about local authorities to provide evidence, not just suspicions. Secondly, I think it is important that it illustrates the point. The best practice as far as we are concerned is everybody getting round the table in a local partnership to ensure that everybody is agreed on what the objectives are. That is why we are so enthusiastic about the Leeds and Manchester city regions but, scaled down, why we have pioneered multi-area agreements and other mechanisms whereby people get together.

**Mr Doel:** Perhaps I could provide a straightforward example of a single local authority. In relation to sixth-form colleges, local authorities will have a performance management role, an oversight role for sixth-form colleges rather than the SFA, who will have that role in relation to general further education colleges. We have had an indication from a single council that they do not believe the college's borrowing is that which they would want the college to carry out. They believe that the college, although it is an independent incorporated body, has taken on a level of borrowing that they have felt uncomfortable with as the supervising agency for that sixth-form college. That is a particular issue and we are working that one through, but there is another body now involved in overseeing the sixth-form colleges, particularly approving their borrowing and offering a view in that regard.

**Mr Morgan:** Can I also pick up on one practical issue very quickly and say that it is capital-related. For those colleges that are fortunate enough to get their capital projects through—and mine was one of those—let us not forget that those capital projects are predicated on a business plan based on growth; so that borrowing has taken place on the basis that numbers will grow and that the bills can be paid, in terms of the capital, the interest on the borrowing and so on. There is therefore a nervousness forward that there may be a much longer-term impact on learners as we move into an environment of constraint; because we have gone from one place to another, where we could confidently predict growth to a position now where the opposite is true—and many of the business plans of colleges for multimillion-pound borrowing is predicated on student growth.

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2 February 2010 Association of Colleges, LGA, SEEDA and UKCES

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**Q54 Mr Wright:** Again, what my sixth-form college will tell me continuously is that they are not being paid for the growth in numbers of students going through to the college. How can you go forward in terms of the future when you know that the numbers will grow but the finances to pay for those numbers of students is not growing in itself? It lends itself to another problem.

**Mr Morgan:** Exactly.

**Q55 Miss Kirkbride:** I probably ought to know this but are these PFI projects?

**Mr Morgan:** No.

**Q56 Miss Kirkbride:** So you, as a college, will liquidate if you cannot pay your—

**Mr Morgan:** The college will pay for a project through some of its own reserves, through some bank borrowings and a combination of support from the LSC in the past.

**Mr Doel:** Whilst there was a grant process in a way, the necessity or benefit of pursuing a PFI route was not there in the form of methodology that the LSC was applying. There was no absolute need for a college—if it was going to have a grant, together with its own borrowings, that it could manage—why would you mortgage yourself to a PFI for 25 years? We have emerged into a different landscape and different circumstances, where we will be looking for more, if you like, innovative and private sector collaborations in order to fund the needs of capital in colleges. However, we do need to understand what the prospects are about the £200 million; what seed corn we might have; what money we may be able to leverage in by different means; so I think that elements of PFI are back on the table, because needs must now. I think that we just want the opportunity to have that conversation and to take a strategic view to boards, to form that view.

**Q57 Miss Kirkbride:** So your collateral is your assets?

**Mr Doel:** Yes.

**Q58 Miss Kirkbride:** In the end, if you cannot pay the bank?

**Mr Doel:** That is right. It is the limit on the borrowing and the limit on whatever liability you can take on.

**Mr Morgan:** That is why we are anxious.

**Q59 Chairman:** I want to move on now briefly to the UK Commission on Employment and Skills, narrowing in on the questions on the Skills Audit and looking at the regional agenda, which will bring in SEEDA again. You have talked a bit already about the National Skills Audit in answer to an earlier question. When will the report be published?

**Mr Davis:** Its aim is to publish it in early March.

**Q60 Chairman:** I do not want to invite a long answer to this question, but what sort of thing will it contain? How will it be structured?

**Mr Davis:** It will give what we would describe as the long-term view about where we see future skills opportunities for the labour market and about where there may be mismatches in skills currently. The important thing is to see it as a document that helps inform the setting of priorities and to underline that it informs the setting of priorities for Government, but also helps inform the regional priorities that are set within regions; and also is a source of intelligence for providers in their own interactions with their customers and helps them shape their offer to business and individuals as well.

**Q61 Chairman:** You indicated in answer to a question earlier that you talk to the Regional Development Agencies as part of the process for preparing the audit. I appreciate your commissioners give you a certain breadth of expertise. Who else have you consulted?

**Mr Davis:** It is quite an extensive labour market study. It has five components in it. It has the regional labour market assessments; it has input from the Sector Skills Councils and their sectoral dimensions; and then we have commissioned a number of horizon-scanning pieces, looking at different types of future scenarios in relation to employment and skills. It is quite a comprehensive piece of work, therefore, but it is intended to be so and then it is intended to be an annual production thereafter.

**Q62 Chairman:** You then hand the report over to BIS and they decide what to do with it, basically.

**Mr Davis:** Yes.

**Q63 Chairman:** You have no role in actually advising on the funding decisions that flow from that.

**Mr Davis:** BIS will respond, as I understand the process, to the submission that we make and will produce a national framework of priorities. That also then takes the input from Regional Development Agencies and that then becomes the basis of its investment plans with the Skills Funding Agency.

**Q64 Chairman:** You publish the report and that is your job done; you start on the next one. You do not have a continuing role of engagement with the Department at that stage.

**Mr Davis:** We publish the report but, alongside submitting that to the government department, we also have an active programme in place about how we disseminate that information within regions and with individual providers as well. An important aspect to a demand-led system is that we try to make it as informed a demand as we possibly can. What we are trying to do, therefore, is to fill the totality of workforce development, the market for workforce development, with informed information. It is not just a document for BIS, therefore; it is a document that we would hope that providers, regional bodies, a whole host of organisations, would want to look at and then start to reflect their own priorities.

**Q65 Chairman:** So you will play a part in promoting the findings of that report widely across the country.

**Mr Davis:** Yes.

**Q66 Chairman:** What obligation has the Skills Funding Agency or BIS to take any notice of what you conclude? Could they just say “It is very interesting but we will not do it that way”?

**Mr Davis:** That is more than possible, but we would hope that—

**Q67 Chairman:** More than possible?

**Mr Davis:** No, I am sorry. Let me rephrase that. We put forward advice to them but they have to interpret it into their funding strategy.

**Q68 Chairman:** Why do you exist? Should this not be incorporated within the Skills Funding Agency—the “not invented here” thing is always a risk—or actually in the Department? You are setting national skills policy and it has been subcontracted to you. Is there a risk that it is more than possible that it will be ignored because it does not suit these two organisations that you are not part of?

**Mr Davis:** The first thing to stress is that the Commission’s remit is a UK remit. Our accountability is to seven co-sponsor ministers: four in England, and one each in the devolveds.

**Q69 Chairman:** That must make your life easy!

**Mr Davis:** Interesting. It also has a remit that extends across both employment and skills. We see that as a strength because it is about looking at the connectivity between employment policy and skills policy, and particularly the role of skills in helping people progress in work. Our role, if you would wish me briefly to outline what it is, is an advisory role to the UK Government around employment and skills and holding a very firm, I would describe it as an honest mirror, towards our ambitions of being world-class in both employment and skills.

**Q70 Chairman:** You exist to discipline the departments and keep them on the track, and make sure they are doing the right things, from your objective work.

**Mr Davis:** Yes, and we are also given specific remits to review parts of that delivery. For example, in terms of that accountability we are currently reviewing the extent to which employment and skills services are intergrated.

**Q71 Chairman:** I will let you into a secret. We do quite a lot of scrutiny of Government and we make suggestions to Government. They do not always listen to us. Sometimes they do. I just have this concern that, because you are outside the machinery of government, your views can be marginalised. Are you concerned about that?

**Mr Davis:** I would say no. We feel very confident that, in terms of the work that we have done so far, we have had a positive impact.

**Q72 Chairman:** I would say the same thing, answering that question myself.

**Mr Davis:** Then perhaps I would ask you to look at the document we have published called *Skills, Jobs, Growth* and to see the extent to which aspects of that have been taken forward into the Government’s skills strategy.

**Q73 Chairman:** That is a bigger question. You are confident that your audit will be taken notice of by the departments?

**Mr Davis:** Yes.

**Chairman:** We will move more regionally now. Mick Clapham.

**Q74 Mr Clapham:** What we are going to see is partnership working between the RDAs, the leader boards, local authorities in a particular area, Sector Skills Councils, et cetera. At the end of the day we are going to see various reports draw up. There will be a report on the economic strategy for a particular area and, within that, the skills strategy will be drawn up. How will you go about working together to draw up that report on skills, within the context of the economic outlook?

**Ms Alexander:** I should probably distinguish between London, where the situation is slightly different in terms of governance with the London Skills and Employment Board, but the nine Regional Development Agencies are all producing the skills plans. In the short term, the Regional Priority Statements for 2010-11 have just been produced by the eight of us outside London—very much based on the work that we have been doing with the regional partnership boards, the boards with the local leaders, based on our regional economic strategies and, in some areas where they are further ahead, the regional integrated strategies that are coming together. They are based on input from a number of different areas. For example, looking at replacement demand, we take information from the Job Centres and from BusinessLink; looking at high growth, we are working with our Science and Industry Councils and making sure that we are identifying the sectors as well as the places in each region which need priority action, where the skills gaps are, and where the long-term as well as the immediate needs are. Those will all be built into the skills strategies, which will be a crucial part of the work of the Economic Development and Skills Boards, not just with local authorities, who are obviously crucial partners in this, but also the providers and the businesses and indeed the universities that are represented on those boards. Those will all feed in, giving a longer-term view, and we will be looking to the Department, in making its guidance to the Skills Funding Agency, to be reflecting the needs of sectors and places for that funding.

**Q75 Chairman:** An employer engagement with that process? You talk a lot about public sector bodies there and their engagement. It is supposed to be a demand-led system we are in now. What is the employer engagement?



**Ms Alexander:** Our sub-regional partnerships, which are very much our on-the-ground engagement with employers, have certainly played a big part in that—as well, of course, as the Sector Skills Councils and their views from the larger employers.

**Q76 Mr Clapham:** Mr Sparks, could I ask you—because obviously the leader boards will be very much a part of this partnership—do you see that being a creative partnership?

**Councillor Sparks:** Yes, I think that the establishment of leader boards has brought added value to the whole regional regeneration scene. There is no doubt about that. It is both applying real power and also streamlining the process. Our feedback and my direct observation on this is that it has been taken very seriously throughout the country. It varies considerably from region to region. I have had direct involvement recently for the LGA in the West Midlands and the North West. They both organise totally differently, but they are quite clear that they need to go beyond an individual local authority in order to have meaningful partnerships with the RDA and other bodies, and that this is vitally important to the future of their individual communities. Because the most important point as far as we are concerned is that we are genuinely concerned about the future, for example in the West Midlands—which is obviously an area I know well. Two points. Even if there is an upturn in the economy and the West Midlands revives, there is an open question as to whether that would limit it to one part of the region, say Bromsgrove, Worcester, going up to Solihull, as opposed to the Black Country area, which I represent in terms of Dudley. That is mirrored in other regions. Equally, it is important that the skills needs in particular areas vary considerably; so that the skills needs in Birmingham, for example, are radically different from those in Bromsgrove. Equally, in the North West you will find that there are big differences between Liverpool and maybe part of Cheshire. We are answerable, as local politicians, as you are, to the individuals who make up our individual communities. If those people are not able to compete to get a job, they will stay unemployed. Equally, if we have lots of people who are not able to get jobs in a modern, international, global economy, we will not then be able to revitalise our communities. The leaders of councils are therefore taking it really seriously. One final point. In terms of putting pressure on councils, there is nothing better than for there to be peer pressure. You are only as strong as your weakest link. If you have a local authority that is not performing in a sub-regional partnership, there is more chance of getting them to perform in that partnership than if they are dealt with in isolation. A final point, and this goes back to the original bit. National programmes leading to hitting national targets and outputs, or whatever jargon you want to incorporate, are meaningless in this particular exercise, because ultimately it is what is needed at a local level. There is no point in us losing our existing employers because we cannot provide

them with the skills to compete in new markets if we are hitting some national target. The national target is irrelevant in relation to a local context.

**Mr Morgan:** I would support that. From a provider's point of view, what we want to do is make sure that we do not have an independently operating skills strategy in the absence of an economic development strategy. Hopefully, the new structure will bring that together. What we need to see from a practical point of view are economic development officers stepping inside colleges and working with curriculum teams, giving them heads up and radar on the skills needed. What are the inward-investing companies that we want to attract into Warwickshire and what is Warwickshire College doing in response in the curriculum? That is the link and, where we can get to that, I think it brings huge optimism.

**Q77 Mr Clapham:** Mr Sparks, I agree totally with what you say about the difference between the regions, et cetera. You will be aware that, some considerable time ago when we had the large nationalised industries, what used to happen is that we moved towards full employment, because many people who did not have the skills that were marketable were still provided with a job. In many areas we have high levels of unemployment and, again, it is a grouping who do not have the skills and, unless we can create the jobs, we will still have high levels of unemployment. Do you feel that there is a role at the present time perhaps for Government to consider creating funding for local authorities to be able to take on and create the jobs that, in many areas, will not be created by new industries coming in? I am thinking in terms of those areas that are regenerating. Do you see a role there for local authorities?

**Councillor Sparks:** Number one, we do, and we have put our money where our mouth is on this, in that the LGA has encouraged local authorities, for example, to take on young people as apprentices, as a contribution. The second point is a really valid point and I can illustrate it by a perfect example in Dudley. First of all, there are a lot of people, when the nationalised industries were being run down, who were able to get training packages that have never been surpassed and, as a consequence, really did acquire skills that made them a lot more employable and gave them alternative careers; not just short-term jobs but alternative careers. It worked well; it provided a long-term perspective and it fitted in with the needs of an individual as opposed to a statistician. The second point, and the Dudley case illustrates it perfectly well, is Round Oak steelworks closed and on its site we now have a major shopping development. It is not an out-of-town shopping development but it is a major one, providing 10,000 jobs or whatever. Equally, on the same site, we have offices that also provide employment in financial services and the usual office employment. Some of that employment that came in to provide jobs for people being made redundant from the steelworks, for example, has now gone; because it is far more mobile than what it was in the past. We think, as a local authority, that we solve the

problem. You get people to come in and invest and you solve the problem. Not any more, because they can just up sticks and go; so you have to give them a package, as has been pointed out—a total package, going from the region right down to the local—as to what they require in terms of training. One final point. Also, Dudley—you ought to have a look at this at some time in general—has targeted young people and the creation of businesses for young people, because it was a much-neglected area. You do not know, and there is nobody in this room who knows, what will be a successful business. Some people might have a good idea and it might be successful, it might not. What you need to do, however, is if you have a successful business in the area you have to nurture it and support it, so that it then develops. Too often, people look at the past and they do not try to pick on the winners in the local community. That is why we have argued very strongly for this whole thing to be broken down to whatever is the appropriate partnership to make it work.

**Q78 Mr Clapham:** Do you both, the RDAs and the local authorities, feel that you can manage the tension that there may be between what are the demands at a local level and the demands at a regional level for different skills?

**Ms Alexander:** I think that if they are not aligned we are not doing our jobs properly, because it is not about the tension between local and regional; it is about exactly what Councillor Sparks has just said: which is the right level to make different provisions? For example, we may draw together an aggregate demand for certain areas of training which we know is coming, which cannot be met locally because there is not the critical mass to provide it. That can add to and complement what can be done locally. I do not think it is right to draw that tension as something which cannot be made complementary. I think the big strength going forward is that we are actually articulating it; as a central part of economic development we are articulating the different levels of skills needs—short term, long term, sector, spatial, local and greater critical mass.

**Councillor Sparks:** We do agree with that and we stated that on 7 October 2008, when we were giving evidence here on RDAs.

**Q79 Mr Wright:** I think this question has been answered. It is whether or not the Alliance of Sector Skills Councils believes that regional plans should be developed on a sectoral basis. That is their view. In my particular area in the eastern region, you have to look at particular sectors because it is such a big area for people to go to. My concern is this. On a visit down to Bristol, for instance, we looked at the Airbus and the aerospace industry there. By doing it on a sectoral basis, on a regional basis, you take away the ability for my youngsters in my area to go, if they wanted to have a career in that particular area. I come from an engineering background. Obviously engineering covers a whole spectrum, and

I was given that opportunity. What is your view in terms of whether it should be sectoral, or whether it should be done on a regional basis?

**Mr Davis:** It is both. You need a sector perspective in order to define the specific skill requirements of specific occupations, and that is a role that the Sector Skills Councils have in terms of setting the standards that become the basis of qualifications; but, as you said earlier, individuals and businesses trade within specific labour markets and that therefore requires you to understand the infrastructure that is available, the providers that you can work with and the employers that you can work with. It is not intended to make it look complicated; it is just a reality that there is both a sectoral dimension and a geographic dimension, and you do need both.

**Ms Alexander:** That must be right. One of the areas where we have been developing work with Sector Skills Councils is the new focus on those industries which will drive us out of recession. We have to have sectoral strategies; for example, what a low-carbon future will require in terms of new skills that we do not have at the moment. Then we need to identify where the opportunities are for those to be created; then we need to drive that right down to the local labour markets and what particular skills individuals will need to play a full part, whether it is in offshore wind or new nuclear skills that need to be developed and maintained. We need to identify where the strengths are now and where the opportunities are for the future, and that is very much place-based as well as sectoral.

**Mr Doel:** If that is achieved—and that is not a non-trivial task—then it will be wholly welcome. Perhaps I might point out that presently the funding cuts, just applied to adult learner responsive, will have an effect on aeronautical engineering at a college in the Bristol area, as we speak. The national priorities will drive funding out for that particular area. It emphasises the importance to get this more sophisticated assessment of the skills needs in order to drive the funding machine, to allow colleges to deliver and, in the particular case we find now, an area where typically you see there is high technology that has not been funded or is at risk of not being funded in the forthcoming year.

**Mr Morgan:** Perhaps I can support that and say that, where it works well—for example, we are opening a new college at Rugby in the summer and there has been a £7 million additional investment from the RDA to put in a power academy, aimed at creating technicians for the new power industries. That is a fantastic working-together, but it has been a struggle getting there because of bureaucracy. If we can smooth that over and make it faster and more responsive, that is what we need. However, do not underestimate the ability of colleges to respond, having to face the new cuts that Martin describes. It will make it difficult to be fast-responding to industry needs.

**Q80 Roger Berry:** Even without cuts, bringing this all together is pretty challenging. The response to Tony's question on these lines tends to be, "We have to do it. It has to be at every level. We have to look

at every sector and we have to pull it all together". I am curious as to how in practice this can best be done, because there are presumably good ways of doing that and less good. At the moment the plan is RDAs and local authorities will produce their regional plans; the Commission produces a national audit. How do those two things fit together?

**Ms Alexander:** We are working together on the information we are both providing, but I would also say that it goes way beyond that. We, for example, are doing some very serious work on the individual sectors that have been identified as priorities for the country, driving down through a number of different task and finish groups exactly what business is telling us the needs might be and trying to identify where they need to be met into the future. We will undoubtedly feed that into the work that the UKCES and the Sector Skills Councils are trying to do, as well as using it to drive our own regional skills strategies. We do need to make sure that we are putting together all the information that we are collecting and trying to make sense of it together. There is no doubt that that alignment is essential.

**Q81 Roger Berry:** Are you saying that it is essentially an iteration process and the issue is how long it takes to arrive at a consensus? The Commission will be listening to what RDAs are saying, for example; RDAs will be asking the Commission "What is your national view on this?"—presumably also to get an idea about the implications for the region. How does that work? When do you stop iterating and say "Right, we now have a regional strategy that is consistent with what the Commission is saying should be happening nationally, and we hope and pray that we can get the government departments to agree"?

**Ms Alexander:** We are clear that there are some key moments in this system where you have to produce exactly that. Last week, therefore, we produced Regional Priority Statements. They are based on the best information we have now. By next year we will have got a lot more and by next year we hope we might have some indicative regional funding allocations that we would then be relating the priorities to. So, yes, it is iterative in the sense that it never stops, but I think there are key points in the process where the process has to deliver. We would expect to see how those Regional Priority Statements influence allocations and we would hope that they are very useful to providers in seeing the analysis that they develop of the sectoral needs and opportunities, and the business voices in each region and at each locality.

**Ms Muirhead:** Just to add to that, I would really want to stress that we are all intent on using the same data and evidence and sharing it. This is not about us each producing a strategy based on different evidence from employers, *et cetera*. We are absolutely working, as Michael has said, with our data inputted to their work and vice versa. We are pooling all of this. We need to do more of that as we go forward, so that we are basing that regional as well as national and local perspective on the same set of evidence and data.

**Q82 Roger Berry:** How does that feed into the SFA? Do you have a joint, collective view about the implications for the SFA or are different views put forward?

**Ms Alexander:** It is the Department's view that will be fed into the SFA; so we are all feeding into the Department the different roles that we have. Our role is to produce an analysis of the sectoral and spatial needs of each of our regions, as built up from our consultations regionally. The UKCES has a different perspective on that and the Sector Skills Councils have another perspective; but all of us are trying to pool the data so that we are aligning those perspectives. It is then up to the Department to drive the decisions through the tensions that are inevitable, given the constraints on funding even now, let alone as we go forward.

**Q83 Roger Berry:** What happens if the Government and the SFA decide on a skills investment strategy and that conflicts significantly with the regional views or with the National Skills Audit? What happens next?

**Mr Davis:** I do not think that is the biggest challenge. The biggest challenge is how we currently measure success and the extent to which we empower and trust providers to adequately respond to that intelligence. We will bring forward our intelligence. I would stress again that it is important to see that that is intelligence for everyone, because the public purse is a part of our total training and skills landscape, and a very important part; but employers and individuals do more. So you are trying to put more information into the totality of workforce development so that everyone is more informed in the decisions that they make. I think that we will converge around some common themes around what is important, both from a regional perspective and a national perspective. The challenge will be working through how that is implemented and the information signalled then to providers, for them to be able to respond; and then this cross-cutting thing, if you will, is the current impact on the qualifications.

**Mr Morgan:** From a provider's point of view intelligence is fabulous and planning is fabulous, but the biggest challenges that providers face is when, despite the best efforts of economic development officers, a company, from its own volition, decides to land next door to you in your region. When that happens, you need a fleet-footed response to skills supply. Coming back to the theme of this Select Committee, I am not sure that the structures we have in place will allow me to be fleet-footed enough in response, because I have more people to convince. A company lands next door. It will have a 14 to 19 impact; it will have a 19-plus impact; it will have a five-year impact on what I do in terms of curriculum overall. It is a huge new strategy for my governing body, as an independent corporation and I think that we could be stuffed by this structure.

**Q84 Roger Berry:** I apologise. I arrived late and maybe you have given a very clear and simple answer to this already but, just in case my colleagues need reminding, what would solve that problem precisely?

**Mr Morgan:** I think what would solve that problem is for trusted colleges to be able to move their money around, to make the appropriate the response that governors feel is right for the company and for us to in-source into that company.

**Chairman:** Foundation status for colleges, effectively.

**Q85 Roger Berry:** Whatever determines the flows that come in, at the end of the day it is the flexibility of the college.

**Mr Doel:** To misquote a military analogy, “No plan survives contact with reality”. Actually, no matter how well the plan is articulated and how carefully it is built through intelligence, the real world will be different to the one we had planned for. The only way in which we will be able to deal with that reality will be the point of delivery. The colleges working within broad intentions and having the ability to respond quickly and well; and then being held to account for what they have done—which might not be precisely what the plan required them to do, but they are able to manage within the year to deliver best benefit and have a grown-up conversation at the end of that year about what they have achieved, why they have achieved it, and how they have used the money to best effect, which may not be precisely what was planned.

**Ms Alexander:** We fully agree with that. We think flexibility is an absolutely crucial part of it.

**Q86 Chairman:** Is there flexibility? I agree with you, that is a wonderful word, but where is the flexibility in this incredibly complex system?

**Mr Morgan:** Flexibility will only come if that company says to me “We are going to pay for this. Here is your money. Get on with it. In-source. Become our training division”.

**Q87 Chairman:** You do not just have it for a system. It is an outlook. We all look after learners in this process. That is the objective of all this, to drive up the skills. Please, no one defend the system; just say “How do we make it work?” I agree with you that flexibility must be crucial. How do we do it?

**Ms Muirhead:** The issue is not necessarily simply about the system; it is about the extent to which there is ability within-year financially to respond to the kinds of things that happen: whether they be a planned inward investment or one that is a pleasant surprise on your doorstep, or indeed crisis, as we have had over the last 12 to 18 months, where we have had to talk to the LSC to shift funding about in-year. When we as RDAs say that we would like to see that flexibility going forward, it is that flexibility in-year, notwithstanding the planning and priorities where we try to look ahead, and none the less to be able to shift some money around in-year.

**Q88 Chairman:** All the evidence is that they are not allowed to do it. A college in my constituency has two different pots for adult learning. It could not via money between those two pots and so it had to sack teachers and have money in the bank account. There is no flexibility at present and this system, it seems to me, will make it much less flexible. I am listening today and I just hear inflexibility piled on inflexibility—unless I have missed something.

**Mr Morgan:** Just to support you, sir, can I say that a survey of 21 colleges belonging to the 157 group indicates that the current cuts we have just heard of will yield 1,200 staff redundancies and will take £40 million out of the system. That is fine, and you can always trim a business. There is lean activity to take place. However, that will impair a flexible response to industry, without any question.

**Mr Doel:** To take your point further, analysis from the whole of the sector is about 7,000 redundancies. That need not be 7,000 redundancies if you had more freedom to manage within a headroom budget and actually deliver this more effectively. You are absolutely right about having the ability to be efficient and having that freedom of flexibility. Government has made some proposals in these areas; we just need to see them through and make sense of them. People speak about this, but do they go and do something about it, and trust the institution to deliver? It is a leap of faith but that leap of faith is much more important now, when we have constrained budgets, than it was when budgets were growing.

**Mr Davis:** This is why, from the Commission’s perspective, it is intelligence for everyone. Absolutely the Commission’s line is how do you trust providers, how do you give them that opportunity to vire, so that they are informed in the decisions that they make? I would not want you to think that the Commission was trying to reinforce a system of planning and controlling.

**Ms Alexander:** There is another element to it, which is that I think we are working much better together to make sure that we do not suddenly land a demand on a college without having seen it coming; so we need to be working together with the businesses.

**Q89 Chairman:** There are so many more of you to work together. There is the Department, the UK Commission of Employment and Skills, Sector Skills Councils, the RDAs, the Skills Funding Agency, the Young Persons Learning Agency, local authorities, National Apprenticeship Service, LSIS—I forget, that is the Improvement Service—Ofqual; then there are the colleges, employers and the learners at the end of all this.

**Mr Doel:** Could I add one that we have not spoken about? The Department of Work and Pensions and then there is Jobcentre Plus.

**Q90 Chairman:** Yes, another one. Making that system flexible it seems to me would defy a genius.

**Mr Morgan:** I have governors from companies who are considering whether they can be involved any more because they are just so fed up with in-year budget adjustments, cuts, changes in policy. It is becoming quite farcical.

**Chairman:** We are trying to make the plan engage with reality, as you said earlier, Mr Morgan. Brian Binley has some questions.

**Mr Binley:** It is about the voice of employers. I have heard so little of that that I am horrified, quite frankly. I have never heard such a bureaucratic mess in all my life, in a world that is moving quicker and quicker. I do not believe that you will get the intelligence in time to make sense of it, because it will be out of date by the time you have collated it. This is why we have to shove decision-making right down the line, in the way that David Sparks talked about and in the way that Mr Morgan and Mr Doel talked about. We have to cut out masses of layers and masses of organisations to get down to them, because our job growth will come from the SME sector and our creativity will come from that sector too. They do not operate at regional level; they do not operate at national level; they operate at the very local level.

**Chairman:** Sub-local level, actually.

**Q91 Mr Binley:** Very much so. I want to ask you, on behalf of employers all over the place who are just as frustrated as me, what role will they play in these plans and is there any statutory requirement for you to consult with them?

**Ms Alexander:** We are here to represent the business voice and we work with businesses all the time. They are the key players in determining what we see as the business needs that will drive economic development. We work with the business member organisations, absolutely at the heart of what we are articulating as regional needs, local needs and sub-regional needs. That is the way in which we would hope to articulate what businesses are telling us but what we would also hope to do is join up some of the bureaucracy for business, so that we could hide the wiring and get them where they need to be to get the skills provision that they are looking for.

**Mr Binley:** But they do not want you to consult with them; they want to get on with the job and they are fed up with consulting body after body after body.

**Q92 Chairman:** Can I come in on this, because there is a question I wanted to ask. One of the issues we have not discussed much is workplace learning. It is hugely important for SMEs. What comfort can I take away that these new arrangements will support workplace learning, which is really important for those micro businesses? Not just for them but particularly for them.

**Ms Muirhead:** We absolutely agree with you and we would absolutely make that one of the priorities in the way in which we would wish to see provision being delivered in future, whether that be colleges working in the workplace or whatever. As Pam has said, the business representatives, both individual businesses at the local level and also their representative organisations, say these sorts of

things: that they want work-based learning; that they want other skills training; that they want flexibility at the local level. We see it as our role to be very strongly championing that and shouting loudly on their behalf.

**Q93 Chairman:** Does not the LGA see its role as that as well? What is your role in this? We are talking about very local businesses, which often have no contact with the regional organisations at all.

**Councillor Sparks:** First of all, to answer the question whether we have a statutory requirement to contact businesses, we only have a statutory requirement to contact businesses in relation to making the budget; but as a result of that you will find that in local authorities in general best practice will have built on that and will have combinations of things, as we have in Dudley, in terms of breakfast meetings, *et cetera*. This goes back to one of your earlier inquiries in relation to Regional Development Agencies. Certainly it is a problem we have had in terms of the accountability of local authority members of Regional Development Agency boards, as to how far they are accountable. The Government has set up various agencies. You name it. You will get people representing employers who are on there who are meant to answer this particular problem, but it does not always work. That is we have come to the conclusion that the only way you can crack this, and indeed make it smoother and more efficient, is if you do get down to very local partnerships that are determined locally. If people do not think they are on it, they need to shout their mouth off to ensure that they do get on it and their voice is heard. We have not cracked it and we are not perfect, but at least we need to focus on that. The problem about all of this is that it is in danger of looking at the world through the wrong end of a telescope. It is looking away from the problem, not at the problem.

**Mr Doel:** I think the ultimate partnership is between a college and the business that it is supporting. The great benefit of Train to Gain, for all the failings and difficulties that might be identified by the Public Accounts Committee, is that it has brought colleges closer to employers and they have become more familiar with meeting the needs of employers for a variety of means, and are ready—whether it is work-based or it is an apprenticeship offer or if it is actually in situ in a college—to give the personalised or tailored solution to business that business asks for. What we do not want are any new procedures, processes or funding agencies to interrupt that direction of travel—which is one that was endorsed by the CBI in its survey last year about colleges having travelled a long way in terms of being more demand-led and more responsive to business. We want to see that continue as a direction of travel.

**Councillor Sparks:** Can I add one other point which has not been raised but you have looked at it in previous inquiries. Certainly this is something in the local government sector that we are really keen on now. That is, the scope for innovation and new initiatives. I think that has to be inbuilt as well. That is the point in terms of the needs that might not be

catered by the normal college course, for want of a better expression, because of, say, distance learning and small employers. You need to have the flexibility to be able to deliver that.

**Mr Davis:** I would like to answer your initial question. First, the Commission itself is an employer-led organisation. Its chairman is Sir Mike Rake, who is the chairman of BT.

**Q94 Mr Binley:** Hang on. These are the organisations that lost or are in the process of losing 1.5 million jobs while the SME sector was in the process of making two million jobs. This is my concern. Where are the SME leaders on your organisation?

**Mr Davis:** We also have commissioners who are from small businesses. Julie Kenny runs a security business in south Yorkshire. We therefore have a full spread of employer representation in terms of size and even sectors. The commissioners, as you have expressed, were also frustrated with the complexity of the skills landscape and in our advice we did bring forward suggestions on how some of that complexity could be reduced, and that has been taken up in the Skills Strategy. However, what I would say is that, to drive the transformation that you are asking for, for me it comes back to our needing some really clear principles. What we have consistently said as an employer-led Commission, therefore, is the importance of empowering customers so that they run the system and about focusing on the outcomes—so the qualifications are important but not the sole measure—and trusting providers. If we could keep those messages going forward, then you have a framework by which you start to simplify specific roles, responsibilities and processes.

**Q95 Mr Binley:** One final question to the colleges. More and more, we need to be working with business on site with business. How do you deal with

outreach? How do you get out to them? How do you provide tailor-made training? Sectors are moving so quickly. I am talking about technological manufacturing and those sectors. How do you do that?

**Mr Morgan:** We have a bespoke business engagement arm in the college that is out there all the time, visiting and talking. Sometimes you are invited, sometimes you are not; sometimes you cold call. But when we go there what we do not do is talk about qualifications. We have a discussion about where the business is going over the next five years, what the problems are and how we can suit them. Sometimes qualifications are a solution but not always. Some of the work is part-qualifications, part-bespoke, but we always try to demonstrate to them a return on investment—a formalised return on investment for our engagement with them. That is how we do it. Then we say to them at various stages, “These are the parameters of success and, if we agree them at the end, you become our advocate for other companies”.

**Mr Binley:** I am encouraged.

**Q96 Chairman:** I am going to wrap up here, but I will give Mr Morgan the last word, because I think it is publicly known that he will have a successor fairly soon at the institute in Warwick. Having sat through today’s session and having had a career in further education, what message would you send your successor at Warwick about the world he is about to inherit?

**Mr Morgan:** Be passionate. Politicians and systems come and go but the colleges are such a good idea that they will survive and keep changing lives on a daily basis.

**Chairman:** I think that is a good note on which to end, because it is ultimately about those lives we are trying to change. Thank you very much indeed.

**Tuesday 9 February 2010**

Members present:

Peter Luff, in the Chair

Mr Brian Binley  
Mr Michael Clapham  
Mr Lindsay Hoyle

Miss Julie Kirkbride  
Lembit Öpik  
Mr Anthony Wright

*Witnesses:* **Mr Peter Lauener**, Chief Executive, Young People's Learning Agency; and **Mr David Cragg**, Chief Executive (interim), and **Mr Geoff Russell**, Chief Executive (from 1 April 2010), Skills Funding Agency, gave evidence.

**Q97 Chairman:** Gentlemen, welcome to the second of two evidence sessions in the inquiry that the Committee is conducting into the funding arrangements for further education and the creation of the Skills Funding Agency. Thank you very much for coming in. As I always ask our witnesses, please introduce yourselves for the record.

**Mr Lauener:** I am Peter Lauener, Chief Executive Designate of the Young People's Learning Agency and I took up that post last September ready for the start of the new organisation on 1 April.

**Mr Russell:** I am Geoff Russell, Chief Executive of the LSC and Chief Executive Designate of the SFA.

**Mr Cragg:** I am David Cragg, Interim Chief Executive of the Skills Funding Agency until the end of March when I hand over to Mr Russell.

**Q98 Chairman:** And you were previously?

**Mr Cragg:** Previously I was regional director of the Learning and Skills Council in the West Midlands.

**Q99 Chairman:** From which we know each other fairly well.

**Mr Cragg:** Indeed.

**Q100 Chairman:** My first question is addressed to Mr Cragg. You have been running the SFA in shadow form since September last year. Are you up to speed?

**Mr Cragg:** We are focusing in particular on the core business and on what are some quite radical changes to it and we are absolutely up to speed and on track. To be specific we have all our staff, where they are transferring, in the right places. There are some minor functional mismatches, but broadly all of them are in place. Most importantly, we have put in place the basis for the single account management system which is the biggest change and a significant simplification of the arrangements with colleges. We have dovetailed that work with the government's announcement of the 2010–11 funding budget in the form of the Skills Investment Strategy, and I am pleased to say that we are able to get that out to colleges and training organisations at a very early stage immediately after publication. We have subsequently produced all our relevant guidance documentation on time and expect to be able to complete our main core task of allocations to colleges and providers for 2010–11 by the scheduled date of April. Obviously I am quite happy to elaborate on the subsets of those issues, but the

crucial priority for us was to put the core business changes in place, to establish the single account management system with the staff associated with those roles with the underpinning core functions in finance and to make sure, as you would want us to, that the money gets out the door on time and there are no delays.

**Q101 Chairman:** We shall return to a lot of these issues in more detail, but basically you think you are nearly there?

**Mr Cragg:** Yes.

**Q102 Chairman:** I have to say I find the arrangements for further education provision and funding in England extremely complex and you are at the sharp end of it. There are a number of areas in which the Skills Funding Agency and Young People's Learning Agency need to work together and we shall come to those joint working issues a little later, but are there any statutory requirements, or tablets of stone, that determine your working relationship?

**Mr Cragg:** I will begin and Peter will pick it up. A very clear set of interdependencies were established in statute at the outset. In particular, the responsibilities of the Skills Funding Agency for overall oversight, in effect the regulation of further education colleges, means we have to be very closely aligned, almost joined at the hip, when it comes to work on the stability of the statutory institutions and the role they play especially in local communities. Therefore, the interface between 16–19 funding and delivery and that statutory role sitting in the Skills Funding Agency and the 19-plus work in further education is crucial. As an explicit part of that, the Skills Funding Agency has the responsibility for intervention, ie if there is a failure of quality or management, or significant difficulty about the financial viability of an individual institution, it is the responsibility of the Skills Funding Agency working in conjunction with the Young People's Learning Agency with the respective local authority. Therefore, the statutory responsibilities mean we are very interdependent and from the very beginning we set out to establish clarity around those interdependencies. When you change the boundaries, as we have done, from 16 to 19 then you have to work it through in significant

detail to ensure that you hide the wiring, to adopt an expression others have used, or minimise the impact of those kinds of boundary changes.

**Mr Lauener:** The Apprenticeships, Skills, Children and Learning Bill sets out clearly the responsibilities of each agency. There was a good deal of debate in Parliament as the Bill was going through about the need for both the SFA and YPLA to work closely together. We have taken a lot of steps together to put the basis of that into effect. For example, we have already set up a joint management board to make sure we look at both the interdependencies to which David Cragg referred and also the operation of shared services because we are determined that we will not replicate services that should really be maintained in common.

**Q103 Chairman:** This is really a patsy question and only history will tell whether or not the answer to it is right. Are you confident you can manage the lines of communication and working relationships between the two organisations effectively? I have to ask the question and I know the answer you will give, but let us see whether history bears out the accuracy of your response.

**Mr Lauener:** We are confident that we have taken all the necessary and right steps. We shall need to keep it under constant review. For example, in the allocations for 2010–11 we have already taken steps to ensure we work together effectively in practice and look at any different issues around the further education sector. It is not something we should just assume will happen because we start with good intent; we must systematically review it together. I would expect both departments to want to review that because it is extremely important both to them and our stakeholders.

**Mr Cragg:** The logical extension of the work we are doing jointly is that if the system is to operate effectively we will have to operate in close collaboration with our colleagues in the Young People's Learning Agency directly with local authorities on the ground. For example, we are making absolutely sure that within our account management system there is someone with the responsibility for a college or group of colleges within a locality and a clear set of structured linkages between that work and what the local authorities do. I add a footnote about boundaries. There is a lot of talk about how this will duplicate functions and clearly we need to ensure we avoid excessive process and bureaucracy around that, but if you look at where we were before with the Learning and Skills Council, the Learning and Skills as a body funded school sixth forms although the responsibility for schools was absolutely in statute with local authorities. We worked our way through that in partnership with local authorities, arguably with some success on 14–19 issues with all the reforms in that area. We shall need to undertake a lot of further detailed work to make absolutely sure it is working on the ground and not just between ourselves at national or regional level.

**Q104 Chairman:** Mr Russell, you will inherit Mr Cragg's good intentions. Are you happy?

**Mr Russell:** From what I have seen, as Mr Lauener has suggested, there are already demonstrable examples of the two sides working together. From where I sit at the moment I am focused principally on managing the day-to-day operations of the LSC and ensuring that it comes to a smooth landing.

**Q105 Chairman:** It has had a pretty bumpy flight so a smooth landing would be quite an achievement.

**Mr Russell:** In 50 days I will let you know.

**Q106 Chairman:** The impression we gained from our witnesses last week was that the transitional funding arrangements had worked quite well on the whole. You will have seen what Ioan Morgan of the Association of Colleges told us about the late consideration given to the mechanism for his and other colleges to be paid for their 16–19 year-old students. It appears that this important detail was left rather late in the process and caused a degree of concern to colleges. What is your reaction to that?

**Mr Russell:** I have heard Mr Morgan make that comment before and I believe it derives from the concerns of one of his governors. I have not heard it from anyone else. There is absolutely no concern within our organisation in terms of payment; it is something we do rather well.

**Mr Lauener:** I was surprised to see that comment. When I started in the post I thought about how we would make the payments on transition because it was such an important issue. In some ways to make a series of payments to colleges that have already been planned is not a difficult issue, but the payer will change from the Learning and Skills Council to local authorities in respect of 16–19 funding from April.

**Q107 Chairman:** They will provide most of the money.

**Mr Lauener:** That is a large chunk of funding. We have been going through a very detailed planning process to make sure all the details for payment are transferred across to local authorities. We have worked closely with local authorities and one of the senior local authority financial directors to make sure that happens properly, and it has also been communicated in considerable detail to local authorities and colleges. I can understand the concern to make sure that payments are made on time but I am absolutely confident that they will be. However, I shall be sitting at my desk on 20 April, the day those payments need to be received by local authorities, ticking them off on a list and making sure they are in good order.

**Q108 Chairman:** That was the assurance I sought in my previous question. It is a rather important point, is it not?

**Mr Lauener:** It is extremely important practically because colleges need the money for their cash flow. It is also extremely important in terms of reputation that every local authority makes the payment and for the Young People's Learning Agency.



**Q109 Chairman:** But one mistake will overshadow all the successes?

**Mr Lauener:** Indeed, and it will become a *cause célèbre*.

**Q110 Lembit Öpik:** The Department was bullish in its assessment of the consultation process with delivery partners on the design of the Skills Funding Agency. How did that consultation process work?

**Mr Cragg:** Obviously, there was a good deal of consultation and a series of regionally-based events around the original formulation of the policy. That was prior to and immediately after the White Paper. My recollection is that the White Paper was published as long ago as March 2008. Thereafter, there has been a whole raft of consultation. It is also important to say there has been oversight led by the previous DIUS and now by BIS through a fairly broad-ranging stakeholder group with involvement by organisations like the Local Government Association and nominations from the college, the provider sector and senior business people. That has also been an embedded part of the evolution and development. As recently as last summer in the final iterations of the design of the Skills Funding Agency there was, again, a whole roadshow of activities, some of which were led by ministers and others by senior officials. A great deal has gone into that. From the point of view of operation and implementation we have sought to put in place very close and intensive working arrangements with the two major associations: the Association of Colleges, whom you met last week, and the Association of Learning Providers. I was heartened by the observations of Mr Martin Doel. We believe we have a significantly improved and improving relationship with both the main associations and they are acting as our conscience in this challenging period.

**Q111 Lembit Öpik:** That sounds comprehensive. Can you give any examples of how the design of the SFA was changed as a result of that consultation?

**Mr Cragg:** It would be rather presumptuous of me to talk about changes as a result of the consultation. I think the consultation helped. We began with the concept—I did a lot of work on the organisation and design, so it is probably all my fault—of a very arm's length organisation and in spirit it remains very much an enabling one; it is a funding rather than planning body, but its geographical distribution looked very thin. From our own perspective, but probably even more importantly from the perspective of local authorities and colleges in particular, we have a geographically distributed organisation that is nationally managed. We have moved to one provider, one relationship regardless of whether that is a multi-site organisation operating in every single region or a very small niche organisation operating in one part of a city. We have moved to that one-relationship approach rather than nine regionally-based contracts and have carried out a lot of simplification. We have, however, ensured geographical distribution with 21 locations. Some would have argued for slightly more, but that also means we are looking at the interface with the

Young People's Learning Agency and, crucially, local authorities when it comes to 16–19 work. We are able geographically to have senior people on the ground close enough to each and every individual grouping of local authorities. You will be aware that they are based on sub-regional groups. That was significantly influenced by the feedback we received so it did not end up with either a single national location, which would have been a very extreme move, or even an organisation that was solely regionally-based, we have got that distribution right across the country.

**Q112 Lembit Öpik:** You mentioned local authorities but, as I understand it, the Local Government Association was not involved in the consultation. Why was that?

**Mr Cragg:** I was amazed when I read those observations. At senior official level the LGA was on the steering group for the establishment of the Skills Funding Agency from day one. I know that only recently the chair of the Local Government Association met senior officials and ministers about the whole question of the balance of responsibilities between Regional Development Agencies and Leaders Boards. I was very surprised by that. Taking a parochial view, I was even more surprised that Cllr Sparks decided there had not been any engagement with the Skills Funding Agency. In the region for which I was once responsible we established at a very early stage a joint planning group with all 14 local authorities in the West Midlands represented on it. That was replicated right across the country. Probably more importantly, on issues of skills certainly my colleagues in the West Midlands have been very heavily involved with the local authorities in the development of the city-region proposition, anticipating where that will fit within the SFA arrangements. I was a bit taken aback by that.

**Q113 Lembit Öpik:** You are saying that they were consulted?

**Mr Cragg:** They were very much in the middle of the process—my colleague Mr Lauener can probably add to that—because of their pivotal role and work on 14–19. All the time officials in the Department were at pains to make sure there was alignment in what was happening on the Young People's Learning Agency side.

**Mr Lauener:** They were certainly very heavily involved in the design of the arrangements on the young people's side. I give two examples. First, the arrangements on the young people's side at local level were very clear with local authorities having the lead commissioning role. The regional role was clear from the start and that is where we inject the skills and economic dimension to make sure it all adds up. Because 16–19 learners travel a lot we needed a sub-regional level. We did not lay down the design of that; it came from local authorities. They were invited to say what the right grouping was in their areas. The answer was 43 sub-regional groups as it happens. Second, the DCSF undertook to fund a very small unit in the Local Government Association called REACT, the Raising

Expectations Action Programme, which works for local government but is funded by the Department to make the transition work. That has been extremely successful because it has been able to see things from the perspective of local authorities. That has helped us to have a much smoother transition than would otherwise have been the case.

**Mr Cragg:** I chaired the group on interdependencies set up by the two departments almost 18 months ago and on that group the local government side was very strongly represented through the person who heads up the REACT team. I am slightly surprised by some of those observations.

**Q114 Lembit Öpik:** That is a slightly different view from that given to us last week.

**Mr Cragg:** Indeed.

**Q115 Lembit Öpik:** If I had been a consultee I would have said I would have liked to see just one organisation doing everything that we have been discussing and it would have sub-departments within it, because it seems to me there are lots of different funding agencies in this general sector. It is a radical thought, but why do we not have just one?

**Mr Russell:** I have come into this relatively new and I suppose I can look at it a little more objectively at a high level. You have just described the LSC.

**Q116 Lembit Öpik:** Yes.

**Mr Russell:** We could have gone for that model; we could have had one organisation with three divisions. In all those sorts of organisational design issues there are trade-offs between opposing tensions. One of the problems of the LSC was that it was a huge organisation. I am told that it was the biggest quango in the country, possibly in Europe. It was remarkably well designed at a time when there was a lot of money and it was devolved with nine autonomous regions. That was why it worked even though it was so large. It had nine independent regions, which I think David Cragg can confirm, but money began to get tighter and suddenly you could not afford to have nine independent decisions being made with pots of money that would lead to disparities across the country and the LSC needed to change its organisational design very quickly and that is the territory in which we find ourselves now. If we were to have the one massive organisation that you suggest there would be some tensions between the need to have centralised control to manage the money—a rationing exercise—versus the advantage of the focus on specialisation that apprenticeships, adult and youth, would bring. That is the sort of subsidiary/head office structure that many companies adopt for the reason that you need separate cultures and focused specialisation.

**Q117 Chairman:** You have mentioned apprenticeships for the first time. The National Apprenticeship Service sits within the Skills Funding Agency but has a different structure of accountability. Therefore, you will not be

accountable for its work even though it is part of your budget. That relationship seems a little awkward.

**Mr Russell:** It is probably an example of one of the trade-offs you make in terms of the tensions of having divisions within a large organisation.

**Q118 Chairman:** Are you content with the arrangements for the accountability of the chief executive of the National Apprenticeship Service to you?

**Mr Russell:** To me the arrangements are very clear. The authority, responsibility and power for the delivery of apprenticeships clearly reside with the chief executive of the National Apprenticeship Service.

**Q119 Chairman:** He is separately accountable to the secretary of state and yet he is part of your organisation and you are responsible for his budget?

**Mr Russell:** I am not responsible for his budget; that is also delegated.

**Q120 Chairman:** Looking from the outside it appears odd.

**Mr Russell:** Again, it is a trade-off between the motive on one side to have centralised control and the motive on the other to have specialisation, focus and tailored delivery of a particular product. You can make a choice. Probably what tipped the balance was that on the youth side with extending participation and the issues around NEETs *et cetera* it was felt that local authorities do a better job at dealing with and continuing from zero to 19 than having one massive organisation.

**Mr Lauener:** That is a very strong driver on the young people side. In the run-up to raising the participation age to 17 in 2013 and 18 in 2015 and the particular focus on those not in the system at the moment we need a much more local focus to ensure we are successful in reaching those really important targets for society and the economy successfully.

**Q121 Chairman:** We will certainly ask the minister what we are asking you.

**Mr Lauener:** To add one other point for clarity, apart from the changes, the YPLA is not just a bit of the Learning and Skills Council; it has taken from the Department the responsibility for funding academies once they are up and running. That is part of the stronger focus on young people in the run-up to raising the participation age.

**Mr Cragg:** If I may go back to apprenticeship, we have to move it away from the issue of statutory delegation because that is clearly laid out in statute and through a formal direction. The most important thing on which we have been fixated over the past nine months is to ensure there is an integrated process for the delivery of apprenticeship. The National Apprenticeship Service has the overall externally-facing responsibility for generating demand and managing that relationship in the marketplace. The management of the college and provider network that delivers apprenticeship is absolutely and explicitly in one place, and only in

one place, which is the core of the Skills Funding Agency. What we have done with colleagues in the National Apprenticeship Service to very considerable effect is work through end-to-end processes. This is all the boring behind-the-scenes stuff you have to get right. Having worked through it we are absolutely clear about roles and responsibilities. An interesting facet is that it spans 16–19 apprenticeship and 19-plus apprenticeship. Therefore, for apprenticeship purposes we created a single end-to-end process for all apprenticeships.

**Q122 Mr Binley:** I want to take up the whole subject of trade-off. As a businessman, the expression frightens me to death; it tends to be very expensive and creates misunderstanding and confusion. That is what I believe many people who are on the receiving end of your work now feel. Do you believe that input from seven major areas at national level specifically handling 16 sizeable functions is the way to feed an organisation that actually does the job, ie the college or whatever?

**Mr Russell:** I shall let David make a few comments, but before he does it is worth pointing out that the situation today is probably more complicated than the one you have just described. One of the reasons there have been issues with the LSC is precisely because we could not react quickly enough given our size and complexity to the changed environment in which we operate.

**Q123 Chairman:** You are saying that everyone outside thinks we are creating a more complex system but that at present the complexity is hidden in the LSC, and the current system is more complex than the one which will be created?

**Mr Russell:** I am not sure I am saying that. We operate in a very complicated environment and the LSC encompasses all of that at the moment. There is a case that it is too large to be sufficiently agile to react to changed circumstances in terms of the economy and increasing participation and, therefore, there is a benefit to focus. When you take a large organisation and split it into three you must then create bridges to make sure things do not fall through the cracks, but in any organisation, private or public, there are always trade-offs. I do not see how you can get away from that. There is no clearly right answer in all cases, and most large private organisations change the design in response to changing circumstances quite regularly.

**Mr Cragg:** I apologise for asking you a question but to answer it correctly I want to know precisely what you mean by your reference to seven major areas and 16 major functions.

**Mr Binley:** We are looking at the Department, the SFA, YPLA, LSIS, UKCES, Ofqual and local authorities.

**Q124 Chairman:** This is really a question for the minister. I do not want to spend too much time on it, so a short answer would be appreciated.

**Mr Cragg:** The one observation I make is that Ofqual which you have cited has a very discrete, separate role. The regulation of qualifications has

never sat with the delivery agencies and I would not expect that, so we are mutually clear about that. That is a regulatory role for qualifications from the outside. The role of LSIS will transfer, rightly I believe, to the sector, so the improvement of quality and collaborative work which leads to improvement is in a transitional phase which will be subsumed within the bodies that support the sector as trade associations-cum-development bodies; that is, the Association of Colleges and the Association of Learning Providers. At the heart of what you are saying is what is the balance between the strategy-setting bodies, the UK Commission, whom I am aware you met, and Regional Development Agencies? To be frank with the Committee, we thought there were some conundrums in all of that, but given the way the statute has been formulated there is now real clarity. We have worked it through, slightly painfully but very productively with colleagues in RDAs, the UK Commission and, looking at the important sectoral dimension, Sector Skills Councils. The key is in the legislation and that is helpful. Having worked it through we have got our heads round that. The statutory role of the chief executive of the Skills Funding Agency is where the responsibility lies to deliver on the secretary of state's guidance. That is all statutory talk. In practice it means that the Skills Funding Agency will not be responding willy-nilly or randomly to nine individual Regional Development Agencies, nor will it be responding separately to the UK Commission. It will be the responsibility of the Department to look at all those competing, bottom-up issues coming from the regions and localities, and the top-down issues coming from the UK Commission in taking its overview, and it will enshrine in a single priority statement for the Skills Funding Agency what the balance should be nationally, regionally and locally. I believe that is an elegant way to do it. Frankly, if you look at the status quo one thing one may observe historically is that there has never been a clear and explicit alignment of what goes on regionally, nationally and sectorally. If we get this right there is a fair chance there will be much better integration taking on board the big, long-term issues in terms of economic and business priorities as well as some of the spatial and contextual issues which will come bottom up from the regions.

**Q125 Miss Kirkbride:** What statutory requirements exist for your two organisations to work together over funding?

**Mr Lauener:** We touched on this a little earlier. The Act sets out the statutory basis for both organisations. There was a good deal of debate in Parliament as the Bill went through about the need for co-operation and we have done a lot of work to put in place practical arrangements over the past few months in anticipation of 1 April so we do not just get to that date and think, "Crikey! We need to work together". We have arrangements that have already begun to be embedded. One of the biggest things that helped in that, for which I claim no credit because I arrived as it was happening, was the decision within the Learning and Skills Council to set up a shadow

operation from 1 October. Therefore, people in the LSC have known what they will be doing in the new organisation from 1 October. It means that a lot of people have had to juggle two roles as they have been thinking their way into their new one, working with new and old colleagues. I believe that has really helped to embed that co-operation.

**Mr Russell:** It is the two shadow organisations that are doing the funding allocations this year. There are issues there because SFA is responsible for colleges but two-thirds of their funding comes from elsewhere. We are inextricably bound because if we do not work together on the funding young people will not have delivery vehicles for their training and education and if the SFA and YPLA do not ensure funding is balanced out in a sensible way colleges fall over. We have to work together. Both David and Peter are doing precisely that. It is clear that the efficiency drive being pushed through by government—we share our bit of it as well—is causing difficulty with colleges, but they are managing that as we speak.

**Mr Lauener:** Perhaps I may add a point about practical co-operation. The Young People's Learning Agency is a non-departmental public body which is a different status from that of the Skills Funding Agency. We will have a board that is being appointed now. For the past six months we have had a transitional board which technically is a sub-committee of the Learning and Skills Council. When this was set up my chairman, Les Walton, said there was a need for a much broader range of people on the board embracing the new constituency of the YPLA, but it has very strong representation from the further education and sixth form college sector and from schools and independent providers. Therefore, we have all the constituencies that have an interest in both organisations and we expect to take that forward into the newly-appointed board. Right from the top of the YPLA there will be a very strong drive for collaboration. I am perfectly happy with this. If people do not see some of the things we talked about earlier happening in practice they will say, "Hang on! You may say that but in our colleges it is different." I am aware that in the Skills Funding Agency there will be similar arrangements. It is not a non-departmental public body, but there will be similar ongoing consultations with people at the sharp end which will pull us up short if we do not do the job together.

**Mr Cragg:** I return to what Peter said earlier about shared services. On a practical point, the one absolutely crucial shared service is around information management and data, so you do not have the Young People's Learning Agency dealing with one set of data about a college and the Skills Funding Agency dealing with another; it is a single shared service. That applies not just to student and learner information but to finance. This week the two agencies are on the point of signing a joint agreement with the local authorities on lead audit arrangements so we do not duplicate the number of audits that take place. In that regard there will be a code of practice and mutual acceptance of lead audit bodies between local authorities, the Young People's

Learning Agency and the Skills Funding Agency. We are systematically working our way through those kinds of practical issues.

**Q126 Miss Kirkbride:** Mr Cragg, based on your experience in dealing with the LSC and seeing the two new organisations come into being, what things do you believe still need to be reconciled given that there will be funding issues because the YPLA has two-thirds coming through local government for young people's skills and the SFA has a smaller budget in that respect? Given the organisations as they are, where do you see the rub is going to be in terms of problems that perhaps are not reconciled at the moment?

**Mr Cragg:** I would expect this to be a common view from Peter's perspective. I come back to the whole question of the relationship with sub-regional groups of local authorities. It is vitally important that we operate with them on a day-to-day basis, but I would identify three obvious critical areas which attract a great deal of attention from both our shadow organisations. One is around work with those with learning difficulties and disabilities where we are clear that especially in relation to the shared responsibilities for 19-25 year-olds we have to work very hard to get a common assessment process that is now in place and on the statutory change which takes place on a slightly different cycle—the transfer of powers to local authorities will be fully implemented from 2011—but we have to make sure that for the most vulnerable groups that people do not fall through the cracks and there are no perverse outcomes of funding allocations. For example, this year we have protected and ring-fenced the budget for learners with learning difficulties in further education colleges. We have not made the transfers to the authorities of some of those funds for precisely that reason. A similar territory, but probably of less significance, is work with young offenders, making sure that the join exists between work with young offenders and those in adult offender institutions. Finally, on capital by way of a joint strategy on the part of the two Departments and joint mechanisms between the two organisations we must take a common approach. We cannot arrive at a position where we have 16-19 bricks and 19-plus bricks, if I can put it very simply.

**Q127 Miss Kirkbride:** It is hard to avoid, is it not?

**Mr Cragg:** We do not think so; we think that is entirely doable.

**Q128 Miss Kirkbride:** You think that is manageable?

**Mr Cragg:** Yes.

**Mr Russell:** It is not true that we do not have some of those issues at the moment. DCSF and BIS fund separately. At the moment DCSF funds capital only for new 16-19 places; BIS funds the rest of it. Therefore, it is not the case that we are creating new tensions; some of them we already have.

**Mr Lauener:** I should like to add a very quick point on what will be testing areas. I agree with David's three points. The other general one is to do with the commissioning process. The allocation process now

going on is the last one under LSC arrangements and it will be completed by 31 March. On the young people side we have taken steps to involve local authorities much more than in the past. It will be the next commissioning round where local authorities have the statutory duty and take the decisions and manage that process so it is done on time with a clear focus. We also need to keep that commissioning process as simple as possible and ensure it is focused on what is working well, what is not working well, what we need more or less of and whether we need something new. To maintain that very simple focus and then aligning it back to the impact on colleges will be a challenge next year, but we have a good run in to that. It is the first thing we have to do, because the last thing the LSC is doing is completing the allocations for 2010–11.

**Q129 Miss Kirkbride:** Let us take a practical example from the point of view of the individual as opposed to your organisations. What about a young person who has taken A-levels and does not complete them by the time he or she leaves school and then at age 19 comes under Mr Russell's budget, presumably, to complete those A-levels? Will that be a seamless transition or will we get lots of letters to say they have been dumped? How will that work?

**Mr Lauener:** To be clear on one aspect—it is not quite the point you make but it is an important one—where someone starts A-levels, diploma course or whatever at, say, 17 and their completion goes over their 18<sup>th</sup> birthday up to 19, perhaps the funding for that will be in the Young People's Learning Agency. That is essentially the same as now where a youth allocation has been made in the past and it has been done on that basis. Where someone is 19 as now that individual will be counted against an allocation of funding that has been made for 19-plus year-olds, so there is no change to it, but if that individual starts at 19 he or she will be funded through the adult learning allocations.

**Q130 Miss Kirkbride:** Do they start when they are 18 and then go through to 19 because they have not finished?

**Mr Cragg:** They will still be funded by the Young People's Learning Agency.

**Q131 Miss Kirkbride:** Therefore, if they start pre-18 then whatever it is they are doing is funded by you even if they take a long time to finish it?

**Mr Lauener:** That is correct. It is slightly more complicated and depends upon the point in the year when the individual becomes 18, but it is the old story: I have started so I will finish. If you start in the year before you become 18 you are fine.

**Q132 Mr Clapham:** The witnesses we heard last week gave a cautious welcome to the fact that there would be account managers responsible for each college. Nevertheless, when one looks at the number of organisations that will enable a college and provide funding streams—in some cases there will be four—there is some concern that maybe the situation will have to be thought out well at college level. Mr

Lauener has talked in terms of a board where some of the account management at higher level may be decided by people coming together. Is that likely to be the way the college works, Mr Cragg? Are we likely to see the SFA sitting down with others?

**Mr Cragg:** If we look at the account management arrangements and put them in context, at the moment if you are an organisation or college operating in more than one region you will have contracts in those individual regions. Therefore, the account management system represents a significant simplification of both transaction and relationship management. To give a simple example: if you are a private training organisation like JHP, which probably operates in about 50 or 60 locations across the country, or Telford College, which has a very high reputation for its work with employers and operates in all nine regions, you will have gone from having nine contracts and nine relationships to one contract and one relationship. That is only one aspect of the simplification we are introducing. We are also introducing approved training organisation status linked very specifically to the performance management regime and in that respect we are reducing significantly the amount of procurement and tendering. Traditionally, with contracts we have to go to public procurement and have tended to procure through quite a heavy-duty bureaucratic process on an annual cycle. We will no longer be doing that and will be able to give much greater flexibility. If a high-performing specialist provider operates in one part of the country and could operate in a neighbouring region and had the capacity to do so as an approved organisation it would be able to do that without going through excessive bureaucratic processes around procurement. We believe those things will help greatly. We also believe that because there is a common performance management system for 16-19 and 19-plus we will similarly avoid having very onerous, burdensome arrangements for a college for 16-19 as opposed to 19-plus. Again, the Skills Funding Agency has the responsibility for intervention and performance management for the whole of the FE provision. In any period of change colleges and training organisations will legitimately raise issues of complexity. We can say to you that the thing we are most committed to doing is not just implementation of what we believe are significant new simplifications but, looking downstream, we want to exploit to the full further opportunities for simplification, for example simplification of budgets which have been excessively complex with lots of ring-fenced blocks. We are moving in a very welcome way towards single budget blocks for work with employers and individual adult learners.

**Q133 Mr Clapham:** From what you say you believe that the work you have been doing has resulted in a much more understandable way of enabling colleges than was previously the case. How do you envisage the work between the SFA and YPLA on colleges being brought together? Will you be working very closely? Will a board be set up?

**Mr Cragg:** We have a management board or a joint management review group which meets regularly and systematically and we regard it as an essential part of the management fabric of both organisations, but the key point on the ground in terms of local authority responsibility for delivery is to make absolutely sure that the Skills Funding Agency has clear management responsibilities and commitments to work jointly with local authorities to minimise ad hoc intervention and approaches from one side of the fence or the other, if you like. We have got real clarity around those joint arrangements.

**Q134 Mr Clapham:** Mr Russell, how do you see the college scene working with the account management? Do you view it as a much easier situation than it was under the Learning and Skills Council, et cetera?

**Mr Russell:** It is right that at the moment it is quite complicated because of the regional structure of the LSC and the decision-making and funding power being in the hands of nine different people. If a college or training organisation delivers in more than one region it must have multiple relationships. That will fall away. To some degree at the moment colleges integrate different funding streams and they will continue to do that, but we are trying to do everything in our power to give them as much flexibility as possible in how they manage their money. Less money is going into the system. We need them to survive and it would be crazy for a college to fall over with money in its bank account because it could not use that money to deal with other issues.

**Q135 Chairman:** That situation arises at present, does it not?

**Mr Russell:** Not exactly. One finds that at college level colleges will manage the money pretty much in the way they want.

**Q136 Chairman:** If we take adult learning, there was a recent case in which some adult learning budgets could not be spent and staff had to be sacked but other categories of adult learners could get the services provided. That flexibility does not exist at present.

**Mr Russell:** That is exactly what we are trying to remove. The sector has asked for it and we have committed to doing it in the Skills Investment Strategy and it is in our interest to support the sector and move it further.

**Q137 Mr Clapham:** Mr Lauener, from the YPLA perspective you believe that working with the SFA will be a smoother approach than previously?

**Mr Lauener:** I am very confident about the arrangements we are putting in place for joint working between the YPLA and the Skills Funding Agency. Perhaps I may add a comment about the local authority dimension. Local authorities are building new and stronger relationships with their colleges, and vice versa. In the run-up to raising the participation age one of the things local authorities will ask of schools and other providers in their areas

is what they need to do differently to help one group of young people, some of whom may not be in jobs with training at the moment, or another group who are just not taking part at the moment, what can they do together to support this group of young people in 2013 and 2015? I believe colleges will be extremely well placed to respond to that and come up with innovative and new approaches. Over the next few years it is such an important thing to make a success of. I contrast that with the last time this country raised the participation age. We last did it in 1973 with the raising of the school leaving age (ROSLA). Frankly, it was a bit of a shambles. The government at the time thought that it would pass legislation, make a bit of money available and leave it to schools. Whatever one might say about it, this is being done in a more thorough and better planned way that is much more focused on the needs of young people.

**Q138 Mr Clapham:** Referring to those colleges that have HEFCE funding, how will you work with them and the HEFCE input?

**Mr Cragg:** That is a really important question at the moment given the position on higher education. I, Mr Russell and colleagues last week met the chief executive of the Higher Education Funding Council and we are very clear that though we have had cross-representation on the board of the LSC and the HEFCE we now need greatly to strengthen those relationships so we look not just in the skills field but also in the field of college viability and the mutual impact and interaction of the adult learning funding streams which come through the Skills Funding Agency and HEFCE. Certainly, the discussions we had last week committed us to doing a joint piece of work immediately on looking at the impact of higher education funding changes down at the level of individual FE colleges. Those are not always transparent or visible because they are probably part of a partnership or franchise arrangement between a university and FE college. We have committed to making absolutely sure, just as we are doing with the Young People's Learning Agency, that that is part of a continuous scoping and benchmarking exercise so we do not have unintended consequences on either side.

**Mr Russell:** From a policy point of view, BIS owns both colleges and universities and the responsibility lies with one director general. We have had a discussion with him and he absolutely does not want to see the kind of dysfunction that could happen that David has described.

**Q139 Mr Clapham:** Mr Cragg, when is the piece of work to which you referred likely to be completed?

**Mr Cragg:** It is an urgent piece of work. We are now in the scoping process. Perhaps I may write to you to let you know if you have a particular interest. I would not want to commit myself to a particular timetable. Our immediate preoccupation is to look at the interface between 16–19 and 19-plus on which we are doing very intensive work. We are putting in place mechanisms and are clear about how many institutions might be affected by significant changes to higher education funding. About 60 FE colleges

have a significant base of higher education provision and we are looking at those ones. Initial soundings suggest that we are not seeing a significant set of issues, but it would be very complacent of us not to look at it at individual institutional level. We shall meet with the Association of Colleges next week and will pick up that issue up with them directly and look for their help in establishing what we believe is the impact on the ground.

**Q140 Mr Wright:** I turn to the capital programme. Last year we had the debacle over the LSC's handling of the capital programme where a considerable number of projects went forward and quite clearly there were insufficient funds in the budget to facilitate all of those changes. The Department has said that now it has put in place "robust forecasting models and measures to strengthen the financial management of the programme". What changes have been made to ensure that never happens again?

**Mr Cragg:** I shall ask Mr Russell to answer the question given that at the moment this is an LSC preoccupation. If I may, I shall come back on more general financial controls.

**Mr Russell:** I suppose it is right to say I am here precisely because of that issue. You can imagine that I focused quite a bit of attention on it. One of the issues around the LSC to which I alluded earlier was that it was very well placed to deliver money on a regional basis, but it was not that well placed to do a rationing exercise with centralised command and control. Effectively, that was what happened on capital. I changed that very quickly. I put one person in charge of it. The budgeting, modelling and decision-making was done by a small team with one person reporting to me and we put in a much improved system of financial control and budgeting. You will be aware that we went through an independent process to try to decide what to do with additional money that the Treasury very helpfully provided to us. It has been a painful process. We are down to the final stages now. We have had both an internal and external review of the work we have done around that and both have signalled satisfaction with the controls that we have in place. I do not worry about that much any more from a control point of view. In terms of dealing with the fallout, I still worry about that but we are getting to the final chapters of those stories.

**Q141 Mr Wright:** In my area a sixth form college and also the college of further education have got a shortfall because of the proposals. They had plans based on the promise of funding but now they have a shortfall and to this day it still has not been sorted out. The FE college has a shortfall of £1.4 million. Is that going to be looked at after 1 April because no provision has been made for it?

**Mr Russell:** That is a timely question. Yesterday I cleared a letter which went to 41 colleges that incurred some costs and as a result got themselves into financial difficulties. There was a ministerial commitment last year that we would not allow that to happen. We are about to spend £33 million on

those 41 colleges that, using the framework for excellence definition of financial health, would not be financially healthy to deal exactly with that issue. I cannot say whether the colleges you describe fall into that programme because it is focused on those that would otherwise be in trouble, but that is what we are about to do.

**Q142 Mr Wright:** You have talked about the regional mix. All I can say is that not one penny of the amount of money made available last year came to the eastern region which was disappointing because we considered that we should have had a share. I hope that on the basis of this that could deal with some of these issues. Mr Cragg, do you want to add to that?

**Mr Cragg:** I believe that not least because of that experience but more generally in the approach we have taken to the set-up of the Skills Funding Agency we have secured very tight accountability for each major area of work and have also subjected ourselves to external scrutiny in that process. The Department agreed with us that we would have an external financial controls review based on CIPFA criteria. That was a successful review and was very reassuring about the steps being taken immediately. Equally importantly, in our move to a single account management system it is quite a radical change. We wanted to satisfy ourselves and make certain that that work was put in place effectively. Therefore, we commissioned an Office of Government Commerce review and, frankly, we could not have had a better outcome. It was a very strong, reassuring report that not only internally but externally from bodies like the AoC people had confidence in the direction in which we were moving and all the steps we had put in place to ensure delivery on time and to programme.

**Q143 Mr Wright:** Can you explain how the new system will work in terms of capital funding? Bearing in mind you have the Skills Funding Agency, Young People's Learning Agency and now the local authorities on board on capital projects how they come together in one building which may well have an element of funding from each of the authorities will be a complex issue.

**Mr Cragg:** Most importantly, there will be a joint capital strategy between the two government departments and then in effect a joint implementation strategy between ourselves and colleagues in the YPLA. As to the detail of that, where something is discretely 16–19 it will clearly be a YPLA responsibility. That certainly includes further education colleges where we are talking about additional places explicitly for 16–19. If it is an FE capital project it will sit four square with the Skills Funding Agency's responsibilities. Of much more importance is that those arrangements should work logically and practically on the ground and one does not have a project-driven but joint approach with local authorities that looks at the whole fabric of the post-16 education and training estate to make sure one gets the right decisions in the round. Those are the arrangements we are putting in place.

**Q144 Mr Wright:** Is it not possible to have within the new framework a single capital budget for post-16 learning?

**Mr Cragg:** In effect there is a single capital budget with the exception of very discrete projects on 16–19. Whether it will be a large capital budget is a more difficult question, but there will be a single FE capital budget which sits within the Skills Funding Agency.

**Chairman:** I would love to discuss Pershore College with you, but we will not do that today. We will do that later in private.

**Q145 Mr Binley:** I turn to the whole question of culture within your relative organisations. I notice that Mr Doel of Warwickshire College said last week that whilst you had made some progress he “would not underestimate the degree of cultural change that is required in some of the people involved in the process”. He went on to talk about reaching down through the organisation. I made the point that I came from business and I know that in government bodies getting the message to where it counts is not the best skill we might have. How would you ensure that cultural change takes place in a more dynamic way than perhaps it has to date?

**Mr Russell:** When one is trying to create organisational and, more importantly, cultural change one needs to take the existing structure and unfreeze it.

**Q146 Mr Binley:** I am well aware of what you need to do; I have been in business for 40 years.

**Mr Russell:** In that case I will get straight to the point. The college capital crisis, the dissolution of the LSC and creation of the Skills Funding Agency and Young People’s Learning Agency provided an enormous catalyst for change. It is one of the biggest change programmes I have ever encountered in my life and it is a huge organisation. The amount of change to which our people is subject is remarkable. Therefore, in one sense it enabled me when I came in ten months ago to make things happen that would have been much more difficult if I had had to try to work through existing unmoving structures. I have had no problem whatsoever in terms of putting through in quite short order the kinds of changes necessary, principally because it was perceived that if we did not do it all of it would go pear-shaped. I was able, with the help of the very talented people in the organisation and the support of the two Departments, to make a significant change. I also believe that with the creation of the shadow organisation some months ago where we have leaders and senior management teams in place my job has become less and less important. I hope that in the next couple of weeks I will get to the point where I have nothing to do and David and Peter do it all and I simply read the newspaper.

**Q147 Mr Binley:** Will you give back your salary?

**Mr Russell:** I suspect that in the current environment I cannot be very helpful on the subject. I do not dispute that that is probably the right way to look at it. Certainly, my colleagues firmly lead organisations that think of themselves as the Skills Funding

Agency and Young People’s Learning Agency. I barely get a look-in these days. All I worry about are reputational issues, capital and ensuring that colleges do not fall over because of the issues that arise now, but that is working. It will not happen overnight. I spotted the comment to which you alluded and it is a fair one. It will take time but, boy, have we gone through a lot of change.

**Q148 Mr Binley:** Let me just make sure that not only do you have in place the processes to change culture, but the monitoring and feedback to allow you to fine-tune the changes because that is what the management of cultural change is all about.

**Mr Lauener:** This is something that my chairman and I have spent quite a lot of time talking about together over the past few months, not least because of the point I made earlier that the Young People’s Learning Agency is not just a bit of the Learning and Skills Council but we are taking in about 50 colleagues from the DCFS itself who up to now have been working on academies. We have certainly got the challenge of building a new culture. Even if we did not have that, the role of YPLA is quite different from that of the Learning and Skills Council. The decision-making role is with local authorities in future, so our role is much more one of support, challenge and the provision of a framework and professional service to local authorities in the system. It is a role in which I have found no lack of willingness by excellent staff from the Learning and Skills Council to engage, who I think are excellent, but there is quite a bit to work through. We have done the first stage; we have spent a lot of time thinking about the vision and values for which we want the organisation to be recognised. The mission, to use a Ronseal-type phrase, is that YPLA will champion young people’s learning. That is perhaps obvious, but the word “champion” is extremely important. We want what is right for young people, not for any particular sector. It is, if you like, a great leveller of all sectors; it is what all schools, colleges and local authorities want for their young people. You asked how we would monitor it. We are doing a small, snap staff survey at the moment. I plan to do a much more detailed one in six months’ time about the extent to which people feel they own, identify with and understand the mission vision and mission values. We are also running development programmes over the next few months.

**Q149 Mr Binley:** I assume you go down there as well and talk to some of these people so you also get a feel for it, because that is what really counts?

**Mr Russell:** Peter and I have agreed to go on visits since we are working together.

**Mr Lauener:** We talk to staff and our external customers.

**Mr Cragg:** One of the things that characterised the whole position particularly at the time of our management difficulties in the Learning and Skills Council on capital was the relationship with the Department that many regarded as shot. I do not make that judgment. I am happy to say in all seriousness that our relationship with the new



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9 February 2010 SFA and YPLA

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departmental team is exceptional; it has never been as good. That has been part of a conscious process of culture change for us and for the Department underpinned by much more systematic and robust joint management processes. Only two weeks ago we had a joint event with senior staff to look at the whole approach to policy and its implementation. We are working in a wholly different climate and I am hugely heartened by that.

**Q150 Mr Binley:** I am encouraged. I want to ask about the transition plan which sought to maximise the retention of LSC staff. Was a rationalisation or reduction of staff ever considered? I notice that an LSC memorandum says all but ten members of staff have been relocated. Have there been any problems with the final ten?

**Mr Russell:** We are down to three.

**Mr Cragg:** Mr Binley, you have worked in business. I believe that if I presented you with the proposition that you had to demerge one organisation into 150-something and arrive at a certain position through a matching process with remarkably willing and co-operative people while running a major programme

of change and you ended up with only three people out of a total of 3,200 who had not been matched into new roles that would be a great achievement.

**Q151 Mr Binley:** I have been a bit naughty.

**Mr Cragg:** We expected possibly a public cost of redundancy but we have not ended up with it, and we shall manage the efficiencies that will be required of us administratively over the next 12 months. We may not have achieved efficiencies in the transition but we will unquestionably achieve them in the next 12 months.

**Q152 Mr Binley:** I understand that you are going. What a pity! Why do you not hang on and help these guys?

**Mr Cragg:** I am passing the ball across.

**Chairman:** Mr Russell, because we are up against the clock I shall not take you to task on your comments about the flexibility of adult funding and the situation at South Worcestershire College for adult learners, but I may take the minister to task later on. Perhaps he shall be on the phone to you later today. Today I have heard an inconsistent message. We will hear more about that anon, but meanwhile I am very grateful for your time and trouble. Thank you.

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*Witness:* **Kevin Brennan MP**, Minister for Further Education, Skills, Apprenticeships and Consumer Affairs, Department for Business, Innovation and Skills, gave evidence.

**Q153 Chairman:** Welcome, Minister. Unless my memory plays tricks—it can—this is the first time you have appeared before us. We scheduled a meeting once or twice before but I believe this is the first time you have been here.

**Kevin Brennan:** I think that is right. I have appeared before other select committees.

**Q154 Chairman:** You have left the best to last in this parliamentary session. You are very welcome. I find all this rather complicated despite the assurances we received from our very able witnesses in the previous session. Can you list for me all the public sector bodies involved in the funding, delivery and strategy for skills in England?

**Kevin Brennan:** A huge number of bodies are involved in the skills world and it is incredibly complicated, so it is not surprising you find it complicated. I do and people in business find it incredibly complicated. One of the themes of what we are trying to do is to find ways to simplify it, but that in itself is complicated. One can simplify things by creating one huge body, which was what the LSC was originally, but sometimes simplification means having a body with a mission that everybody understands rather than just reducing everything into a single body. For example, the Learning and Skills Council will become the Skills Funding Agency for adult skills and the Young People's Learning Agency will deal with young people skills. The Department for Work and Pensions provides a great deal of funding for skills. Colleges also receive

funding from private sector employers in addition to public money. You probably have before you a long list of other agencies. It is massively complicated.

**Q155 Chairman:** We tried to determine what pass mark we would set you for that question and I am not sure you have achieved it. To make a serious point, I would appreciate having from your Department a full list of all the public sector organisations it now believes are involved in the funding, delivery and strategy setting for skills.

**Kevin Brennan:** I could go on to talk about strategy setting. I could mention the United Kingdom Commission for Employment and Skills which is responsible overall for giving us the intelligence about the sorts of skills that the country will require in future. We can talk about the LSIS which is responsible for developing quality. There are a large number of organisations around skills. We can give you that list, but we are committed to reducing the number of bodies involved in the skills world by up to 30 as set out in the White Paper published last autumn. I can also list all the Sector Skills Councils responsible for different skills areas. We can play the game.

**Q156 Chairman:** It is a serious question. Apart from those you have already named, I have in mind your department, DCSF, the National Apprenticeship Service and the nine Regional Development Agencies.

**Kevin Brennan:** Obviously, the National Apprenticeship Service is part of the Skills Funding Agency.

**Q157 Chairman:** There are 423 local authorities. Ofqual has a role. We have discussed Jobcentre Plus. HEFCE also has a role because it funds work in many FE colleges. It is quite a complex picture. A comprehensive list of all the organisations you believe are involved would genuinely help the Committee.

**Kevin Brennan:** I am sure we can do that.

**Q158 Chairman:** But for the bonus question at the end I think you achieved a pass.

**Kevin Brennan:** Thank you. I am mightily relieved. I have not failed an exam for a long time.

**Q159 Miss Kirkbride:** Can you take us through the rationale for splitting pre and post-19 funding? It is tempting to think that it just came out, bearing in mind the complexity we have just talked about, of the creation of the Department for Business, Innovation and Skills and that was why it happened.

**Kevin Brennan:** It did not because the policy predated the creation of the Department for Business, Innovation and Skills. I believe the genesis of it is more in the Government's policy to raise the participation age and the driving force behind that is to deal with the perennial problem of young people not being in employment, education or training to make sure there is a route for them right up to the age of 19 so they get the opportunities and skills that they need and we need as a country and economy to provide them with. The driving force behind it is to give a much more coherent responsibility for dealing with education and skills for everybody up to the age of 19 and to house all of that within the remit of the director of children's services in each area. The aim is to create a unified children's services system, so it does not deal simply with safeguarding, welfare, education, schools and social service functions but deals also with those young people who may not be in school beyond the age of 16 but who we want to make sure are in some sort of employment, education or training. I would see the raising of the participation age agenda as the reason for creating a distinct funding stream and way to deal with everybody up to the age of 19 within the children's services framework.

**Q160 Miss Kirkbride:** Given some of the earlier answers, could that have been achieved by just having someone responsible for building capacity in schools but the same organisation thinking through the skills agenda? As an aside, you complicate it too much; you talked about social services and everything else. Crikey, let us strip some of this out because not every child needs all this, but clearly the skills agenda can be a seamless transition from, say, 14 right through to the early twenties if that is what has happened, so we should concentrate on a capacity agenda in terms of capital building of schools to ensure there is sufficient space for children to continue, but under the skills agenda we assume the transition with one organisation doing it.

**Kevin Brennan:** The reason for mentioning those other things—I do not mean to complicate it—is that it recognises the statutory responsibility of the

director of children's services to ensure that skills and educational opportunities are available to everybody up to the age of 19. It very much places accountability with local authorities, which is part of the reform taking place to ensure that everybody up to the age of 19 gets the education or courses in skills they require. The Apprenticeships, Schools, Children and Learning Bill makes it a statutory obligation for everybody up to the age of 19, if they opt for it, to have the opportunity to undertake an apprenticeship and apprenticeship places will be available for everybody up to the age of 19 should they desire to take them up with reasonable choice in particular parts of the country. It is a completely different system that covers everybody up to the age of 19 in either education or employment or in training of some sort.

**Q161 Miss Kirkbride:** Possibly one of the things that it is difficult to understand in this change is how much such a big organisation is going to become streamlined. In your view, how will that policy objective be achieved in this area?

**Kevin Brennan:** When you say "such a big organisation" to which one do you refer?

**Q162 Miss Kirkbride:** You are quite right: there are two big overlapping organisations. How do you envisage those bodies becoming more streamlined? How will it work?

**Kevin Brennan:** The Young People's Learning Agency, which is the responsibility of the Department for Children, Schools and Families, is a non-departmental public body that has to work very closely with local authorities to commission the courses and opportunities that need to be available for young people up to the age of 19 in a sub-regional area. That will work closely with local authorities as a group to commission across local authority boundaries the right sort of opportunities that are needed in that area for those up to the age of 19. As you heard from the previous witnesses, they will then have to work very closely on the transition to adult provision as far as adult skills provision is concerned. In adult skills we are building a system that is demand-led in the sense it responds to the demands of learners and employers in a way that has very good intelligence attached to it so that those learners in particular can understand what qualifications are on offer, what employment prospects they will lead to and what the success rate is on the course and so on by the development of skills accounts. Therefore, it will be a demand-led system for adults but one that also is intelligence-informed, if you like, in relation to what skills are needed for the future growth of the economy. We are trying to move the system much more into that kind of place from where it has been in the past. For adult skills we want to make sure that people understand what they will get out of it if they undertake a course and that the system is incentivised to help people take the kind of courses that will get them into a job and into the areas of the economy where there is

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9 February 2010 Department for Business, Innovation and Skills

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potential growth in future. It is a complicated world in the area of skills, but that is the overall aim of what we are trying to do in redesigning the system.

**Lembit Öpik:** I am a businessman of lesser status than the Hon Member for Northampton South.

**Mr Binley:** Not at all!

**Lembit Öpik:** But a businessman all the same. As my colleague would say, in large companies you do not make things simpler by making them appear more complex. Proctor & Gamble where I used to work is a multi-million-pound company with a very large training and development project and it would not dream of cutting up that department into subsets because it would not believe that such an approach would create a holistic or efficient solution. The Government appears to take a different view. I have heard you try to explain the situation. What about the alternative, which I raised with the other witnesses, where you have one large organisation containing subsets to make sure that it is both integrated and holistic and does not fight within itself or duplicate resources simply because it does not know what each part is doing?

**Q163 Chairman:** I intended to ask a similar question. For example, we have heard that the two chief executives go round together to visit local organisations; we have heard about joint strategy for capital and a joint database. The amount of overlap in the management of the two organisations seems considerable.

**Kevin Brennan:** But none of that should be apparent to employers and that is the point. The key issue is: how does the skills system link in with two different categories of businesses, with SMEs and very large employers. As a whole, large employers have departments and employ people in order to manage the skill system and will deal with the National Employer Service that is designed to deal with very large employers, the BTs of the world, and are in a different category. SMEs do not have the time, resources or, frankly, the inclination to deal with the bureaucracy of the skill system. We need a system that works easily for them where someone can just come along and say this is what they can get out of the system if they want it; in other words, some sort of brokerage service. From the employers' perspective they really should not be aware whether it is the SFA or Young People's Learning Agency that is dealing with training for which they get support for their staff or apprentices; they should be dealing simply with one interface with the skills system that enables them to gain the sort of support they need. That was why in the evidence given to the Committee last week the witnesses spoke about hiding the wiring. They do not have time for all this stuff.

**Q164 Chairman:** Which is that one interface or point of contact? If someone like Mr Binley wants to have highly skilled people, where does he go?

**Kevin Brennan:** If it was a very large company with over 5,000 employees it would be the National Employer Service; if it was a small SME they could

talk directly to their local college, but skills brokerage systems are also available that approach employers and talk to them about what is available.

**Q165 Chairman:** You make a very important point. You say that the college is the main point of contact for small and medium-sized businesses?

**Kevin Brennan:** Under Train to Gain employer-based schemes are available. There are skills brokerage services and they may end up dealing also with private providers. There is a large number of such providers with whom employers choose to work if they find them effective in delivering training.

**Q166 Lembit Öpik:** But even in your answers you highlight there are various things that an SME might do. Therefore, a giant corporation like Binley International will be able to do it fairly easily, but Binley (Northampton) Ltd will have to decide whether to go to a college or the apprenticeship schemes. Surely, if you can have a one-stop shop or one brokerage, as you have for the police and the doctors, in a sense you agree that the system needs to be simplified for the end user?

**Kevin Brennan:** SMEs can access support through Business Link advisers and for large companies there is the National Employer Service. For apprenticeships, which sit as a separate category, there is the National Apprenticeship Service and employers can go directly to an accredited training provider, which is often the local college or a private provider if they want to approach them to find out what is available. Those are the streams that are available to employers.

**Q167 Chairman:** You started by referring to colleges and now you have given two others.

**Kevin Brennan:** I think I said that employers can go direct to colleges. I also said there were Business Link advisers and a brokerage service which will approach businesses in an active way because often small businesses do not have the time to approach their local colleges. They will go to them and say, "Are you interested, you could be gaining access to public funds to upskill staff and get qualifications?"

**Q168 Lembit Öpik:** I do think this is a crucial point. Would it not be better to do what big businesses do? In Proctor & Gamble people would call my office if they needed training and I would deal with the rest of it. Would it not be possible to create a model, having noted there are lots of training providers funded by the government, like the police phone number and the doctor's surgery where everybody knows they have to make just one call and the broker does the rest, not least because I suspect there are lots of SMEs who do not even bother going for training because they do not have the time or resources to find out where they need to find the money? There is lots of money not being used to upskill staff in small and medium-sized businesses.

**Kevin Brennan:** The latter point is true and that is why I think they must also be approached and there should not be reliance just on SMEs having a

number or line. I should emphasise that employers do a huge amount of training in this country and businesses are already responsible for most of the training that goes on in the country, but the Leitch Report identified a need for a system that offered qualifications for people who did not have them and upskill people without the basic qualifications of literacy and numeracy. We need to go out actively to recruit employers and encourage them to train their staff as well.

**Q169 Chairman:** One of the weaknesses of our inquiry this time round because of pressure of time is that we are not speaking to employers, unions or work-based learning providers. That is a shame, it is due to pressure of time, but I hope that it will reinforce the importance of work-based learning particularly for small and medium-sized businesses.

**Kevin Brennan:** You do face pressure of time. I am sure you will receive written evidence from those sources that you can use, but there has been quite a transformation in recent years. You referred to trade unions. The Union Learning Fund and union reps have been a massive success because they have a Heineken-type effect; they can get right down to the shop floor and encourage colleagues to take courses and training. That has been a very successful and cost-effective approach.

**Q170 Mr Binley:** Minister, I want to question you about the cost of all this which is an important factor in our deliberations. How much has the reorganisation of FE cost?

**Kevin Brennan:** The idea which began before I came into post was to make it cost neutral over time. Obviously there are transition costs involved in creating the new organisations and so on, but the purpose of it is to make it cost neutral over time. Over the past few years compared with the previous system of TECs that existed before the creation of the Learning and Skills Council at the time of the last great reorganisation there have been very large savings on administration year on year. If you add it up it comes to several hundred million pounds. I anticipate that there will be continued pressure on reducing costs on administration under the new system, but the change itself has been designed to be cost neutral.

**Q171 Mr Binley:** Would you be kind enough to let us know how much it will cost?

**Kevin Brennan:** I can certainly do that.

**Q172 Mr Binley:** We would be grateful. The Department's memorandum states that the cost of the exercise is to be met from "within current LSC, BIS and DCSF resources with some re-prioritisation." I assume that is still the case from the answer you have given.

**Kevin Brennan:** Yes.

**Q173 Mr Binley:** What exactly do you mean by "re-prioritisation"? Does it mean managing the budget for FE or were resources diverted from other parts of the Department?

**Kevin Brennan:** In order to pay for transition costs or re-prioritisation within the skills system?

**Q174 Mr Binley:** Re-prioritisation within the skills system.

**Kevin Brennan:** We are talking about re-prioritising within the budgets available the money spent on different parts of the skills system. Broadly speaking, probably the best way to describe it—this is a direction of travel that has been taking place in recent years—is a move away from funding out of the skills budget repeat qualifications for adults towards funding of first qualifications for adults and incentivising the system towards qualifications that are based around the potential growth areas for the economy as identified in the *New Industry, New Jobs* White Paper last year and then talked about further in the *Skills for Growth* White Paper also published at the end of last year and the Skills Investment Strategy. The overall available budget for learners—we are facing difficult times and have to pull back on the growth of that budget in the next financial year—is growing next year by 2.9%. Therefore, it is not being cut next year but it is being re-prioritised within those sorts of areas.

**Q175 Mr Binley:** Your comments make it even more important we are as efficient as we can be and we make savings from a reorganisation of this kind. What level of savings do you expect to make over the next two or three years? What is the size of those savings?

**Kevin Brennan:** That rather depends on the Budget.

**Q176 Mr Binley:** I do not believe it does depend on the Budget. At the end of the day it depends specifically on this ring-fenced area and what savings you will make in that respect.

**Kevin Brennan:** I can be very specific about what savings are being made in the Skills Investment Strategy for 2010–11. In the years to come that does depend on the Budget and on the spending review period. Overall, in relation to what you might call the adult learner-responsive budget, which pays for adult skills as demanded by individuals and colleges, and specific programmes for the unemployed, that will rise in the next financial year from £1.753 billion to £1.782 billion. For the employer part of our budget, which covers things like Train to Gain, Skills for Life and so on where the employer has demanded, it that will change from £1.315 billion to £1.381 billion. That means the total participation budget goes up from about £3.411 billion to £3.509 billion. But savings are being made across the piece so that the grand total fund under the Skills Investment Strategy document published at the end of last year reduces from £4.934 billion to £4.501 billion. Obviously that includes capital.

**Q177 Mr Binley:** I want to be specific about this. Efficiency savings were an explicit part of the process when it was instigated. It was designed to make efficiency savings in the process itself. Is it still the case that efficiency savings will be made?

**Kevin Brennan:** The overall purpose of the plan was to make the reorganisation cost neutral over time, but there are costs in the meantime. We have had to save £340 million in this financial year from the original plans that we had for the budget for the financial year to come. That has to be achieved as a result of last year's budget. I cannot go beyond that to say exactly what the levels of efficiency savings will be, but all departments are required to find efficiency savings in years to come.

**Q178 Mr Binley:** Let me give you some help in one area. The LSC estate is being reduced from 50 to 21 properties. That ought to be a relatively easy saving to quantify.

**Kevin Brennan:** Yes, and that will generate savings.

**Q179 Mr Binley:** Do you know how much it is?

**Kevin Brennan:** I do not have the figures to hand.

**Q180 Mr Binley:** But you can certainly provide us with that figure?

**Kevin Brennan:** Yes.

**Q181 Mr Binley:** A particular objective that the Department set for itself in creating greater efficiency and cost savings was to do with shared services. Much of that is now completed and we have heard about the work that has been done, yet it has not resulted in any reduction in staff numbers. First, is that true? Second, does it surprise you? Third, what will you do about it? In terms of any reorganisation that aims for greater efficiency that seems to me to be a sizeable oversight, to say the least.

**Kevin Brennan:** The reform that has taken place was not designed to lead to staff reductions but to place all of those people within the current system in the new one. That has been done to a large extent. I am to have a meeting with the trade unions later. I believe only three people are left unplaced as a result of that process, so there has not been a need for compulsory redundancies. People have been placed with local authorities where appropriate, because it is important that the Young People's Learning Agency has the sorts of skills placed in local authorities that will be needed for the new system and people have been placed as a result of that. It is not surprising in the sense that was not the policy objective at the outset. Having got to this stage, obviously all the organisations will have to look from here on in at the administrative savings that can be made now they have been put in place.

**Q182 Mr Binley:** You said that people had been placed. One assumes, therefore, that they have been transferred to other budgets, for example local government budgets, so there must be some reduction in staff in terms of the budget of your Department. To find out there has not been is especially surprising in view of your answers.

**Kevin Brennan:** To make it clear, obviously the money will go with them. Any resources related to the staff who have been placed with a local authority or Regional Development Agency, for example, will

go with them. I accept that does not constitute a real saving overall to the public purse, but the budget will go with them.

**Mr Binley:** Will you look at these areas and come back to us? I recognise that stuff like this which is about staff and specific amounts of money is rarely something we carry in our heads.

**Q183 Mr Wright:** On the question of funding, we have the reorganisation in the form of the SFA, YPLA and local authorities. Why is it that we cannot allow them to transfer the resources to each of the colleges?

**Kevin Brennan:** We are attempting to make the system much more flexible to allow colleges to be able to transfer money between different headings. Taking the adult learner-responsive budget, up until now there has been very little flexibility to transfer between different headings within it. If you look at the Skills Investment Strategy document you will see headings like Skills for Life: full level 2, level 3 and level 4, and up until now colleges have had very little leeway to transfer within that. From now on colleges will be able to work freely within the adult learner-responsive section and the employer-responsive section of their budgets, which is the bit to do with employers rather than learners who come to the college. That is a new flexibility. If it is judged to be an outstanding college it will be given even more flexibility and be able to work freely within the whole of that picture. Those are new flexibilities that have been introduced by me, if you like, in response to requests from colleges. Beyond that, what you are asking is could they be given the freedom to transfer funding from what is adult funding and what is young persons' funding. The introduction of the Skills Funding Agency and Young People's Learning Agency makes no difference to the strategic budget conversations that a college will have. Even under the current system they would be talking to the Learning and Skills Council about what they get for adult skills and young persons' skills. They already have two strategic conversations but now they will talk to the Young People's Learning Agency and the Skills Funding Agency. That does not change, but within the Skills Funding Agency they will have one single account manager and so will have a much simplified system. We must not forget that when that money lands in colleges they are free to spend it as they wish according to their managerial judgment provided they deliver on what they say they will do in relation to numbers of adult learners and young people. Flexibilities are already available and greater ones are being introduced as a result of this. I carefully read the evidence given to the Committee last week by Mr Morgan and Mr Doel. I have had a lot of conversations about this. Broadly speaking, they have welcomed the extra flexibilities we have introduced, although I am aware they would like us to go further. Clearly, that will be the direction of travel as more and more colleges gain that outstanding status and are given greater flexibility

beyond what is available to all colleges. That applies to colleges other than those that are not performing and do not have these flexibilities.

**Q184 Mr Wright:** I take the point about growth in funding, but my FE college tells me that it has a 25% cut in adult funding in the budget provided for 2009–10 and this is because of prioritisation. Surely, this puts pressure on colleges to perform. When you say that, “In general, colleges and training organisations will be allocated a funding envelope”, how can they manage that if they have to face the dilemma posed by these cuts in their budgets because you have prioritised other areas?

**Kevin Brennan:** If we talk about where the reductions are taking place, that part of the budget constitutes on average about a sixth to a fifth of what colleges receive by way of funding. That money is spent on those people who come to a college and say they want to do a course in photography or something of that kind but have already got their level 2 qualifications. These are people who will not qualify for full funding. We have been moving gradually towards a process where we would expect individuals to make a greater contribution where they already have qualifications by taking courses at college and moving resources towards those individuals as recommended by Leitch. The strategic direction in which we have been moving is towards those individuals who do not have any qualifications and fully funding their courses, towards apprenticeships where there has been a big push within government and towards incentivising those areas of the economy where we believe skills will be needed for growth of the economy in the future where the jobs are going to be. That means colleges have to change their priorities but this is about delivering to the learner, not just about what institutions have done all along and how they have done it. If we are to move the system along it means having to move resources into priority areas.

**Q185 Mr Wright:** I can accept that up to a point, but if I take my sixth form college, for instance, the principal constantly tells me there has been growth year on year in terms of pupil numbers because they have built up the courses and the aspirations of young people to go through the college. He also tells me that the college has been restricted in funding. It has been underfunded by a considerable sum of money because more students are coming on stream. If we are to restrict the people on the courses at colleges and sixth forms what will happen? We will place a limit on the number of people who want to continue learning and perhaps pick up training in a particular area, so it will create problems across the piece in terms of colleges and sixth form colleges.

**Kevin Brennan:** My previous answer was about the adult skills work. As far as sixth form colleges and 16–19 are concerned, because of the September guarantee and the money that is available for apprenticeships and 16–19 the budget has gone up in those sorts of areas. It may be there are specific issues around particular courses which your sixth form

college faces; I do not know the details, but the overall funding picture for 16–19 has been very strong.

**Q186 Mr Wright:** We have been told and the Secretary of State and ministers have accepted that it will have an impact on the funding decisions by colleges. Are you giving them direction as to how to mitigate this particular problem?

**Kevin Brennan:** To whom am I giving direction?

**Q187 Mr Wright:** The colleges to mitigate the risk they face in terms of future funding?

**Kevin Brennan:** In relation to adult funding about which you asked me about originally there is a ceiling and floor in terms of how hard they can be affected by that. In most cases the average is about one-sixth to one-fifth of the income they receive from the so-called adult learner-responsive budget. They also receive funding from Train to Gain in-work provision, and employers will get funding from apprenticeships and other areas as well. We have said that even if the consequences of the changes that have taken place hit them harder we will not let that part of their budget drop, which is one-sixth, by more than a quarter in any one year. Therefore, the hardest hit colleges are likely to have a proportion of their budgets hit by up to 25%. That is the maximum limit that has been set for this year.

**Q188 Mr Wright:** Did you ever consider giving colleges foundation trust status which obviously would cure a lot of these particular problems?

**Kevin Brennan:** FE colleges are independent organisations and have been for some considerable time, they are incorporated separately, so they have a great deal of freedom about how they operate in that regard. As far as sixth form colleges are concerned obviously the change has created a new status of institution, given it legal recognition for the first time and firmly put it within the ambit of the Young People's Learning Agency in relation to funding. Probably for sixth form colleges DCFS education ministers would have to consider whether or not that was appropriate.

**Q189 Chairman:** I want to tease out one matter you referred to in answer to Mr Wright. You talked about defining colleges as “outstanding”. Who makes the judgment on the status of the college? Can you be a bit more precise about exactly what flexibility it has? As to the second question I am happy to receive a letter afterwards.

**Kevin Brennan:** Currently, it is for the Learning and Skills Council and then the Skills Funding Agency to look at the performance of colleges as to whether or not they have met their targets and been able to deliver quality.

**Q190 Chairman:** Therefore, it is the Skills Funding Agency that makes the decision on outstanding status or otherwise?

**Kevin Brennan:** That is correct. In terms of the detail of the flexibilities involved, broadly speaking all colleges will have the freedom—this is a new

freedom—to be able to move funding within their adult learner-responsive budgets and employer-responsive budgets and outstanding colleges will have the freedom to move all of their funding around even between adult learner and employer-responsive funding.

**Q191 Mr Clapham:** Minister, I received a letter from my local college. You will be aware that in Barnsley there is a high degree of unemployment and we are regenerating, therefore the adult learner-responsive budget is very important because many of the people we are trying to get back into work have been unemployed for a considerable time. That is where this particular adult education funding is enormously important. I hear what you say, but at the same time it seems to me Government should be thinking very consciously about the locality and regions, not just in terms of the status of colleges. I believe that areas like Barnsley and South Yorkshire in particular need to be given further consideration to ensure we have the proper scheme available so adult learners are able to complete courses and return to the job market.

**Kevin Brennan:** I completely agree with that. As you know, I visited Barnsley College and am familiar with it and its students and the work going on there, a good part of which is based on the capital project where the college has made real investment and that will continue. My understanding is that in the current allocation round Barnsley is not considered to be one of the colleges that might be more at risk in terms of funding and a small increase is projected. I would be happy to look into any details of the issues that the principal or governors have raised with you as the local MP about their funding for the next year. That is my understanding of the position. While I appreciate what you say, it is also important to note that if we are to help areas where there is a lack of skills and a need to create jobs for the future we must focus funding on providing qualifications to people who do not already have them.

**Mr Clapham:** I shall drop you a line about what I have received from the college and we can take it from there.

**Q192 Mr Binley:** I have had conversations with Len Closs, who is the excellent principal of Northampton College. You referred to the capital programme. We have done rather well and we are very grateful. That work is going on at the moment and it also requires a lot of focus and cost so it must be taken into account as the background, but it is also about adult learner-responsive funding. Northampton is at the top end of the reductions and 22.3% is a sizeable hit in anybody's terms. Furthermore, it is about 11.5% below where the college is already within the current funding year and is expected to be 19.3% below where it had confidently expected to be at the outturn at the end of July 2010. Given that size of cut all this means that the college will not be able to generate the funding to meet the demand. I cannot imagine what it is like to deal with it from a business perspective. It must be a

terribly difficult problem. I wonder whether you might rethink this particular issue. I recognise all the pressures but this appears to be particularly harsh.

**Kevin Brennan:** My understanding of the position in relation to Northampton is that the funding allocation is quite challenging in the next year and the indicative baseline for the adult learner-responsive budget represents a reduction of about 22% in cash terms as you indicate. That represents a net £1 million reduction in the college's revenue in 2010-11. I do accept that is a challenging outcome and clearly the college will have to look very carefully at what restructuring options it has within that and also other ways in which it can generate revenue. I am happy to look further at any representations that you may have on behalf of the college in light of the challenges it is facing.

**Q193 Lembit Öpik:** Continuing our parochial casework surgery.

**Kevin Brennan:** I am glad your constituency is in Wales!

**Q194 Lembit Öpik:** I would love to have a one-to-one about Powys. There is a more pressing matter. One of my constituents used to run a training company which effectively was shut down by the LSC's judgment on the performance of her business. I cannot go into the details of that particular case now, but I believe that the LSC was in the wrong and, therefore, due to its incorrect assessment it destroyed an otherwise viable business. Given the importance of evaluations, which we have just been discussing, how can you be sure that the evaluators are competent to carry out their role? I do not ask you to look at that individual case because you cannot comment on it; you are not aware of it. This case made me realise there is a tremendous risk that one or two people can destroy the reputation of a provider.

**Kevin Brennan:** If that were to happen it would be quite wrong. From time to time I receive correspondence from Members of Parliament who have private training providers in their areas who are concerned about possible closure and any disputes there may be about whether or not money has been spent correctly and the training provided has been up to the standard required. We need to ensure that checks are in place in relation to that. It is fair to say that where we do have a system as we have in FE and there are private providers they are businesses and sometimes there will be failures. That is the nature of business. Not all business will always be successful, but it should not be the case that they are unsuccessful because of unnecessary bureaucracy as a result of inaccurate judgments or decisions that are not carefully made. Where people have a concern about how the LSC or the Skills Funding Agency in future has dealt with a training company, as a minister I would be more than happy to hear from them and ask for further investigation to take place. One advantage of the new system, which was perhaps a weakness of the old one, is that we are bringing the Skills Funding Agency into the Department and ministers have a much clearer view

of what is happening across the organisation. Given some problems that arose in the past, had ministers had clearer sight across the organisation at an earlier stage perhaps they might not have developed. If Members of Parliament have cases where they feel that private training providers in their areas have not had a fair crack of the whip from the system then as a minister I would be more than happy to hear about them.

**Q195 Lembit Öpik:** In essence you are saying that if it cannot be resolved at LSC or SFA level the right of appeal is really to the minister?

**Kevin Brennan:** As a minister what I can do is ensure that it is given a second look in more detail, but I do not suggest that all private training providers will be in place in perpetuity and profitable because from time to time they may not be very well run and may go under for that reason, and we shall look at and monitor such training providers very carefully to ensure they deliver what they should deliver for the public money that is being spent.

**Q196 Chairman:** Following your comment about the Skills Funding Agency coming in to the Department in answer to Lembit Öpik just now, I am tempted to explore with you as a philosophical discourse the role of non-departmental public bodies, picking up some of the words Mr Denham used last year, because previously it was described as being at shorter arm's length from the Department. I will not split hairs but I am very interested in the nuances in that discussion about the control you plan to have over the agency. In that spirit perhaps I may also deal with a serious matter, referring now to my local pork barrel. Yesterday I received a letter from the principal of South Worcestershire College and I want to read brief extracts from it: "We are now facing a cut of more than £½ million in our funding for adult students as our adult learner-responsive budgets will shrink by 25%." It goes on: "However, the most serious impact of the 25% cut in our funding is the complete withdrawal of funding for the acquired brain injury education service. Over 120 adults from across Worcestershire who have suffered stroke or brain injury from accidents attend the centre. They are the college's most vulnerable learners. Their chance of living a fuller and productive life often depends on the benefits they are learning at the centre. However, their learning has been determined by the LSC to be non-priority and will not be funded from September 2010. We are now faced with the prospect of the closure of the centre and the end of a 26-year service to Worcestershire's adults with acquired brain injuries." I have seen the work of the centre myself and it is some of the most moving stuff I have ever seen in my life as a constituency MP. I have no doubt that if this college were given the discretion to spend its money as it chose for adult services it would spend it on the acquired brain injury centre. I understand the language of priorities and we will have to talk a lot more about it in the next few years with the pressures on public expenditure. I also understand the need to have a central policy which drives people into first

qualifications and apprenticeships. Equally, there must be some room for local discussion. I believe there will be absolute outrage in Worcestershire when the consequences of this particular decision become public as they now have been effectively by my telling you this.

**Kevin Brennan:** I am sure you would have been writing to me had you not had the opportunity to raise it with me today. I am not sighted on that particular decision and do not have a briefing on it, but I shall be happy to look into it following today's meeting.

**Chairman:** I appreciate there is policy tension here between central and local decision-making, but this will be a particularly controversial issue. Thank you for the answer.

**Q197 Mr Clapham:** The role that the UK Commission for Employment and Skills will play is very important: it is to identify the skills required and then set out its view for a regional strategy in a document which goes to BIS. BIS will then make its decision. How will it be done? Will it be done by negotiation and discussion with the Commission or will BIS just decide based on the reports it gets the kind of plan it believes should be implemented?

**Kevin Brennan:** Frankly, it is for ministers to take policy decisions based on the information provided to them. The UK Commission for Employment and Skills has very close relationships with employers as well and is out there in order to do that kind of horizon scanning of the skills that will be needed strategically for the economy in future. In doing that it will be informed by regional and sectoral aspects. What are the sectors of the economy that are growth areas? What are the particular needs of the regions of which within the new skills system we have asked the Regional Development Agencies to take charge, working very closely with local authorities and Sector Skills Councils? Ultimately, when that information comes to Government then Ministers will need to take decisions on what the priorities should be. It would be perverse not to take decisions based on all the information from a system set up to provide one with it, but as ever there are nuances with any decisions ministers must take.

**Q198 Mr Clapham:** Ministers will be provided with the information which will lead to decision-making but, as I understand it, there is no obligation on ministers to accept what is said in the reports from the Commission.

**Kevin Brennan:** My answer to these kinds of questions is always that if there was an obligation on ministers to do that we would not need ministers. Bodies are there to advise and ministers are there to decide. Some might think the world would be a better place if we abolished government ministers and let bureaucrats run the show. That is not my view and I doubt it is one shared by many round this table. Ministers should be accountable for their decisions to Parliament and the public and they also need to take decisions that are soundly based on advice and are not perverse, because ultimately if they are not taken in a legal manner they are subject



to judicial review. Every day as a government minister something comes before you that you need to question and often you take a decision that is different from the one that might be recommended to you because your judgment is that that is the right thing to do. It is not a weakness but a strength of the system. It is informed by very good evidence and the system is in place to provide ministers with the information they need, but at the end of the day government and ministers are there to set policy and a clear direction.

**Q199 Mr Clapham:** I agree with that, but a weakness would arise if the evidence provided in a comprehensive report on each particular region as well as nationally was not taken into consideration. There is a fear that what may well happen is that ministers take the decision but do not fully take into account what has been said by the Commission. Can you give a clear commitment that the Commission's reports will always be taken into consideration?

**Kevin Brennan:** Absolutely. If it was not taken into consideration ministers could quite rightly be accused of wasting public money in employing the Commission to do the job in the first place. It would be taken into account and it would absolutely form the basis for any decision-making by ministers that followed, but ultimately as a minister you cannot ever commit yourself to the acceptance of the particular findings of a report without the right to question them and look at priorities. The check on that is transparency. The fact that the Commission's reports are public means it is open to a select committee, Member of Parliament or other bodies to question ministers' decisions if they are not based on the evidence.

**Q200 Mr Clapham:** That takes us to another aspect, namely that as reports come in from the regions with input from the RDAs and the Leader Boards there will be tension between the regional and the local position and between regions and the national position, and there will be geographical and sectoral tensions at the same time. These need to be worked out in a fair way when funding decisions are made. Do you see yourself being able to make decisions as between all these tensions to ensure we get the required balance in the economy?

**Kevin Brennan:** I do not believe you can ever completely abolish those sorts of tensions but you can try to get the system to work together. That is the strong message I have tried to give when I meet Regional Development Agencies, the Local Government Association or the Sector Skills Councils. I expect them to work together, not come to me with special pleading for their particular sectors or the bodies they represent, and develop the right kinds of plans and find agreement. I would expect in 99.9% of cases that what comes forward from the process is something to which everyone—the Leader Boards in the local authorities, the Regional Development Agencies and the Sector Skills Councils—has signed up because they have worked out among themselves what the right approach should be. They have worked out the

tensions and come to an agreement that for this or that particular region these are the priorities and this is a sector that has a real opportunity for growth, whether it is in low carbon vehicles in the North East, renewable technologies in the South West or perhaps the nuclear industry. Whatever are the priorities sectorally and regionally they should have worked them out and ministers are there very much as the last resort to resolve any difficulties. I would not expect those difficulties to get that far if everybody operates in the way they should and work at it at local level and discuss it openly. That is the system we hope will come out of it so we have a clear regional skill strategy from the RDAs.

**Q201 Mr Clapham:** You said a little earlier that you read the evidence we took last week and therefore were aware of the comments of the witnesses. One comment was that business appeared not to be given the kind of priority it should be given at regional level. Are you prepared to look at that to ensure that within those reports when talking of the strategies at regional level the voice of business is heard in the way that strategy is formulated?

**Kevin Brennan:** It is absolutely essential that business has a strong voice. It should have a strong voice through the Regional Development Agencies and also through the Sector Skills Councils that are employer-led organisations. I recognise the problem at the micro-level with very small businesses. When we talk at the strategic level we must remember to take into account the skills needed by small businesses which often will not be very well expressed in these large organisations, but the business voice is absolutely essential and without it the plans will not be effective.

**Q202 Chairman:** I have one last question from the chair, not a philosophical question but a more general one. We talk a lot about demand-led FE training. Quite often it is the demand of employers for the right skills to serve their businesses, but I should like to give you the opportunity to say briefly how you believe the new system will create the real demand-led training we need which is employee-led; that is young people themselves demanding the right courses and training. That is one of the major sources of de-motivation in the workforce. Are you content you are getting that right?

**Kevin Brennan:** What we envisaged would develop over the next couple of years in the Skills for Growth White Paper at the end of last year was a kind of skills account system for the individual whereby, almost like the food labelling system—if I am allowed to refer to it as such—every individual would have a skills account to log onto and look at. It will tell them, first, what kind of public support is available by way of training given their level of qualifications; second, what providers in an area can provide that; third, the likelihood of them being successful because of the success rates in that particular course; and, fourth, the likelihood of them getting a job as a result. That kind of quality information will be presented in a very simple traffic-light system to individuals to empower them to

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9 February 2010 Department for Business, Innovation and Skills

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exercise that demand. One of the problems in the previous system was that although we said it was demand-led the consumer or learner worked in a bit of a fog as to what he would get out of it at the end of it. We want people to know very clearly what their public entitlement is, the support they can get for a course—it may be it can be fully funded or partially funded—and also what they are likely to get out of it in the end in relation to employment opportunities and so on. The aim on the demand side is to inform by intelligence.

**Q203 Chairman:** Who drives forward the particular agenda in the system that you have described?

**Kevin Brennan:** The skills accounts will be driven forward by the Skills Funding Agency and the UKCES is very much involved in helping to design that.

**Q204 Chairman:** That is a very important aspect of what we are talking about. Minister, thank you very much for an exceptionally fluent and competent performance.

**Kevin Brennan:** At the beginning I was worried I would not pass.

**Chairman:** You have probably earned a distinction. Thank you very much.

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# Written evidence

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## Memorandum submitted by the Department for Business, Innovation and Skills

### INTRODUCTION

1. The Department for Business, Innovation and Skills (BIS) creates the policy environment critical to grow the economy, from higher education, skills and science to innovation, enterprise and business. A strong and growing economy means new industries and new jobs, improved public finances and supportive public services. We know that investing in skills pays a double dividend for society: skilled individuals have more options and climb higher; they earn more, have greater job-satisfaction and the wealth they create helps to stimulate the creation of more jobs.

2. In the White Paper *Skills for Growth* and the accompanying *Skills Investment Strategy*, which we published in November 2009, we have made clear that skills are a key part of our plan for economic recovery. The nation's future can only be built by educated, enterprising people with the right skills; skills demanded by modern work in a globalised knowledge economy.

### *The Rationale for the changes to FE funding and the establishment of the Skills Funding Agency*

3. From April 2010, the Skills Funding Agency, and the new Post-19 landscape serving employers and adult learners, will support the Further Education (FE) sector to deliver the skills the nation needs to prosper now, and in the future.

4. The Government's ambitions on skills have been articulated in a family of policy documents from our response to the Leitch Review of Skills in 2006 through to *Skills For Growth* in November 2009.<sup>1</sup> Throughout this time building our nation's future through a world class skills base and clever investment in the real drivers of competitiveness and productivity have been constant themes. The proposal to create the Skills Funding Agency and the changes to the wider skills landscape were first set out in the White Paper *Raising Expectations: Enabling the System to Deliver* in March 2008.

5. In *Raising Expectations*, we recognised that the Learning and Skills Council (LSC) has been instrumental in delivering improvements in adult education and training, but that there was still much further to go if we are to have the highly skilled workforce that we need to maintain and improve our nation's competitiveness. With over 70% of our 2020 workforce already having left full-time education, we need a sharper focus on adult skills to ensure we have the right skills, in the right place, and at the right time.

6. We must have a skills system that is able to respond more quickly and more flexibly to the immediate and future skills needs of the country. This includes young people (aged 16–19) for whom we need to deliver the historic raising of the participation age, improve attainment and equip Local Authorities to give a coherent lead on all children's services from birth to age 19. For adults (over the age of 19) we need a demand-led system where funding is delivered by a more flexible and more focused nationally consistent agency which acts on the actual choices of learners and employers.

### *The Post 19 Landscape*

7. The Skills Funding Agency needs to fit into the wider post-19 learning and skills landscape, supporting moves to significantly reduce the number of bodies whilst efficiency and value for money are emphasised in those that remain. In designing the Skills Funding Agency we have removed any potential duplication or overlaps between it and other agencies, laying down clear respective roles and responsibilities.

8. In particular, and as described in *Skills for Growth*, we have realised synergies offered by the creation of BIS to give Regional Development Agencies (RDAs), working in partnership with local authority leader boards, sector skills councils, Jobcentre Plus and others, the role of producing regional skills strategies as part of the single integrated regional strategies. This move means that, for the first time, there will be one document detailing the integrated economic strategy, including skills in each region. This ensures skills are embedded in wider economic development thinking and that there are no overlaps between the RDAs and the Skills Funding Agency. The skills priorities identified by the UK Commission for Employment and Skills (UKCES) and set out in the regional strategies will be agreed by BIS and confirmed in the annual ministerial *Skills Investment Strategy*, against which the Skills Funding Agency will fund colleges and training organisations.

### *Design of the Skills Funding Agency*

9. The Skills Funding Agency will be an agency of BIS, its staff will be civil servants, but its Chief Executive will be a statutory post holder. This model places the Skills Funding Agency at a "shorter arms length" from BIS than the LSC is currently, enabling a faster and more effective response to policy, while reinforcing the autonomy of the FE sector and ensuring no politicisation of individual funding decisions.

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<sup>1</sup> Leitch Review > Raising Expectations > Enabling the System to Deliver > New Industry New Jobs > Building Britain's Future > Skills for Growth > Skills Investment Strategy 2010–11

10. The Skills Funding Agency will channel around £3.5 billion of funding to colleges and training organisations, including the Third Sector, primarily in response to customer (employer and learner) choice on programmes. It will house all the Government's skills services including the National Apprenticeship Service, Train to Gain including the National Employer Service, and a range of Learner Services including a new Adult Advancement and Careers Service.

11. We have designed the Skills Funding Agency to be customer focused and to make things simpler for learners and employers, so that they can identify the service which is right for them, rather than the organisation which funds the system. As such, the Skills Funding Agency's presence as a "public" corporate identity will be minimal, concentrating instead on promoting the services it houses to the right customers. There will be four gateways into the new system:

- (a) Train to Gain—a service available to employers through Businesslink advice, a national database website and local training organisations or, for large employers, from the National Employer Service.
- (b) National Apprenticeship Service—a service available to employers and learners through a national field force, a web based vacancy matching service and local training organisations.
- (c) Adult Advancement and Careers Service—A service available to people through a national telephone helpline and face to face support through sub-contracted expert advice and guidance providers.
- (d) Direct access to provision—People will continue to have direct access to learning through local colleges and training organisations. This will ensure that learning is easily accessible to all that need it and freely available to those with entitlements. There will also be Integrated services with Jobcentre Plus for those who are unemployed and specialist services for those with special needs such as offenders or people with learning difficulties. In future, this learning will become accessible through skills accounts.

12. The Skills Funding Agency will manage relationships with colleges and training organisations through a new single account management system, which will operate nationally. This will ensure the same processes are used across the country; removing the current regional variations used in the LSC, which add to bureaucracy.

13. This approach will establish a single point of contact (the account manager) for each college or training organisation and enable a single contract with the Skills Funding Agency covering all the activity being funded, including Apprenticeships. It will encompass the negotiation and allocation of funding, performance management, monitoring and review.

14. The Skills Funding Agency will maintain a list of approved colleges and training organisations that have reached a minimum standard to enable them to deliver publicly funded learning. Under the demand-led approach, each approved college and training organisation will be allocated a funding envelope based on their track record (with contracts lasting up to three years for the highest performing organisations). Within that overall envelope, colleges and training organisations will have the freedom to respond to individual and employer demand, including the demand articulated in regional strategies, drawing-down funding when individuals enrol and complete their courses. This will be administered by their dedicated account manager.

15. Excellent training organisations will earn and be rewarded with greater autonomy through simpler funding and monitoring arrangements, based on proportionate inspection and assurance. In return training organisations will make more information available on their performance so employers, learners, funders, commissioners, inspectors and auditors can make good decisions that give them, and their stakeholders, value for money.

16. The Skills Funding Agency will be a national organisation, with a main office located in Coventry and 20 other offices around the country. The National Apprenticeship Service will be based in these offices but because it also has a field-force working directly with employers and learners, its staff will occasionally also work out of offices of some of the organisations it works with, such as local authorities and Businesslink.

#### *Transitional arrangements*

17. Following the *Raising Expectations: enabling the system to deliver* public consultation, a joint BIS and DCSF Machinery of Government Programme was established in May 2008 with representation from the LSC, the Association of Directors of Children's Services and the Local Government Association to ensure consistent and co-ordinated implementation of the new pre and post 19 structures and processes.

18. The programme oversees the transfer of responsibilities and the implementation of the new structures including the transfer of staff and property and the development of shared and interdependent services between the Skills Funding Agency, Local Authorities and the Young People's Learning Agency. The programme ensures that commitments which will simplify processes are met eg that colleges and training organisations only need to provide data once and that the data services for schools and FE will manage appropriate sharing in line with the Apprenticeships, Skills, Children and Learning (ASCL) Act. Similarly, there will be a common performance framework for all training organisations delivering post 16 education and skills.

19. The legislative framework for the change is now in place through the ASCL Act 2009. LSC staff will transfer under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) to the new structures. There has been good progress on the staff transfer arrangements, with all but about 10 of the 3,300 staff being clear on which organisation they will transfer to. This has meant that, as planned, the Skills Funding Agency was able to set up in shadow form in November. The move to shadow running has enabled work to begin on embedding the new system and culture which will enable the Skills Funding Agency to begin delivering the planned benefits for learners, employers and the FE sector from day one.

20. There are robust governance and independent assurance arrangements in place to oversee the programme. The programme has received two Office of Government Commerce (OGC) reviews; the last one in Summer 2009 confirmed that the programme was well on track and received an amber green rating. Since then, the programme has assessed the set up of the Skills Funding Agency (and the Young People's Learning Agency (YPLA) ) against the good practice criteria developed by the National Audit Office, this showed that the Skills Funding Agency and the YPLA are both on track to be fully operational by the end of March 2010. The expected beneficial impact on learners, employers, the FE sector and in terms of improved policy and implementation has been mapped out. The programme will be continuously reviewed and measured against this benefits map over the next few years.

#### *Transition costs*

21. The House of Commons Committee which scrutinised the Apprenticeships, Skills, Children and Learning Act received two written updates on the costs associated with the transition from the Learning and Skills Council to the new structures for adults and young people (letters dated 5 May and 30 October 2009).

22. These letters described the costs associated with the transfer and confirmed that we expect to meet these costs from within current LSC, BIS and DCSF resources with some re-prioritisation.

23. As part of this change, we are reducing the LSC's premises estate of 50 properties to 21 to meet the requirements of the new structures. This change reduces the annual running costs required for the new structures in comparison to those required currently for the LSC. Clearly such change cannot be achieved overnight, but our expectation is that this will, within a few years, generate savings which will then be used to support our reforms and deliver significant benefits to learners and employers.

24. In addition, and as part of our work to secure efficiencies and value for money, a range of shared services are being developed which will service the needs of a range of organisations. For example, the Skills Funding Agency will be responsible for delivering the following shared services to the Young People's Learning Agency: HR, facilities and internal IM requirements. The Skills Funding Agency will also deliver a range of sector wide services which will support further efficiencies. These include the FE data service which collects, disseminates and reports on FE data, the learner registration service which assigns the unique learner number enabling the 14–19 diploma and the Qualifications and Credit Framework, and the Framework for Excellence which measures the performance of colleges and training organisations.

#### *Continuity of service*

25. Since the announcement of these changes we have publicly recognised the importance of retaining the valuable expertise of LSC staff in the skill system and committed to avoiding compulsory redundancies.

26. We have also worked with employers and other partners in the FE sector to ensure that they could influence the design of the Skills Funding Agency and provide early feed back on the impact of the changes; ensuring services are not compromised. An employer reference group was set up at an early stage to help shape the work of the Skills Funding Agency and continues to meet under the chairmanship of the shadow Skills Funding Agency. In addition, the FE Ministerial Standing Group and the FE Reform and Performance Programme Board, on which key stakeholders including representatives from the FE sector sit, have received regular reports on progress and been able to steer developments.

27. We have been working closely with colleges and training organisations throughout the implementation process and are ensuring they are fully prepared for the changes that will come into effect in April. For example, all LSC contracted training organisations for adult skills have been informed who their single account manager will be and regional briefing events have been held with colleges and training organisations on the future funding and operational arrangements.

28. These briefings have described the new simpler and more efficient funding systems being put in place, with account management at its heart. The new account management system will enable more mature and timely discussions about funding and performance because both the account manager and the college or training organisation will have access to the same on-line information about the contract.

#### *Governance and accountability*

29. Ministers will set the overall strategy and objectives for the Skills Funding Agency and the budget needed to achieve them and will publish these in an annual *Skills Investment Strategy*. The Chief Executive will agree an annual delivery plan with Ministers and he or she will be accountable to them and the

Permanent Secretary, supported by the Director-General for Universities and Skills, for delivery of services by the Skills Funding Agency, including delivery of its targets and objectives. The Chief Executive will be responsible for ensuring that resources authorised by Parliament in respect of the Skills Funding Agency are used for the purposes intended and will produce an annual report on the performance of the functions of the office of the Chief Executive for each financial year, which will be laid before Parliament.

30. The Skills Funding Agency, through its FE Data Service, will also publish quarterly data on performance across all of its main skills programmes, in line with national statistical standards. In addition, we are looking for ways to build further on the timeliness and range of information that is available, to ensure that Parliament and the wider public have as much information as possible about the delivery of these programmes.

#### INVESTMENT IN SKILLS

31. Total government investment in adult skills for 2010–11 is £4.4 billion; this figure includes £340 million of efficiency savings agreed as part of Budget 2009. This total includes more than £3.5 billion for training places funded through the Skills Funding Agency, supporting a planned 3.4 million adult learners in the 2010–11 academic year. The Skills Investment Strategy, published on 16 November 2009 sets out our funding priorities for 2010–11, building on the commitments set out in the White Paper *Skills for Growth*.

32. The *Skills Investment Strategy 2010–11* sets out how we will support greater numbers of Advanced Apprenticeship places, as part of the Government's plans to build intermediate and technician level skills. It also confirmed that we will continue to increase support to meet the needs of those individuals who have yet to acquire literacy and numeracy skills, or a first full Level 2 or Level 3 qualification. There is also greater support for the unemployed, to support the acquisition of the skills they require to progress into sustainable employment.

33. *New Industry, New Jobs* and *Skills for Growth* identify sectors which are likely to underpin our future economic growth and affirm our position within a globalised knowledge economy; this sector identification will be refined further in January 2010 when the first report of the UKCES is published.

34. Regional priorities will be articulated as part of Single Integrated Regional Strategies. The processes of defining both national and regional Skills Strategies and ensuring their coherence with sector needs will be undertaken annually and the funding priorities of the Skills Funding Agency will reflect these processes. There is also a commitment within *Skills for Growth* for greater capacity within Train to Gain delivery for the sectors identified in *New Industry, New Jobs*.

35. *Skills for Growth* emphasised the importance of increasing contributions from employers who are one of the main beneficiaries of the skills system; as public funding is prioritised to support both national and regional priorities it will become increasingly important that investment from employers is optimised. In order to delineate the appropriate parameters of co-investment between employers and Government, and indeed learners themselves, we have commissioned an independent Review of Fees and Co-Funding in Further Education reporting in June 2010.

36. The Skills Funding Agency's Delivery Plan, the first iteration of which will be available shortly, will set out the next steps for delivering the commitments set out in the *Skills Investment Strategy* and *Skills for Growth*, including plans for focusing on the priority sectors.

#### FE CAPITAL PROGRAMME

37. The Skills Funding Agency will take over responsibility for managing the FE capital programme, following the principles laid out in Sir Andrew Foster's report on the LSC's FE sector building programme. It will learn the lessons of the LSC, putting in place robust forecasting models and measures to strengthen the financial management of the programme. In preparation for the next spending review period, the sector is being consulted, through the Association of Colleges' Capital Task Group, on how future funds should be best allocated. Early next year a process will be finalised for determining how future funds will be allocated to achieve the best value for money possible whilst keeping bureaucracy to a minimum. Through these measures the Government has every confidence that the programme is now on a firm footing for the future and that the previous problems with the programme will not be repeated.

38. It is recognised that it is critical that capital investment plans are coherent across post-16 provision, so that investment decisions for FE capital and 16–19 capital are able to support development of the infrastructure necessary to deliver increased participation, the full curriculum and qualification entitlement, and the skills required by employers in the changing economy. It is for this reason that we have given a commitment to publish an overarching single capital strategy for post 16 education and training in England—excluding the higher education sector—and that we will consult with both the Young People's Learning Agency and the Skills Funding Agency when doing so.

## CONCLUSIONS

39. The above statement confirms that the Skills Funding Agency is on track to be fully operational from the beginning of April 2010. The creation of the new agency has been achieved with no adverse impact on learners, employers and the FE sector. We expect the benefits of the change to start being realised soon through improved services to learners and employers delivered through customer focused gateways; simpler and automated account management systems for colleges and training organisations; and better policy and implementation from BIS and the Skills Funding Agency, because there is a closer relationship between Ministers and the agency.

40. The *Skills Investment Strategy 2010–11* sets out the Government's FE funding priorities and its publication in November is ensuring that the Skills Funding Agency is already able to begin working in shadow form to support colleges and training organisations to prepare for the 2010–11 academic year.

12 January 2010

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### Supplementary evidence from the Department for Business, Innovation & Skills

At our recent evidence session I agreed to send you some further information, which I now enclose. I hope it may be of some assistance to the Committee in producing its report.

Firstly, I agreed to send the Committee a list of the bodies involved in the delivery of skills in England from 1 April 2010. Please find this attached as Annex A.

I also agreed to confirm the costs of the transition to the Skills Funding Agency and local authorities (supported by the Young People's Learning Agency) as well as details of the savings made through the reduction of the LSC estate.

The new system is expected to be cost neutral for the exchequer. Public updates on transition costs were provided during the passage of the Apprenticeships, Skills, Children and Learning Act (two letters were sent to the bill committee in May 2009 and October 2009) and long-term plans have been set out in the Skills Investment Strategy 2010–11, including an indicative 2010–11 Skills Funding Agency budget. Local authority 2010–11 budgets are also published.

We anticipate some transition costs, currently estimated at £3 million to standardise transfer terms to local authorities; £2–3 million for pensions; and £36.8 million for premises. Premises costs will only be incurred where there is a value for money case to do so. Over time, these changes are expected to generate net annual savings of some £17 million from rationalisation of premises, IT and shared services, and streamlined contracting and data collection processes. Costs will be met from within current budgets.

Finally, I undertook to provide an update on the details of the staff transition and any costs or savings involved.

In December 2008 details of staffing plans for the Skills Funding Agency and YPLA were published in the 16–19 and post 19 Funding Transfer: Bulletin No 5 as follows:

“DIUS and DCSF Ministers have agreed an overall staffing need of some 3,300 for the new 16–19 and post-19 systems. These numbers are in line with existing LSC staffing levels and reaffirms our commitment to retain the expertise of LSC staff in the new arrangements wherever possible.

We expect around 1,000 posts to transfer to local authorities, 500 to be in the YPLA and 1,800 to be in the Skills Funding Agency including 400 posts in the National Apprenticeship Service.”

Since then, as part of the new role for RDAs in regional strategic skills, over 50 posts have been transferred to them.

In doing this, we were clear that we were not seeking to make staffing reductions at the same time as implementing this complex change.

In the Apprenticeships, Skills, Children and Learning Act 2009 impact assessment it was outlined that we expect ongoing costs of operating the new system to be revenue-neutral compared to the current system in the short term, with savings and efficiencies through a more integrated service at local authority level in the medium to long term.

In comparison to retaining the LSC (£210 million admin allocation in the LSC grant letter for 2009–10), the Skills Funding Agency is expected to operate with an admin budget in the region of £81 million (Skills Investment Strategy 2010–11) and will be responsible for managing staffing within this budget.

The rest of what would have been the LSC's baseline will transfer to other bodies, principally local authorities and the YPLA.

## ORGANISATIONS INVOLVED IN THE DELIVERY OF ADULT SKILLS AND THEIR RESPONSIBILITIES

### The Department for Business, Innovation and Skills (BIS):

- Determine overall investment and priorities.
- Determine performance system (Framework for Excellence).
- Meet the Skills Public Service Agreement.
- Sponsorship of colleges and training organisations and their contribution to Department for Children, Schools and Families targets.

### The UK Commission for Employment and Skills:

- Advise BIS on the current and future skills needs of the country, including what is identified in the Single Integrated Regional Strategies.
- Monitor and challenge Government performance on employment and skills.
- Manage the Further Education and Skills Research Function.
- Manage Sector Skills Councils and ensuring their effectiveness.
- Advise on Sector Skills Council relicensing.

### Sector Skills Councils:

- Determine the Skills required within their vocational area.
- Raise employer engagement with, demand for, and investment in skills.

### Regional Development Agencies:

- Work with employers, local authorities, sector skills councils, Jobcentre Plus and all other relevant sources to identify demand at the regional, sub regional and local level.
- Produce Single Integrated Regional Strategies incorporating skills priority statements.
- Ensure that sub-regions and city-regions are able to shape policy in line with their own priorities.
- Spearhead multi-agency action to identify and resolve mismatches in the demand for, and supply of, skills.
- Be an advocate for skills. Actively engage with employers to raise their demand for, and investment in, skills (eg through the Skills Pledge).
- Manage the Skills brokerage service.

### Skills Funding Agency:

- Fund colleges and training organisations through a Single Account Management System.
- Lead and provide customer focused services and underpinning systems (eg Train to Gain, the National Employer Service, the National Apprenticeship Service and the Adult Advancement and Careers Service).
- Design and manage the underpinning systems for funding, settlement, data collection and exchange etc.

### Employment & Skills Boards:

- Set the strategy for delivery of adult (post 19) skills in their area, taking into account key national priorities in *Skills for Growth* and other relevant strategies, such as the Single Integrated Regional Strategy.
- Actively engage with employers to raise their demand for, and investment in, skills.
- Provide feedback to Skills Funding Agency assessing how well the skills and employment system is responding to employer demand in its area.

### Local Authorities:

- Statutory responsibility for assessing the economic needs of their areas, including skills and employment.
- Convene local area agreements, bringing together the action of other public bodies and colleges.

### Colleges and Training Organisations:

- Meet the requirements of learners and employers.
- Collaborate with relevant bodies and each other to respond to demand.
- Collaborate with each other to provide a range of support services to the sector, including peer assessment, staff development programmes, shared services and improved procurement.



Ofqual:

- Regulate the qualifications offer.

LSIS:

- Support college and training organisations performance and facilitate self regulation (owned by the bodies it supports).

Becta:

- Champion use of technology to support learning.

Ofsted:

- Provide an independent view of college and training organisation performance.

4 March 2010

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### **Memorandum submitted by Alliance of Sector Skills Councils**

#### **EXECUTIVE SUMMARY**

1. In April 2010, the Skills Funding Agency (SFA) will take over the responsibilities of the Learning and Skills Council (LSC). It will become the overarching agency delivering funding and direction to the Further Education (FE) sector. The Alliance welcomes the Business, Innovation and Skills Committee's inquiry into the new Skills Funding Agency and government policy in respect of Further Education funding.

2. The Alliance wishes to propose that SSCs play a central role in allocating funding for workforce development. As the organisations licensed to research and articulate the employer voice on skills, and working closely with regional partners to ensure a strong sectoral/spatial interface, they are uniquely well-placed to determine priorities and allocate resources.

3. The current system of FE funding is overly complex and may in some cases lead to a lack of appropriate commercial freedom for providers. Although there are many very positive examples of how FE providers are working closely with employers, all too often providers are unable to respond because of a slow and bureaucratic funding system which employers find baffling and frustrating.

4. The Alliance also wishes to make the following points:

- Listening to the needs of employers will be key to achieving the aims of the Skills Funding Agency.
- The new system needs to take into account the views of employers especially in relation to complexity, poor communication and coordination, clarification of roles and responsibilities, bureaucracy and poor data management.
- It will be important that the National Apprenticeship Service can work in a coordinated way with the SFA, Young People's Learning Agency and local authorities, as well as with other bodies in the skill system such as Regional Development Agencies and Sector Skills Councils.
- The Alliance believes employers need a strategic voice in the skills system, and that engagement with employers on skills issues is something that is done best on a sectoral basis. Spatial elements are still important in determining skills supply and demand and the current perception of "competition" between the sectoral and spatial dimensions is not helpful and it is important that policy makers understand this.
- The Alliance is committed to working with Regional Development Agencies, as is demonstrated in the current work of the new joint SSC/RDA Forum. There is still work to be done to ensure that there is an effective interface between sectoral and spatial skills needs and delivery. Employers need effective delivery mechanisms at a local level that meets the strategic direction that has been agreed with their Sector Skills Councils.

5. More detail on these points is included below. Thought also needs to be put into the issues of progression from FE into Higher Education and the aligning of FE and HE funding streams to help providers and students alike. The current separate HE framework and funding councils make it difficult to deliver programmes involving NVQs and foundation degrees.

#### **ROLE OF SECTOR SKILLS COUNCILS AND THE IMPORTANCE OF SECTORS**

6. Sector Skills Councils, as employer-led organisations covering the whole of the UK, are in a strong position to comment and make proposals on an effective and simplified employment and skills system and on Further Education funding mechanisms. More detail about SSCs and the Alliance is included in the Annex below.

7. The successful implementation of a national skills strategy will depend on the active involvement of employers. For that reason the Alliance highlights the importance of taking a strategic sectoral approach which puts employers, who identify with sectors above all, in a central role.

8. Listening to the needs of employers will be key to achieving the aims of the Skills Funding Agency. Responding only to the needs of individuals is likely to result in the provision of skills in areas where there is little or no demand within the employment marketplace. This would be detrimental for learners as well as for employers, regions and the wider economy.

9. The Alliance suggests that the skills system requires a truly demand-led approach, on a sectoral basis, which puts employers in the pivotal position. A clarification of roles and responsibilities within the skills landscape is required for a more efficient system, as is a clearer expression of what exactly “demand led” means in this context, and how the voices of employers and sectors will be implemented.

#### THE NEW SFA AND YOUNG PEOPLE’S LEARNING AUTHORITY(YPLA), AND THE ROLE OF LOCAL AUTHORITIES

10. The Alliance is concerned about the complexity and issues that will occur as a result of the split between the SFA and the YPLA and the handing over of responsibility of pre-19 funding to Local Authorities. There is still uncertainty about the ability of the planned new system to deliver what is required.

11. The big issues which do not appear to be addressed in the new system are:

- Complexity. There is a real danger that the new system will be just as complex and baffling as the old one, with too many organisations with overlapping and unclear roles. There are an increasing number of employer-facing organisations working in each region, and this poses significant difficulties for clear and consistent engagement and communication with industry.
- Poor communication and coordination across the system leading to employer dissatisfaction with the system and disengagement. Poor communication is already causing difficulties, as nationally the SFA is aware of SSC work and projects but may not always reflect this when working regionally.
- Confusion about roles and responsibilities leading to gaps and duplication. For example, please refer to the comments below on employer engagement.
- Bureaucracy. Bureaucracy is an understandable result of the current objective, target and funding system but it is important to get the balance right between an appropriate level of administration for the system and ensuring that this does not disable the system and disengage users.
- Extremely poor and un-timely data leading to funding control issues and poorly informed decision making throughout the skills system. Thorough and timely Management Information is key to ensuring that the system is managed properly and that fluctuations of demand can be accounted for without over-zealous capping of provision. The Alliance highlights the importance of the SFA being able to understand how to make a demand-led system work within a finite but flexible budget.

12. SSCs have an excellent breadth and depth of Labour Market Intelligence (LMI) but this is currently underused by Government and its agencies. Especially with the removal of the LSC research facility from the SFA, the Alliance hopes that SSC LMI will be used as a primary resource to inform future planning and funding rounds. This is an argument for greater resource and recognition for SSCs and the value they add.

13. The Alliance advises the SFA to clarify its intentions with respect to the Training Quality Standard (TQS) as soon as possible. Recent TQS awareness-raising seminars revealed a quite widespread uncertainty as to whether TQS would/should be maintained as an “official” quality mark for training providers and a sign-post for employers. Also there is concern as to whether it could survive at the current level of applicant costs, and in the absence of any linkage of TQS either to LSC/SFA funding streams or to other QA processes such as Ofsted’s. The recent UK Commission report “Hiding the Wiring” made similar points.

#### THE ROLE OF THE UK COMMISSION FOR EMPLOYMENT AND SKILLS, THE NATIONAL APPRENTICESHIP SERVICE AND NATIONAL EMPLOYER SERVICE

##### UCKES

14. SSCs are working with UKCES to ensure that the skills system is employer-led. There is a clear need for over-arching role of the UKCES in ensuring an effective skills system across all agencies to link with the sectoral priorities established by employers through their SSCs.

##### *National Apprenticeship Service*

15. The National Apprenticeship service sits outside both the Young Person’s Learning Agency and the Skills Funding Agency as a result of the split of pre and post-19 funding. It will be important that the NAS can work in a coordinated way with the SFA, YPLA and local authorities, as well as with other bodies in the skill system such as RDAs and SSCs. Work is already underway within the South East on developing a strong relationship between the South East Alliance and the South East NAS where an memorandum of understanding has been signed and each SSC has been allocated a NAS “buddy” to facilitate closer working. A priority area of work is developing closer working with Local Authorities.

*National Employer Service*

16. BIS are intending to make the National Employer Service an enhanced service tasked with raising participation, raising employer engagement and delivering new apprenticeship programmes. The Alliance hopes to see the NES maintain the progress it has made with large employers who value the tailored support the NES offers.

17. The NES is one of four routes that employers and individuals can access skills alongside Train to Gain, Adult Advancement and Careers Service and direct provision. It is important that for employers that the roles of NES, NAS and Train to Gain brokerage are clearly defined and there is no duplication in their employer engagement. Employers find it frustrating to be contacted by different organisations with little or no coordination between them. Ease of access to the system is still an area where employers wish to see improvement.

**THE RELATIONSHIP WITH REGIONAL DEVELOPMENT AGENCIES AND THEIR STRATEGY SETTING ROLE**

18. The Alliance believes employers need a strategic voice in the skills system, and that engagement with employers on skills issues is something that is done best on a sectoral basis. SSCs are employer led, and are licensed as being very capable of expressing the views of employers in their sectors. However, the Alliance believes that spatial elements are still important in determining skills supply and demand. The current perception of “competition” between the sectoral and spatial dimensions is not helpful and it is important that policy makers understand this.

19. The Alliance is currently working with Regional Development Agencies, as is demonstrated in the work of the new joint SSC/RDA Forum. However, the recent White Paper “Skills for Growth” provided little clarity regarding how regional and sectoral priorities will be balanced by the SFA. Finding ways of successfully delivering the sectoral agenda will be especially important, given the new spatial role on skills that the RDAs were given in the recent skills White Paper. The SSC LMI portfolio is fundamental to ensuring that both sectoral and spatial skills needs are met, and this is a key strand of work for the Forum.

20. It is important to ensure that there are sense and reality checks in place to ensure that the strategy-setting is correct for individual sectors as well as for the regions and the whole nation. RDAs have a tendency to lean towards higher level skills whilst the funding body would be set a lower level skills focus and the right balance needs to be struck. The SFA posts which will sit within the RDAs will be key here.

21. The Alliance welcomes the opportunity to build on this brief response to the enquiry into FE funding and the Skills Funding Agency and the Chair of the Alliance, the Chief Executive of the Alliance and the Chair of the Alliance Supply Side Strategic Group will be happy to give oral evidence to the Committee.

**Annex****THE ALLIANCE OF SECTOR SKILLS COUNCILS**

The Alliance was established in April 2008 as the collective voice of the 25 SSCs, the employer-led organisations on skills for sectors across the UK economy. Its strategic priorities and objectives for 2009–12 are as follows.

- To position SSCs collectively for optimum impact and act as a catalyst for change within the skills and employment system.
- To enable SSCs collectively to deliver their unique role in ensuring that standards and qualifications meet employers’ needs.
- To position SSCs collectively as the authoritative voice on sectoral Labour Market Intelligence.
- To be a catalyst, leader and co-ordinator for raising skills in priority cross-sector areas and for linking with sectors not covered by SSCs.
- To provide first class services for Alliance members and to enable them to raise their capacity, capability and performance.

By working together as a strong Alliance, SSCs have positioned themselves for increased impact which is more than the sum of the parts. Through this joint working the SSCs will be recognised for their key role in achieving a world-class workforce in the UK and being a leader in skills development that meets the needs of employers of all kinds across public, private and independent sectors.

The Alliance of Sector Skills Councils is largely funded by the subscriptions of its members. It is a company limited by guarantee and a Scottish charity with offices in London, Cardiff, Edinburgh and Belfast.

**SECTOR SKILLS COUNCILS**

SSCs are independent, employer-led and UK-wide organisations that are advocates for their industries and identify and tackle sector-critical skills needs. There are currently 25 SSCs covering approximately 90% of the economy. SSCs are the most recently quality assured bodies in the skills system and the only organisations actually licensed to represent their sectors’ employers on skills issues. SSCs provide a unique channel to reach employers who will only engage with those who understand their specific needs and circumstances.

SSCs all work towards the following four key goals:

- reduced skills gaps and shortages;
- improved productivity, business and public;
- increased opportunities to boost the skills and productivity of everyone in the sector's workforce; and
- improved learning supply through National Occupational Standards, apprenticeships, and further and higher education.

SSCs have been established and developed during the last five years and in that time they have built strong working relationships with the UK Government and the devolved administrations, and important skills stakeholders such as the UKCES, Confederation of British Industry, the Institute of Directors, Federation of Small Businesses, trade union bodies, funders, providers and awarding bodies. They have played a leading role on a range of skills issues, including:

- working with employers to identify future skills needs;
- developing skills and training solutions;
- developing and maintaining National Occupational Standards;
- influencing and shaping the future development of qualifications;
- designing Apprenticeship/Modern Apprenticeship frameworks;
- encouraging greater investment in training; and
- providing labour market information that assists in long-term business planning.

The unique selling points of the Alliance of SSCs in a complex landscape are as follows:

- SSC footprints include 1,707,885 enterprises and cover approximately 90% of the workforce across the UK, which gives us strength in breadth;
- Alliance members have in total 350 very senior employers from every sector of the UK economy on their individual SSC boards, and this gives us powerful leverage;
- SSCs have a robust and distinctive evidence base for skills development in their sectoral Labour Market Intelligence (LMI);
- by working together as an Alliance we can map skills across the economy—and thereby facilitate mobility and redeployment between sectors; and
- employers naturally cluster and work collaboratively on a sector basis. This is evidenced through a wide range of successful sector-base initiatives—ranging from 14–19 Diplomas to Apprenticeships.

11 January 2010

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#### **Memorandum submitted by the Association of Colleges**

1. The Association of Colleges (AoC) represents and promotes the interests of Colleges and their students. Colleges provide a rich mix of academic and vocational education from basic skills to higher education degrees. Colleges currently play a major role in meeting the individual and joint objectives of both Departments. Colleges educate twice as many young people aged 16 to 18 than schools, they train many thousands of apprentices, provide 11% of higher education places and account for 49% of vocational qualifications achieved each year.<sup>2</sup> Colleges have a major contribution to make in improving 14–19 education, in widening access and improving higher education and in helping businesses recover from the recession.

2. We welcome the Committee's interest in further education funding and the role of the Skills Funding Agency (SFA). Our evidence covers the following topics:

- The role of the Skills Funding Agency (SFA) in the new skills system
- Government policy and the SFA
- Revenue funding
- Capital funding

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<sup>2</sup> AoC key facts [http://www.aoc.co.uk/en/about\\_colleges/facts\\_and\\_figures/](http://www.aoc.co.uk/en/about_colleges/facts_and_figures/)

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## SECTION 1: THE ROLE OF THE SKILLS FUNDING AGENCY IN THE NEW SKILLS SYSTEM

### *Role of the SFA*

3. The Skills Funding Agency (SFA) is a new executive agency which starts work in April 2010 and which is part of the Department for Business Innovation and Skills (BIS). The Government set out plans to create the Skills Funding Agency in the 2008 “Raising Expectations” White Paper.<sup>3</sup> It implemented these plans in the Apprenticeships, Skills, Children and Learning Act 2009<sup>4</sup> The SFA takes over some of the powers and staff from the Learning and Skills Council (LSC) and has the task of delivering a number of policies set out in the Government’s Skills Strategy, Skills for Growth.<sup>5</sup> BIS allocated SFA a £4.7 billion budget for its first year (2010–11) in a Skills Investment Strategy published in November 2009.<sup>6</sup>

4. The decision to create the SFA followed on from the decision in 2007 to split the Department for Education and Skills into two and to disband the Learning and Skills Council. The SFA takes over the work of the LSC for those aged 19 and over but there are a number of important differences:

- As an executive agency of BIS, the SFA does not have a separately constituted board. SFA staff will be civil servants.
- Due to the fact it will fund only post-19 learning the SFA has a smaller budget (£4.7 billion in 2010–11<sup>7</sup> compared to the LSC’s £11 billion budget in 2009–10<sup>8</sup>) and fewer staff (1,800 compared to 3,300 in the LSC).
- SFA will be managing a declining budget (because of the planned reduction in expenditure after 2010<sup>9</sup>) whereas LSC budget rose year on year as a result of the expansion in 16–18 education and the growth in its remit. The SFA’s narrower remit means that it will face tougher spending choices.
- The SFA will be expected to focus on the delivery of Government policy, with a primary focus on supporting access to learning (by employers, individuals and apprentices) and on funding colleges and training providers to deliver the priorities set out in national and regional strategies.
- The SFA will continue to collect data on all parts of further education but will now do so as a service for the Young People’s Learning Agency (YPLA) and for 150 local authorities.
- The SFA will work explicitly via Regional Development Agencies (RDAs) in contrast to the LSC which was only required to consult them on its plans.

### *Complexity*

5. AoC fears that the way in which the LSC has been disbanded and the SFA has been created could make a complicated further education system more rather than less confusing. Colleges will work to two national agencies where there was previously one and there are new roles for the UK Commission for Employment and Skills, RDAs and local authorities. The neat division of education and training at age 19 that sounds rational in theory has turned out more complicated in practice. There are a number of areas where the new system will be particularly complicated:

- the SFA will be responsible for apprenticeships for those from age 16 upwards and will have to negotiate with the 43 sub-regional groups of local authorities responsible for funding the education of these 16–18 year olds.
- the SFA will be responsible for about 80,000<sup>10</sup> students aged 19 in Colleges and schools, many of them taking full-time education courses like A-levels and National Diplomas. Many young people do not complete their sixth-form level education by the age of 19.
- the SFA will not be responsible for support given to young adults aged under 25 who have severe learning difficulties but it will be responsible for the education programmes of those with moderate learning difficulties.
- the SFA will regulate the 260 further education colleges but will provide less than 50% of their revenue funding. The largest share of College funding will come via local authorities and will be paid for the education of 16–18 year olds.<sup>11</sup>
- the relationships between SFA, RDAs and local authorities is not yet tested and is likely to keep changing (see below).

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<sup>3</sup> Raising expectations enabling the system to deliver, cm 7328 March 2008

<sup>4</sup> Apprenticeships Skills Childrens and Learners Act 2009

<sup>5</sup> Skills for Growth, cm 7641, November 2009

<sup>6</sup> Skills Investment Strategy, November 2009, <http://www.bis.gov.uk/wp-content/uploads/publications/Skills-Investment-Strategy.pdf>

<sup>7</sup> Skills Investment Strategy, November 2009

<sup>8</sup> LSC annual statement of priorities, November 2008

<sup>9</sup> Treasury Select Committee report on the 2009 Pre-Budget Report, January 2010

<sup>10</sup> AoC analysis of individual learner record data, January 2010

<sup>11</sup> AoC calculations from College accounts and LSC funding allocations

### *Cost*

6. The SFA administration budget in 2010–11 will be £81 million.<sup>12</sup> AoC is disappointed that Government does not expect to make any savings from this large-scale reform or to significantly simplify the way in which the system is managed. Almost all the 3,000 people working for the LSC are being transferred to new posts, either in SFA, YPLA, RDAs or local government. At a time when the Government will be cutting teaching and training expenditure for those over 19, it has effectively ring-fenced spending on administration to ensure a smooth handover in 2010. It has also failed to establish a clear baseline for the calculation of benefits and costs of the reorganisation of funding arrangements in future years ie there is no benefits realisation plan for these changes.

### *SFA relationship with RDAs*

7. In July 2009, Ministers set out plans to integrate the work of SFA more closely with Regional Development Agencies (RDAs). The RDAs will draw up two documents:

- a single Regional Skills Strategy in consultation with local authority leaders, sub-regional bodies and Sector Skills Councils. This strategy will have a 20 year outlook and will articulate all skills needs in the region; and
- a Regional priority statement, which will be used in drawing up the annual SFA budget.

8. This reform builds on the experience of the London Skills and Employment Board which was set up in 2006 and chaired by the Mayor of London. AoC believes that closer integration of the skills system and the regional development process makes sense because, up to now, RDAs have held separate budgets for skills. However there are a number of issues which will need to be addressed:

- Some regions are more cohesive entities than others; some are more effective than others. There is a risk that a greater role for RDAs in an already complicated system could slow up decision-making and make it more difficult for Colleges to respond to employer and community demand.
- In recent years, some RDAs have been reluctant to engage with the education system or have shown limited understanding of the work that Colleges and other training providers carry out. AoC has carried out a project with the Learning and Skills Improvement Service to explore good practice in RDA-College links in London and the North West.<sup>13</sup>
- The future role of RDAs continues to change. In December 2009, the Government confirmed that various powers over adult skills would be devolved to the Manchester and Leeds city regions.<sup>14</sup>

### *SFA relationship with local authorities*

9. The SFA will not have a direct relationship with local councils in 16–19 education but there are other areas where it will need to engage with local authorities:

- Local authorities have new powers and duties in economic development, both as a result of legislation<sup>15</sup> and as a result of the recession. The Department for Work and Pensions sees councils as major partners in its current job creation schemes.<sup>16</sup>
- A number of councils are keen to take over new powers in post-16 education and training, including those involved in the City region pilots mentioned above. Several County Councils (including Kent and Oxfordshire)<sup>17</sup> made bids to the Communities and Local Government Department in 2009 to take over the work of the SFA in their area.

10. The 2010 reforms in further education and skills create a good opportunity for a stronger local government role in improving the lives of local people. Colleges have good relationships with councils and wish to develop this further. Notwithstanding this, AoC is keen that Government keeps a firm hand on the development of the system. The skills system is not local because of the extent to which people travel to work and study. Central government will be paying more than £50 million to local councils and transferring 950 people from the LSC so that they can manage 16–19 education. At a time of public spending restraint, Government will secure greater efficiency from maintaining national systems and reducing the costs of those systems.

<sup>12</sup> 2010–11 Skills Investment Strategy, November 2009

<sup>13</sup> AoC/LSIS report due to be published in spring 2010

<sup>14</sup> City region announcement made in Pre-Budget report, December 2009

<sup>15</sup> Local democracy, Economic Development and Construction Act 2009

<sup>16</sup> For example in the Future jobs fund

<sup>17</sup> Both proposals have been shortlisted by the Local Government Association <http://www.lga.gov.uk/lga/aio/6820540>

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## SECTION 2: GOVERNMENT POLICY AND THE SFA

11. The SFA is a delivery organisation but the way in which it works will be determined by the Government policies given to it. There are a number of issues of possible interest to the Committee.

### *Targets*

12. The Government set ambitious targets for the employment and skills system in the 2007 Spending Review, which was completed before the recession started and which runs until 2011. The review set ambitious targets for increasing participation and achievement levels in qualifications considered economically valuable. Specific targets were set for skills for life,<sup>18</sup> level 2, level 3 and level 4 qualifications.

13. The ambitious nature of the qualification-level targets and the fixed amount of public money available to the LSC has had a dramatic effect on the further education and skills system in recent years. AoC understands that more than 90% of the budget earmarked for the Skills Funding Agency in 2009–10 is already spent on areas covered by national targets, leaving very little room for local flexibility or responsiveness.

14. A new set of Government objectives will be needed for the period after 2011 to take account of progress to date, the changing economic circumstances and a tighter public spending environment. In AoC view, the Government's objectives for the first half of this decade should be to achieve the following:

- a continued increase in the number of people taking higher education courses to achieve the aim of a better skilled population;
- responsive and intensive education training programmes for those who are unemployed to ensure a fast return to the job market;
- consolidation of the apprenticeship campaign under the new National Apprenticeship Service;
- continued emphasis on basic skills and on economically valuable courses but with more flexibility about national qualifications and with greater delegation to those delivering education and training, working in partnership with business and local government;
- action to increase individual investment in learning by using learning accounts or an extended programme of student loans. Individuals and employers could be empowered under such a scheme and be able to pay for course costs with a mixture of fees, loans and skills accounts; and
- more collaboration between colleges, universities and independent training providers to reduce the cost of education and training by organising viable groups and minimising overheads, by collaborative purchasing and action to reduce quality assurance and assessment costs.

### *Skills strategy "Skills for Growth"*

15. The Skills Strategy published by BIS in early November 2009 reinforced the existing direction of Government policy but contained a number of new targets and initiatives. These include:

- a new goal that three-quarters of people should participate in higher education or complete an advanced apprenticeship or equivalent technician level course by the age of 30;
- the need to develop new progression routes to higher education;
- efforts to reduce the many, many agencies who oversee the work of Colleges;
- firm plans for the expansion of skills accounts; and
- new measures to assess the performance of the further education and skills system.

16. AoC supports the aims of the strategy, in particular the new focus on higher skills but we remain concerned at the gap between the policy and the resources available to achieve it as well as the implied re-prioritisation of limited funds away from developmental learning. In different areas of the country the mix of skills levels will differ and there needs to be flexibility within the system to meet these different needs.

## BUDGETS

17. In its last two Budget statements, the Treasury has already made some important changes to the funding of education and training:

- the April 2009 Budget pencilled in a £400 million efficiency gain in 2010–11 for further and higher education. Before its dissolution, the Department for Innovation Universities and Skills (DIUS) agreed additional efficiency targets with the Treasury which are being passed on to HEFCE and the LSC. The comparative savings figures are £180 million and £340 million with FE taking a larger cut despite being the smaller sector of the two;

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<sup>18</sup> Qualifications designed to improve everyday skills such as numeracy and literacy.

- in the same statement, the Treasury allocated £655 million for additional 16–18 places and £300 million for further education capital funding; and
- the December 2009 Pre-Budget report set a further £300 million efficiency gain for further education and skills by 2012–13. The Treasury say that will involve cuts to non-participation<sup>19</sup> budgets, higher fees and more efficiency in delivery. Significantly the 2012–13 efficiency gain required from higher education is higher—£600 million—with the contribution expected to come from a shift to part-time study close to home.

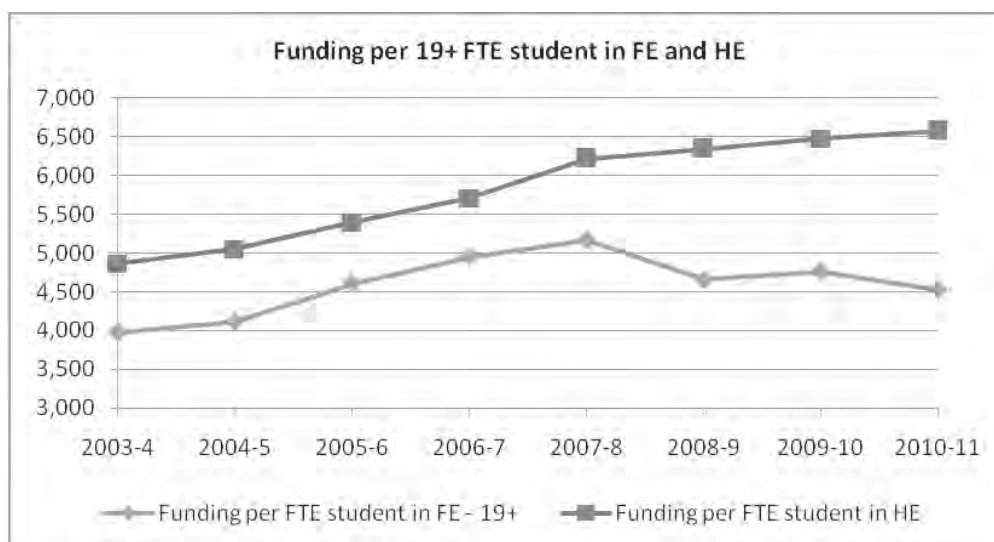
18. Government promises to protect spending on the NHS, schools and the police combined, with rising debt and benefit costs, imply that future spending reductions will fall disproportionately on other areas including post-19 education. The scale or distribution of any cuts are not spelt out in the report but will presumably be detailed when the Treasury sets 2011–12 and 2012–13 budgets.

### SECTION 3: REVENUE FUNDING

#### *Government spending on further education and skills*

19. The Government plans to spend about £20 billion on education and training for those over the age of 19 in England in 2009–10<sup>20</sup>. The majority of this expenditure went on higher education teaching, research and student support, including £6.3 billion via the Higher Education Funding Council for England (HEFCE) and £4.8 billion on student loans which are capitalised by Government on the assumption that graduates will repay the loans over the next 30 years.<sup>21</sup>

20. Government spending on further education and skills in 2008–09 is about quarter of this total, at £5.0 billion. In the five years from 2002–03 to 2008–09, total spending on higher education in England rose by 6.5% a year while spending on further education and skills rose by 1.9%.<sup>22</sup> These differences are reflected in the funding available per full-time equivalent student.<sup>23</sup> Chart one illustrates the difference:



21. The differing fortunes of the two areas reflect the political decisions made by the Government when it passed the Higher Education Act 2004 (which introduced tuition fees). In AoC's view, the Government's 2009 review of higher education needs to include a significant rebalancing of expenditure towards part-time higher education, a determined effort to control costs and a shift towards private funding via student loans.

#### *Skills and adult funding*

22. The Skills Investment Strategy published in November 2009, and subsequent guidance in December 2009<sup>24</sup> has serious and far-reaching implications for College budgets in the 2010–11 academic year:

- the adult learner responsive<sup>25</sup> budget for the 2010–11 academic year will be 11.6% lower than it is in 2009–10. The actual cut applied to each College will be contained within a range—no more than 25% but at least 5%;

<sup>19</sup> Grants allocated for costs incurred not directly linked to education and training. An example would include the brokerage fees payable under Train to Gain

<sup>20</sup> DIUS departmental report, page 60, July 2009, combining further and higher education figures

<sup>21</sup> DIUS Departmental Report, page 65

<sup>22</sup> Calculations from DIUS Departmental report, page 60

<sup>23</sup> Figures from DIUS departmental report, page 78

<sup>24</sup> Skills Funding Agency guidance note 1 on 2010–11 allocations

<sup>25</sup> Grants payable to Colleges and others for the education and training of those aged over 18 at the date of registration.



- the changes will be achieved by a 3% reduction in overall funding rates, the 20% reduction in skills for life weighting, a 5% increase in the assumed proportion of course fees paid by the student or their employer and a 50 + % reduction in developmental learning spending;
- some Colleges will earn more income from the LSC employment and apprenticeship programmes to offset some of these reductions but, unlike in earlier years, the constraints on the 16–18 education budget mean that a significant number of Colleges will face a drop in overall LSC income in 2010–11. Although the Government is making money available for substantial growth in numbers of 16–18 year olds (a 4%) increase, funding per student will not increase at all in 2010–11 even to take account of inflation;
- the planning assumptions assume continuing growth in numbers, including marginal increase in skills for life enrolments (outside numeracy) even while budgets are being cut; and
- the SFA will make allocations on the basis of the mix of College provision in the 2008–09 academic year, with a look at the proportion of courses in nine priority areas, which extend to initial teacher training and trade union education.

23. Over the last five years, the Government has shifted hundreds of millions of pounds out of adult learning into other areas of activity, principally Train to Gain. This gives Colleges relevant experience in dealing with funding changes which they will draw upon heavily. However the scale of the reduction in 2010–11 is noticeably larger than in previous years.

#### SECTION 4: CAPITAL FUNDING

24. The mismanagement of the college capital programme by the Learning and Skills Council is well documented. Our immediate concern is the weakened financial state of some Colleges. Across the country, Colleges spent more than £300 million on projects that were not cleared for funding in 2009. Although some Colleges have been able to take their projects forward on a more modest scale, using their own funds, many cannot. The College sector as whole is likely to write off £200 million in costs in its 2008–09 accounts. The consequences of reporting deficits and maintaining overdrafts are that some Colleges will be unable and unwilling to take new risks. Many Colleges are also re-evaluating their activities to improve their overall financial viability. The consequences of this will become apparent in the next few months as individual Colleges take decisions to close sites, restructure departments and drop loss-making courses. The nature of the College calendar and the size of the financial problem in some Colleges mean that decisions need to be taken now so that changes take effect in September 2010. There will be difficult outcomes in some cases. For example, it is likely that some Colleges will need to close multi-year courses before some students have completed their final years.

25. AoC has been working constructively with LSC and BIS in recent months on capital-related issues and continue to press for prompt action on providing financial support for those Colleges in serious difficulty.

### APPENDIX ONE

#### REVENUE FUNDING

- *Train to Gain*—must be used for employed people taking level 3, level 2 and skills for life courses leading to approved qualifications. Some recent flexibilities around volunteers and qualification units. Funding is heavily weighted towards achievement of qualification so the available funding (averaging £800 per learner) sometimes doesn't cover much more than the assessment.
- *Adult responsive funding*—can be used for a wide variety of courses leading to approved qualifications but targets set and managed by LSC increasingly push colleges to use it for skills for life, level 2 and 3 courses plus foundation learning tier. This has squeezed courses considered to be developmental learning by 75% in three years with partially successful attempts to ring-fence areas which are considered important but don't lead to a PSA target (eg level 4 vocational courses, courses for students with learning difficulties over age of 25, trade union courses, Princes Trust).
- *19–24 and 25+ apprenticeships*—must be used for people with apprenticeship agreements taking courses leading to one of the full frameworks.
- *Higher education (HEFCE) funding*—must be used for courses prescribed under the 1988 Education Reform Act (degrees etc) with LSC picking up the tab for non-prescribed courses in colleges. Curiously HEFCE funds non-prescribed courses in universities which means that colleges can get funded for some employer relevant modules if they franchise from a university but not if they have a direct funding contract.
- *Personal Community and Development Learning*—just about anything can be funded as long as college meets the funding agreement with the LSC and has agreed plans with local partnership.
- *Response to redundancy programme*—short-life programme partly funded by European Social Fund which provides up to £1,500 per individual to deliver a regionally-agreed contract.
- *Six month offer*—another short-life programme for individuals unemployed for six months or more funded out of the adult learner responsive pot.

- *Integrated employment and skills trials*—pilots running to test methods for allocating funding in line with job outcomes.
- *Flexible New Deal*—major DWP scheme to train the long-term unemployed with the intention of getting them back into work.

12 January 2010

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### Supplementary evidence submitted by the Association of Colleges

SFA 20A

I am writing to clarify a few points made during the recent evidence session your Committee held with Geoff Russell, David Cragg, Peter Lauener and Kevin Brennan MP as part of the inquiry into the SFA.

Q130/131

Julie Kirkbride MP asked about funding for young people beginning a course aged 18, but finishing after their 19th birthday and was told that the YPLA will continue to fund a person in this position. This is a complicated area but we are not certain the witnesses gave a wholly correct answer. As we understand it, the Skills Funding Agency takes over the funding of young people once they reach their 19th birthday but funds them using the rates and rules established by the Young People's Learning Agency. With high youth unemployment, this makes it possible that a rising share of the SFA budget will be spent on young people aged 19 and 20 completing their sixth form education.

Q135/136

You asked about virement between different budgets and Colleges' ability to be flexible. The virement flexibility mentioned by Geoff Russell allows Colleges to take their own decisions about how to spend the funding allocated to them. In addition, the SFA will allow Colleges to adjust funding and targets within two main adult areas (Adult Responsive Learning and Employer Responsive Learning). However, Colleges are unable to move funds between the two areas and are held accountable for a long list of detailed student number targets, defined in terms of the number of people taking particular qualifications. We do not think it is really accurate to say that Colleges "manage the money pretty much in the way they want".

Q170

Brian Binley MP asked about the costs of the reorganisation. The fact that the people heading YPLA and SFA are confident about the effectiveness of their organisations perhaps reflects the fact that their budgets have been protected. As the Minister explained, the reorganisation is cost neutral. This means that DCSF/BIS will continue to spend £200 million on the two national agencies and on administration in local councils (£50 million a year). Meanwhile the SFA will be cutting a similar amount from the budget for adult education and training in the 2010–11 academic year.

Q174

Brian Binley MP asked what was meant by "re-prioritisation" within the skills system. Responding, Kevin Brennan MP talked about a 2.9% growth in adult learning funding. The Minister was referring to the overall increase in funding for the 2010–11 financial year (comparing the year starting 1 April 2010 to the year starting 1 April 2009).

This is the most favourable presentation that can be put on the figures. If capital funding is included, there is a decline in expenditure comparing the two years. The department has brought forward other expenditure into summer 2010 which means that the comparison across the two academic years (year starting 1 August 2010 compared to 1 August 2009) is much less favourable. Furthermore a considerable sum is allocated in the 2010–11 academic to new training programmes for the unemployed. If these are excluded, there is a 6.5% decline in revenue spending on adult education and training. The department has protected various budgets (for example for adult apprenticeships, offender learning and informal adult learning) with the result that the full impact of the budget reduction falls on the adult learning responsive budget. This is the £200 million reduction outlined in AoC's briefing to the Committee. The important point to understand is that the budget cut applies to basic skills courses and to work-related education provided by Colleges to individuals.

15 March 2010

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## Memorandum submitted by the Association of Learning Providers

### INTRODUCTION

1. The Association of Learning Providers (ALP) represents the interests of a range of organisations delivering state-funded vocational learning. The majority of our 480 member organisations are independent providers holding contracts with the Learning and Skills Council (LSC) for the delivery of Apprenticeship, E2E and Train to Gain programmes, with many also delivering DWP provision to support the unemployed. We also have circa 35 colleges and a number of non-delivery organisations, such as the Sector Skills Councils in membership, which means that ALP offers a well rounded and comprehensive perspective and insight on matters relating to its remit.

### BACKGROUND

2. ALP is close to finalising a paper, “A vocational route for the future—the challenges facing the FE system and the way forward”, which takes a longer term view of some of the issues facing the vocational education and training sector. In the face of the current recession, however, there is a clear need to take immediate action to identify how and where costs might be reduced whilst minimising any adverse impact on the quality of provision available and two further ALP papers (“Recession—the immediate impact on Government funded vocational training” and “FE funding—the basic principles”) proposed how the Government should respond to the immediate challenges facing the skills sector during the recession, whilst at the same time retaining the basic principles for funding that will be key to ensuring the sector is able to maintain its quality and continue to increase performance.

3. The main thrust of these two papers is set out below. We believe that the issues covered are relevant to the inquiry and would welcome the opportunity to discuss them with members of the Committee.

### MAINTENANCE OF APPRENTICESHIPS

4. ALP believes that it is vital that no action is taken that might damage the take-up of Apprenticeships by both individual and employers if we are to retain and develop a skilled workforce ready and able to take up the opportunities that become available as the economy recovers.

5. Apprenticeship frameworks have been developed over many years and provide the foundation stone on which work based learning (WBL) must be built and funding for Apprenticeship must continue at the very least at current levels. The opportunity should be taken to broaden the Apprenticeship “family” to retain and expand further level two and three (especially level three) but also formally include level four/ Foundation Degree level, to strengthen the brand and the scope for high level progression through to HE.

### ADULT SKILLS DEVELOPMENT

6. Support for adult skills development will undoubtedly be reviewed and we would suggest it is time to move towards a greater sharing of responsibility for the development of those in employment, with Government, employers, and in some cases individuals themselves, co-funding provision for this group of people. This would release greater levels of Government funding to support those individuals facing a period of unemployment. The priority for this unemployed group should be basic skills—developing them up to their first level two qualification, or in some cases replacing “redundant” level two qualifications.

7. The need for some in employment still to achieve similar levels of basic skills should also remain a priority, but it could be that some of the recent flexibilities introduced into Train to Gain (TtG) in order to grow the programme could be withdrawn now the programme has become established, allowing Government to focus TtG funding on those in greatest need, as suggested above.

### OPPORTUNITIES TO CUT COSTS

*Reducing the number of “intermediary bodies” (quangos and others) involved in the FE system.*

8. One option would be to concentrate “improvement” support totally under LSIS, which might involve the merging in of some Becta and LLUK functions/funding. LSIS is increasingly provider driven by its elected Council of providers, and this would strengthen further the opportunity to ensure support monies are properly and effectively targeted at areas of real need.

*Reducing the number of quality standards, kite marks, etc, that providers have to achieve.*

9. It is vital that providers have more say in the development of quality standards and performance indicators. There should be a simplified system which would reduce both the costs and the bureaucracy involved, and ALP can still see no reason not to use the well known, understood and established EQF system, which can be easily adapted to meet the expectations of both Government and employers. Ofsted could then be used, as now, for the necessary external inspection and verification of providers’ own self assessment processes.

*Development of a preferred supplier system*

10. A preferred supplier system, based on a rigorous analysis of the provider's track record whilst still allowing new providers to enter the system, would significantly cut costs.

*Allowing providers to make better use of technology*

11. Allowing use of electronic signatures and archiving etc would allow providers to reduce their costs without impacting on the frontline—the service given to the learners and their employers.

## FE FUNDING—THE BASIC PRINCIPLES

12. Whilst it is essential to cut unnecessary costs wherever possible there are some fundamental principles that must be retained if the quality and performance of the sector is to be maintained and grown. These are:

*Level playing field*

13. From the very start ALP has argued for a level playing field for FE funding. All funding lines should be accessible by any provider with the capacity to deliver to the specification set out by the funder, and there should be no artificial divisions between different types of organisation, be they public, private or third sector, when allocating funds. Learners deserve the best service possible so all funding should be routed through the providers best able to deliver training services to the learners/employers.

*Preferential treatment*

14. Within an open market no preferential treatment is given to any part or parts of the FE system that would give them an unfair advantage over other parts of the sector. Employers contracted to deliver Apprenticeships or Train to Gain should be required to meet the same standards and criteria as other providers delivering those services to other employers. To do anything else would inevitably distort success rates making any meaningful comparisons of either the effectiveness of the training provided by the different routes, or the value for money offered, impossible.

15. Also, when programmes have been contracted following an open and competitive tendering system, it is totally unacceptable to offer some providers flexibilities, at a later stage, that are not available to other providers.

*Ring fencing of budgets*

16. Recently some new programmes/budgets have only been available to some sections of the sector (eg 75,000 places for young unemployed learners was ring fenced for colleges although it is the independent sector that has the expertise in delivering services for the unemployed, with many already contracted to provide these services for DWP). As argued previously, all funding lines should be accessible by any provider with the capacity to deliver.

*The need to further develop an improved demand led funding system*

17. Whilst there have been problems with the so-called demand led funding system introduced by the LSC, these have largely resulted from mismanagement (such as extremely late contracting of provision many months after the start of the contract year; failure to listen to early advice from providers that they would be delivering their full contract values; and providers encouraged by the LSC to deliver volumes over and above those set out in their contracts). Now is not the time, however, to move back to a rigid, pre-planned, pre-determined allocation system. The recent economic downturn came suddenly, out of the blue, and has resulted in a deep recession that no-one could have predicted even a few months before. Given this total unpredictability it is vital that any future FE funding system is truly demand led, capable of responding to the real time needs of the economy and employers.

*The role of the Local Authorities and RDAs in 16–18 provision*

18. ALP believes that both local authorities (LAs) and RDAs have a clear role to play in identifying the skills needs of their areas, and in “commissioning” appropriate provision to address these needs. We also believe, however, that it is vital that local authorities in particular play no part in the actual contracting of provision, which should be done by the Skills Funding Agency (SFA). There are a number of reasons for this, eg many local authorities are themselves training providers and there would be a direct conflict of interest if they were involved in contracting for skills in their areas; many providers operate multi-regionally or nationally and requiring them to contract at the local level would represent a serious waste of resources which would be better directed to the frontline (the learners). Following representations from ALP, the Government agreed that the National Apprenticeship Service (NAS) should be responsible for commissioning all Apprenticeship provision in England. The NAS will take advice from the LAs on the particular apprenticeship needs in each area but funding and contracting will remain the Service's responsibility.

19. The significant transfer of LSC responsibilities to the LAs for 16–18 learning and skills provision has posed major challenges for work based learning providers, particularly those that operate nationally or across regions. One of the challenges is the lack of visibility of independent providers to LAs and ALP has been working closely with the DCSF and the REACT team at the LGA to address this over the past twelve months.

20. Other forms of provision, such as the Foundation Learning Tier and the Entry to Employment programme which is so vital for the NEET group of young people in this recession, will be commissioned by the LAs. ALP has been involved in the consultations on the draft National Commissioning Framework for 16-18 provision and will shortly respond formally to the draft document. With a myriad of bodies to contend with, the key challenge for providers is to build and maintain the right set of relationships with the NAS, SFA, local authorities and the LAs' Sub Regional Groups. ALP is regularly told by LAs that our members are the answer to raising the participation age and the NEET problem, not to mention the added opportunities of delivering training to 14–16 year olds, but the key to these opportunities for providers is a good and effective relationship with LAs at a local level.

21. There are a few issues holding this back—not least the potential contracting and commissioning arrangements, the capacity of providers to engage with the plethora of organisations needed for this type of operation and the LAs' understanding of (or willingness to understand) the independent work based learning sector. ALP is aware of many LAs who have good working relationships with providers, yet as members have fed back to us, there are still too many who do not. Not only are providers often not properly represented on 14–19 Partnerships and Regional Planning Groups, but one LA we are aware of only thinks it has two independent providers on its patch, because they are the only two with bases in the local area! Time is running short in terms of overcoming these challenges.

*6 January 2010*

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### **Memorandum submitted by A4e Ltd**

#### **INTRODUCTION**

1. A4e is a private company on the front line of public services. We are the largest supplier of Department for Work and Pensions contracted employment services, community legal advice, generic financial guidance for the Financial Services Authority and telephone legal advice on behalf of the Legal Services Commission. In terms of LSC funded business, we are a major contractor of Train to Gain and the largest private deliverer of offender learning and skills (OLASS) provision. LSC funding is also accessed to fund some of our pioneering NEET provision, including our Vox Centres for teenagers excluded or at risk of exclusion from school.

2. We are a global community, headquartered in Sheffield, working across four continents and employing over 3,500 people. We deliver front line public services from over 200 local, community based delivery locations including UK, Australia, France, Germany, India, Israel, Poland and South Africa. Over the last 22 years we have helped over 1 million people in their journey back into sustainable employment.

#### **THE WAY FORWARD**

3. A4e believes that in the current challenging climate for the economy there is an opportunity to positively alter skills delivery in the UK, in the short-term to combine with the Government's major efforts to stimulate the economy and avoid the worst consequences of a recession, and in the longer term to develop and institute a far stronger and more responsive "skills market" to the benefit of learners, employers, providers and crucially the public purse.

4. This transformation can be achieved relatively quickly if, in particular, the commercial governance that lies at the heart of the sector is changed and no one suite of providers is favoured above any others. The disbanding of the LSC and the advent of the Skills Funding Agency (SFA) are a rare and invaluable opportunity to enact this change and we would urge the Department for Business, Innovation and Skills (BIS) to take it.

#### **THE START OF THE NEW SKILLS FUNDING AGENCY**

5. The December announcement of the appointment of the new Chief Executive of the Skills Funding Agency was important as we believe that the appointment will set the tone and direction of future skills delivery in the UK. It is absolutely vital that the new chief executive and his senior management team are completely committed to competitive neutrality when it comes to the procurement of publicly-funded learning and skills programmes (as must be BIS and its ministers). There must be no more ring-fencing of programme delivery to particular groups/sectors of providers.

6. The SFA must be fully signed up to the Government's implementation of Leitch and the progression to the demand-led skills market set out in the Government's subsequent policy papers such as the latest BIS national skills strategy. The top appointment is particularly important in terms of influencing the new organisation's internal culture when many senior and middle managers have moved to it from the LSC.

7. Effective delivery of skills provision to employers and individual learners under the LSC has been severely hindered by the operation of a planner led market. The provision of Apprenticeships has been demand led by employers and learners and this has been primarily responsible for their growth. The introduction of Train to Gain (TTG) was supposed to be demand led with open and competitive tendering (OCT) for providers but the underspend in the programme's first two years was partly due to the LSC simply handing huge multi-million pound contracts to certain providers without good and proven local employer links. This also resulted in significant sub-contracting to local work-based learning providers with lead providers sometimes top-slicing anything up to a 30% "management fee"—taxpayers' money not reaching the frontline. This practice continued to some extent last year when the TTG budget became very tight with the increased employer demand.

8. A4e would support the introduction of the DWP's Flexible New Deal prime contracting model to the skills market, provided that both independent providers and colleges could act as prime contractors.

9. Any future government and its agencies should uphold and strictly implement the principle that the delivery of all publicly funded skills provision should be open to any good quality provider irrespective of whether it comes from the public, private or voluntary sector.

#### FLEXIBLE PROVISION ACROSS SECTORS

10. While we understand the Government's desire to prioritise skills budgets towards particular business sectors in the current fiscal climate, funding agencies should ideally not place limits on which sectors individual providers can find business. A4e has worked with local LSCs in the past that were prepared to be flexible in this regard on other skills programmes for the benefit of the local economy and in these times we need this kind of flexibility to be built into Train to Gain and other programmes across the country. The national skills strategy includes some encouraging proposals on flexibility as reward for good provider performance.

11. Train to Gain should also no longer just be tied to a particular employer's needs, but funding should also be able to follow the individual learner, whether employed or unemployed (see more detail on this in the "demand-led" section below).

#### HELPING THE UNEMPLOYED

12. More strategically, we need to build on initiatives already underway in respect of linking Train to Gain to finding sustainable employment for those who have been made redundant in recent months. For example, there is an opportunity to leverage pilots through the RDAs working in partnership with Jobcentre Plus (JCP) and the SFA. This would be a good way of advancing the integrated employment and skills agenda. We believe that deploying the RDAs in this way could have a particularly positive impact on the recruitment and training potential within medium-sized firms.

13. The announcement that Third Sector organisations are now eligible for new flexibilities in the Train to Gain offer, including funding for stand-alone accredited training modules and part-qualifications, was an encouraging step forward. It presents opportunities for linking New Deal and Pathways delivery in terms of moving JCP clients into voluntary work and providing them with new skills.

#### INTEGRATED EMPLOYMENT AND SKILLS PROVISION HELPS EMPLOYERS AND LEARNERS

14. On the theme of value for money, there is currently far too much complication and duplication in the employment and skills systems. Providers can offer almost identical programmes funded by different government agencies and personal advisers are confused by the plethora of offers that are available to their clients.

15. A4e understands that while unemployment remains high, moves to completely integrate employment and skills funding might be resisted for fear of the skills budgets being swallowed up through tackling worklessness. But if the goal is to secure more sustainable employment for individual learners and to reduce the number of long-term unemployed people in this country by giving them skills, then there must be more progress on tackling duplication and complexity in the way that the devolved administrations are attempting. The UKCES has set the ball rolling by calling for "single commissioning points" for providers and we would like to see the debate continue on this.

#### FLEXIBILITY ON QUALIFICATIONS

16. As the UKCES has said, we need more flexibility in respect of qualifications. In 2003, A4e ran an EU-funded Invest in Skills programme with employer matched funding in South Yorkshire together with the area's Employer Training Pilot before Train to Gain was introduced. Part of the success of these programmes lay in the fact that not only part-NVQs but specific short courses were funded. A return to this is essential as we tackle the recession with business needing suppliers to be responsive to employer demand. Our understanding is that RDAs are willing to fund such provision.

**MAINTAIN THE ENTRY TO EMPLOYMENT PROGRAMME**

17. The Entry to Employment programme should be retained and supported as demand for the programme has increased strongly in this recession. This is an important gateway to skills provision, including Apprenticeships and especially for 16 to 18 year olds and the NEET group, and while support for young people now comes under DCSF, it is imperative that BIS and DCSF work together to maintain the programme. With fewer employers recruiting young apprentices at this time, E2E's availability to young people is more important than ever.

**PRESERVE NATIONAL CONTRACTING TO HELP THE NEET GROUP**

18. We are encouraged to see the new arrangements permit national contracting of Apprenticeships under the National Apprenticeship Service (NAS). There is also a case for consolidating NEET budgets into a national offer, run by one of the national agencies, especially in the light of the devolving of the 14–19 learning and skills budgets to the local authorities in England. Procurement should reward innovation around disadvantaged young people instead of commissioning failing unimaginative programmes that do not engage with NEETs. This requires the relaxing of the rigid funding mechanisms to allow more interesting programmes to be delivered.

**PROMOTION OF BUSINESS SKILLS**

19. A4e would like to see funding directed to providing business skills that are key to successful start-ups and survival but may not necessarily have an NVQ attached to them.

**A TRULY DEMAND-LED SYSTEM FOR ADULT SKILLS**

20. Skills Accounts, together with the UKCES's food-labelling style proposals to provide clear information to employers and learners on courses and provider service and performance, are the right way forward in progressing towards a truly demand led market.

21. Skills accounts put genuine choice in the hands of the learner, both in terms of the type of course or training that they want and the type of provider that they want to deliver it. We understand that under the new national skills strategy, learners with accounts may be able to exercise choice in the manner described in respect of any publicly funded programme or budget within the FE and skills system. We hope that this principle will survive any change in government.

22. All citizens over the age of 16 (not 18 as under the current pilots) and not in full-time education or training should be issued with a Skills Account which can be used to access Train to Gain and other skills programmes. Ideally this should be in a paper-based and electronic format. The Skills Account should clearly state the entitlement to publicly supported learning that is available to that person, together with a clear explanation of the terms and conditions which apply. Initially this can be in the form of a generic entitlement.

23. For example an individual could access:

- up to three sessions of independent advice and guidance (IAG) from a trained Careers and Qualification guidance person. This will help learners to better understand how learning can help them meet their goals and guide them in choosing the right course. This could be worth up to £150 (on this point Adult Information, Advice and Guidance services should be contracted out as soon as possible);
- fully funded support to help learners improve literacy, numeracy and English language skills. To access this support, a learner could phone "0800—Skills Accounts". This is worth up to £2,250 (the approximate LSC rate paid in the past to a provider for the delivery of a numeracy, literacy or ESOL award) if learners do not have a previous qualification at level 2 or above (the equivalent of five good GCSEs or an NVQ level 2), they are entitled to fully funded support to help achieve their first full level 2 qualification. This is worth up to £1,800;
- if learners do not have a qualification at level 3 (the equivalent of 2 A levels, or an NVQ 3), they are entitled to access support to achieve this with a minimum state contribution of 50% of the cost. Learners, or their employer, may have to pay the balance of the cost. This is worth up to £1,000; and
- if learners have a disability, are a single parent or have child care, or transport issues which make joining a programme difficult, they may be able to take advantage of extra support.

24. For individuals under 25:

- if learners are under 25, they should be entitled to support for achieving an Apprenticeship in their chosen occupation.

25. The total value of a Skills Account could be as much £5,200 and considerably more if the learner is under 25, has a disability or child care issues.

26. This is not intended to be a comprehensive menu of options, but simply reflects recent policy initiatives. In areas with access to ESF funds, it may be extended and could include Adult and Community/night school learning opportunities and extended entitlements for unemployed or socially disadvantaged individuals.

27. Future developments could include aligning the Skills Account with Working Families Tax Credits or other benefits entitlement that would offer extended support to target groups of individuals on low income and at a disadvantage in the labour market.

#### CO-PAYMENT MAKES FOR A MORE EFFICIENT MARKET AND ENCOURAGES LEVERAGE

28. Co-payment for skills provision, also known as tri-funding by the state, employer and/or the individual learner, is to be applauded and of real benefit to all going forward. A tax break model may also be of significant value here.

29. Co-payment puts a value on what is being delivered and will discourage, for example, the type of deadweight provision that we have seen in Train to Gain. A4e believes that only basic skills provision should be fully funded by the state.

30. Co-payment can be used to act as a break on demand-led within the context of finite programme budgets. It can also provide an incentive for providers to increase learner numbers. A4e speaks from experience, having run a very successful ESF-funded training programme for SMEs in South Yorkshire in 2003–04 which required employers to fund 40% of the costs themselves. Programmes like this can lead to businesses to commission additional training and leverage further investment into the market.

31. In response to the call for “more for less” in public service delivery which now permeates across government, strong consideration should be given to differential or discounted pricing being part of the skills product portfolio over which the SFA will preside. If we are making a more sustained effort to introduce co-payment, applying downward pressures on costs in the supply-side areas of the equation by allowing providers to bid for contracts on price (again like the Flexible New Deal model) might help keep demand high for learning and training.

32. Co-payment also raises the question of whether large employers should be receiving any state subsidy at all for their training when the ROI on investing in training is so obvious. A move away from volume qualification targets will, for example, lessen the need to pursue large businesses as a means of achieving them. Given the state of the public finances, it is not unreasonable to have a serious debate about this. We say this as a provider which could benefit from there being no change.

#### DEVELOPING AND REGULATING THE SUPPLY SIDE

33. Empowering consumers with a Skills Account will only be effective if there is vibrant, flexible, responsive and high quality supplier base. It is right that providers are now assuming a more prominent role in determining the quality assurance framework for skills, which should take into account of course that many of the same providers are also contractors of DWP funded welfare to work programmes and therefore we should not have to operate under two different quality assurance systems.

34. Any learning providers who want to be able to provide learners and employers with learning opportunities—to “cash” in their Accounts—should have to meet the following triangulation requirements:

- meet the appropriate Awarding Body standards to be able to offer qualifications in areas in which they can prove the appropriate capacity and capability;
- develop the systems, processes and documentation to be able to meet the standards of Ofsted and a provider-driven LSIS in the appropriate occupational areas that they wish to deliver; and
- register on a SFA Approved Supplier list.

35. Similar to Train to Gain contracting, this “licence to operate” (LTO) would be volume limited ie with an approved supplier having a cap put on the volumes that they could deliver, appropriate to their capacity. However, if the open market is to encourage high quality, flexible and customer-focused suppliers to grow and prosper, there must be a simple method for providers to increase these volumes in response to good performance. The new national skills strategy acknowledges this, but we would press for the methodology to be completely open and transparent so that we know that providers are being rewarded on merit only.

36. Likewise when suppliers underperform, or fail to meet inspection or quality assurance requirements, the LTO would be suspended, withdrawn, or the volumes cut and redistributed. Under the current arrangements, providers receive contracts with volume limits, but rarely lose contracts. Contracted provision is limited to volumes that the regional LSC believe the market will bear. This effectively cements the status quo, with a small number of providers (or even one or two) enjoying a monopoly supply position in many areas. This is a disincentive to both investment and innovation. Therefore, we believe that an LTO should be available to any supplier who meets the exacting quality criteria, introducing competition into the provision of learning services to adults.

37. Learning providers would then be free to market their basket of learning services direct to individuals and businesses. This will lead to a sea change in the marketing and promotion of learning services to an adult audience.



38. Furthermore, it would:

- stimulate innovation in service delivery and flexibility;
- lead to customers with quality IAG to underpin their choices; and
- promote competition between service providers for their custom leading to innovation and improved service.

39. The UKCES's "food labelling" provider and course information proposals will help to facilitate this.

#### HELPING THE HARD TO REACH AND LEARNERS AT A DISADVANTAGE

40. Rightfully, concerns have been expressed about the service provision to hard-to-reach employers, people at a disadvantage in the labour market and vulnerable learners in an open learning market. Under the current system, funding support is weighted in favour of these groups and they command a premium. This situation should continue.

41. Contrary to the view that these groups would be ignored or overlooked, we believe that many learning providers would specialise in accessing and supporting disadvantaged learners and develop innovative ways of recruiting learners and employers and supporting their needs. Indeed it has been argued, we believe correctly, that the ring-fences applied to these funds currently are holding back development in this important area.

#### ENSURING VALUE FOR MONEY

42. Competition in the adult skills marketplace will drive value for money as learning providers compete to provide the best service for customers. This will include:

- innovating in delivery methods—while still meeting, or exceeding quality standards;
- packaging different learning programmes in customised ways that meet employers' needs; and
- winning individual and employer financial contributions to learning for added value services that meet customer expectations.

43. It will also promote transparency in service delivery, facilitating market testing of the level of public support for programmes and eventually alleviating the need to cross-subsidise provision.

44. Once Skills Accounts are fully launched, price-based competitive tendering can be market tested. This will ensure that the public purse is paying the true market rate for learning services and is better reflecting new developments in delivery that can drive down unit costs, or in providing more support where the cost of delivery is above the current rate—for example for people at a disadvantage.

45. In conclusion, more competition and flexibility in the adult skills marketplace are needed to drive value for money as learning providers would compete to provide the best service for employers and individual learners. A4e believes that as a first step to establishing an open market for post-18 learning and skills, the establishment of Skills Accounts, coupled with co-payment and a robust quality assured supply infrastructure, will:

- encourage innovation in learning delivery;
- market and promote services more effectively to hard-to-reach employers and disadvantaged groups;
- promote value for money and transparency in the public investment in these services;
- provide an impetus for the reform of the public supported estate; and
- support individual choice and mobility and better support the skills requirements of the UK.

8 January 2010

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#### **Memorandum submitted by Catch22**

Catch22 welcomes the opportunity to respond to the BIS Committee's inquiry into Further Education funding and the Skills Funding Agency (SFA).

Catch22 is the national charity that helps young people out of difficult situations. We believe every young person deserves the chance to get on in life no matter what. So we help young people, their families and their communities wherever and whenever they need it most; in schools, on the streets, in the home, at community centres, shopping centres, in police stations, and in custody.

We work with over 37,000 young people in 120 projects across the country, helping them to learn, earn, find a safe place to live, steer clear of crime and give something back. Before we became Catch22, we were Rainer and Crime Concern, two national charities that merged in 2008.

Catch22 believes that the transition of budgets from the Learning and Skills Council (LSC) provides an enormous opportunity to break out of the siloed funding which is characteristic of the LSC's operation to date. When the budget moves from the LSC and to both the YPLA and the SFA, Catch22 hopes that these agencies will think more imaginatively about how to meet the needs of young people who fall out of mainstream education.

Catch22 is concerned about the gap in responsibility between the YPLA and the SFA. The handover of responsibility at age 19 presents a very real risk for young people who may "fall through the gap". It is vital that the SFA is able to provide for all young people, maintaining and building on the achievements of the Raising of the Participation Age. In particular we would welcome clarification on the process for young people aged 19 who have not yet completed their course and who wish to continue—will they remain the responsibility of the YPLA or become the responsibility of the SFA? How will the transition be managed?

Catch22 sees a number of key roles for the new SFA with respect to the young people that we work with on a daily basis.

Firstly, we are keen to ensure that the SFA has a range of provision which is flexible enough to meet the needs of young people who lack any qualifications—enabling them to gain level one and two qualifications. The SFA must also ensure that there is a suitable level of provision for "second chance learning". Some young people that Catch22 works with do not manage to gain a qualification at the first opportunity and as such it is vital that they are able to take up an offer of education or training at a later age.

#### SECOND CHANCE LEARNING: JULIE'S STORY

Julie joined Catch22's service in Essex after being out of work since April 2009. She was volunteering at a local youth club for a few hours per week. Julie was keen to gain some new qualifications in order to improve her application for college. Despite having the ability to do well at school, she had not gained many qualifications and had spent some time in a pupil referral unit. Her lack of qualifications was a result of rural isolation, behavioural and family problems.

Julie lived in a rural isolated area which made it difficult for her to find employment. She also had a number of family difficulties which resulted in behavioural problems while at school. She was also living in supported, shared accommodation and her family support was limited. She had struggled financially and this prevented her from accessing services and activities which required money for transport.

Catch22 arranged for Julie to attend the Catch22 training programme, paying for her transport and lunch. She worked towards her Level 1 Health and Safety at work award and passed this with flying colours. Since completing the Catch22 programme she has gone on to achieve a place at the regional college doing a Business Administration course and is enjoying this immensely.

Catch22 works with a number of young people who have spent time in the secure estate. We are particularly concerned that the SFA focuses on the standard of learning provided to these young people by working in partnership with the Offenders' Learning and Skills Unit. There is currently a large amount of variation between institutions in the education and training options offered to young people. Often young people find that they are unable to do a course they are interested in, or when they are transferred between institutions they are unable to continue with a course they have already started.

Finally Catch22 will want to see the SFA provide for the many young people who will need extra support to enable them to engage in learning. Currently the benefits system is extremely restrictive and many young people find themselves unable to take up learning opportunities for financial reasons. We hope that the SFA also recognise that some young people will need emotional and practical support to enable them to take up and maintain learning. As such it is important that SFA ensure that this provision is in place. Catch22 believes that there is an opportunity for the SFA to work closely with the local authority to jointly commission services in order to provide wrap-around support services for young people.

The voluntary sector, which has the width and depth of experience of working with hard to reach young people, are well placed to provide this type of support to ensure that young people remain in appropriate ETE and are supported with their learning needs. As such, it is vital that the SFA and local authorities work closely with the voluntary sector.

#### ADEQUATE FINANCIAL SUPPORT: JOHN'S STORY

"John" at Catch22 in Surrey had been waiting for his Education Maintenance Allowance (EMA) for over 2 months. He was taking part in a bricklaying course at East Surrey College which required him paying £5 each way on travel, three times a week. John was finding coping without his expected income from EMA very challenging as he was having to meet his travel costs of £30 a week from his Income Support, whereas his EMA should have been funding this. John is currently living alone in a Bed and Breakfast and received no financial support from his parents.

*11 January 2010*

## Memorandum submitted by Chartered Institute of Personnel and Development (CIPD)

### BACKGROUND

1. The CIPD's primary purpose is to improve the standard of people management and development across the economy and help our individual members do a better job for themselves and their organisations. The Public Policy Team at the CIPD promotes an agenda for productive workplaces to boost economic performance and improve the quality of working life.

2. As Europe's leading professional body for those involved in the management and development of people, we are ideally placed to contribute to the development of public policy across the spectrum of workplace and employment issues.

3. We are able to draw on the experience and knowledge of our 135,000 members and our wide range of research to provide a pragmatic stance on public policy that is based on solid evidence and the real world.

4. Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

### GENERAL COMMENTS

5. This consultation, while well intended, is too late. The disruption that has been caused by the break-up of the Learning and Skills Council (LSC) is a major setback for employers in a skills system already plagued by confusion, bureaucracy and duplication.

6. In 2008, the then Innovation, Universities, Science and Skills (IUSS) Select Committee had witnesses stating on the record that "there is a general view at the moment that the new arrangements [for the LSC] are either a pig's ear or a dog's breakfast"<sup>1</sup> and, ironically, several witnesses expressed their strong support for the LSC.<sup>2</sup> The Committee themselves explicitly said that "maintaining stability within the system should now be the prime consideration",<sup>3</sup> but it is clear that stability is not top of the agenda as far as the Government is concerned.

7. That is not to say that the LSC was functioning flawlessly—far from it. Our spring 2007 *Labour Market Outlook* survey<sup>4</sup> found 33% of our members rated the LSC as "good" versus 52% who rated it as "average" and 15% who rated it as "bad", suggesting that the LSC had considerable room for improvement in the eyes of employers and HR professionals. Even so, with a relatively small percentage of our members stating that the LSC was not fit for purpose, "reform" was arguably a far more sensible option than "removal".

### *The transitional arrangements currently in place between the LSC and the Skills Funding Agency*

8. The cost of "reorganising" the LSC into several new quangos was estimated to be £140 million by April 2009,<sup>5</sup> and one can reasonably assume that it has increased significantly since then. Not only is this a considerable sum of money in its own right, it begs the question of whether this enormous reorganisation of the skills system represents value for money in terms of what is spent versus what is gained in the long run from a policy perspective.

9. The transition to the Skills Funding Agency (SFA) was the perfect opportunity for new ideas, new approaches and new people to be injected into the skills landscape. It is therefore extremely disheartening that the post-LSC quangos will contain many former LSC employees who have overseen such a poorly performing skills system for so many years and bear at least some of the responsibility for its failings. To enact the new post-LSC quango arrangements, 1,000 staff will be sent from the LSC to local authorities, 500 will be sent to the new Young People's Learning Agency (YPLA) and the SFA will absorb another 1,800 workers<sup>6</sup>—giving a total of 3,300 staff, an almost identical number to the current LSC workforce. In addition, each of the new organisations will have its own support staff, generating an unnecessary and wasteful duplication of tasks and responsibilities. This degree of duplication makes a review of the functions and necessity of all skills quangos—as previously called for by the CIPD—even more urgent.

### *How the SFA will oversee the FE budget through its relationships with the UK Commission for Employment and Skills, the National Employer Services and the National Apprenticeship Service*

#### The FE budget

10. In a recent employers' guide to the upcoming changes, the Government declared that the SFA will be more responsive, more cost-efficient, more co-ordinated and less bureaucratic than the LSC<sup>7</sup>. One can only hope that by "responsiveness" the Government is referring to responding to the demands of employers and learners. However, the work of the SFA will involve no direct input from either of these two groups<sup>8</sup>, despite their crucial role in signalling skills demand and supply.

11. Performance management for FE colleges will also be the responsibility of the SFA (via the YPLA), yet the early signs are that this could be a very uncomfortable relationship. The 2008 White Paper *Raising Expectations: Enabling the system to deliver* beautifully illustrated this by opening a sentence with the statement that "FE colleges are autonomous", only to then immediately qualify this with the assertion that

colleges are “responsible for developing their own strategy to respond to Government priorities and other demands”.<sup>9</sup> In other words, FE colleges are likely to be forced to dance to the Government’s tune irrespective of what employers and learners ask for.

12. Indeed, the aforementioned White Paper contained even more bad news for the FE sector with the additional declarations that “the SFA will be responsible for intervening where [college] performance does not meet the nationally agreed minimum standards” and “the SFA will also identify issues surrounding the viability of individual colleges” in tandem with the YPLA<sup>10</sup>. In short, the SFA will maintain a cast-iron grip on the flow of funding around the skills system.

## UKCES

13. The letter sent to Sir Michael Rake outlining the original remit of the UKCES stated that the UKCES would “strengthen the employer voice, deliver greater leadership and influence and to achieve the best from the employment and skills systems” as well as “advise on how employment and skills related services can best work together to deliver an integrated service that meets the needs of employers and individuals”.<sup>11</sup> We are, however, becoming increasingly concerned that the UKCES cannot set the agenda as much as it should because it is too easily stifled by the influence of government.

14. According to BIS, the UKCES will merely provide information about national skills needs and progress to the SFA which—while suiting the SFA in terms of it maintaining its control of the skills landscape—is a considerable barrier to achieving a truly demand-led system because it gives the UKCES no power whatsoever to address the very needs that they have identified. This effectively guarantees that the FE budget will be diverted from meeting the needs of learners and employers to some extent, as it was under the LSC.

15. On the UKCES website, it states that its remit includes the need to “monitor the contribution and challenge the performance of each part of the UK employment and skills systems in meeting the needs of employers and individuals”.<sup>12</sup> Even so, the CIPD notes that the UKCES has not passed judgement on the existence and functions of the SFA itself, making the CIPD concerned that the UKCES may therefore lack sufficient power and political clout to bring about changes within the skills system.

## National Employer Service (NES)

16. The NES tends to receive warmer reviews from employers than other skills bodies but this is hardly surprising. As the CIPD membership profile demonstrates, larger companies often possess their own dedicated training, qualifications and public affairs teams, meaning they are typically much better equipped to navigate the skills system and access funding. Meanwhile, small employers across the country often face an epic struggle whenever they come into contact with government training initiatives. The decision to create a tailored and accessible information service for larger employers who in reality need the least help in navigating the skills landscape is, at best, counter-intuitive.

## National Apprenticeship Service (NAS)

17. The motives behind creating the NAS were commendable, but a recent survey of our members suggested that the benefits of such a service are not being felt. Our 2009 *Skills Survey*<sup>13</sup> showed that 29% of employers have never even heard of the NAS and 36% had heard of it but knew nothing about it. To compound this, 35% had never heard of the “matching service” that the NAS delivers while 34% had heard of the matching service but knew nothing about it.

18. While one might expect this situation to improve, there is good reason to think that the NAS was always doomed to fail. Ideally, any national approach to increasing employer demand for apprenticeships would be armed with a field force of experienced professionals who could work with employers and local schools. Unfortunately, the NAS will have just 200 individuals to cover every single employer in England, which is ludicrously insufficient for understanding and addressing the needs of employers.

## *The delivery role that is envisaged for local authorities and the RDAs*

### RDAs

19. First and foremost, the manner in which substantial new powers for RDAs and local authorities were announced back in August warrants a mention. For the Government to spring this enormous policy shift on employers and colleges just a matter of months before other major changes, such as the break-up of the LSC, are implemented was extremely frustrating for employers. The absence of a meaningful consultation process for these changes is also noteworthy.

20. The explanation of the new powers for RDAs was that it would “make it easier to give businesses the skills they need” and “reduce overall duplication of functions between organisations”.<sup>14</sup> Furthermore, it was declared that “employers have for a long time been critical of the complexities of the skills system”, which is true, but to suggest that employers would choose RDAs as “the champion, advocate and voice of skills for employers” is entirely disingenuous and no evidence was provided to support this assertion. The additional remark that “RDAs engage directly with employers” was also a rather generous description of their approach, particularly as employers are barely given any representation on the boards of RDAs.

21. Not only are the above statements from BIS misleading, they emphasise the contradictions that lay at the heart of the RDAs well before they were given these new responsibilities. RDAs were originally set up to “co-ordinate regional economic development, help small business and encourage inward investment”<sup>15</sup> but since then there has been a relentless “mission creep” on the part of the RDAs to the point where the responsibilities of other organisations have now been trampled all over.

22. In their 2008 report on skills, the IUSS Select Committee found that RDAs and the LSC were often pulling in different directions while the working relationship between SSCs and RDAs was similarly tense, given that RDAs “prioritise” certain sectors in each region. It has now reached the point where SSCs (and by extension the voices of employers) are shut out of the final decisions made by various quangos within the skills agenda. Given the SSCs’ expertise and aptitude in canvassing employer needs, the lack of a clear rationale behind the decision to hand these responsibilities to RDAs instead assumes even greater significance.

23. We are also concerned that the UKCES failed to scrutinise this absence of a solid evidence base or explanation to justify the new RDA responsibilities in their *Towards Ambition 2020: Skills, jobs, growth* publication in October 2009, save for a single sentence at the back of this document which recommended that the Government should “review” and “clarify” the roles of RDAs at some point in future.<sup>16</sup>

24. Moreover, the fact that Regional Skills Partnerships, which were intended to align the funding from the LSC and RDAs towards agreed priorities, were scrapped in the recent *Skills Strategy* published by BIS<sup>17</sup> emphasises the problems that employers face. Despite calls for RDAs and SSCs to work in partnership under the new arrangements, the tension between the regional approach of the RDAs and sectoral approach from the SSCs—the latter being far better aligned with employers—is only going to get worse if more powers are handed to RDAs.

25. The need for skills quangos at a regional level has never been properly justified to employers, and until this situation changes there is little reason to be optimistic about the potential of RDAs to add any value to the skills system—especially when other, more suitable bodies are already capable of delivering the RDAs’ skills responsibilities. Our spring 2007 *Labour Market Outlook* survey<sup>18</sup> found that just 24% of employers rated the RDAs as “good” within the context of skills—which was lowest rating of all the different bodies, including FE colleges, private training providers, Business Link, the LSC and SSCs. Given this finding, the decision to hand more powers to RDAs does not bode well for our members.

#### Local authorities

26. Beneath the regional skills fiasco lie even more obstacles at a local level. The break-up of the LSC will pass huge amounts of funding and responsibility back to local authorities, which is an extraordinary decision given that the LSC was created back in 2001 partly because the Government felt that there was too much local variation in FE provision and a lack of co-ordination between local areas. Since local authorities lost control of 16–19 and adult skills funding over a decade ago, their capacity to deliver these services is now likely to be inadequate (albeit through no fault of their own).

27. The seemingly endless waves of local skills initiatives are already causing confusion for employers before the LSC is officially dismantled. For example, “Local Area Agreements” are arranged between central government, local authorities, Local Strategic Partnerships (small-scale versions of the Regional Strategic Partnerships that were recently scrapped due to their ineffectiveness) and other public sector bodies in an effort to “join up” public services effectively.<sup>19</sup> It is with some regret that the CIPD notes the absence of genuine employer involvement in such initiatives.

28. What’s more, “Multi-Area Agreements” are now supposed to bring together public and private sector partners to co-ordinate action on employment and housing across local authority boundaries,<sup>20</sup> while “Employment and Skills Boards” represent yet another strand of skills policy that is intended to operate at a sub-regional level.

29. Unfortunately, the cracks are already appearing in sub-regional skills policy. The former Department for Innovation, Universities and Skills told the IUSS Select Committee in 2008 that Multi-Area Agreements “are emerging as the key tier with regard to skills [as] they cover geographical areas which make real sense in terms of skills—which, just like RDAs, contradicts the sectoral employer-led approach to skills from the SSCs. More duplication was also in evidence, as Employment and Skills Boards are expected to “articulate the needs of local employers” and “monitor the labour market”,<sup>21</sup> which is surely the role of SSCs.

30. Any discussion of the new role for local authorities must also include a mention of the YPLA. We fear that, given the considerable powers of this new quango, the voices of employers and learners are destined to be sidelined to an even greater extent. The creation of the YPLA within the SFA also contrasts sharply with the Government’s commitment to reducing the number of skills quangos<sup>22</sup>—a reduction that the CIPD believes should happen sooner rather than later.

31. Through its responsibility for securing funding for local authorities to carry out their new 16–19 duties, the YPLA will be entirely subject to the whim of the Secretary of State when allocating funding.<sup>23</sup> Moreover, as mentioned earlier, the YPLA will be allowed to develop its own means of assessing the “performance” of training providers such as FE colleges and can use this information when making funding decisions.<sup>24</sup> Although the concept of performance management for colleges might seem sensible, it

is clearly at odds with recent moves towards a “traffic light” information model for training providers, as discussed in the *Skills Strategy* White Paper in November 2009,<sup>25</sup> which allows learners to judge the quality of provision themselves—thus removing the need for the YPLA and freeing up additional resources.

32. This apparent confusion is further exemplified by the YPLA being given the power to force any local authority to provide whatever training it deems necessary should the local authority fail or be “likely to fail” to secure enough training provision.<sup>26</sup> Needless to say, if funding truly followed the learner under a “traffic light” information model, this function would become obsolete. In addition, the YPLA has the power to issue guidance to local authorities on any matters related to training provision, which local authorities have no choice but to follow.<sup>27</sup>

33. The full extent of the powers given to the Secretary of State is astounding: they will set the objectives for the YPLA, set time limits in which these objectives must be achieved and dictate how the organisation should be managed. They can even give the YPLA additional orders if they are personally “satisfied” that the YPLA is not performing its functions properly.<sup>28</sup> Despite all this control being put at the Secretary of State’s fingertips, there will be no statutory duty on them to listen to employers about how effectively the YPLA is performing or whether it is meeting employer’s needs in any local area.

## CONCLUSION

34. The CIPD has significant concerns about the current direction of travel on skills policy. While many of the Government’s intentions, such as simplifying the system and making it more “demand-led”, are undoubtedly correct, the implementation of these plans strongly suggests that employers and learners are likely to remain at the periphery of the skills landscape for many years to come. Until this situation changes, the inefficient use of precious resources is set to continue. It is employers and learners, not quangos and government departments, who know what skills and qualifications this country needs. Until the funding and control of the skills system reflects this simple truth, the UK will struggle to meet the considerable economic challenges that lie ahead.

7 January 2010

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- <sup>24</sup> *Ibid*, p.45.
- <sup>25</sup> BIS. (2009) *Skills for growth: the national skills strategy*. Norwich: The Stationery Office, p.61.
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### Memorandum submitted by ConstructionSkills

ConstructionSkills is pleased to submit evidence to the Committee's inquiry into the role and remit of the Skills Funding Agency.

As the industry training board and the sector skills council for the construction industry, we have an informed perspective on the role of the new agency. Therefore we have responded briefly to each specific area you set out in the inquiry remit.

#### *Transitional arrangements currently in place between the LSC and the Skills Funding Agency (including legacy issues)*

Over the years, ConstructionSkills has worked well with the Learning Skills Council. The funding crisis, which came in 2009, has caused some problems with regard to financing issues. However, there are lessons that the Skills Funding Agency needs to learn and address with some urgency. These include:

- Getting to grips with providing up-to-date information on the outcomes from investment in the further education sector so that it is easier to judge if money is well spent and if some programmes run under the “apprenticeship” badge are really employer based—as opposed to training provider driven.
- The Compact with sectors where there was a reluctance to be really radical in developing joint investment plans aimed at raising skills levels. On numerous occasions, we were asked to submit evidence on how we would manage this, but none of the suggestions that were made were accepted, rather the decision making process seemed overly complex and it was unclear who ultimately made the decisions.
- Capital investment where the construction industry and our own college were badly let down by the mismanagement of this fund.
- Readiness to respond to Sector Skills Council initiatives and interventions to support the industry during the economic downturn and prevent the creation of the next generation of NEET.

In your call for evidence you specifically ask for examples of “legacy issues surrounding funding problems experienced by the LSC in respect of its management of the capital programme”. The case of our main construction college in Norfolk, which we set out below, is a good example of the way in which our organisation worked with the LSC in our attempt to ensure that agreed funding was delivered.

Since then we have worked with the LSC through the funding crisis as it moves towards its new status as the Skills Funding Agency.

The transitional arrangements per se have not been responsible for our difficulties but we nevertheless feel that we have a stake in a strengthened new agency.

We would be happy to elaborate on the experience for the Committee if necessary.

#### National Construction College (NCC East)

NCC East is the direct training arm of ConstructionSkills. The College plays a key role by delivering over 150 courses in highly specialist skills to support the construction industry. Nationally, no other college is capable of providing the facilities, space, specialist equipment and teaching expertise to deliver this type of training. NCC East is also the country's foremost training provider of specialist apprentices, typically training the majority of the 700 apprentices a year for which the NCC is responsible.

Our industry stakeholders are agreed that this 70 year old former RAF base was in need of a major infrastructure overall if it was to continue to prepare young trainees for the world of work in the industry and comply with safeguarding regulations. In addition the redeveloped NCC East campus, when completed, was to act as the National Skills Academy for Construction (NSAfC) National Specialist Training Hub.

NCC East is a unique institution, offering a diverse range of training and courses that cannot be equalled anywhere in the UK. The College delivers training to 30,000 students a year to support the construction industry. If NCC East were forced to close, not only would students in Norfolk suffer; the UK construction industry would lose one of its most valuable and productive colleges.

Moreover, NCC East is also the country's foremost training provider of specialist apprentices, typically training the majority of the 700 apprentices a year for which the NCC is responsible. We were clear that at a time when the Government is publically reaffirming its commitment to support apprenticeships and the skills agenda more generally, a failure to support NCC East would undermine both the further education sector and industry leaders who support and invest in apprentices.

#### Background to our bid

- Back in early 2009 Sir Andrew Foster's independent review of the Learning and Skills Council (LSC)'s Further Education Capital Programme listed the NCC redevelopment project as one of the 79 projects which received approval in principle from the LSC.
- The National Construction College (NCC) East project met the LSC's value criteria by delivering a unique package of national and industry-based benefits as well as helping to support the local and regional economy.
- The project also met all the LSC's "readiness to start building" criteria—with full planning permission, a strong design team, detailed build designs and all other funding sources in place for a planned start on site of Autumn 2009.
- Planning and design for the NCC redevelopment project was at an advanced stage. The College had received full planning permission for the detailed design and was able to submit its Application in Detail to the LSC in June 2008 [CHECK]—along with the economic, education, property and social case for the project.
- The remainder of funding—outside the LSC's contribution—was in place and included funds already set aside by the NCC from prior land sales and grant money from the East of England Development Agency (EEDA).
- The final bid funding requirement from the LSC was for capital funding of approximately £21 million.
- The College was then entirely caught up in the funding crisis—our bid was put on hold indefinitely.

We fought hard for the future of the College over the intervening months and, despite being repeatedly knocked back, we have no other option but to agree to an interim package of staged funding of £2.03 million from the National Skills Academy bid—this amount allows us to unlock £2 million in matched funding from the East of England Development Agency (EEDA) and another £2 million from the industry to enable the first stage of the project to go ahead.

#### Legacy issues

Our engagement with the LSC has shown that there needs to be a more nuanced understanding of the FE sector—not all colleges are the same. We recognise that our example is very industry specific but it is worth stating that we want the new agency to understand that:

- Whilst we want to be included in the FE agenda we are significantly different. For example we cannot borrow money like other FE colleges and our training ratios and space requirements do not fit the FE model (a good example here is plant operative training, which requires significant practical training areas and has instructor to learner ratios of 1–4, along with high capital investment costs).
- Our training is, therefore, more expensive and revenue funding needs to increase in order to pay for the full cost of the training we deliver plus accommodation, catering, travel, welfare etc
- One of our strengths is our contact with employers and making connections to jobs. At the moment we are penalised for this because of an "industry should pay" mentality.

We are, of course, very pleased that we have been able to move forward and secure even a very minimal amount of funding to make good some of the key areas of the College. That said we will want to work very closely with the new SFA to ensure that the future of the College is secured for the long term. We were very close, we feel, to losing a very valuable national institution and we want to ensure that the new body really understands what is at stake for the construction industry should the College be neglected.

#### *How the Skills Funding Agency will oversee the FE budget through its relationship with the UK Commission for Employment and Skills, the National Employer Services and the National Apprenticeship Service*

Greater consideration needs to be put into how learners can progress from FE into Higher Education. Thought needs to be given to the potential of better aligning FE and HE funding streams to help providers and learners alike. The current separate HE framework and funding councils make it difficult to deliver programmes involving NVQs and foundation degrees.



There is a need to better consider how volumes of learners on each qualification can be planned. ConstructionSkills has been concerned for some time over the mismatch between NVQ Level 1 starts and progression to NVQ Level 2. Providers must profile learners correctly and put them straight onto a Level they can genuinely achieve. Unnecessary achievement of a lower level qualification is an abuse of the funding system and should not be allowed. There is also need to ensure that funding is available for specialist occupations that will have a small qualification population take up. There is currently pressure to get rid of qualifications with low take up rates but which are essential to our industry. ConstructionSkills is currently working with all relevant stakeholders to align its LMI information to supply side data in order to be able to provide robust information on volumes and priority qualifications.

Careful consideration is required around how the new Qualifications and Credit Framework will be funded. The funding methodology must encourage the achievement of full qualifications that reflect employer's skills requirements. ConstructionSkills has lobbied hard to retain NVQs within the QCF. These qualifications have been designed by our employers and reflect full occupational competence and the QCF funding methodology should encourage and allow for their achievement.

*The delivery role that is envisaged for local authorities and the RDAs*

There is a need to strengthen the role of the employer led sector bodies, alongside moves to devolve responsibilities to Local Authorities and City Regions. This will reduce the risk of confusing employers and will make the system more cost efficient. This is particularly important in sectors, like construction where their employers and their labour work in highly mobile teams across national and local borders.

In these financially constrained times, we believe that we must support employers and encourage them to invest more of their own resources in training and ensure that the public investment is concentrated on where it can have most impact. In the regions, Local Authorities and RDAs need to look for opportunities to co-finance training to support areas such as future skills via company supply chains, rather than ploughing funds into courses that do not lead to employment and are potentially oversubscribed.

We believe that the National Apprenticeship Service, SFA and the YPA need to work with bodies such as ConstructionSkills and Local Authorities/RDAs to ensure there is a coherent approach to agreeing the volume of apprentices that will be funded across England. We are responding by ensuring we have data available at regional level looking at the demand for skills. We are also developing our capacity to analyse supply side data. We need to ensure that there is a proper and meaningful dialogue about what this means for investment in our sector. It will not help employers or individuals if we do not try and get the demand and supply side as well matched as possible.

The new Skills Funding Agency also provides the opportunity to address the problems caused by the differential funding for those aged 19+. Many specialist apprenticeships require people above the age of 19 but the funding rates make it uneconomic for employers to take on apprentices.

Our Board strongly advocated raising the rates for those aged 19 and 20 so that we are able to support both employers and the growing number of young people that becoming NEET (the lost generation).

There are also lessons that we can learn from the devolved nations who seem to have less layers of bureaucracy and are more agile in responding to employers needs. A useful example is the Proact and React Schemes in Wales. In Scotland, the Scottish Government reduced bureaucracy by creating Skills Development Scotland (SDS). SDS brings together the skills elements of Scottish Enterprise and Highlands & Islands Enterprise allowing these organisations to concentrate on business growth. It also included Careers Scotland and LearnDirect Scotland in one body which gives a one stop shop for all skills issues. The same approach was also used in Wales where the two main Funding bodies were Dcells and/DE and T are assembly bodies, rather than being an outside organisation.

Indeed, in Scotland, ConstructionSkills has been influential in the creation of funding initiatives through SDS under the ScotAction programmes. The current programmes give policy levers to the Scottish Government to provide funding for the necessary skills for employment, incorporating employer's needs, and this has had an impact on the supply side of the employment equation.

11 January 2010

### Memorandum submitted by East of England Regional Assembly

The East of England Regional Assembly is pleased to submit written evidence to the present inquiry, and in particular wishes to raise two very specific points, relating to: the plans for regions to develop skills strategies; and the management of the European Social Fund in the post LSC era.

#### REGIONAL SKILLS STRATEGIES

Local authorities and partners in the region are making the necessary preparations to comply with the requirements of The Local Democracy, Economic Development and Construction Act, 2009.

The requirement under the Act to bring together the Regional Spatial Strategy, the Regional Economic Strategy and other significant regional strategies into a single document has been broadly welcomed across the region, as has the expectation that governance structures under the new arrangements will be simpler and less burdensome than previously.

This view has helped to drive the current changes under development in the region and to move towards de-cluttering both the strategic and the bureaucratic landscapes.

At the same time, BIS has rationalised the Regional Development Agency and Skills Funding Agency relationship and there is now an expectation placed on the RDAs that they will lead on skills and produce a Skills Strategy for their regions.

The current BIS/CLG consultation policy statement on Regional Strategies and Guidance on the establishment of Leaders' Boards clearly highlights skills as a major contributor to economic growth, regeneration and investment and we expect the new Single Regional Strategy to address skills in a significant way.

It would therefore seem to us that an opportunity to: integrate skills into the wider economic and spatial agenda; consolidate the scope and value of the Single Regional Strategy; and reduce the level of regional clutter; will be lost if the new Skills Strategies are not prepared as part of the Single Regional Strategies rather than as stand-alone documents.

*We therefore urge the Select Committee to consider tasking RDAs to give skills its strategic locus within the Single Regional Strategy and the governance structures that underpin them.*

#### THE MANAGEMENT OF THE EUROPEAN SOCIAL FUND IN THE POST LSC ERA

Although our second point may be viewed as tangential to the main business of the Select Committee, it is perhaps symptomatic of the situation which has arisen with the closure of the Learning and Skills Council (LSC) and the transfer of its responsibilities to the Skills Funding Agency (SFA), and the Young People's Learning Agency (YPLA).

One issue of particular concern to the Assembly relates to the future management of the European Social Fund (ESF) in England, and therefore the East of England region, in the period after April 2010.

Although the end of the LSC was first confirmed in the "Raising expectations: enabling the system to deliver" White Paper, which was published in March 2008, much uncertainty still surrounds the actual implementation of the changeover and how this will affect local authorities.

The LSC is a major Co-Financing Organisation within both priorities of the ESF programme for the period 2007–13. For the period 2010–13 it has been decided that the SFA will take over the LSC's responsibilities in relation to the European Social Fund programme. However, detail on how this will work in practice has been extremely sketchy.

#### *Local authorities are particularly concerned about:*

- how they can ensure that local needs are taken into account as the SFA Co-Financing Plan is developed;
- what systems they need to put in place to ensure that they engage effectively with the SFA as it takes over delivery of the LSC's existing ESF contracts and as it develops a new Plan for the period from April 2011; and
- how the match funding arrangements will work and be monitored and accounted for, particularly where local authority funding is required to act as match for the ESF and is therefore subject to the same audit requirements as ESF.

There are particular concerns in parts of the region (namely Bedfordshire and Luton) where local authority Co-Financing Organisations exist who will make competing demands on this match funding.

To date there seems to have been no initiative taken by either the LSC or the emerging SFA/YPLA to work with local authority partners to raise these issues and to resolve them, as a consequence there is a significant level of confusion among colleagues in the region.

We are fairly certain that these issues are being discussed but the lack of communication with local authority colleagues not only means that a system will be imposed on them which they have not had the opportunity to contribute to and which may therefore raise difficulties for them but is also resulting in a high degree of dissatisfaction and uncertainty.

8 January 2010

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### **Memorandum submitted by EEF**

EEF is the representative voice of manufacturing, engineering and technology businesses with a membership of over 6,000 companies employing more than 800,000 people. We welcome this opportunity to contribute to the Committee's inquiry into the new Skills Funding Agency and further education funding policy.

#### **OVERVIEW**

The overwhelming priority for employers in the manufacturing industry and across business is to have a system of skills funding which allows them to access the support they need with the minimum of bureaucracy. They also need clarity about what is available, and clear signals about what government funding priorities are.

The new arrangements, including the Skills Funding Agency (SFA), have the potential to assist in the much-needed simplification of the funding system which, if it occurs, would be of huge benefit to employers. There remain questions, however, about what the SFA's role will be in practice and to what extent it will represent a change in approach to its predecessor body, the Learning and Skills Council.

We will confine our response to issues surrounding the new structure of the skills funding bodies. We have organised our comments into answering two questions: What should the new system be looking to achieve; and how well it is likely to fulfil those objectives.

#### *What should the new system have as its objectives?*

For employers, the SFA is being created in the context of a system which has long been seen as too complicated and unresponsive. There has been widespread consensus for some time amongst business organisations and in the education and skills sector about the need for simplification of the UK skills landscape. EEF has previously provided evidence to the Innovation, Universities, Science and Skills Select Committee<sup>26</sup> and the Education and Skills Select Committee<sup>27</sup> on the need for a simplified and demand-led system of training provision and funding. We have argued that the post-16 skills system should be guided by the need to:

- clarify the roles and responsibilities of the main players.
- reduce the amount of overlap and duplication of functions; and
- promote greater transparency in decision making.

These remain the objectives we seek from simplification. Whilst the current pressure on public expenditure gives added weight to such arguments, cost savings should not be seen as the only, or even the principal, objective of reform of funding. The “de-cluttering” of the skills landscape should be pursued because it is good policy, and because it assists employers in obtaining the support they need more efficiently, not just because it saves money.

To be a success, the new system therefore needs to remove the barriers businesses face in accessing training provision and on helping them to invest in workforce development.

The UK Commission for Employment and Skills (UKCES) has undertaken a lot of serious and valuable work in this policy area, and their report last autumn, *Towards Ambition 2020: Skills, Jobs, Growth* (November 2009) was widely welcomed by business and training providers. It was a coherent and convincing view of the future shape of the UK skills and employment system which recognised the scale of the challenge and presented a necessarily long-term vision for achieving the Leitch objectives for 2020. We commend the report to the Committee as a benchmark against which the effectiveness of the Government's new funding arrangements can be measured.

The Commission advocated a properly demand-led system, which would be responsive to employers and learners, and thereby meet the real skills needs of the economy. It also recommended the Government should “Rigorously test the need for all other education and skills quangos and intermediary bodies (including the UKCES itself), based on an assessment of their genuine impact”. Those that fail such a test should have their funding cut or be abolished altogether.

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<sup>26</sup> House of Commons Innovation, Universities, Science and Skills Committee (2008-09) *Re-skilling for recovery: After Leitch, implementing skills and training policies*

<sup>27</sup> House of Commons Education and Skills Committee (2006-07) *Post-16 Skills*

We were pleased that the Government's Skills Strategy in November took on board much of the thinking in the UKCES report, in particular a commitment to simplification of the system and the reduction of the number of public bodies. It was also encouraging that the Commission will have an enhanced role in monitoring and implementing the strategy.

However, it should be noted that the main structural changes to the funding system — the creation of the SFA, National Apprenticeship Service and Young Person's Learning Agency — pre-date both of these documents, and were entering the final stages of legislative scrutiny at the time of their publication. It is still not wholly clear how the more recent policy changes will fit with the new legislative framework, and there is a risk that the overlap has led to further confusion amongst employers seeking to understand the changes.

#### A DEMAND-LED SYSTEM

The Leitch Review, which should rightly remain the agreed framework for improving our national performance on skills, emphasised the importance of joint responsibility between employers, individuals and government for meeting its targets for 2020. This is an important point, as however well the funding system operates, government-supported training will account for only a minority of the training employers provide to their workforce. Any consideration of the system must recognise the huge contribution made by employers, and the importance of individuals' own efforts to improve their skills. A recent BIS estimate of employer investment in skills stood at £38.6 billion per year-around three and a half times the LSC's budget.<sup>28</sup>

This recognition strengthens the case for the frequently-cited ideal of a "demand-led system" in which the needs of business are met by a responsive funding system, rather than by attempts at centrally-planned provision. It is also important that the learners themselves must have the information and understanding to make informed choices about their future, and be supported and encouraged to undertake training which enhances their own prospects and makes them more valuable to the economy. As the UKCES succinctly put it, "Effective markets need informed customers".

In a system with high-quality advice and guidance for individuals, where employers have access to effective brokerage to access the training and staff they need, a market system can begin to operate which will connect the source of skills funding to the end users (individuals and employers) much more efficiently. The Personal Skills Accounts proposed by the Government in the Skills Strategy are a promising example of this kind of thinking, but it needs to be embedded across the system, and in the culture of the funding bodies.

It should not be assumed that simply changing the organisations which deliver funding will of itself create a demand-led system. The task is complex and difficult, and needs to be policy-driven at all levels. There is a danger that ministers and the Department will see the change in structure as the end of the process, when achieving a properly responsive and flexible system will require sustained focus.

#### *How well will the new system fulfil these objectives?*

The creation of the Skills Funding Agency was intended, as we understood it, to provide a streamlined and narrowly-focussed funding body, with less focus on attempting to predict and plan skills provision. The concept is a welcome one, and a slimmer funding agency is an essential part of a properly demand-led system. If the SFA works as intended, it has the potential to offer substantial improvement on the current system.

There are, however, some concerns that the new Agency will not be sufficiently different from its predecessor, delaying progress towards a demand-led system of funding for skills. The LSC cannot simply be "turned into" the SFA. Whilst there will naturally be some degree of overlap between the two bodies, there will be no benefit to the system if it is seen as merely a rebranding exercise for the LSC. There needs to be substantial change in how it operates as a funding body.

The creation of three new bodies to replace the LSC in itself risks adding complexity, with employers in many cases having just become used to dealing with the LSC. Specifically, there is a question-mark over whether the effectiveness of Train to Gain as the main brokerage service is improved or weakened by the introduction of the National Apprenticeship Service (NAS) as a separate brokerage "brand" for Apprenticeships. The danger is that it adds complexity without clearly improving delivery. The same applies to the funding responsibilities of the three organisations, and the effect should not be underestimated of businesses having two more organisations (and acronyms) to deal with than they used to.

This would only be a major concern if there were no compensating benefit from increased efficiency and reduction in the scope of central-planning which the organisations jointly carried out. If the SFA is genuinely to be a slimmed-down funding body which buys into the objective of a demand-led system, the change will have been a positive one, whatever the short-term upheaval.

<sup>28</sup> Figure for 2007, BIS, Skills Investment Strategy briefings for colleges and providers, December 2009  
[http://readingroom.lsc.gov.uk/lsc/WestMidlands/Provider\\_briefings\\_v9\\_grammar.pdf](http://readingroom.lsc.gov.uk/lsc/WestMidlands/Provider_briefings_v9_grammar.pdf)

The new role for local authorities created under the new legislation has, however, caused concern amongst some employers, who fear an extra layer of bureaucracy, as well as problems caused by differing priorities between authorities. We believe the question should be asked of whether involving over 300 more highly politicised public bodies in the current structure can be compatible with a simplification agenda.

It is, however, the role of regional bodies in the new system which we believe needs particular attention from the committee.

#### REGIONAL DEVELOPMENT AGENCIES

The Skills Strategy confirmed the Government's intention to give Regional Development Agencies an "important new role" developing regional skills strategies in partnership with SSCs, local authorities and sub-regional bodies. The Skills Funding Agency will then contract with providers to deliver on these objectives. It is far from clear if this is the right approach.

There has long been a tension between the sectoral and regional models in skills policy, which has led to a high degree of duplication, with the LSC and Sector Skills Councils forming structures to engage on a regional basis, whilst regional bodies such as RDAs create structures to engage on a sector-specific basis. It is therefore right that moves should be made to clarify these responsibilities, as has been recommended by previous Select Committee enquiries.

However, as we have strongly argued in the past, a sector-led approach is the more logical one to follow. Sectors reflect distinctly different business activities while regions are administrative entities, created by government, often bringing together many areas that have little in common with each other.

Sectors can also rely on a range of employers' organisations, trade associations and Sector Skills Councils to articulate their needs, in a way which is not replicated on a regional basis. Specific skill needs and labour market conditions will vary much more between sectors than between regions, and where there are regional characteristics these are most often determined by the mix of industry sectors which are present in that region. Employment trends and skills issues vary considerably between industries such as aerospace manufacture, hospitality and financial services. In contrast, there are limited differences in either qualification levels or occupational composition between regional labour markets.

The decision to give this new role to RDAs was taken without any apparent consultation with employers. It was first proposed in a letter from the Secretary of State to the South East England Development Agency, a link to which was included in the BIS electronic skills newsletter in August. For such a significant shift in policy, we find this lack of engagement with business difficult to understand. If it is the intention to give RDAs greater influence over skills policy and funding, this can only be done with good quality engagement with employer, individuals and training providers.

The detail of how RDAs will work with the SFA in relation to their new skills function seems still to be unclear. One possible outcome is that Regional LSC staff will simply be transferred across to RDAs, and continue doing the same jobs as before. This would give a superficial impression of a "slimmed-down" SFA whilst not removing any of the current LSC bureaucracy. We would like clearer assurances of how the new system will be different in practice from the old.

#### CONCLUSION

In summary, we suggest to the committee the following points:

- The SFA and the new skills funding arrangements have the potential to bring about a simplified and properly demand-led system, and will be a very positive development if they are used to do so.
- The UK Commission for Employment and Skills' report on reform of the Skills system was widely welcomed by employers and training providers, and should be used as a benchmark for how well the new system works as a properly demand-led system.
- The new strategic role for RDAs proposed by the Government's White Paper has significant drawbacks, and a lead role for sectoral organisations would be preferable. It is not clear how the RDAs will relate to the SFA in practice, and how this will be different to the arrangements under the LSC.
- There are strong general indications the SFA may be (or be seen to be), a re-badged LSC, taking on many of its functions without the necessary major change in culture. This would be a lost opportunity, with the added confusion of new institutions without the benefits of improved performance.
- However funding is allocated, it is vital that there is clarity from Government about medium and long-term priorities, to allow employers to plan properly on the basis of which programmes of support will be available to them.

11 January 2009

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### Memorandum submitted by Energy and Unity Skills

#### MEMORANDUM

1. EU Skills is the Sector Skills Council that works with employers in the Gas, Water, Power and Waste Management sectors and employs 536,000. EUSkills works through strategic industry groups that provide intelligence and employer leadership to drive action on key industry issues. EUSkills has recently been relicensed by the UKCES and as part of the relicensing process EUSkills was deemed as Outstanding by the National Audit Office. Our mission is to ensure that our industries have the skills they need now and in the future.

2. EU Skills is a strategic body that operates across the UK, working with a range of partners including trade associations and trade unions, in and in collaboration with our fellow Sector Skills Councils on areas of common interest and with the nine Regional Development Agencies.

3. The current proposals for revised skills funding processes based on a regional agenda run contrary to the requirements of many of our employers who operate both national and international companies. Our employers make a significant contribution to the UK Economy and provide vital services which our society depend upon on 24/7 basis, this has not been in the past reflected in the priority areas given by regional and national funding agencies. Consequently our employers and their employees have failed to benefit from previous initiatives as the numbers of learners within each company within each region does not meet with the regional priorities. We would wish to see established a funding mechanism that is not solely driven by the regional agenda but allows for funding on a national basis to support significant sectors that contribute to the wellbeing of the UK economy

4. Our employers in many instances have been very supportive of previous government initiatives such as National Skills Academies and Apprenticeship programmes. However our employers have met with increasing frustration in attempting to draw down funding to support initiatives which are fully in line with the government skills strategy. Additionally our employers have met with increasing difficulties by the current "Train 2 Gain" processes and would wish to witness significant improvements so that the best value is driven into the skills funding system for both employers and government alike.

5. Our employers in many instances have invested significant funds in the development of their staff and as such are in principle supportive of the future initiatives such as the Joint Investment Scheme (JIS). We believe that this provides a real opportunity to create a fully demand led FE funding mechanism which would embrace training provision in both the public and private sectors.

6. We believe a successful JIS would have the following feature:

- RDAs leading delivery (through SFA) etc. of the key areas of our employers skills needs.
- Employers would be in the driving seat because:
  - They would be paying half the costs.
  - They would have nationally set the priority.
- Delivery would be through NSAP or EUSkills approved suppliers.
- Skills development would lead to new jobs particularly in the low carbon and sustainability sectors.
- The JIS would run for a number of years.
- Although piloting regions in the first instance we believe would eventually work across the whole country.
- EUSkills/National Skills Academy for Power would facilitate future national/regional funding structures.

7. We would welcome the opportunity to present our views to the Select Committee particularly on future funding mechanisms that would exist in the future Joint Investments Schemes.

*11 January 2010*

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### Memorandum submitted by the Federation of Small Businesses

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above named consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with 213,000 members, it is also the largest organisation representing small and medium-sized businesses in the UK.

Small businesses make up 99.3% of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51% of the GDP and employ 58% of the private sector workforce.

The FSB was extremely disappointed by the announcement in the Government's Skills Strategy in November to remove funding for bite-sized learning within the Train to Gain offer. Of the £1 billion budget that goes into Train to Gain, only £350 million is ring fenced for small and medium-sized enterprises—yet 95% of all businesses are categorised as a micro business. The FSB is keen to see greater value given to smaller, informal and bite-sized chunks of learning and urges the Skills Funding Agency to heed this call.

Small businesses do train their workforce and are prepared to pay for training relevant to the job (mainly through learning by doing, on the job training and private training providers)—as opposed to providing the basic skills deficiencies which should have been provided within the education system.

We need to find a way for small businesses to get the unaccredited training accredited—something which has not been possible under the LSC.

The FSB feels that the Skills Funding Agency must use its new status to better signpost businesses to the funding that is on offer so that it is easier for small businesses to understand the training system and take advantage of what is on offer. A national awareness campaign needs to be undertaken by the SFA, highlighting the incentives on offer to small businesses for training an apprentice and the benefits it will bring during the recession.

From a recent FSB Survey,<sup>29</sup> only 21% of businesses were aware of a contribution to wage costs to cover the cost of time off to train. Many of our members are unaware of the “wage contribution” policy but there is also the problem in getting payment for those businesses that do engage with the policy. With cash flow being such a problem for small businesses it is vital they are not made to wait months before they receive payment.

We trust that you will find our comments helpful and that they will be taken into consideration. I would welcome a meeting to discuss our skills issues.

8 January 2010

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### **Memorandum submitted by the Learning and Skills Council**

#### **INTRODUCTION**

1. In June 2007, the Government announced radical changes to the way that education and training for young people and adults were to be managed and funded in the future. A major part of these Machinery of Government changes was the dissolution of the Learning and Skills Council (LSC) and the establishment of two new bodies, the Skills Funding Agency (SFA) and the Young People's Learning Agency (YPLA). These new organisations will come into effect from 1 April 2010.

2. Whilst the Machinery of Government transition programme has been a complex and challenging piece of work, it has also been a successful one with many positive outcomes. The Learning and Skills Council's successor bodies are now operating in shadow form and from a total of 3,347 staff, fewer than 10 remain unconfirmed in new posts. As the shadow “running” of the two new organisations began in the autumn of 2009 and destinations of staff have been confirmed since September, there has been a long lead in time to help ensure a smooth transfer in April 2010.

3. The existence of effective joint management arrangements between the two new shadow organisations has ensured that the statutory responsibilities of the Learning and Skills Council have continued to be discharged effectively. Importantly, learners, employers and colleges and providers have not experienced any interruption of service during the transition. The continuation of effective joint working, at Departmental level down to sub-regional and local level will be critical in ensuring that customers remain well-served.

#### **GOVERNANCE OF THE TRANSITION PROGRAMME**

4. Once Machinery of Government announcements had been made, the Learning and Skills Council worked closely with its two sponsoring Departments to put in place robust governance and management arrangements to oversee the transition. Overall, the Machinery of Government programme was governed by a Joint Programme Board, chaired jointly by the then Director General of the Department for Innovation, Universities and Skills (and now the Director General of the Universities and Skills Group in Business, Innovation and Skills) and the Director General of the Young People's Directorate in the Department for Children, Schools and Families (DCSF). This Board reported directly into Ministers.

5. Underpinning the Joint Programme Board, a Joint Transition Management Group was established to ensure that all of the detailed tasks regarding organisational structures, staff and resourcing for the Skills Funding Agency, Young People's Learning Agency and Local Authorities were completed in a timely, coherent and consistent way. David Cragg was appointed as Transition Manager for the Learning and Skills Council and represented the organisation on all aspects of the transition.

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<sup>29</sup> FSB Research into Train to Gain—May 2009—300 member responses.

## PRINCIPLES AND COMMITMENTS UNDERPINNING THE TRANSITION

6. During 2008, the Learning and Skills Council worked with its sponsoring Departments to shape the future organisational structures of the Skills Funding Agency and Young People's Learning Agency. Guiding principles were established to ensure that the new Skills Funding Agency would be developed and built on the achievements of the Learning and Skills Council in the successful delivery of Public Service Agreement targets for basic skills, level two qualifications and Apprenticeships.

7. At the same time, a Transition Plan was produced that set out the timeline and process for matching staff to the new organisations. Specifically, the plan focused on establishing shadow structures by September 2009 and ensuring the maximum number of Learning and Skills Council employees were offered roles in new structures that would be considered as a reasonable offer of employment.

8. The Transition Plan was endorsed by the Joint Programme Board in January 2009 along with a set of principles that would be adhered to throughout the transition. These are set out below:

- (a) DCSF, DIUS, the LSC and Local Authorities (represented through the Local Government Association and the Association of Directors of Children's Services) will work collaboratively to ensure a smooth transition to the new arrangements. This approach should minimise destabilisation and disruption to the LSC's operation until April 2010, including maintaining sufficient management and staff capacity during the transition to ensure the LSC can carry out its delivery responsibilities and meet its operational targets (as set out in the Grant Letter and its annual Statement of Priorities) and to fulfil new priorities in response to the economic downturn.
- (b) The approach adopted maximises the retention of LSC staff and their expertise.
- (c) There will be a single unified HR Framework for the People Transition that will cover all staff irrespective of destination and will be underpinned by the principles already agreed.
- (d) A joint Skills Funding Agency/Young People's Learning Agency/Local Government Association communications and employee engagement strategy will support the people transition programme.
- (e) Managers fulfil their People Transition role and responsibilities in a timely and professional manner.
- (f) All employees fully engage and participate with the People Transition Framework.
- (g) We aspire for the full support of the Trade Unions for the People Transition Framework.

9. In addition to the principles set out above, DCSF, DIUS, LSC and the Public and Commercial Services Union made the following commitments to LSC staff:

- (a) Unnecessary uncertainty will be minimised.
- (b) Where possible, expertise will be retained.
- (c) Genuine consultation with staff and trade unions will take place.
- (d) Staff involved in any transfers will be consulted, collectively and individually.
- (e) Best practice and the principles set out in the Cabinet Office Staff Transfers in the Public Sector will apply. If TUPE does not apply, we will act as if it does.
- (f) Staff involved in any transfers will be treated fairly and consistently.
- (g) Every effort will be made to avoid compulsory redundancies (and we have committed that there will be no compulsory redundancies prior to the transfer of responsibilities).
- (h) Affected staff should have the opportunity to update existing skills or acquire new ones.

10. Each of these principles and commitments were overwhelmingly met during the transition process and the right balance of staff will transfer to each of the Learning and Skills Council's successor bodies and Local Authorities.

11. The recognised union for Learning and Skills Council staff, the Public and Commercial Services Union was consulted throughout the transition programme.

## PEOPLE TRANSITION

12. In 2008, prior to the formal people transition process beginning, the then Chief Executive of the Learning and Skills Council, Mark Haysom, hosted national and regional briefing sessions on the Machinery of Government changes. These provided key information to staff and allowed them to ask questions about the implications of the changes for the organisation and for the sector. These events are one example of many communication activities that continue to take place throughout the transition.



## PHASES OF THE PEOPLE TRANSITION

13. On 9 April 2009, every member of staff received a standard and detailed briefing on the Machinery of Government transition from their senior management team. During these briefings, staff were provided with a presentation on new organisational structures and functions, a clear explanation of how the matching process (see below) would work and details of the offer available for staff transferring to Local Authorities. Briefing materials and supporting documentation were made available to all staff along with clear communication routes for questions and issues to be raised and responded to.

14. Phase 1: March 2009: in line with a TUPE process, this phase involved the matching of functional blocks that could be transferred en masse to the new organisations because the purpose, numbers, grade mix and locations would remain effectively unchanged (eg the National Employer Service that now forms part of the shadow Skills Funding Agency.) In addition, matching also took place where it was determined that the function would continue post-transfer and the numbers required were broadly the same or similar, although the precise roles may be different to those in the Learning and Skills Council. During this process, all individuals were consulted on where they felt the majority of their work lay (ie on youth or adult related activity) and the impact of any location change. The major benefit of this approach was that it removed the need for staff to compete for roles they already filled.

15. Phase 2: April to May 2009: the second phase of the staff transition ran from April to May 2009. This involved matching individual posts to posts in new structures. Managers held one to one sessions with staff to identify with each individual where they spent the majority of their time (functionally), their preferences and any constraints on their working arrangements. Individuals were then provisionally matched to the roles available. It was made clear to staff in integrated functions that they were being matched in order to identify their right to transfer, but that they would not be expected to take on their new role until the point of transfer in April 2010.

16. Phase 3: July 2009: the third phase of the transition involved the scrutiny of every individual's provisional match by Senior Management Teams to ensure the matching process had been conducted consistently and effectively. If staff were unhappy with their provisional match, they had the right request that their match be reconsidered by a moderation panel.

17. Phase 4: August 2009: the fourth phase of the transition was the final stage for the vast majority of staff as this involved the confirmation of their match. This phase was complete by the end of August 2009. In some cases, there were situations where there were too many staff for the posts available; in these instances, interviews were held to confirm which individuals would fill the roles.

18. Staff that had the right to transfer but were still unmatched by September 2009 were supported through a contingency and redeployment process through which Cabinet Office protocols for handling surplus staff were followed. The proportion of unmatched staff was extremely small and now numbers fewer than 10. There was no early retirement or severance scheme on offer during the transition process.

19. The outcomes from the people transition process have been extremely positive with the overwhelming majority of Learning and Skills Council staff now confirmed in a post in the Skills Funding Agency, the Young People's Learning Agency, a Local Authority or other organisation (see paragraphs 22 and 24).

20. The Skills Funding Agency has an establishment structure of 1896 posts of which the vast majority have been filled.

## STAFF TRANSFERRING TO REGIONAL DEVELOPMENT AGENCIES AND BIS

21. On 31 July 2009, Peter Mandelson wrote to Jim Braithwaite, the Chair of the South East Regional Development Agency to set out his intention to make Regional Development Agencies the single body responsible for regional skills strategies. This has necessitated a transfer of around 50 staff from the Learning and Skills Council (staff that would have transferred to the Skills Funding Agency) along with the budget for those staff. As this development occurred in the midst of the Learning and Skills Council's people transition process, it was handled with extreme sensitivity and care so as to minimise disruption for staff midway through an existing matching process.

22. It was agreed with BIS and Regional Development Agencies that staff would be appointed on a secondment basis rather than being transferred. In November 2009, each Regional Development Agency delivered a standard presentation to Learning and Skills Council staff that had expressed an interest in taking up the posts. This has resulted in around 30 staff being confirmed to move with a further recruitment exercise taking place in January 2010. Learning and Skills Council employees will have priority on Regional Development Agency vacancies because of their TUPE rights.

23. A small number of other specialist functions are being transferred to other bodies (eg BIS on evaluation and strategic analysis, UK Commission for Employment and Skills on research).

## OPERATING AS SHADOW ORGANISATIONS

24. The Transition Plan for the Machinery of Government programme set a clear commitment for shadow structures to be phased in from September 2009. The exception to this was the formation of the National Apprenticeship Service (housed in the Skills Funding Agency) as this was established in April 2009 with a complement of 400 posts.

25. During the summer of 2009, regional and national teams developed detailed handover plans to ensure staff could transfer to shadow organisations without incurring any risk to the delivery of the Learning and Skills Council's statutory responsibilities. Staff within integrated functions (such as funding teams) continued to remain integrated (supporting both youth and adult activity) until such time that a handover could take place to new shadow teams. Staff in finance teams remain integrated and will do so until the end of March to ensure that the Council's remit continues to be fulfilled.

26. An acting and permanent Chief Executive had been appointed to the Young People's Learning Agency in March 2009. David Cragg was appointed as the Interim Chief Executive of the Skills Funding Agency in November and in December 2009, Geoff Russell was announced as the future Chief Executive of the Skills Funding Agency, completing the appointments to the executive management team.

27. Staff transferring to the Young People's Learning Agency moved into their shadow roles from September 2009 with delegated authority for 16–18 budgets passing to the shadow Young People's Learning Agency on 1 October. Staff due to transfer to Local Authorities remain under the management of the Learning and Skills Council but are operating in their new roles and progressively taking up their new responsibilities, while ensuring that residual Learning and Skills Council responsibilities are discharged.

28. Staff transferring to the Skills Funding Agency moved into their shadow roles between September and November 2009 when formal delegations for 19+ were made. The transition to shadow Skills Funding Agency structures was managed carefully to ensure its account management function was able to assume responsibility for provider management without causing any disruption to colleges and providers. Account management teams are now in place and are working with colleges and providers to agree their allocations and contracts for the 2010–11 academic year.

#### INTERDEPENDENCIES AND SHARED SERVICES

29. Early in the transition process, it was recognised by both Departments that in a number of critical areas it would be essential to establish strong joint working arrangements between the two new agencies and at a local and regional level with Local Authorities. These interdependencies have been fully scoped as part of the Transition Plan and working practices have been agreed that will avoid confusion or duplication at provider level, particularly for colleges. This work is now embedded in joint management arrangements between the shadow organisations. The areas include:

- (a) Joint capital planning.
- (b) Performance management including implementation of Framework for Excellence and FE intervention.
- (c) FE regulation/sponsorship including mergers, federations etc.
- (d) National Apprenticeship Service 16–18 commissioning in conjunction with Local Authorities.

30. There are also several cost effective shared services between the two organisations that are co-ordinated through joint management arrangements. These include:

- (a) Information Services including the Data Service.
- (b) European Social Funding.
- (c) Learner Support.
- (d) Human Resources.

#### COLLEGES AND PROVIDERS

31. A key principle underpinning the transition has been to ensure that colleges and providers experienced no disruption as a result of the Learning and Skills Council's organisational change. Whilst 2009 has been a challenging year for the sector, with ongoing issues on Train to Gain and capital, no issues have arisen because of the transition. In large part, this is due to the hard-work and professionalism of Learning and Skills Council staff in offering continuity of service to the sector.

32. A significant amount of communication and briefing has been provided to the sector on the impact and implications of the Machinery of Government changes and how the Learning and Skills Council's successor bodies will engage with them. In November and December 2009, the shadow Skills Funding Agency ran a round of briefing events for colleges and providers on BIS's Skills Strategy and Skills Investment Strategy: these briefings set out the Government's priorities for the adult skills sector and the funding settlement for 2010–11.

33. Each college and provider is now clear who their shadow Skills Funding Agency Account Manager is, enabling them to have one single point of contact for all matters relating to post-19 delivery. Account Management teams are based around the country and are responsible for a caseload of colleges and providers, from those that deliver in the local area to those that are multi-regional or national. In all cases, Account Managers deal with the whole of a provider's post-19 delivery, regardless of where that delivery takes place.

34. The shadow Skills Funding Agency is currently developing a Single Account Management IT System that will allow information about accounts, contracts, funding and performance to be shared with colleges and providers. This will replace a number of Learning and Skills Council legacy systems and will greatly streamline planning, allocation and performance management processes.

#### RISK MANAGEMENT

35. Since his appointment as Acting Learning and Skills Council Chief Executive, Geoff Russell has undertaken a fundamental review of risks and management accountabilities. This has resulted in the implementation of changes to governance and a new and systematic risk management regime, overseen by the Learning and Skills Council's National Council. A Chief Operating Officer was appointed on an interim basis, as was a National Projects Director to work specifically on the Further Education capital issues. The role of the Learning and Skills Council's National Audit Committee has also been strengthened through their oversight of the risk management process.

36. On capital, the entire further education capital budget is the responsibility of a Tier 2 member of staff reporting directly into the Chief Executive of the Learning and Skills Council. He is working closely with the Finance Director to ensure that there is strong control on the capital budget. The 16–19 capital fund is the responsibility of another senior member of staff (transferring into the Young People's Learning Agency). On both programmes, extensive work was carried out in April and May 2009 to understand the full range of liabilities on these budgets; this has helped the Learning and Skills Council establish budgets for the next five years (2009–10 to 2013–14) against which all potential and new liabilities can be set. Monthly monitoring of the expenditure and reporting into the National Council, BIS and DCSF provides complete transparency on the overall programme.

37. A recent Financial Healthcheck of Learning and Skills Council systems and controls provided confidence that the capital programme and other financial systems are strong.

*11 January 2010*

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### **Memorandum submitted by the Local Government Association**

#### EXECUTIVE SUMMARY

1. The economy operates in functional economic areas below the national level. In each area the demand for skills, skill levels and supply of skills are different.

2. Despite changes to the institutional framework of the skills system, it is still characterised by complexity and too many public agencies, many of which are unaccountable to local people. There remain significant unanswered questions about how the Skills Funding Agency will operate below the national level and how it will relate to the work of the Regional Development Agencies.

3. Councils, acting together sub-regionally, close to the economic reality and employer needs should make the strategic decisions about skills. There has been progress towards this in the forerunner city regions but we would like to see the pace of devolution accelerated to a wider group of sub-regions.

#### LOCAL GOVERNMENT ASSOCIATION

4. The Local Government Association (LGA) is a voluntary lobbying organisation, acting as the voice of the local government sector. We work with and on behalf of our membership to deliver our shared vision of an independent and confident local government sector, where local priorities drive public service improvement in every city, town and village and every councillor acts as a champion for their ward and for the people they represent.

5. The 423 authorities who make up the LGA cover every part of England and Wales. Together they represent over 50 million people and spend around £113 billion a year on local services. They include county councils, metropolitan district councils, English unitary authorities, London boroughs, shire district councils and Welsh unitary authorities, along with fire authorities, police authorities, national park authorities and passenger transport authorities.

6. The LGA is pleased to submit a written response to the Business, Innovation and Skills Select Committee's inquiry into Further Education Funding and the Skills Funding Agency.

#### EVIDENCE

7. The Committee has indicated that it will be looking at the delivery role of local government and the Regional Development Agencies. The Local Government Association will concentrate its evidence on this issue.

*Economic sub-regions*

8. It is now widely accepted that the economy operates in functional economic areas below the national level. These areas are determined by patterns of travel to work, house moves, retail shopping and industrial clustering.

9. Local authorities in these areas, more commonly referred to as sub-regions, are increasingly coming together in partnership. Some of the partnerships are longstanding, for example in the case of the Greater Manchester authorities. Others have coalesced around multi-area agreements and in two-tier areas around local area agreements.

10. In each sub-region, the demand for skills, skill levels and supply of skills will be different. There will also be differences in significant knowledge assets present in the sub-region, like universities and research, centres which help power economic performance.

*Skills drive economic performance*

11. Skills are one of the principal drivers through which economic performance, for both national and local economies, can be raised. Recent research from the Work Foundation has also shown that areas with higher skill levels have proven to be more resilient in the recession.

12. There is however a widespread concern about the UK's skills base: employers report skills gaps, especially in science and engineering at technician level; in some areas there is a mismatch between skills needs and the skills of local people; and there are differences in skill levels between places, with some neighbourhoods with particularly low skill levels.

13. Tackling these issues is at the heart of how we solve regional disparities in economic performance.

*Changes to Institutional Arrangements*

14. The LGA has concerns about the skills system. It is characterised by too many public bodies. Employers find it confusing. The over-commitment by the Learning and Skills Councils of capital funding which has stalled the building and refurbishment of colleges, also led to loss of confidence in the LSC.

15. Recent reforms will devolve the funding for 16–19 learning, from April 2010, to groups of councils working in partnership based on travel to learn patterns. But there are different set of arrangements for adult skills. As the Committee will be aware, the Skills Funding Agency—the new body taking responsibility for adult skills from the Learning and Skills Council—opens for business from April 2010.

16. We believe there are significant unanswered questions about the accountability and role clarity of the future training system for post-19, including a lack of clarity about:

- how the new Skills Funding Agency will operate below the national level; and
- how the Skills Funding Agency will relate to the role of Regional Development Agencies (RDAs).

We hope the Committee's inquiry will address these issues.

*Role of Councils*

17. Councils, acting together sub-regionally, should make the strategic decisions about skills that remain in what is increasingly a demand-led system, where individual and employer decisions determine the courses provided. They are better placed to do so because they are closer to the economic reality and employer needs.

18. There has been progress towards this in the forerunner city regions but we would like to see the pace of devolution accelerated to a wider group of sub-regions.

*Skills for Growth White Paper*

19. The government, in its November White Paper Skills for Growth, announced its intention to introduce further reform on skills, including:

- a focus on high growth sectors, such as the green and digital industries, advanced apprenticeships, the vocational route into higher education, skills accounts and some simplification of the skills agencies;

We are concerned that a focus on particular sectors will be inappropriate for some sub-regions and distract from the real skills needs of local economies;

- a lead role for the RDAs in identifying the regional skills needs as part of the new integrated regional strategies. The regional skills strategies, which will form a new element alongside economic and spatial plans, will be jointly decided by the RDAs and the regional boards of local government leaders;

We welcome the involvement of the new leaders' boards in setting these strategies. We have three principal concerns:

- that the skill needs of local and sub-regional economies may get lost in the regional aggregation;

- that the regional skills strategies are not binding on Skills Funding Agency investment plans; and
- local needs may be diluted by the national priorities, inappropriate for some sub-regions, contained in advice from the national bodies, such as the sector skills councils.
- the delegation of the strategic decision making powers on adult skills in the forerunner City Regions, Leeds and Manchester using Section 4 powers. This is a move we strongly support. We would like government to formally invite other sub-regions to develop skills plans that would provide the direction for SFA funding decisions.

8 January 2009

### **Memorandum submitted by the London Borough of Newham**

1. *The transitional arrangements currently in place between the LSC and the Skills Funding Agency (including any legacy issues surrounding funding problems experienced by the LSC in respect of its management of the capital programme);*

1.1 The over-commitment on capital spending in the Building Colleges for the Future programme and the resultant funding shortage experienced by LSC has had less of an impact in Newham compared to other areas.

1.2 None of our colleges or local providers have had projects directly impacted by the over-commitment. However, the uncertainty that has resulted from the issues around capital funding has indirectly affected local providers.

1.3 Strategic planning has been very difficult given the uncertainty resulting from the over-commitment and now the impending public spending freeze resulting from the financial crisis. Although the Government announced an extra £300 million for the college building programme in the last budget, it falls far short of covering the overcommitment in expenditure and it remains unclear how much resources there will be available to support college building in the future.

1.4 Institutions are facing considerable change in funding arrangements against the background of a very uncertain atmosphere. It is very important that they are given certainty around capital funding provision in the coming years so that they can plan their commitments accordingly.

2. *How the SFA will oversee the FE budget through its relationships with the UK Commission for Employment and Skills, the National Employer Services and the National Apprenticeship Service; and*

2.1 In Newham, both employment and skills levels are well below the national average. 34.4% of working age residents are economically inactive compared to 21.1% nationally and over one in five have no qualifications whereas the national average is just 12.4%.<sup>30</sup> Tackling worklessness and improving the skills of all are major priorities for us.

2.2 As the main host borough for the Olympic and Paralympic Games of 2012, we have a fantastic opportunity to regenerate the borough and change people's lives. However, in order to take advantage of the opportunities arising out of the regeneration, local people must be equipped with the skills to access the jobs available. Ensuring the Games deliver in terms of skills and jobs will be crucial to securing a lasting social legacy for east London.

2.3 It is important that both the FE budget and strategic planning of post-19 further education are geared specifically towards work. Increasing an individual's employability and driving the employment rate in a local area must be the primary goals.

2.4 Under the previous funding arrangements, the LSC focused largely on traditional long-term qualifications with targets for Level 1, 2 and 3 attainment. This is partly because these qualifications are familiar and easily measurable.

2.5 However, although suitable in some sectors and for some learners, many employers feel that these traditional qualifications are not relevant to their industry and the jobs available in the modern economy.

2.6 We need a system which is more specifically focused on employment and more relevant and responsive to the skills demands of employers. This might include an expanded offer of shorter, more work focused vocational courses, directly related to the needs of the local job market.

2.7 To do this, it is essential to engage employers more fully in the design and delivery of courses, so that they truly reflect their needs. This will require working closely with the UK Commission for Employment and Sector Skills Councils. Cutting unnecessary bureaucracy and clearly articulating the benefits to employers of being involved will be key to engaging employers.

<sup>30</sup> Nomis, Official Labour Market Statistics, ONS

2.8 However as the UKCED and the Sector Skills Councils are national in focus and they will be articulating the skills needs of the country as a whole. It is therefore important for the SFA to work closely with both RDAs and Local Authorities to provide a more detailed picture of the skills needs in the regional economy.

2.9 Although the National Apprenticeship Service is organised on a national level, it is vital that it has a local focus. In order to meet the needs of learners and to attract local employers, the work of the NAS needs to be specifically tailored to the demands of the local economy across the country. Again, cooperation with Local Authorities is vital so that the NAS can benefit from their understanding of local areas and adapt its work accordingly.

2.10 We very much welcome the recognition of the importance of information, advice and guidance (IAG) and the creation of the Adult Advice and Careers Service. For too long, post-19 education has been insufficiently focused on the end goal of employment. The increased provision of IAG, particularly if linked closely to Jobcentre Plus, will help adults make informed decisions about their learning and career options. This is particularly important as we move towards a demand-led system in FE.

### 3. *The delivery role that is envisaged for Local Authorities and the RDAs.*

3.1 It is claimed that the SFA will take the lead in both ensuring skills needs are assessed locally and bringing partners together to meet these local needs. However, in the partnership with RDAs and Local Authorities, it is important that the SFA recognises the unique role of the latter in understanding the local area and contributing to the planning of post-19 learning.

3.2 Local Authorities are uniquely placed to understand the complexities of their local communities as well as the skills needs within the local labour market.

3.3 These factors can vary greatly across one region particularly in London where wealthy, highly skilled industries and populations exist in close proximity to and within the same regional boundaries as deprived communities with low skills and high levels of unemployment. Increasing regional funding and planning risks divorcing it from the needs of local people and the local labour market.

3.4 Following the Machinery of Government changes, Local Authorities will assume responsibility for the commissioning of 16–19 learning within their area. In order to offer a coherent and seamless service, it is important that this provision dovetails with the offer for post-19 learning.

3.5 Furthermore, Local Authorities are directly elected and accountable for their actions which confers on them the legitimacy to participate in the strategic planning of post-19 learning.

3.6 All this means that Local Authorities need to play a central role alongside the Skills Funding Agency in the strategic planning of post-19 learning in their area.

11 January 2010

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## **Memorandum submitted by the London Skills and Employment Board**

### **1. INTRODUCTION**

The London Skills and Employment Board (the Board) welcomes the Business, Innovation and Skills Committee's (the Committee) inquiry into Further Education funding and the Skills Funding Agency (SFA). The Board is pleased to present this submission as evidence.

The London Skills and Employment Board was formally established in late 2006. The Board is statutory (established under the Further Education and Training Act 2007 and the Apprenticeship, Skills, Children and Learning Act 2009) and is chaired by the Mayor. The Board is employer-led. Its membership is drawn from both large and small businesses, as well as from the voluntary sector, local authorities, education and employment providers and trade union representatives.

The Board has a statutory duty to produce, deliver and review a long term strategy for skills and employment in London. The strategy provides a framework for delivery agencies (the Skills Funding Agency, London Development Agency and Jobcentre Plus) to ensure that regional priorities are taken into account within national employment and skills initiatives. The Board has a statutory power to direct the adult skills budget of the Skills Funding Agency (SFA) and your inquiry is therefore very pertinent to our role. Our Board is currently the only statutory body of this kind though Manchester will gain approval shortly. The Board's first strategy was published in July 2008. In December 2009, the Board published its second strategy, *From Recession to Recovery*, which covers the period 2009 to 2014. The Board is strategic, not executive, and the Board depends on the delivery agencies for implementation of the strategy.

The Board's annual report for 2009 demonstrates encouraging progress in the first year of the strategy.<sup>31</sup> By producing and updating a detailed evidence base, published as *The London Story*, the Board has ensured that the regional strategy is firmly based on evidence. The Board is well on the way to establishing the London Skills and Employment Observatory, led by the London Development Agency, which will provide

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<sup>31</sup> London Skills and Employment Board (2009). *Annual Report 2009*—see [www.london.gov.uk/lseb](http://www.london.gov.uk/lseb)

shared intelligence on the London labour market and its future trends.<sup>32</sup> Through the framework which the regional strategy provides, key delivery and funding agencies have worked across their organisational boundaries to deliver the agreed priorities for London. Examples of success include the London Employer Accord, a joint venture of DWP, the LDA and Jobcentre Plus, providing a customised recruitment service which had helped over 500 Londoners into work by March 2009. Another area of success has been the LSC's response to our strategic priority to increase the number of Apprenticeships in London; over 12,600 people aged 19 or over began an Apprenticeship in London in 2008–09, 26% above the LSC's target. For the first time, apprenticeships in London are growing much faster than in other regions.

The Board has pioneered a new approach to integrating skills and employment services within a framework of clear regional priorities. The success of this approach has been recognised and is now set to be rolled out in other areas. In its response to the Houghton review on tackling worklessness, the Government notes that in London "the strategy setting role of the London Skills and Employment Board has had a real impact in setting priorities and shaping the pattern of spending on skills".<sup>33</sup>

## 2. THE BOARD'S EXPECTATIONS OF THE SFA

The Board's primary responsibility is the strategic direction of the Learning and Skills Council's (LSC) adult skills budget in London, worth £635 million in 2009–10. The LSC will be dissolved in March 2010 and the Skills Funding Agency (SFA) will begin work from April 2010. The clauses relating to the Board's role and influence over adult skills have been incorporated into the Act establishing the SFA. The SFA will be required to carry out its post-19 education and training functions in London in accordance with the Board's strategy.

The Board looks forward to working with the SFA and intends that the relationship should be positive and constructive. The Board is planning a Memorandum of Understanding to help codify current custom and practice in its relationship with the SFA. Our statutory role and interests also include the National Apprenticeship Service, the adult advancement and careers service, and the National Employer Service.

The London skills and employment strategy for 2009–14 includes a chapter on influencing the work of the Skills Funding Agency which details the Board's current expectations of the LSC as they might be applied to the SFA. The Board's primary expectations of the SFA are that it will:

- Implement its contribution to the Board's strategy.
- Increase Apprenticeships to close the gap on take-up between London and the UK, including under-represented groups, and establish clear progression routes.
- Align and integrate services across organisational boundaries to establish a single employer and individual offer.
- Contribute to the achievement of and report on the Board's targets.
- Produce its contracting plan for approval by the Board.

As a result of the Board's statutory powers, London is currently the only region to have an indicative budget for 2010–11 of £653 million. We are currently working with the SFA staff to ensure that London's statutory power to direct the adult skills budget will be taken into account in the new funding allocation process from national to provider level so that there is assurance that the predicted expenditure in London will equate to the indicative budget. The Board expects to review budgets, volumes, understand the impact of the funding settlement on providers and provision, and how provision will reflect our Board's strategy. We expect that the transfer of strategic skills responsibilities from SFA to regional development agencies in April 2010 will make this an issue of interest to all regions by 2011–12.

## 3. PRINCIPLES FOR A DEMAND LED APPROACH

The SFA is designed to take a more "demand led" approach to skills, with funding following customers through skills accounts for individuals and the Train to Gain programme for employers. The Board fully supports the Government's intention to make the skills system more demand led and less supply driven. However, we recognise that demand led approaches may also bring fresh challenges, particularly for disadvantaged groups who make few demands on the system. Balancing individual demand, employer demand, longer term regional skills needs and limited public funding requires careful management. In response to these considerations, we have developed a set of principles which should underpin the demand led system which the Board wishes to see develop in London. These principles are:

- The demand led system should put funding and choice in the hands of individuals and employers to improve the responsiveness of the supply system.
- The demand led system should lead to substantive shifts in the supply of skills on offer.

<sup>32</sup> The London Skills and Employment Observatory, led by the LDA, will be launched early in 2010.

<sup>33</sup> DWP (2009). *Stepping up to the challenge. The Government's response to 'Tackling worklessness—a review of the contribution and role of English local authorities and partnerships'*. p18.

- Demand must be managed and mediated through effective careers information and advice for individuals, influenced by labour market need, and with help for and from employers to articulate their medium and longer term skill needs.
- There needs to be quality kite marked provision.
- The demand led system must be supplemented by significant levels of commissioning to address skills shortages and gaps in: economically valuable provision; foreseeable future skill needs (such as those identified by the London Skills and Employment Observatory); and supporting disadvantaged groups into sustained employment. Incentives on the tariff based system may be one way to achieve this.
- Any national framework of entitlements must be flexible enough to address the specific challenges of London's labour market and priority groups.
- Demand led programmes should be managed carefully to minimise deadweight and to avoid creating expectations that cannot be met.

#### 4. DELIVERY ROLE OF LOCAL AUTHORITIES AND RDAS

The Board's primary role is to produce the overarching strategy for skills and employment in London. The strategy provides a framework for all delivery agencies to ensure that regional priorities are taken into account within national employment and skills initiatives. The LSC, LDA and Jobcentre Plus have agreed to work together to implement the strategy. The strategy also influences the way in which the regional European Social Fund framework is applied in London.

The Board endorses the Government's response to the Houghton review of the contribution of local authorities to tackling worklessness. London has the highest level of worklessness in Britain and addressing this is a key priority for the Board. The Houghton review, and the Government's response, highlight that improved partnership working between Jobcentre Plus, the LSC and the RDAs is playing a significant role in improving services and outcomes for workless people. This is precisely where the Board has been influential, in bringing together various agencies within a shared framework.

The Board recognises that local authorities play a vital role in helping people to find and stay in work. We welcome the proposed expansion of this role through the requirement that worklessness assessments should form a key part of the local authority economic assessment duty, due to come into effect from April 2010. The Board views local authorities as best placed to assess the nature and scale of worklessness in their local area. We understand that the worklessness assessments are expected to inform work and skills plans which will set out the local authority's strategic approach to meeting the objectives defined in the worklessness assessment. We welcome the opportunities being taken by local authorities in London to consider these on a local and sub-regional level.

The Board expects that local work and skills plans will be informed by the regional skills and employment strategy and that the local worklessness assessments will also inform reviews of the regional strategy. Our board's strategy is the primary strategy for employment and skills within the capital and we are keen to work with all partners to ensure its success. Our Board considers that there is value to be achieved by aligning and integrating services and hope that the SFA will play a valuable role as a partner in achieving this.

#### 5. ISSUES OF CONCERN

Notwithstanding the progress and successes achieved by the Board over the past two years, the Board retains some concerns about arrangements for skills and employment nationally and in London. We would like to draw the Committee's attention to these.

##### (a) *Freedom to meet regional priorities within national programmes*

There has been progress nationally towards a more flexible and integrated employment and skills system. The Flexible New Deal is being rolled out, although we have yet to see how well it will work in practice. For most national skills programmes, however, there is little or no flexibility to change programme criteria to address regional priorities. The Board will continue to urge the Government to allow for regional flexibility within national programmes as a key lever for enabling us to meet regional needs. In London these changes need to reflect the devolved powers of the Mayor.

##### (b) *Simplifying the system*

The need to simplify the UK skills system has been widely acknowledged and there has been progress towards this in recent years. There is more to do to simplify the system to support the success of employers and individuals. The Board's preferred option is for the establishment of a single organisation for employment and skills in London. While we will continue to press for this, short term we want to see better results achieved by the alignment and joint commissioning of services across organisational boundaries. The Board also considers that joint targets across organisations for qualifications and sustained employment are key to achieving alignment and better value for the public purse. The SFA could play an important role in this.



*(c) Managing demand to meet longer term skills needs*

The Board welcomes the Government's support for a more demand led skills system. Further consideration is needed, however, as to how the immediate demands of individuals and employers can be managed in tandem with the longer term, forecast needs of the regional and national economy. It is not yet clear how the demands of individuals and employers will both be met within the system, given the likely divergence between them. Putting purchasing power and choice in the hands of individuals through skills accounts, has been a demonstrably successful way of engaging more people in learning, including disadvantaged and "non-traditional" learners.

But how do we drive up individual ambitions so that fewer people spend their skills accounts on highly popular courses, such as hairdressing, and more opt to learn the green technology skills which are a priority for the regional economy? The recently published national skills strategy says that regional skills strategies will be key here,<sup>34</sup> but our own experience in London is that a strong regional skills strategy will not in itself bridge the gap between what individuals want and what the regional economy needs. Significant joint working will be required to achieve this from SFA, Sector Skills Councils and of the new adult advancement and careers service in articulating employer demands and driving up individual demands. Our Board is playing an important role in facilitating and supporting this work.

January 2010

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**Memorandum submitted by the National Union of Students (NUS)**

**INTRODUCTION**

1. The National Union of Students (NUS) is a voluntary membership organisation comprising a confederation of local student representative organisations in colleges and universities throughout the United Kingdom and Northern Ireland which have chosen to affiliate and which pay a membership fee. NUS has 600 constituent members from virtually every college and university in the country and, as such, represents the interests of more than seven million students.

**SUMMARY**

2. NUS recommends that structures of accountability should be clarified as funding becomes the responsibility of the Skills Funding Agency (SFA).

3. There should be a wider commitment within the new SFA structure to ensure systematic learner engagement in accordance with best practice.

4. It is crucial to establish which measures are in place under the SFA for assisting colleges who have suffered financial problems as a result of flaws in the Learning and Skills Council's (LSC's) capital programme.

5. NUS remains concerned that levels of learner engagement in the National Apprenticeship Service are inadequate, and we would like to see learner and stakeholder engagement systematised in the future.

6. The Government should ensure that learners are systematically engaged in decisions relating to the further education budget, and that their views should be taken into consideration on equal par with those of employers.

7. NUS believes that sound communication links within and between local, regional and national agencies must be established to ensure that such agencies are able to effectively incorporate the views of learners.

*The transitional arrangements currently in place between the LSC and the Skills Funding Agency (including any legacy issues surrounding funding problems experienced by the LSC in respect of its management of the capital programme)*

8. NUS supports the enhanced accountability that the Skills Funding Agency will deliver, particularly in its relationship with parliament, the UK Commission for Employment and Skills, the National Employer Services and the National Apprenticeships Service.

9. NUS is concerned that funding decisions for the year 2010–11 will be made by the LSC, but implemented by the Skills Funding Agency. If problems with funding occur, it is unclear how the structures of accountability will operate given that the abolition of the LSC in April 2010.

10. NUS recommends that structures of accountability should be clarified as funding becomes the responsibility of the Skills Funding Agency (SFA).

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<sup>34</sup> Department for Business Innovation & Skills (2009). *Skills for Growth: The national skills strategy*. p36.

11. NUS remains disappointed that little attention has been given to ensuring effective mechanisms through which to engage learners. Under current legal requirements, the LSC is obligated to “have regard to guidance in relation to consultation with learners, potential learners and employers” (Further Education and Training Act 2007). In any transitional arrangements between the LSC and the Skills Funding Agency, NUS would be keen to see a continuation of such learner engagement.

12. NUS believes there should be a wider commitment within the new SFA structure to ensure systematic learner engagement in accordance with best practice.

13. As one of the “legacy issues” which will be inherited by the Skills Funding Agency from the LSC, the capital programme continues to have a far-reaching and detrimental effect upon both colleges and learners.

14. NUS is concerned that many colleges are still experiencing ongoing financial problems as a result of issues with the Building Colleges for the Future scheme, where rebuild projects were frozen in many colleges who had already made financial outlay. This has left many colleges in a dangerous financial position due to the shortfall incurred.

15. Given the precarious financial position in which many colleges currently find themselves, it is vital to establish measures in order to prevent course and campus closure, and that these measures survive the transition from the LSC to the Skills Funding Agency.

16. NUS believe it is vital to establish which measures are in place under the SFA for assisting colleges who have suffered financial problems as a result of flaws in the Learning and Skills Council’s (LSC’s) capital programme.

*How the SFA will oversee the FE budget through its relationships with the UK Commission for Employment and Skills, the National Employer Services and the National Apprenticeship Service*

How the SFA will oversee the FE budget

17. NUS welcomes the single account management process through which the Skills Funding Agency will manage the performance and management of providers. NUS believes that central intervention should continue to occur in instances where the interests of learners or the public are at risk.

18. Whilst we are encouraged by the plan to respond to both employer and learner choice through “customer-focused” gateways such as the National Apprenticeship Service and the National Employer Service, and that to an extent individual choice and provision for marginalised groups will continue through Skills Accounts, NUS believes that learners should be consulted and involved in centralised decision-making processes, and they should also have a voice at the level of customer-focused gateways.

The National Apprenticeship Service

19. NUS supports the plan to fund apprenticeships through the National Apprenticeship Service, particularly in terms of achieving parity of experience for apprentices. However, we are alarmed that, in 2010–11, funding for adult apprenticeships will be cut by 10%. This comes at a time when adults may need to retrain as a result of the recession.

20. NUS remains concerned that levels of learner engagement in this service are inadequate, and we would like to see learner and stakeholder engagement systematised in the future.

UK Commission for Employment and Skills

21. Both the Skills White Paper, “Skills for Growth,” published by BIS in November 2009, and the recent Skills Investment Strategy, demonstrate that the Government has adopted recommendations from the UK Commission for Employment and Skills, which they laid out in their report “Towards Ambition 2020: skills, jobs, growth” (October 2009). As such, Regional Skills Strategies will be produced by the Regional Development Agencies, which will be based on employer demand at a regional level. These strategies will in turn inform future skills investment strategies. NUS is concerned about the emphasis on employer demand. The needs of learners and employees should also be given priority as an equal voice with employers.

22. NUS welcomes any initiative which provides the learner with useful information to aid them in their choice of provider, and we are therefore encouraged by the UKCES recommendation that publicly funded learning programmes should provide public quality labeling on learning outcomes (Skills for Growth, November 2009). Amongst various criteria, these outcomes will take individual satisfaction into account. We are concerned about how this information is gathered, and whether it is presented in a format which would truly be useful for prospective learners. An existing way of ensuring that this information is gathered, monitored and published is through the Framework for Excellence. NUS is particularly looking forward to FfE data becoming public via an online portal in the near future and we hope that the new funding bodies will continue with this.

23. NUS believes the Government should ensure that learners are systematically engaged in decisions relating to the FE budget, and that their views should be taken into consideration on equal par with those of employers.

The delivery role that is envisaged for Local Authorities and the RDAs

24. It is our understanding that the Regional Skills Strategies produced under this new model will inform funding decisions taken by the Skills Funding Agency. Regional Skills Strategies will be developed in partnership with and signed off by local authorities.

25. Whilst NUS welcomes the move towards local democracy and accountability represented by this new model, it is important to implement robust learner engagement practices at both a local and a regional level, to ensure that the views of learners are taken into account at all levels of decision-making.

26. NUS is keen to see a joined-up approach to engaging with learners pre and post 19 to ensure that local authorities are properly in touch with the priorities of the people they are serving. This can be achieved by ensuring that providers have the necessary tools and knowledge to effectively manage feedback from all parts of the student population—including short course students—whilst RDAs must be able to be in a position where the voice of learners can't be drowned out by the voice of employers.

27. NUS believes sound communication links within and between local, regional and national agencies must be established to ensure that such agencies are able to effectively incorporate the views of learners.

*12 January 2010*

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### **Memorandum submitted by Remit Group**

#### **1. EXECUTIVE SUMMARY**

- The new FE sector structure
- Working arrangements for all providers and colleges
- Communication on FE sector structure
- Funding methodology
- Contractual arrangements

1.1 The FE sector faces ongoing challenges as the Young People's Learning Agency (YPLA), Skills Funding Agency (SFA), Local Authorities, Regional Development Agencies (RDAs), National Employer Services and the National Apprenticeship Service take over the previous responsibilities of the Learning and Skills Council (LSC) and the future arrangements for all future FE learning. These changes to the FE sector, if not managed effectively may cause funding arrangement issues, thus impacting the learner and the respective learner journey.

1.2 The new and existing agencies for the FE sector have not all communicated their respective working arrangements and the impact to the training providers and colleges across the UK. Some national providers will go from having one point of contact for all funding and contractual requirements to potentially having to start and maintain a variety of working relationships with all of the agencies across the respective counties and regions across the UK.

1.3 Communication from the agencies has been varied. We as a provider attended a regional event in London with representation from the SFA, YPLA, NAS and RDA present. The event was lead by the SFA with the information provided being effective, however the information provided from the YPLA and RDA was limited. Two-way communication is vital in the new FE sector structure to ensure that all key changes are understood and actioned by all parties.

1.4 The funding methodology utilised by the LSC over the last few years has moved towards a higher employer contribution with some qualifications hitting the 50% mark for 19+ learners. In the current economic climate this is applying pressure to our sector across the UK and will start to impact on the volume of apprenticeships for young people. This methodology also has adverse affects if a learner starts a level two qualification, but does not progress until after their 19th birthday, meaning they move onto the lower rate of funding, even though no break in learning has occurred.

1.5 The funding contractual arrangements for 2009–10 have been difficult. Our contract value for our Employer Responsive Provision has been split into the first eight months and final four months of the academic year. This means we are being limited in meeting the needs of our sector when they require the support against the contract percentage split.

## 2. INTRODUCTION/PROVIDER BACKGROUND

2.1 Retail Motor Industry Training (Remit) Limited is the learner focussed automotive training provider of choice. We provide structured apprenticeships and adult learning across the UK, predominantly funded by the Government through the LSC, Skills Development Scotland and the Welsh Assembly Government.

2.2 Remit provides Apprenticeships, Advanced Apprenticeships and Train to Gain through on and off the job training for c2,700 learners mainly for the independent sector with a small number of manufacturer programmes that include Pendragon and Piaggio. Three main delivery methods for off the job training are utilised; delivery at one of 89 subcontracted colleges, distance based delivery on a one to one basis at the workplace or block release delivery in training centres.

2.3 Remit is the training arm of the Retail Motor Industry Federation (RMIF) which represents the interests of operators in England, Wales, Northern Ireland and the Isle of Man providing sales and services to motorists and businesses. The RMIF has a formal association with the Independent Scottish Motor Trade Association which represents the retail motor industry in Scotland.

2.4 Remit employ people with passion, pride and commitment. It is these qualities that have ensured strong, positive and powerful working relationships with:

- Learners.
- Employers.
- Government funding bodies.
- Awarding bodies.
- Colleges.

### 2.5 *Vision*

- “To be the learner focused automotive training provider of choice”.

### 2.6 *Mission*

- “To maximise the skills of everyone in the automotive industry”.

### 2.7 *Values*

- Reliability
- Honesty and integrity
- Teamwork
- Quality
- Communication
- Consistency

2.8 The Senior Management Team consists of the Chief Executive, Operations Director, Finance Director, Quality & Group Services Director and Scotland & Wales Director, who are available to be viewed at [www.remit.co.uk](http://www.remit.co.uk).

**3. FACTUAL INFORMATION****3.1 LSC Headline Funding Rates Apprenticeships—2009–10**

The following information is sourced from the Learning Aim Database (LAD) and available from <http://providers.lsc.gov.uk/lad>. The National Funding Rates and LSC Funding Formula have then been used with the data from LAD to calculate the funding rates below. This refers to 1.4 in our Executive Summary.

Level	NVQ Ref	NVQ Description	Funding Rate			TC Ref	Technical Certificate Description	Funding Rate		
			16–18	19–24	25 +			16–18	19–24	25 +
Service Technician										
L2	10055320	NVQ in Vehicle Maintenance and Repair	4,988.82	2,493.05	2,243.75	1005568X	Certificate in Vehicle Maintenance and Repair	3,879.51	2,036.01	1,832.41
L3	10055332	NVQ in Vehicle Maintenance and Repair	3,416.40	1,792.96	1,613.67	10055708	Diploma in Vehicle Maintenance and Repair	3,879.51	2,036.01	1,832.41
Vehicle Body/Paint										
L2	1005540X	NVQ in Vehicle Body and Paint Operations	4,761.06	2,379.24	2,141.31	10055721	Certificate in Vehicle Body and Paint Operations	3,879.51	2,036.01	1,832.41
L3	10055411	NVQ in Vehicle Body and Paint Operations	4,125.96	2,165.35	1,948.81	10055733	Diploma in Vehicle Body and Paint Operations	3,879.51	2,036.01	1,832.41
Parts Consultant										
L2	10026770	NVQ in Vehicle Parts Operations	5,707.14	2,852.02	2,566.82	1003061X	Certificate In Vehicle Parts Operations	3,036.80	1,593.75	1,434.37
L3	10026782	NVQ in Vehicle Parts Operations	4,077.78	2,140.06	1,926.06	10030621	Diploma In Vehicle Parts Operations	1,518.40	796.87	717.19
Service Advisor										
L2	50010037	NVQ in Customer Service	3,121.48	1,638.19	1,474.37	50015485	Certificate in Customer Service for the Motor Industry	455.52	239.06	215.16
L3	50010049	NVQ in Customer Service	4,181.44	2,194.47	1,975.02	50015497	Certificate in Customer Service for the Motor Industry	712.48	373.92	336.53

Level	NVQ Ref	NVQ Description	Funding Rate			TC Ref	Technical Certificate Description	Funding Rate		
			16-18	19-24	25 +			16-18	19-24	25 +
Business Admin										
L2	1005618X	NVQ in Business and Administration	2,826.56	1,483.41	1,335.07	50029496	Certificate in Business Administration	1,296.48	680.41	612.37
L3	10056191	NVQ in Business and Administration	2,826.56	1,483.41	1,335.07	50025284	Diploma in Business Administration	2,081.96	1,092.64	983.37
Vehicle Sales										
L2	10027920	NVQ in Vehicle Sales	2,987.16	1,567.69	1,410.92	10033105	Certificate in Vehicle Sales	1,168.00	612.98	551.68
L3	10027932	NVQ in Vehicle Sales	5,086.64	2,669.52	2,402.57	10033361	Diploma in Vehicle Sales	779.64	409.16	368.25

<i>Level</i>	<i>KS Ref</i>	<i>KS Description</i>	<i>KS Rate</i>		
			<i>16–18</i>	<i>19–24</i>	<i>25 +</i>
L1	10006394	Information and Communication Technology	233.60	185.92	167.33
L2	10006333	Application of Number	233.60	185.92	167.33
L2	10006369	Communication	233.60	185.92	167.33

3.2 The date of our regional communication event was 08-12-2009 and was titled Skills Investment Strategy briefings for colleges and providers led by the SFA.

#### 4. RECOMMENDATIONS

- The new FE sector structure.
- Working arrangements for all providers and colleges.
- Communication on FE sector structure.
- Funding methodology.
- Contractual arrangements.

4.1 To ensure all new and existing agencies have clear demarcation areas of responsibility, which are communicated to all stakeholders.

4.2 A single point of contact for areas of Government funded provision (16–18, 19–24, 25 +), whether they be Apprenticeship or Train to Gain related.

4.3 Improved two-way communication for all agencies, providers and colleges, which would be far more effective with recommendation 4.2.

4.4 Current funding methodology to be reviewed without disadvantaging learners by age group.

4.5 The removal of the contract splits for 2009–10 by eight and four months. This was discussed at the recent communication event in London by David Hughes and how providers and colleges will be offered the opportunity to earn autonomy with respective contract values for future years.

11 January 2010

#### Memorandum submitted by SCOPE

##### 1. SCOPE

1.1 Scope is a leading disability organisation operating in England and Wales, whose focus is on people with complex needs and whose aim is for disabled people to achieve everyday equality. Scope is among a limited number of providers that has the expertise in providing further education and skills training for young people and adult learners with multiple and complex impairments. It has a contractual relationship with the Learning and Skills Council and provides specialist further education placements under the Learning and Skills Act 2000.

##### 2. BEAUMONT COLLEGE

2.1 Scope operates a number of services for young people with complex needs. One of the largest is Beaumont College<sup>35</sup> in Lancaster. Founded in 1977, Beaumont College caters for residential and day students, aged between 19 and 25. The college offers a Further Education curriculum through the medium of the arts in addition to life and social skills training with the best possible care and support. This curriculum enables young people to develop skills that will help them to live as independently as possible later on. The college is in high demand and it is always heavily over-subscribed. It has Investors in People and Investors in Diversity status and a good Inspection record.

<sup>35</sup> You can read more about Beaumont College at: [www.beaumontcollege.ac.uk](http://www.beaumontcollege.ac.uk) and [http://www.ofsted.gov.uk/oxedu\\_providers/full/\(urn\)/131840](http://www.ofsted.gov.uk/oxedu_providers/full/(urn)/131840)

### 3. BACKGROUND

3.1 Recent estimates have put the number of disabled children under 16 in Britain at 770,000<sup>36</sup> and the number of children with Special Educational Needs (SEN) at 1.6 million, out of a population of 11.8 million children.<sup>37</sup> By 2020, the total number of children is projected to drop to 10.8 million, but it is widely suggested that the proportion of disabled children will increase.<sup>38</sup> If the same rate of increase that occurred between 1975 and 2002 was to be observed between 2002 and 2029, there would be over 1.25 million disabled children by 2029.<sup>39</sup> Advances in medical science and technology mean that many more disabled children born with complex needs are reaching adulthood.<sup>40</sup> As such, we are likely to see a significant rise in the number of learners with complex needs and learning difficulties needing further educational placements.

3.2 Despite current population trends and projected demographics, Scope has identified a notable reduction in Independent Specialist Colleges (ISCs). This reduction in independent specialist provision has occurred without any alternatives having been actively promoted or developed. Over the last three years there has been a reduction from 72 to 57 independent specialist colleges in England<sup>41</sup> with several more closures on the horizon. These colleges provide further education for 3,600 young people with the most complex needs and/or learning difficulties. In theory, funding is available (under the 2000 Act) between the ages of 16 to 24, recognising that many young disabled people and/or people with learning difficulties require a longer period in further education to achieve their goals than their non-disabled peers. However there are growing numbers of young people who are refused the funding required for a placement.

3.3 Almost all families and young people who seek places in ISC's do so because of the benefits and expertise that this specialist provision offers. While mainstream colleges have made strides towards inclusion, in many cases supported by the expertise of ISCs, the funding and definition of guided learning hours<sup>42</sup> has reduced weekly contact time for learners. This means that most general further education colleges make little or no provision for those learners with the complex needs in which some ISCs specialise. Given this, Scope is extremely concerned that the few specialist colleges still in existence currently are not going to be in a position to absorb all demand from students with complex needs. This is extremely concerning given that there are very few incentives for mainstream General Further Education (GFE) providers to cater for this population of disabled students.

3.4 Many ISCs offer residential placements. Residential specialist provision is not simply "boarding accommodation" or care provision which allows the learner to live away from home. ISCs have been encouraged by the Government and inspection bodies (ie Ofsted) to make skills for independent living a core part of the learning process and curriculum. Learners have personalised goals and targets for practical living skills covering such areas as planning and decision-making, money management and use of direct payments, travel, domestic skills and work-readiness. These are all intended to equip them for adult life in the community and reduce their dependency on public services. In some instances ISCs have developed continuing outreach services which make a very real contribution to quality of life outcomes for people with complex support needs. Attending such colleges on a residential basis facilitates this learning for a proportion of learners and the need for residential placements is recognised and allowed for in the current legislation. Efforts made by the LSC to co-fund residential placements with local government, through describing the care support required to enable residential attendance has had very limited success.

3.5 Funding for further education has seen a lot of change over the last 17 years and the imminent closure of the Learning and Skills Council (LSC) who currently funds further education in England, has thrown the sector into further uncertainty and instability. Given the proposed changes in funding for the independent specialist sector and the increased demand on under-resourced independent specialist provision, we are concerned about the consequences for the sustainability of the sector and what this means for disabled young people's access to further education, independence and active citizenship.

### 4. TRANSITIONAL ARRANGEMENTS

4.1 We have written to both the former Minister for Further Education, Sion Simon in the then Department for Innovation, Universities & Skills (DIUS) and the incoming chief executive of the LSC about our concerns. We have, however, seen no recognition, urgency or understanding of the threat to the sector's sustainability in their correspondence or meetings with us. With a total revenue freeze applied to the specialist college sector, the supply of specialist placements will reduce whilst demand rises.

<sup>36</sup> IPPR (2007) *Disability 2020: opportunities for the full and equal citizenship of disabled people in Britain in 2020*: <http://www.ippr.org.uk/publicationsandreports/publication.asp?id=531>

<sup>37</sup> Audit Commission (2002) *Special Educational Needs: A mainstream issue*: <http://www.auditcommission.gov.uk/Products/NATIONAL-REPORT/D3265D20-FD7D-11d6-B211-0060085F8572/SEN-briefing.pdf>

<sup>38</sup> IPPR (2007) *op. cit.*

<sup>39</sup> ONS (2004) *Living in Britain: results from the 2002 General Household Survey*: [http://www.statistics.gov.uk/downloads/theme\\_compendia/lib2002.pdf](http://www.statistics.gov.uk/downloads/theme_compendia/lib2002.pdf)

<sup>40</sup> C.f. HM Treasury/DfES (2007) *Aiming High for Disabled Children (AHDC): Better support for families*: [http://www.dcsf.gov.uk/everychildmatters/\\_download/?id=659](http://www.dcsf.gov.uk/everychildmatters/_download/?id=659)

<sup>41</sup> For the full list of Independent Specialist providers receiving funding over the current financial year see: <http://www.lga.gov.uk/lga/aio/2056334>

<sup>42</sup> <http://www.lsc.gov.uk/providers/Data/datadictionary/businessdefinitions/GLH.htm>



## 5. LEGACY ISSUES SURROUNDING FUNDING PROBLEMS EXPERIENCED BY THE LSC

5.1 Funding procedures and guidance has varied over time and from region to region. This has led to a significant variability and vulnerability in funding arrangements for ISCs.

5.2 The LSC budget for ISC placements has been, historically, demand-led, with control of the volume of placements being determined by the criteria for placement and assessment of need carried out by the Connexions service.<sup>43</sup> The funding methodology introduced by the LSC in 2003 after a consultancy exercise which trialled a new transparent system of matching different types of learners' needs to a matrix of funding elements<sup>44</sup> intended to ensure comparability between providers. In fact, it has led to an increase in LSC expenditure as many colleges could prove that they had been subsidising their fees through charitable income. The LSC annual budget for specialist colleges is now approximately £130 million.<sup>45</sup>

## 6. JOINED-UP FUNDING

6.1 The Learning & Skills Act [2000] gave the LSC the power to seek contributions from health or social services towards meeting a learner's need, however these were rarely forthcoming. This was because these agencies could apply their own criteria to a learner's assessment of need and could thereby legitimately decline to part fund the placement. Furthermore the other agencies had a disincentive to contributing towards funding placements as they were aware that the LSC had a statutory duty to fund the placement; irrespective of a third party contribution. The LSC have been increasingly rigorous in their demands on the Connexions service to demonstrate the unsuitability of local provision before funding for specialist provision is approved. This has resulted in a situation where young disabled learners are being denied college placements because they cannot get funding for the care provision that they need.

6.2 An LSC report entitled "Through Inclusion to Excellence"<sup>46</sup> identified that 46% of LSC costs were attributable to other agencies; these usually being children's, or adult social services or a Primary Care Trust. Later, the cross-departmental report *Progression through Partnership*<sup>47</sup> aimed to address this need for joint-funding. Despite the ethos of the reform, the LSC has had only limited success in implementing it and getting other authorities to work effectively and collaboratively with them. The outcome is that the LSC continues to fund elements of provision which they have identified as being the responsibility of other partner agencies, whilst partner organisations maintain that the responsibility lies with the LSC.

## 7. RESTRICTIONS ON INVESTMENT AND RESOURCING

7.1 For the last four years the LSC has frozen the annual day fee increase to ISCs and has frozen an increase in the residential fee for the last two years. Many colleges with day students have had no funding uplift for two years since the new funding methodology was implemented. This has put pressure on colleges to make efficiency savings, however, potential for efficiencies savings are limited given the alignment of funding with staffing levels. Some colleges are responding to this pressure by freezing salaries or through reductions in staffing, whilst others are reducing essential maintenance budgets. In extreme cases this has led to a number of specialist providers closing down. Many are spending their reserves to stay in business, though this cannot be a long or even medium term strategy.

7.2 Similarly, several specialist colleges were in the process of developing applications for capital support from the LSC. ISCs were included in the LSC's small-scale annual capital grants later than general further education (GFE) colleges. Furthermore access to the large scale capital grants was capped at between 35% and 50%.<sup>48</sup> The current revenue freeze has placed a severe restriction on the ability of a college to provide full-funded support. The combination of revenue freeze and low intervention rates has meant that very few ISCs have been able to renew their estate.

7.3 The resulting emphasis on cost reduction is inevitably threatening the sustainability, viability and quality of the learning and services provided. A serious supply crisis is currently being managed by the LSC, who use consultants to post facto assess prospective students with complex needs and/or learning difficulties so that placements can be diverted to cheaper local provision, or more worryingly, denied. This is occurring even though many of these students have already been recommended for placement by the Connexions Service, which holds the statutory duty to assess.

<sup>43</sup> Under the *Learning & Skills Act* [2000].

<sup>44</sup> See: LSC (2003) *Funding Guidance: Placement for learners with learning difficulties and/or disabilities at specialist colleges*: <http://readingroom.lsc.gov.uk/pre2005/funding/streams/funding-guidance-placement-for-llds.pdf>

<sup>45</sup> LSC Statement of Priorities for 2009/10 states that £221million is the specialist provision for LLDD

<sup>46</sup> LSC (2005) *Through Inclusion to Excellence: The report of the steering group for the strategic review of the LSC's planning and funding of provision for learners with learning difficulties and/or disabilities across the post-16 learning and skills sector*: <http://readingroom.lsc.gov.uk/lsc/2005/research/commissioned/through-inclusion-to-excellence.pdf>

<sup>47</sup> DfES/DH/DWP (2007) *Progression through Partnership: A joint strategy between the DfES, DH and DWP on the role of further education and training supporting people with learning difficulties and/or disabilities to achieve fulfilling lives*, London: HM Government.

<sup>48</sup> LSC (2008) *Building Colleges for the Future: The LSC's national capital strategy for 2008-09 to 2010-11*: <http://readingroom.lsc.gov.uk/Lsc/National/nat-buildingcollegesforfuture-mar08.pdf>

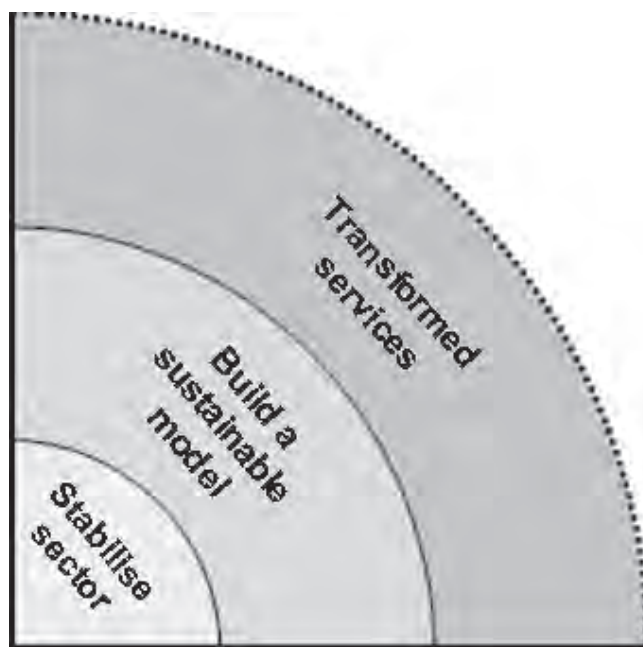
## 8. INCREASING PARENTAL CONFIDENCE

8.1 Aiming High for Disabled Children,<sup>49</sup> the Bercow Review,<sup>50</sup> the Lamb Inquiry<sup>51</sup> and the Rose Review all identified that parents of young people with special educational needs (SEN) lack confidence in SEN and the commissioning of specialist services. Despite this, many parents want to access these settings as they have the specialist support and expertise that their children with complex needs would significantly benefit from.

8.2 As the LSC has struggled to control the budget for placements in ISCs the process for application has become increasingly challenging for parents. As noted above, the LSC has appointed consultants to advise on the process and ISCs are reporting an increasingly adversarial approach. In the case of one young man with very complex needs, a college was notified that “the consultants would like to see evidence of what skills [Learner] will learn and how far he will progress in these, and whether this will prove sufficient to remove the necessity for looked after care in the future”. This rationale is clearly damaging both to the student and to the parents’ confidence in the funding system and has no basis in law. No such question would arise in funding a non disabled learner in further education and the application of this policy, from which the example above results, seems contrary to the obligations of service providers as set out in the Disability Discrimination Act.

## 9. POLICY SOLUTIONS TO INCREASE SUSTAINABILITY

9.1 Scope proposes a three stage approach to ensure the transition from the current system of specialist further education funding to the future funding scenario builds sustainability into the sector.



## 10. STAGE ONE—FOUNDATIONS OF SUSTAINABILITY (INTERIM SOLUTION)

10.1 The first policy solution focuses on stabilising the sector.

10.2 As described previously, the current revenue freeze imposed by the LSC on ISCs and the maximum upper limit of 50% contributions to capital projects has meant that the sector cannot invest and improve its provision. Many colleges find themselves having to fund the shortfall, reduce expertise and operate in inadequate buildings and infrastructure. In order to ensure that the specialist expertise and good practice in the ISC sector is maintained during the transition from the LSC to the YPLA, SFA and local authorities, we need to address the financial and investment restrictions that underpin the current unsustainability of the sector.

10.3 We propose the introduction of an interim sustainability grant for ISCs, which enables the sector to increase revenue spending on expertise and invest in capital spending projects, which would improve services and build the next generation of ISCs. These interim sustainability grants could take a similar form as the

<sup>49</sup> DCSF (2007) *Aiming High for Disabled Children: Better support for families*: [http://www.dcsf.gov.uk/everychildmatters/\\_download/?id=659](http://www.dcsf.gov.uk/everychildmatters/_download/?id=659)

<sup>50</sup> DCSF (2008) *The Bercow Report: A review of services for children and young people (0–19) with speech, language and communication needs*: <http://publications.dcsf.gov.uk/eOrderingDownload/Bercow-Report.pdf>

<sup>51</sup> DCSF (2009) *Lamb Inquiry: Special educational needs and parental confidence*: <http://www.dcsf.gov.uk/lambinquiry/downloads/Lamb%20Inquiry%20Review%20of%20SEN%20and%20Disability%20Information.pdf>

sustainability funding introduced for extended schools in 2008.<sup>52</sup> Between 2008 and 2011 £1.3 billion is being invested into extended schools to embed effective services in all communities. The extended schools sustainability monies have two core aspects. Firstly, revenue funding for setting up provision, supporting sustainability of provision, funding for increased staff hours and an additional subsidy towards the accessibility of the provision. The second aspect is; capital funding for building the next generation of schools and extended school provision. Whilst we do not think that anything like this level of investment (£1.3 billion) is needed for the ISC sector (given its scale and size), a similar model that effectively addresses both under-resourcing (revenue funding) and under-investment (capital funding) is vital for future sustainability.

10.4 We would suggest that this interim sustainability grant be implemented with immediate effect and operate for a minimum of two years from the date that the transition from the LSC to the YPLA, SFA and local authorities begins (in 2010). This interim sustainability, we suggest, should be funded and administered by the proposed YPLA who will have learners with 'learning difficulties' until 25 years of age under its remit. This would streamline sustainability, guarantee relief for ISCs forced to use their disappearing reserves to subsidise placement and protect the outcomes and interests of learners whilst the new funding structure and commissioning frameworks are put into place.

## 11. STAGE TWO—BUILDING SUSTAINABILITY (MEDIUM-TERM SOLUTION)

11.1 The second policy solution focuses on building a sustainable model for the sector, through strengthening structures, funding and investment.

11.2 After the interim sustainability grant has been operating for a minimum of two years we believe that the sector should have begun to recover from its current vulnerability. Investment in both revenue and capital will have enabled ISCs to begin to invest in improving provision and strengthen their specialist expertise. At this point the YPLA should take over from the interim sustainability grant and retain powers for commissioning places at ISCs based upon their own needs assessments and thus upon identified and projected demand, so that they are positioned to sustain the provision they need and decommission what they do not need.

11.3 ISCs are usually regional, supra-regional or national providers and as some of the land-based industry (agricultural) colleges have argued there are clear efficiencies in avoiding duplication of effort. Due to the low local incidence of learners with complex needs, Scope believes central management of the funding regime is more cost effective and can help to overcome any propensity towards the implementation of a postcode lottery.

11.4 To learn from previous reform, we believe that proposals for the YPLA to act in an interim capacity, preceding the local authorities assuming full responsibility, would make for a smoother and more efficient transition to a new structure. The funding of placements should cover the full cost of provision, to reduce reliance on ISCs having to subsidise learners' placements. Furthermore the current freeze on revenue funding and up to 50% cap on capital funding needs to be fully lifted and replaced by a funding and financing model that secures the supply of placements.

11.5 We would suggest that this funding arrangement be retained for a minimum of three years, which would enable ISCs to start planning for long-term strategic transformation of their services.

## 12. STAGE THREE—REALISING SUSTAINABILITY (LONG-TERM SOLUTION)

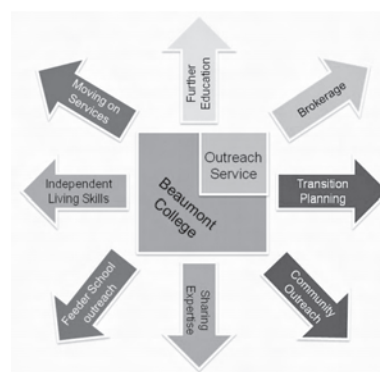
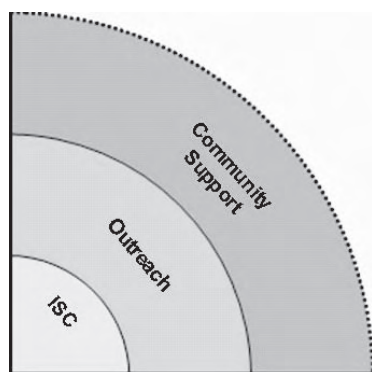
12.1 The third policy solution focuses on the transformation of the sector to ensure long-term sustainability and effectiveness.

12.2 We believe that the interim and medium term solutions will have capacity built the YPLA to understand the necessary and most effective ways to commission specialist further education in ISCs. As a result they should be able to produce effective commissioning frameworks and guidance for local authorities.

12.3 Based on this Scope can imagine a scenario where local authorities regain responsibility for funding and commissioning of specialist further education at ISCs, where the YPLA would need to be confident that it's frameworks and guidance ensured key concerns about revenue and capital spend were addressed, and identify and describe what good practice and innovation looks like and how it should be funded to ensure that quality supply is sustainable. Furthermore, the YPLA would need to ensure that local authorities work effectively with each other (across authority boundaries) and other agencies (health, social service, housing etc) to guarantee placements are funded for all the needs of the learner. This should remain consistent, irrespective of whether they are learning with local, regional, supra-regional or national providers.

<sup>52</sup> See: [http://www.tda.gov.uk/upload/resources/pdf/e/es\\_dcsf\\_fundingguidance\\_sep2008.pdf](http://www.tda.gov.uk/upload/resources/pdf/e/es_dcsf_fundingguidance_sep2008.pdf)

## 13. CASE STUDY: HOW BEAUMONT COLLEGE WOULD RESPOND TO PROPOSED POLICY SOLUTIONS

13.1 *Foundations of Sustainability*

An interim sustainability fund would enable Beaumont to invest in the capital and revenue projects to build capacity and sustainability in our expertise. It would mean we have the appropriate facilities, equipment and would ensure the next generation of further educational learning for students with complex needs.

13.2 *Building Sustainability*

Direct commissioning from the YPLA would give Beaumont the resources and time it needs to expand the benefits of its service. This would include removing the transitional barriers that young people with complex needs face in moving into Beaumont and moving on beyond Beaumont into a variety of independent living settings in the student's local community. Sustainable funding would enable Beaumont to strategically focus on lifelong planning for young people with complex needs, rather than focusing on immediate assessment and provision. In this medium term solution, Beaumont would take a more holistic lifecourse approach, building effective outreach services into local communities. This would begin to build the capacity of other mainstream and specialist services in the local community to ensure lifelong solutions for this group of young people. Such an approach would also be more appealing and useful to local authorities, for whom this group of students are a responsibility from cradle to grave. The current situation, with ISCs going out of business, or avoiding complex needs students because they cannot get the costs of placement covered under the existing regime, exposes local authorities to a real risk of inheriting a degraded ISC estate with students being displaced into other expensive provision but without learning opportunities.

13.3 *Realising Sustainability: ISCs as Regional Centres of Expertise*

With the implementation of the interim and medium-term solutions, Beaumont would be able to develop sustainable community-based outreach services. Our current developments at Beaumont suggest that ISC should become regional centres of expertise offering outreach to local communities and capacity building local and regional specialist and mainstream provision. Beaumont would work with the schools of prospective learners to support smoother transition planning. In partnership with schools and various adults' independent living providers, Beaumont would ensure a person-centred lifelong approach is taken to ensure that all young people with complex needs can meaningfully take advantage of the personalisation agenda and live in stronger communities. This could most effectively be provided by a bolt on outreach service with strong and close working to Beaumont. An inclusion team has already been developed there, at Scope's expense, which is capable of projecting outreach into local Further Education which would in turn progressively reduce dependence on distant specialist placements for students with complex needs and disabilities. At present it is largely engaged in the Aiming High programme opportunities.

13.4 Beaumont, as a regional centre, and the bolt on outreach service would offer multi-agency support, brokerage of flexible care and support packages and knowledge transfer for young disabled people and all those living or working with them. As a centre of expertise and an outreach service it would build additional capacity within the sector to support the needs of learners with complex needs giving alternative, flexible and more community-based learning opportunities that will reduce the need for expensive specialist placements and draw in young people who are currently not in employment, education or training (NEET).

13.5 Inevitably this will increase the options for learners to attend local community colleges in addition to or instead of more expensive and sometimes more remote specialist colleges.

13.6 It is envisaged that this will lead to more learners taking a "pick and mix" approach to tailoring their learning and support package between the expertise of the regional specialist provider, the outreach service and inclusive local providers. Thus, through community-based support and outreach services, young people

with complex needs will have the necessary resources and infrastructure to provide detailed support for living and working. In this way, Beaumont and the outreach service would use its specialist knowledge and expertise to deliver a brokerage service to disabled learners in the 16–25 age range that would ensure they identify their own multi-elemental support requirements and create a person-centred life plan. This would be informed by the specialist knowledge, expertise and support built up during the learner's time at the college and would translate with longevity, into their wider adult living and working environment.

4 January 2010

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**Memorandum submitted by the South East England Development Agency  
on behalf of the English Regional Development Agencies**

1. The English Regional Development Agencies welcome the opportunity to submit evidence to the Committee's inquiry into Further Education (FE) funding and the Skills Funding Agency. This submission is made by the South East England Development Agency on behalf of Regional Development Agencies, excluding London given their different arrangements for skills, and represents their collective response to the main three areas of scrutiny of the BIS Select Committee.

2. This submission seeks to outline how Regional Development Agencies are working with partners to deliver the employment and skills-related aspects of both the National Skills Strategy *Skills for Growth* and *New Industry, New Jobs*.

*Delivering New Industry, New Jobs*

3. *New Industry, New Jobs* is the government's new strategy for UK industrial policy. Launched in April 2009, it sets out an active approach to preparing for the upturn and beyond, to support investment to build the future UK manufacturing and service industries and promote the creation of the best possible conditions in which UK businesses can thrive in global markets. *New Industry, New Jobs* argues for the need for a strategic approach to developing the UK's competitive strengths and preparing for new opportunities. The strategy focuses on those sectors most likely to drive medium and long term economic growth, and has three broad strands:

- Support for businesses—adapting and strengthening policies that affect the whole economy. Focusing on areas of intervention such as skills, employment, innovation and access to finance, to increase businesses competitiveness.
- Joined up Government—using Government's role in a new way to promote investment in growth. Focusing on achieving greater policy consistency across departments; greater regulatory certainty; and smarter public procurement.
- Targeted intervention and support—focusing on specific sector strategies: low carbon industrial (including nuclear, renewables and low carbon vehicles), advanced manufacturing, composites and plastic electronics, lifesciences, industrial biotechnology, Digital Britain, Space, and the aging population; and ensuring support reflects the different circumstances of different regions.

*RDA approach to delivering New Industry, New Jobs via the National Skills Strategy*

4. The creation of BIS from the merger of DIUS and BERR last year, bringing together the levers of increasing business productivity, including skills and innovation, provided opportunities to further simplify and streamline the arrangements for determining how skills provision might best serve the needs of the economy, businesses and individuals. In particular, Ministers determined that the economic strategies already the responsibility of Regional Development Agencies should include skills, with Regional Development Agencies becoming responsible for determining demand side skills priorities and driving up skills demand, building on existing routes to business such as the Business Link service within each region.

5. The *New Industry, New Jobs* agenda plays to Regional Development Agencies' proactive economic development purpose, and a significant amount of activity and investment within and across regions is already focussed on the industry sectors that will deliver the greatest growth and are amenable to public sector intervention. Regional Development Agencies are now working together to deepen and enhance this role, and to join up across the network to deliver smarter government. Skills development is an integral requirement for the achievement of the *New Industry, New Jobs* vision and although much has been achieved in recent years, there is much more that needs to be done if the UK is to reverse the trend of falling behind in global competitiveness league tables. This means that skills provision must be responsive to strategic economic need as well as to shorter-term business needs. Regional Development Agencies are determined to ensure that the region's workforce has the right skills and talent to drive the economy forward, as a critical part of delivering the *New Industry, New Jobs* agenda.

6. Regional Development Agencies already integrate the innovation, enterprise and investment agendas with skills and will be able to do so to a greater extent with the development of Single Integrated Regional Strategies.

7. Regional Development Agencies are proactively engaging in the *New Industry, New Jobs* agenda by:

- Developing a set of regional priorities with partners not only on employment and skills but linked with innovation and enterprise. This will create a powerful means to align regional and local partners in delivering a coherent economic vision for the region.
- Engaging with government in further policy development and action at a national level to support delivery of *New Industry, New Jobs* agendas.
- Further integrating the employment and skills policy so that those seeking jobs have the opportunity to move into the sectors that will drive future growth and allow individuals to maximise their own economic potential.
- Developing the work of cross-RDA task and finish groups linked to key *New Industry, New Jobs* sectors with a view to mapping existing work and suggestions for future RDA/partner intervention and identify opportunities for greater collaboration. These groups are developing a cross-RDA response to the *New Industry, New Jobs* sectors linked to both the enterprise and innovation policy agendas.
- Working to take forward the principles in the Higher Education Framework in terms of linking the FE sector with HE.
- Linking employment and skills with enterprise and innovation to underpin *New Industry, New Jobs* policy priorities.

*National Skills Strategy*

8. In order to deliver the *New Industry, New Jobs* agenda, the National Skills Strategy *Skills for Growth* was published on 11 November 2009. The National Skills Strategy aims to develop skills in key sectors to drive the economy forward. The new strategy will also expand the availability of advanced apprenticeships to provide skills for growth sectors of the future, such as aerospace and digital media.

- *Skills for Growth* puts skills at the heart of economic development and gives the Regional Development Agencies, working with partners, important new roles in determining the skills support needed by businesses and employers to grow and drive up global competitiveness.
- Under *Skills for Growth* each RDA will lead work on regional skills strategies that will set out employer demand and align skills priorities closely with economic development. Regional Skills Strategies will sit within the framework of Single Integrated Regional Strategies which will be owned jointly by Regional Development Agencies and Local Authority leaders, and will be used by Government to inform future skills strategies. This provides a significant new opportunity to streamline strategy setting; ensuring skills are embedded in economic development more widely and enabling all partners and stakeholders to contribute through a single process.
- Taking account of the national advice of the UK Commission for Employment and Skills, Regional Development Agencies, will work with partners across each region, to build on existing skills themes from regional Economic Strategies so as to develop Regional Skills Strategies.
- The government has made clear that the strategies set in each region should have traction over the Skills Funding Agency, including through the use of indicative regional allocations, and that Regional Development Agencies should be able to escalate any problems about the supply side to the Skills Funding Agency, who will be expected to act. To that end, within the framework of the Regional Skills Strategies, Regional Development Agencies will develop annually refreshed three-year regional priorities statements: these, along with the UKCES's skills forecast, will be brought together by government into an annual *Skills Investment Strategy*, against which the Skills Funding Agency will fund colleges and training institutions.
- Regional Development Agencies for their part will ensure that these priority statements will be sufficiently specific to make them realisable by the Skills Funding Agency. Such transparency will be important in enabling both the Skills Funding Agency to fund appropriately and colleges and providers to be responsive to regional and sub regional demand as articulated through the plans. Work is well in hand to develop specific regional priorities for 2010–11.
- Regional Development Agencies will work closely with Sector Skills Councils, local government leaders and sub-regional bodies in defining the skills requirements of the people and businesses of each region to fulfill the needs of the *New Industry, New Jobs* agenda. They will work with the new Skills Funding Agency to ensure the deliverability of regional priorities.
- Regional Development Agencies, working with JobcentrePlus and Business Link, will further integrate employment and skills policy so that those seeking jobs have the opportunity to move into those sectors that will drive future growth

- Regional Skills Strategies will set out the full range of skills needed to drive future workforce growth from pre-19 through to higher education. They will identify the regional needs for both the higher skills that enable businesses to develop and grow, and the skills that are necessary to help those with no or low skills, and those who are unemployed and need training to help them find work and progress thereafter.
- Regional Skills Strategies will create a direct link between employers' needs and the provision of new skills at all levels. The regional skills strategies will coordinate for the first time a coherent picture of employer demand which will enable the supply of skills in each region to match these needs and make a real difference for businesses, for individuals, and for the economy.

9. A key part of the role for Regional Development Agencies will be as advocates on behalf of business in relation to skills needs and skills gaps, and mismatches between demand and supply. This role will include collecting and analysing key relevant research and data, and sharing the findings with regional partners.

10. Regional Development Agencies will also work with businesses through existing and enhanced intelligence and engagement networks, both formal and informal, to help raise the awareness amongst businesses, both large and small, of skills as a key driver of business productivity. Many businesses already spend time and money on upskilling their workforce and making best use of existing skills, but awareness needs to be further raised, including on the help available from the public sector.

#### *Transitional arrangements to the RDA's new strategy function*

11. In developing the new Regional Skills Strategies Regional Development Agencies will build on the robust Regional Economic Strategies (RES) evidence base that Regional Development Agencies and regional partners have previously developed. This evidence base will be updated and enhanced to reflect the *New Industry, New Jobs* themes, to result in Regional Skills Strategies which reflect and support the needs of the regional economy, business and individuals.

12. Networks to develop the Regional Skills Strategies already exist and will be developed further. These include regional and sub-regional skills partnerships; analysis and evidence from the Business Link integrated brokerage function that is geared towards raising employer demand for skills; and existing strong links with business representative organisations, Sector Skills Councils, Job Centreplus, local authorities, and employment and skills partnerships. These networks are centrally placed to build a bottom-up as well as top-down understanding of business demand for skills and translate them into regional skills priorities to deliver the *New Industry, New Jobs* policy agenda.

13. Working with the regional LA Leaders' Boards ensures that Regional Development Agencies are well-placed to join up sub-regional and regional skills priorities with the Government's national priorities, and ensure linkages between spatial and skills dimensions. The integrated regional strategies will be signed off jointly by Regional Development Agencies and Local Authority Leaders.

#### *Working with Skills Funding Agency on skills priorities*

14. Ahead of formally taking on the new responsibilities on 1 April 2010, Regional Development Agencies are working closely with the shadow Skills Funding Agency on how regional skills priorities can influence the planned spend of the Skills Funding Agency in 2010–11. Some LSC staff are transferring from the Skills Funding Agency into the Regional Development Agencies on secondment terms to help deliver this strategic work in the early New Year. While 2010–11 is understood to be a transitional year, Regional Development Agencies, BIS and the Skills Funding Agency aim as far as is practicable to ensure skills funding is focused towards sectors of economic significance/priority for each region and underpin the *New Industry, New Jobs* sectoral focus. To deliver the *New Industry New Jobs* agenda, the Skills Funding Agency will need to take account of regional diversity and variation; Regional Development Agencies will work with UKCES to ensure that Skills Funding Agency has access to both sectorally—and spatially-specific data, to enable differentiated provision that will deliver on *New Industry, New Jobs*.

15. There are clear governance arrangements between BIS, Regional Development Agencies and Skills Funding Agency for the introduction of the new arrangements. Regional Development Agencies are building close relationships with BIS and the Skills Funding Agency, to ensure a smooth transfer of responsibilities, functions and supporting financial/human resources. Regional Development Agencies are core members of the BIS-led Skills Funding Agency/Regional Development Agency Transition Project Board and are represented on other governance bodies such as the Post-19 Landscape Board which oversees the set up of the Skills Funding Agency and its fit into the wider Post 19 Landscape. Regional Development Agencies, BIS and Skills Funding Agency/LSC are jointly working on a number of work streams, including the development of a Memorandum Of Understanding between Regional Development Agencies, BIS and the Skills Funding Agency; the secondment of LSC/Skills Funding Agency staff to Regional Development Agencies from early 2010; development of linkages between RDA and Skills Funding Agency data/information teams; and the format and structure of the Regional Skills Strategy and Regional Priorities Statement.

*Working with the FE sector on skills priorities*

16. As the frontline deliverers of skills, colleges and training institutions have the critical role of ensuring that the learning and skills programmes they offer meet regional and sub regional priorities for the economy, businesses and individuals. Regional Development Agencies will work closely with the sector to ensure that they clearly articulate the future strategic direction for skills at all levels in a way that allows the sector to be best placed to meet the demand. Drawing on its expertise and knowledge, the FE sector for its part will help shape skills strategies and priorities.

17. Regional Development Agencies will continue to provide economic development input to support LSC/Skills Funding Agency deliberations on medium-term capital investment priorities and the allocation of capital funding. The new skills advocacy role for Regional Development Agencies will also enable it to take a pan-regional view on regional investment ensuring smarter government through the joining up of development needs across the spectrum from schooling to HE—and including, where appropriate, the Further Education sector. The objective will be to ensure maximum impact from all budgets, from Building Schools for the Future funding to schools and Sixth Form Colleges, through to HE funding. The RDA-led discussions around the Regional Skills Strategies will ultimately help create a forum for debates on ‘joining up investment’ decisions.

18. Regional Development Agencies will also have a close interest in how the FE sector is responding to meeting regional and sub regional priorities; especially in meeting the needs of business and other employers. Regional Development Agencies welcome the announcement in Skills for Growth of the development of public “traffic light” information for learners and employers about the performance at both course and individual institution level.

*Working with the Skills Funding Agency’s National Employer Service (NES) and the National Apprenticeship Service (NAS)*

19. Regional Development Agencies will work closely with the National Employer Service to ensure that large businesses are not confused by the relationship between the NES role on the one hand, and Regional Development Agencies and Business Link role on the other, but rather see a single front door. Regional Development Agencies will also work closely with the National Apprenticeship Service in relation to the NAS’s role of advising employers and raising demand for apprenticeships, and BL’s role of providing business support to all businesses, whether large or SMEs.

*Working with Local Authorities*

20. Regional Development Agencies welcome the closer relationships with Local Authorities outlined under *New Industry, New Jobs* and *Skills for Growth*. Regional Development Agencies and Local Authorities will both have a strategic rather than a formal delivery role to articulate sub-regional and regional skills priorities aligned to economic growth, as outlined in the *National Framework for Regional and Local Economic Development*.

21. Local Authorities will help shape the development of the Regional Skills Strategy and the Regional Priorities Statement through the regional Leaders’ Board, and will have joint sign-off responsibility. Regional Development Agencies will work closely with Local Authorities to shift the balance of priorities in future National Skills Investment Strategies, so as to more closely reflect the *New Industry, New Jobs* agenda. Regional Development Agencies will work with LAs to improve business engagement with skills and to develop ways to retain skilled workers within and across localities.

22. Through their co-chairing of the Regional Planning Groups, Local Authorities and Regional Development Agencies will work together to ensure alignment between Local Authority 14–19 provision and the Skills Funding Agency funded provision. Regional Development Agencies understand that they must provide evidence and strategy that is future focused and champion education and learning from 14 through to adult skills acquisition at all levels to meet employers’ demands (the pipeline effect).

23. Local Authorities are working with Regional Development Agencies to ensure a strong skills dimension in their Local Economic Assessment and ensure that this data and information is fed into the development of the Regional Skills Strategy and Regional Priorities Statement.

24. The Regional Economic Strategies already join up policies on issues such as skills, employment and business support; and the new Regional Skills Strategies will enable regional Local Authority Leader Boards to bring economic issues together with spatial policies such as planning, housing, transport and the environment. Where appropriate, Regional Development Agencies will work across regional boundaries to support a range of national skills priorities such as the skills aspects of the *New Industry, New Jobs* sectors.

25. Regional Development Agencies will work in partnership with LA Leaders’ Boards, sub regional bodies and other partners such as Jobcentre Plus, Sector Skills Councils, business representative bodies and the provider base to develop the Regional Skills Strategy, which will form a core element of the Regional Strategy. This will ensure it effectively captures the lifecycle of employment and skills needs of all age groups including young people. The Regional Skills Strategies will incorporate the themes from sub/city regional strategies.



## Conclusions

26. Under the decisions set out in *Skills for Growth* and the *National Framework for Regional and Local Economic Development* Regional Development Agencies will be responsible for:

- Determining regional skills requirements of the economy, businesses and individuals by gathering evidence of demand and gaps in supply at regional, sub-regional and local level. They will also more closely align skills priorities with economic need in the context of regional skills strategy. Both roles will underpin the development of the Regional Skills Strategy and be core to the *New Industry New Jobs* principles of delivering a high-skilled workforce including a focus on high-growth sectors.
- Producing a Regional Priorities Statement covering a three year period and refreshed annually, set against indicative regional allocations, to support the implementation of the Regional Skills Strategy. The Regional Skills Strategy is to have traction over the Skills Funding Agency, and to that end this priorities statement will have BIS ministerial sign off and will be set out in the annual Skills Investment Strategy against which the Skills Funding Agency will fund colleges and training organisations.
- Being a champion and advocate for skills for employers and individuals in their regions. This will include partnership building and leading multi-agency action in support of employers to identify and resolve mismatches in the supply of skills to meet employer and individual demand.

27. Regional Development Agencies will be building on work already undertaken with partners, especially Local Authorities, at the regional and sub-regional levels to develop skills strategies. Regional Development Agencies are working closely with the LSC/Skills Funding Agency to ensure a smooth handover of functions; and with UKCES, Sector Skills Councils and FE providers to draw together the sectoral and spatial analysis that will underpin a closer alignment between the strategic economic growth objectives of *New Industry, New Jobs* and skills demand, funding, and provision.

13 January 2010

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## Memorandum submitted by the TUC

### INTRODUCTION

1.1 The TUC welcomes the opportunity to contribute to the Committee's inquiry into Further Education (FE) funding and the Skills Funding Agency (SFA). It is imperative that there is a smooth transition to the new funding system that will come into place this coming April and that it will lead to further improvements in learning and skills provision for learners and employers alike. A key priority should be that the new system underpins the government's policy framework aimed at boosting employment growth and skills investment in order to sustain economy recovery.

1.2 The TUC's original response to the consultation on the Machinery of Government changes<sup>1</sup> highlighted a number of key points which continue to remain relevant as we approach the transfer of functions from the LSC to the SFA and changes to FE funding structures. The original TUC response supported the broad thrust of the new learning and skills institutional framework that was being proposed, although a number of major challenges were also identified including the potential for overdue complexity as regards the new FE funding structures. There were also concerns about the role of trade unions as stakeholders in the new skills system and also how "employee voice" would be articulated effectively in the new demand-led system for adults under the remit of the SFA. The TUC also called on the government to ensure that the expertise built up by LSC staff was utilised in the future and that the trade unions were closely involved in agreeing transition to the new arrangements.

1.3 The TUC's current submission to the Committee's inquiry revisits many of these points as well as addressing new policy developments, especially the government's strategy to combat the recession and the new policy priorities identified in the recent skills White Paper.<sup>2</sup> For example, the SFA model was formulated before the Government had set out its plans to take a more interventionist approach to industrial and skills policy frameworks by developing the concepts of "industrial activism" and "skills activism". There have also been subsequent policy proposals of some significance relating to the institutional infrastructure, such as the decision to strengthen the skills remit of the Regional Development Agencies (RDAs).

1.4 In line with the remit of the inquiry, this submission does not refer in any detail to the corresponding institutional reforms that are being taken forward in relation to young people aged 14–19, including the establishment of the Young People's Learning Agency and the new FE funding structures being established to support the new role given to local authorities. However, reference is made to these changes as they pertain to the TUC's overall view on the wider institutional changes that are being taken forward this coming April as set out in the subsequent section of this submission.

## POLICY CONTEXT

2.1 The establishment of the SFA is being taken forward during very difficult economic times. As the Secretary of State quite rightly emphasised in the foreword of the skills White Paper—“Investing in skills is a vital part of this Government’s growth plan for economic recovery. We need to get skills policy right in a way that no Government has fully done before.” Whilst the Committee’s inquiry will no doubt involve a degree of discussion about funding technicalities relating to the new institutional arrangements, it is crucial that this and other aspects of the inquiry are contextualised within the significant economic challenges that we continue to face as a nation.

2.2 The TUC’s response to the original consultation supported the proposal to give local authorities a greater strategic role for the education and training of all young people up to the age of 19. This chimed with a number of associated policy measures including raising the participation age, introducing an apprenticeship guarantee, phasing in the new diplomas and transferring responsibility for the Connexions service to local authorities. More recent policy developments including the range of initiatives to combat youth unemployment and to increase the proportion of young people in education and training reinforce the need for local authorities to have strategic responsibility for the education and training of all 14–19 year olds. There is already evidence that a coordinated approach led by pioneering local authorities in partnership with other agencies can do much to reduce the number of young people not in education, employment or training. A recent article in the Financial Times highlighted, among others, the example of Sandwell Metropolitan Borough Council which through an innovative approach has reduced its NEET rate from 15.6 to 11.8% in less than three years.<sup>3</sup>

2.3 At the time the government was originally consulting on the institutional changes, the adult skills policy priorities were based on the recommendations of the Leitch Review of Skills and the government’s implementation programme in this respect.<sup>4</sup> The TUC had welcomed the scale of ambition in both reports and the range of proposals designed to achieve this end. However, the TUC had also expressed concerns that the new skills demand-side approach would only be effective if the reformed system enabled both employer and employee demand (articulated and supported by trade unions) to drive the system rather than focusing on a largely employer-led approach.

2.4 It is welcome that a recent government update note on the development of the SFA<sup>5</sup> states that one of the key objectives is to “build a coherent lead agency on adult skills, which acts on the articulated demands of both employers and learners.” This note also clarifies that the new agency will comprise of both an Employer Skills Services section and a Learner Skills Services section in addition to the National Apprenticeship Service. However, the TUC remains concerned that articulating and meeting employee demand will require the TUC, unionlearn and trade unions to have a clear role in the work of the SFA as under the LSC.

2.5 It should also be noted that since the original proposals for reform were published in 2008, a range of reforms which attribute a greater strategic role to government in relation to both its industrial and skills strategies have been announced. In particular the new skills system will have to deal with implementing the range of new policy priorities set out in the recent skills White Paper. The TUC has very much welcomed the new focus on “industrial activism” and “skills activism” underpinning the policy thrust of the White Paper and believes that consideration needs to be given to how this changed policy framework will impact on the role of the SFA especially as regards identifying and meeting national, sectoral and regional skills priorities.

## THE IMMEDIATE TRANSITION

3.1 There is a consensus that the main priority over the coming months is that the LSC’s services to learners and employers alike are maintained at a high standard and that there is a smooth transition before and after the establishment of the SFA and the associated organisational reforms. The TUC’s view is that the shadow organisations established by the LSC and the forward planning exercise in place is ensuring that standards of delivery are currently being maintained. The announcement in December about the appointment of the Chief Executive of the Skills Funding Agency is to be welcomed and this will provide further reassurances that a stable transition can be achieved over the coming weeks. Due credit also needs to be given to the efforts of the LSC workforce and the role of the LSC leadership and the LSC National Council in helping to sustain continuing high standards of delivery.

3.2 It will be crucial that this focus is consistently maintained especially in light of the ongoing strategy by government to expand the employment and skills initiatives designed to combat the effects of the recession and to support as many people as possible to make the most of the upturn. This applies to all the key programmes currently funded via the LSC, including apprenticeships, Train to Gain, the forthcoming Skills Accounts and the wide range of programmes aimed at driving up participation rates among 16–19 year olds.

3.3 However, it equally applies to the training elements of the employment programmes (eg the Future Jobs Fund) that come under the remit of DWP and Jobcentre Plus. It will be vital that the LSC (and SFA in the future) support the availability of high quality training on these programmes in order to maximise the proportion of participants achieving sustainable employment outcomes. Sustainable employment will also be aided by further progress in taking forward the government’s policy aim of integrating employment and

skills provision and this will require even closer working between BIS and DWP and also the LSC/SFA and Jobcentre Plus. Consistently high standard of service also need to be maintained in respect of adult FE students who are pursuing courses that do not fall within the remit of economically valuable skills, especially informal adult learning and provision for disabled learners.

3.4 In addition to the issues highlighted above, the LSC also needs to prioritise planning for the implementation of the role of the SFA in delivering on its new funding remit and in meeting the range of new priorities set out in the skills White Paper and the skills investment strategy.<sup>6</sup> It is to be welcomed that the shadow SFA has already published a guidance note<sup>7</sup> on its view as regards the methodology for allocating funding to providers for the 2010–11 academic year. However, there is much more work to be done to ensure that the SFA is working closely with a range of other bodies to translate the policy of “industrial activism” and national, regional and skills priorities into reality in addition to ensuring that it is funding provision that meets demand from employers and individuals alike.

#### EMPLOYEE VOICE AND THE TRADE UNION ROLE

4.1 The TUC remains concerned that the abolition of the LSC could dilute the framework of union representation and input that existed at national, regional and sub-regional levels. This has been a crucial factor in supporting and influencing the articulation of employee voice and employee demand within the skills system and also building the role of union learning. The establishment of the SFA very much draws on the idea of building a more demand-led skills system for employers and learners alike and it is therefore imperative that employees and trade unions have a significant voice in the new institutional skills framework that is being developed. This both applies to the main elements of the “employer responsive” funding strand (eg apprenticeships and Train to Gain) and also the main elements of the “adult responsive” strand (eg Skills Accounts and the new adult advancement and careers service).

4.2 The Learners Skills Services section of the SFA will have to work closely with the TUC, unionlearn and trade unions to draw on union expertise on employee skills provision but also specifically in relation to the unique union role in promoting and supporting learning at work. The close relationship between unionlearn and the LSC regarding the role of union learning reps and union bargaining on skills more generally needs to be emulated between unionlearn and the SFA. The increasingly important role of the RDAs and SSCs in supporting both a demand-led approach and the new focus on “skills priorities” also means that trade union representatives on these bodies (as well as employers) need to have a greater influence on the new skills system.

4.3 It is also strongly recommended that the SFA develops some form of national structure to mirror the crucial role that the LSC National Council has played to date. Consideration also needs to be given to the union role in any SFA structures at the regional level in line with the previous union representation on the regional LSCs (and also the local LSCs when they were in existence). The TUC and unionlearn are currently working closely with union Board Members on the RDAs and SSCs in order to support their role in working with employers and other stakeholders to articulate the demand for adult skills at the regional and sectoral levels.

#### THE REGIONAL DIMENSION

5.1 In its original response to the *Raising Expectations* consultation the TUC raised a number of concerns about the regional dimension as follows:

*“The TUC believes that the Government’s skills strategy needs to be closely inter-linked to the regional economic strategies undertaken by the Regional Development Agencies (RDAs). To date there have been concerns that delivering the Government’s skill strategy at the regional and sub-regional levels has been a very challenging exercise due to necessity of coordinating national, sectoral and regional skills priorities and integrating these within the regional economic strategy. As the role of Sector Skills Councils has grown in importance, it has also proved difficult to align sectoral and regional skills priorities”.* (paragraph 5.4)

5.2 The TUC is therefore broadly supportive of the policy decision to give RDA’s a greater role in regional skills. This should bring greater coherence to the regional approach on skills and also further develop the link between skills policy and the Government’s new “industrial activism” policy approach at the regional level. Clearly there will need to be very close working arrangements between the SFA and the RDAs and clarification of their respective roles in supporting skills in each region and in ensuring that there is no duplication of effort and reduced complexity. According to the latest skills White Paper the RDAs will work closely with Local Authority Leader Boards when developing the new regional skills strategies and this is to be welcomed. Close engagement with other sub-regional bodies (eg “city region” partnerships) will also be crucial but in many regions the onus must be on the RDAs to engage directly with all the local authorities to ensure that the regional strategy is meeting the skills needs of all parts of the region.

5.3 FE funding structures for adult skills at the regional level do appear to be less complicated than the funding structures that are being devised for funding colleges in respect of young people. In respect of adult skills, the recent White Paper clarifies that the “responsibility for allocating funds to, and managing the relationship with, colleges and training institutions will rest with the Skills Funding Agency” but that this will be based on an “active approach to shaping supply in line with evidence of national and regional

priorities.” The regional skills strategies will therefore be of crucial importance in defining skills demand and skills priorities and it is vital that the new RDA role is successful in raising both employer demand and employee demand for skills at the regional level in the context of the wider regional economic strategy. It also makes sense that the government has given the SFA responsibility for FE adult education activities “that are not related to regional economic and business need”, such as informal adult learning and provision for adult disabled learners.

#### APPRENTICESHIPS AND THE NATIONAL APPRENTICESHIP SERVICE

6.1 The TUC welcomed the further strengthening of the apprenticeship route set out in the skills White Paper and the role of the National Apprenticeship Service (NAS) will be vital in helping to meet this new scale of ambition. The NAS has to date proved an effective agency and it is working closely with the TUC and unionlearn on a joint project to assist trade unions and union reps in the workplace to support the further expansion of high quality apprenticeships in all sectors.

6.2 The TUC previously welcomed the decision to locate the NAS within the SFA as the funding regime for all apprenticeships, regardless of age, needs to be highly coordinated. It is welcome that this is one aspect of the LSC functions that will be retained (ie funding for all apprenticeships being the responsibility of a single agency) but there will be new challenges. For example, the NAS and SFA will have to work in close partnership with the YPLA and local authorities to ensure that the approach by the NAS/SFA regarding the funding and delivery of apprenticeships for 16–18 year olds is in line with the new strategies that LAs and YPLA will be developing for this age group. The regional arms of NAS in particular will have to ensure that they are coordinating funding and delivery of young apprentices in line with regional and sub-regional strategies.

6.3 The SFA funding note on funding allocations for 2010–11 highlights that, in line with the latest skills policy announcements, priority provision for apprenticeships will focus on the following groups: 16–18 year olds, advanced apprenticeships for 19–30 year olds; public sector apprenticeships; and apprenticeships linked to specific regional/national priority sectors. As highlighted above this will require the SFA/NAS to work closely with the YPLA and LAs but it also requires a collaborative approach with a range of other agencies, especially the UKCES, SSCs and RDAs with regard to allocating funding to apprenticeships that will meet specific regional/national priority sectors. There will also be a need for close working with Jobcentre Plus in light of the policy decision to make apprenticeships a key feature of the Future Jobs Fund. However, for all these partnerships to function effectively and for the SFA to have a clear sense of direction, there will need to be a highly coordinated policy approach on apprenticeships by BIS and DCSF.

#### UKCES AND SECTOR SKILLS COUNCILS

7.1 The UK Commission for Employment and Skills (UKCES) and the network of Sector Skills Councils (SSCs) have been charged by government with playing a central role in identifying high-growth/high spec sectors which need to be prioritised for skills development to maximise economic and jobs growth. The work of the Commission will of course take into account analysis and input from the RDAs and other regional partners about skills priorities arising out of regional skills strategies. The TUC welcomes this remit for UKCES and SSCs—trade union commissioners and union representatives on SSCs are eager to contribute to this agenda, especially in crucial areas such as devising skills solutions to support the government’s low-carbon strategy.

7.2 Since its inception the UKCES has demonstrated its capacity to deliver high quality research whilst ensuring that it also engages with a wide range of stakeholders to validate its findings and conclusions. It is imperative that these principles underpin the annual analysis and recommendations that the Commission will be undertaking in order to pinpoint the short, medium and long-term skills needs of the economy. However, translating this analysis into funding policies and practices will be as great a challenge and this means that the SFA, with the support of the UKCES and other agencies, will need to develop an innovative funding methodology to deliver effectively on this agenda.

7.3 It is welcome that the government has continued to attribute great importance to the sectoral approach on skills and the crucial role of SSCs in this respect. The new Joint Investment Scheme has the potential to take forward a new innovative approach on skills funding at the sector level. The government states in the recent White Paper that this approach “could raise significant new investment from employers to boost skills in priority sectors if funds were matched by government”. Increasing employer investment in skills funding is a clear priority at this time, but the government must be ready to consider a stronger regulatory approach if many employers continue to limit their investment in skills in spite of this new funding incentive.

7.4 The TUC is concerned that the capacity of SSCs to deliver on the new sector agenda could be undermined by the decision to deliver a “substantial reduction” in the number of SSCs by 2012, especially in light of the fact that the network has been immersed in the relicensing exercise for the past two years. The government needs to give careful consideration to how the rationalisation of the network can be managed in such a way as to ensure that SSCs will be able to continue making a significant contribution to national

and sectoral skills strategies. It is also crucial that the skills strategy and funding system supports an improved alignment of sectoral and regional skills priorities, which will require highly collaborative working by the RDAs and SSCs.

#### EQUALITY AND DIVERSITY

8.1 Since its inception the LSC has prioritised the equality and diversity agenda and has implemented specific initiatives designed to tackle the range of learning barriers faced by specific groups (eg BME individuals, disabled people, women, older workers etc.) and the overall training divide that continues to blight too many of our workplaces. There are concerns that the significant changes to the institutional and funding structures in April may undermine these achievements and this is highlighted in recent research undertaken into skills and inclusion by the National Skills Forum.<sup>8</sup> The Forum undertook a number of roundtable discussions on skills and inclusion relating to BME and disabled learners and participants stressed that there was a real danger of many of these learners “falling between the cracks” due to the potential for incoherency during the transition and the move away from one national funding body for post-16 learning and skills. It is imperative that the SFA addresses these concerns and puts in place an equality and diversity strategy that will tackle all aspects of discrimination in the learning and skills system.

#### WORKFORCE ISSUES

9.1 The scale of the ongoing institutional reforms are having a huge impact on the workforce in a range of institutions and due credit needs to be given to the LSC staff in particular for maintaining high standards of service during a very challenging period. The TUC has previously stressed that a clear priority must be that the expertise built up by LSC staff is utilised in any future arrangements, without recourse to compulsory redundancies, and that the trade unions are closely involved in agreeing transition to the new arrangements. With this in mind the TUC is supporting PCS in the central role it is playing in protecting the interests of its members whilst also emphasising that they remain committed to delivering the best opportunities for learning and skills development for all young people and adults.

#### REFERENCES

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- (2) BIS (2009) Skills for Growth: the national skills strategy
- (3) Financial Times (2010) Innovative Thinking Reduces Number of Idle Teenagers, 4/1/2010
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- (6) BIS (2009) Skills Investment Strategy 2010–11
- (7) BIS and Skills Funding Agency (2009) Guidance Note Number 1 (December 2009)—Funding Allocations for the 2010–11 Academic Year
- (8) National Skills Forum (2009) (i) Skills & Inclusion Roundtable (Disabled {People})—key findings and recommendations, and (ii) Skills & Inclusion Inquiry: BME learners

11 January 2010

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#### Memorandum submitted by the University and College Union

The University and College Union (UCU) is the largest union representing academic staff in specialist and general Further Education (FE) Colleges and adult and community learning and prison education services. UCU has first hand knowledge of how further education funding decisions affect front-line services.

#### SUMMARY

UCU welcomes this opportunity to submit its thoughts and concerns about the new system for FE that will become operational next year. The new funding and processes that will oversee FE must take into account practicality “on the ground” and how those who need to access programmes of learning may wish to/be able to do so.

While there seems to be a number of measures put in place to estimate the skills requirements of regions, there are a number of elements lacking which includes adequate funding and flexibility to allow FE college to meet local needs.

UCU has specific concerns about funding levels and the reprioritisation of funding to different groups. Given the information on where funds will be allocated and what funding streams will see a reduction, we are worried that those who most need help on to the education ladder, or who most need to access training, will not be able to do so—and given the strict separation of funding streams, colleges will not be able to divert funding to where it is most needed on a local level. Cuts in adult apprenticeships, cuts in the Skills for

Life funding, and very large cuts to the Developmental Learning Funding stream will hit the most vulnerable. UCU considers that the level of cuts set out in this document are such as to so weaken the FE sector as it faces and deals with the many challenges presented by the current Recession.

This response addresses:

- The position of FE after the implementation of the ASCL Act 2009.
- The transitional arrangements currently in place between the LSC and the SFA.
- How the SFA will oversee the FE budget.
- Apprenticeships, National Employer Services and National Apprenticeship Service.
- UK Commission for Employment and Skills (UKCES).
- The delivery role that is envisaged for Local Authorities and the RDAs.
- Skills Investment Strategy and funding moving forward.
- Current funding issues.

#### 1. *The position of FE after the implementation of the ASCL Act 2009*

UCU is very concerned about the position of FE colleges in the new structural framework set up by the ASCL Act.

The background to the changes stems from government departmental changes in the last three years and the transformation of local education authorities into Children's Services departments. In the summer of 2007 the Department for Education and Skills was split resulting in the creation of the Department for Children, Schools and Families (DCSF) followed by the Department for Innovation Universities and Skills (DIUS); the current Department for Business Innovation and Skills Department (BIS) being the most recent incarnation.

We can see how, with the machinery of government changes, the decision was taken to abolish the LSC. In this context the creation of the YPLA and SFA, made an amount of sense. However, in the middle of the worst economic situation since the 1930s, the changes make far less sense. They are costly and will introduce uncertainty and instability at exactly the time when education and training providers should be concentrating on delivering learning programmes that will give people and the nation the skills to rebuild the economy.

UCU has always had grave concerns about FE colleges and independent providers dealing with two totally new systems and two funding bodies, due to their role in delivering programmes for both young people and adults. Structural differences between the SFA and YPLA also means that colleges will face one system for young people where the provision is planned and commissioned for them and another for adults where the SFA is not a planning body but deals strictly with funding.

Another potential negative impact of the new situation directly impacts on the ability of FE colleges to respond to local needs. When college funding flowed from one government department, it was possible to move the resources received between programmes for young people and programmes for adults, and vice-versa. This created a degree of flexibility for some colleges to divert resources to meet local needs. Since the creation of the two government departments and two funding streams, this kind of local re-allocation has not been possible but in the new system some providers will have the ability to move resources between their separate adult budgets to meet national priorities in the context of local needs.

*Recommendation:* Ensure all FE colleges have the above noted discretion to allocate funding.

Under the "old" LSC system, colleges faced one bureaucracy and one body that required statistics and returns; they will now need to feed statistics and data to at least two systems. FE colleges could also face dealing with up to five new bureaucracies or "sub" bureaucracies—the SFA, the YPLA, the National Apprenticeship System, the Adult Advancement and Careers Service and the National Employer Service, while meeting the demands of over 140 local authorities. UCU remains sceptical that the stated aim of reducing bureaucracy will be met given the aforementioned system.

#### 2. *The transitional arrangements currently in place between the LSC and the SFA*

A problem that we foresee in the transitional arrangements between the LSC and the SFA relates to accountability. The LSC will be making the funding allocations for 2010–2011, as these have to be allocated before April 2010 when the LSC is abolished. It will, however, be the SFA that is responsible for FE colleges' delivery of learning programmes for adults in that academic year. Should there be any problems or shortfalls in funding there can be no complaint of accountability to the body that made the allocations, which will obviously no longer exist.

UCU is also concerned that even after the publication of the BIS Skills Investment Strategy (which gives details of the proposed SFA funding for 2010–11) there may be an additional £88 million of "funding pressure" within the LSC. We are unsure of what this actually means, but remain concerned that it may refer to LSC overspend in this financial year with this total needing to be met in 2010–11. UCU is concerned that this could result in further cuts to funding and front-line services.

*Recommendation:* We urge the Committee to investigate the current funding position within the LSC, and report on the correct and accurate position of FE funding as it moves to the SFA.

One of the legacy issues that the SFA will inherit will be the capital programme. The facts of this are well known and the Committee has already commented on this. Some FE colleges will face problems around the finances they invested in potential building programmes; many spent money only to find that the LSC was financially overcommitted and could not fund all of the projects that were in the “pipeline”. We understand that the LSC has and will meet the costs incurred before December 18 2008. However, a number of colleges incurred costs that will not be reimbursed. Given the severe pressures on future college finances these now non-recoverable costs may cause some colleges to become insolvent.

*Recommendation:* Establish what plans are in place within the LSC/SFA for colleges facing severe financial difficulties due to the college building funding issues.

### 3. *How the SFA will oversee the FE budget*

Our understanding is that the SFA will have the responsibility for allocating funds and managing relationships with education and training providers. This will be managed from the SFA National Office which will operate through national contracting and a single point of contact to providers through a unified account management function. We are concerned that the Account Management Teams will be grouped into three portfolio areas, each covering three regions. This may not be the kind of personal single contact that providers were looking to. We do support the concept of a single contact point and Account Manager, as it should cut down at least some of the bureaucracy of the previous LSC-provider relationship.

*Recommendation:* Ensure the single point of contact theory works in practice.

### 4. *Apprenticeships, National Employer Services and National Apprenticeship Service*

UCU supports the SFA working through the National Employer Services for funding larger and national employers, and the new National Apprenticeship Service for funding of apprenticeships. We consider that these new relationships with the new National Services should mean more efficient and effective communications and links; hopefully meaning that resources are used to the greatest impact. Given the recession, we believe that having a National Apprenticeship Service should mean that there is some uniformity across sectors and Apprenticeship frameworks with an increased ability to re-place apprentices if their employers have to make them redundant part-way through their apprenticeship.

### 5. *UK Commission for Employment and Skills (UKCES)*

We have studied the latest UK Commission for Employment and Skills (UKCES) Report “*Towards Ambition 2020: skills, jobs growth*” (October 2009) which offered advice to the government that has been largely accepted in the Skills White Paper “*Skills for Growth*” (BIS November 2009), and in the Skills Investment Strategy (which gives the funding for the first full year of the SFA 2010–11). From this information we understand that the government will be looking to the UKCES to produce another National Strategic Skills Audit using employers as well as bodies such as the Sector Skills Councils (SSCs) and the Regional Development Agencies (RDAs) to identify and advise about skills needs at national, sectoral, regional and sub-regional levels. This will produce the national framework for skills that the SFA will fund.

Within this national framework the RDAs will work with local authorities, sub-regional bodies and SSCs to produce Regional Skills Strategies. These, in turn, will be the core part of Single Integrated Regional Strategies; these will be developed and agreed with local leaders in each region and will articulate employer demand and set out specific regional skills investment priorities. Following the chain, such reports will inform ministers’ annual skills investment strategy, and how the SFA will fund providers to ensure appropriate supply of skills to meet national, sectoral, regional and sub-regional priorities. Providers have discretion to respond within this overall priorities framework to shape a range of courses to meet employers and individuals’ demands. Provider delivery will be monitored by the SFA, and will affect future funding.

UCU welcomes the way that the SFA will be linked to a national framework of skills needs but has concerns as to the viability of such a complicated chain for consultation.

*Recommendation:* Not just employer needs should be taken into account; the needs of employees should be considered and organisations such as trade unions should be part of this wider national skills picture.

The UKCES Report makes it clear that a continuing key priority will be to promote literacy, numeracy and basic employment skills for all adults. We agree with this, but have strong concerns whether this priority can be maintained given some of the cuts that are outlined in the Skills Investment Strategy. We make these concerns clear in this submission.

We also note the high priority that the UKCES Report gives to Apprenticeships, and that the Skills for Growth White Paper expands the number of Apprenticeships while stating that the Government will use its procurement powers to stimulate this expansion in the public sector. This is welcome. However, we are disappointed that Adult Apprenticeships funding rates will be cut by 10%. These cuts are antithetical to the conclusions of the Leitch Report, which stated that 70% of the 2020 workforce were already in the current workforce and that with the long term demographic decline of the youth cohort, adult apprenticeships will be needed as never before.

*Recommendation:* Re-examine measures to ensure adult apprenticeships are widely available.

One of UKCES's recommendations that is taken up in Skills for Growth, and we assume will become part of the way that the SFA monitors the performance of providers, is a recommendation that all publicly funded learning programmes will be required to carry public quality labelling on key outcomes. These will particularly focus on learning outcomes such as learner success rates, destination, wage gain, quality and employer and individual satisfaction levels for each programme. This will be linked to new and public institutional performance framework for learning providers, such as a balanced scorecard based on their profile of aggregate outcomes, customer satisfaction levels and quality and balanced evidence of economic, social and labour market characteristics of their local catchment areas.

UCU has serious concerns about these proposals. We do not believe that the public quality labelling will make much sense to many of the providers' "customers". Some of the proposed outcomes are not within the power of providers' to deliver, an example is wage gain and in many areas, employment. Although the proposals for the balanced scorecard makes reference to "balanced evidence of economic, social and labour market characteristics in their localities", which will give some indication of the amount of value that the providers have added to their students, we are unsure that such raw indicators as being suggested, will take account of the learner intake for many providers.

We also doubt whether many of the "customers" of the providers will be able to make much use of the mass of detailed information that will be given. We would argue that most students, and indeed employers, are less interested in choice of providers than in knowing that their local providers can deliver a comprehensive offer of quality programmes that meets their needs. The UKCES Report admits that they have not undertaken any detailed testing of their models, nor prepared detailed specifications of the particular measures that may make up the final models. It calls the proposals "developmental ideas", not fully worked out systems. The Report admits that whilst some of the information they require is available, other data is not yet collected, and would require new measurement tools and approaches.

*Recommendation:* UCU strongly suggests that before these proposals are implemented, the modelling and specification of new data is undertaken, so that a proper opportunity cost exercise conducted, and the real costs both in terms of resources, time and additional bureaucratic burden are ascertained.

#### 6. *The delivery role that is envisaged for Local Authorities and the RDAs*

From April 2010 the regional LSCs will be abolished. The work of developing regional strategies will be taken on by the RDAs. They, together with local authority leaders' boards, will develop skills strategies which reflect the needs of all areas in each region. These strategies will then form part of Single Regional Strategy so all skills priorities will be aligned to wider economic development. These Regional Skills Priorities will inform the ministerial annual Strategic Investment Strategies and SFA funding of providers.

RDAs will also take responsibility for skills advocacy, partnership building, and spearheading multi-agency action to support employers in identifying and resolving mismatches in skills supply to meet employer demand. RDAs are to review existing arrangements to ensure they have right balance of partnership working. There will no longer be a requirement for Regional Skills Partnerships separate from RDAs. The aim is that within regions, there will be joint working and decision making across local authority boundaries. Regional skills strategies will have to be signed off by local authorities. The resulting Single Integrated Skills Strategy will have to tie in with existing Multi Agency Agreements and Local Area Agreements.

UCU welcomes this as beginning to relocate both decision making and accountability back to local democratically elected bodies. Nonetheless the resulting system will still be cumbersome and somewhat opaque. It may not be quite the simplified skills landscape that UKCES advocated.

*Recommendation:* A clear communications strategy on the part of the government, RDAs, the SFA and local authorities will be essential, and an urgent requirement.

#### 7. *Skills Investment Strategy and funding moving forward*

Besides the structural implications and complications of transferring FE responsibility from the LSC to the SFA, there are a number of other issues relevant to FE funding that should be addressed by the Committee as the SFA prepares to oversee funding and relationships in FE.

In the grant letter published after the budget in April 2009, the efficiency savings announced by John Denham stated that everything would be done to protect "*front line services including teaching and learning*". UCU are concerned that this has not happened, given that in 2010–11:

- 130,000 adult learning places will be lost.
- There will be a 3% cut to all adult learning funding rates.
- There will be cuts to Skills for Life programmes including a cut in funding uplift that such courses will receive (which are to help institutions and courses with traditionally hard to reach students); while funding will be reduced by £30 million, numbers will rise by 20,000. The cut to the funding uplift for Skills for Life programmes could amount to £20 million.



- There will be a 10% reduction in adult apprenticeships at a time when many adults are seeking to retrain or re-skill.
- Train to Gain funding rates will be cut by 6%.
- Developmental Learning funding will be cut from £330 million to £186 million and numbers from 583,000 to 212,000. This funding stream supports many low level Skills for Life programmes, especially ESOL programmes that are vital for progression for students onto the Skills for Life programmes that make up the national targets, and whose funding is more protected. In time this cut to lower level programmes, will impact on the numbers being able to progress “full” Skills for Life programmes.

It is to be welcomed that there are increasing avenues into education and that a high priority is being placed on advanced apprenticeships and routes from vocational qualifications into higher education, but while UCU supports the idea that business should contribute to education and training, a reliance on co-payment at this time of recession, would see many people lose out. This is particularly true for repeat Level 2 qualifications. If an existing level 2 qualifications is out of date or a shift in a particular sector means that qualifications need updating, there should not be a burden on the individual or the employer paying for this qualification.

*Youth Guarantee*—UCU welcomes the notion that young people from lower income families should have the same access to internships—in all aspects of business and public service—that those from wealthier families have. We do not see, however, how the current scheme can work when the internship will not be fully funded. Unless internships are put in place where the cost of living is paid, or the individual earns enough to cover all expenses (including rent, utilities, travel, food etc) then these schemes will remain the preserve of those whose families can afford to subsidise themselves or to those who are willing to accrue debt in order to pay for such an experience. In times of fiscal restraint, UCU does not see why business should not contribute to the cost—they will benefit from the interns work with them and from a more highly experienced workforce in general.

UCU is also concerned that the take up of the offer of a job or training will be a requirement. This implies that benefit sanctions will be enforced on those refusing the offer. We are worried that in regions of high unemployment, this may mean young people undertaking training scheme after scheme, none of which actually leading to work. This would repeat the mistakes of the 1980s, when young people were dragooned through a variety of youth unemployment schemes, leaving them dispirited, de-motivated and alienated from future learning.

*Limited duration of the Youth Guarantee*—we understand from the Pre-Budget Report that the Youth Guarantee may only be for one year. We believe that youth unemployment is likely to remain at very high levels for some time to come, and we recommend that Youth Guarantee is in place for a minimum of two years.

*Train to Gain*—The resources for Train to Gain were taken from the LSC adult learning funding streams but when initial take up of Train to Gain was low, resulting in a £120 million under spend, that funding was not returned to LSC adult learning programmes, but went to meet an over spend in Higher Education, this is an obvious disadvantage to FE providers.

The low initial take up of Train to Gain led the LSC to widely encourage colleges to invest in these programs. When the recession hit, take up of Train to Gain picked up, it was discovered that the increase in Train to Gain programmes for 2008–09 ran into the financial year 2009–10, as a result the funding for that year ran dry. College who had placed a great emphasis on such employer related training found themselves in the position of facing a real cuts in funding and possibly severe job losses. Such job losses will impact not just on adult learning, but also on learning programmes for young people, as college vocational lecturers do not just teach on one side of the new divide—LAs may experience this problem when planning provision. Another area where Train to Gain funding which could be the cause of cuts within college, is the rollback of the flexibilities built into the system in October 2008.

*Minimum Performance Levels*—Skills for Growth and the Skills Investment Strategy make it clear that one of the principal means by which colleges programmes are judged, will be Minimum Performance Levels (MPLs). These set the minimum achievement level that the programme must reach. Using MPLs is a very quick and silent way of making cuts to programmes. The government has made it clear that it wants MPLs to be pursued vigorously. UCU is concerned because we view MPLs as a very crude performance indicator. They do not take into account the previous educational experience of the students taking the programme, nor the added value that programme may be giving. They can often act against widening participation and ignore equality considerations. When the MPL for A-levels was lifted without notice by the LSC, from 55% to 75%, many colleges withdrew from A-level provision altogether or reduced the range of their provision.

This A-Level provision was often used by those young people who needed a second chance at education, in many cases after not fulfilling potential in compulsory education, but did not have the A\*–C grades that most school sixth forms of sixth form colleges required. A repeat of this could be seen with other FE provision if the MPL is lifted.

## PRE-BUDGET REPORT

In the April 2009 DIUS (as was) announced a £340 million cut in FE sector funding. This has been confirmed by the BIS Skills Investment Strategy. In the Pre-Budget report December 9, the Chancellor announced further “savings” in BIS that will amount to a further £300 million in the three years to 2012–13. UCU is concerned that this will again translate into a real cut in funding for FE programs, leaving FE providers unable to meet the challenges set out in Skills for Growth or the UKCES Report “Towards Ambition 2020”.

### 8. Current funding issues

*Adult Responsive funding, reconciliation and clawback*—UCU is concerned that there will be in and mid-year claw back of funds from the Adult Responsive funding stream, and that it will happen in the 2009–10 financial year. There has been virtually no notice of this. In what has already been a very difficult year for funding, this clawback could further de-stabilise colleges, and drive some towards insolvency.

UCU has always had concerns about de-stabilising impact of clawback. We were pleased when it was abandoned in favour of an approach which meant colleges who failed to reach their number targets, received funding in the following year in line with their previous year’s actual figures. The LSC has had a 3% tolerance for both under and over shooting targets. The type of student attracted to and enrolling on programmes funded by the Adult Responsive funding stream often have previous poor learning experiences; have lives that may be very disrupted by family and are often fitting study around work. It is therefore not surprising that there can be drop-out from these programmes. Colleges will already be being penalised through a drop in their success rates (retention x achievement), the principal indicator by which they are judged in the Framework for Excellence. Clawback of mid-year funds becomes a double jeopardy for these providers. This tightening of this system can become a downward cycle in which learner numbers become reduced more and more, the next year’s allocation shrinks, so fewer students can be recruited. The dangers of drop out means that the colleges become increasingly risk averse, and either do not recruit students from those with the least previous qualifications or recruit students to courses that do not stretch their capabilities.

### FEEs IN FE

For the last ten years, the cost of FE programmes at level 3 and above has been rising at 2.5% per year. The target that fees will meet 50% of the assumed costs of programmes will be reached next year. UCU has always had grave concerns about this policy. We believe that it hits hardest those would be students who have qualifications at Level 2 but are in low waged employment. They are penalised in terms of rising fees for the programmes which might lift them out of low paying jobs. The Association of Colleges believes that fees in FE colleges would need to rise by 5.2% in order to maintain income. The corresponding figure in HE is 1.5%. UCU firmly believes that higher fees will mean fewer people able to access education. As the cost rises, so does the barrier to access.

8 January 2010

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## Memorandum submitted by the 157 Group

### THE 157 GROUP

The 157 Group consists of 27 of the largest General FE Colleges in England, all of whom are graded good or excellent for leadership. Together they have a combined turnover of over £1.5 billion; they educate 650,000 students and employ almost 40,000 staff. The group was formed following the recommendation of Sir Andrew Foster in his report on the future of FE that principals of large, successful colleges, with the capacity to do so, should have a greater influence in policy and a role in building the reputation of the sector. Current patrons include Sir Andrew Foster, Sir David Melville, Sir Mike Tomlinson, Baroness Sharp, Baroness Wall and Baroness Perry. The group meets regularly with ministers, civil servants, national agencies and key influencers to help shape and implement policy. It gives evidence to select committees and produces policy papers as well as acting as a peer network to disseminate excellent practice across the sector.

### COMMITTEE TOPICS

*The transitional arrangements currently in place between the LSC and the Skills Funding Agency (including any legacy issues surrounding funding problems experienced by the LSC in respect of its management of the capital programme);*

1. Whilst recognising the decision and legal status of the Machinery of Government Changes (MOG) we feel it is important to state for the record that the separation of 16–18 and 19+ funding is extremely unhelpful and will undoubtedly have an impact upon FE providers. However the most pressing concern is the current lack of a strategic national lead on how post 16 provision is organised within an area. This means, for example, that the DCSF is still promoting new school 6th forms at a time of falling rolls. We would

encourage the committee to examine this critical issue. It is also worth noting that the 157 Group sees the dislocation of FE Colleges from (what is often) their main funding Department, the Department for Children Schools and Families (DCSF) as a significant issue.

2. That having been said the 157 Group wishes to play a positive role in ensuring the success of transitional and new arrangements. We therefore welcome the opportunity this inquiry presents.

3. It has been extremely well publicised that the Learning and Skills Council has significant failings in terms of financial management, communication and transparency. The capital crisis is perhaps the most high profile example but there have been other significant failures such as the Train to Gain budget allocations. Both of these situations have placed FE Colleges in an untenable situation. It is therefore regrettable but understandable that the sector has lost confidence in its national funding body. The sector needs confidence in any new body and we call upon government and its national agencies to review the relationship between the central LSC office, local LSC offices and BIS to ensure that such a situation cannot be repeated in future, regardless of government reorganisation.

4. Looking to the future and Capital investment we have significant concerns. We would encourage the committee to examine how Building Schools for the Future and FE developments are planned coherently and equitably.

5. Significant powers rest within the Office of the Chief Executive for Skills Funding, including the ability to appoint up to two members of a corporation board, intervention powers as held currently by the LSC and the ability to adopt or develop performance assessment measures. We have long argued that there should be a board to oversee this work. Accepting the passing of the Bill and the status of the SFA we would still argue for the creation of an advisory board that includes sector representatives. Such a board would add transparency to the office, increase confidence in the new agency and be in line with proposals for the sector to play a larger role in the strategic planning and regulation of the sector as a whole.

6. 157 would like to state the vital importance of the SFA being a significantly smaller body than its predecessor. We would encourage the committee to examine the evidence that this commitment, as laid down in the Apprenticeships, Skills, Children's and Learning Bill, is being met.

*How the SFA will oversee the FE budget through its relationships with the UK Commission for Employment and Skills, the National Employer Services and the National Apprenticeship Service; and*

7. As a Group we wish to clarify that BIS/SFA is not responsible for FE funding in a general sense. Rather it is responsible for adult funding and 19+ funding pulled down by FE colleges whether adult responsive or employer responsive (adult apprenticeships and Train to Gain). It is also important to clarify that DCSF provides ring-fenced funding for 16–18 apprenticeships which cannot be vired to adult apprenticeship provision.

8. We welcome the proposals within the Skills Strategy to simplify the funding system so that all colleges can respond easily and more effectively to employer demand. The proposal that the SFA will introduce a united "account management system" for all (but the poor providers) is extremely welcome. Such a move will enable colleges to respond quickly and to target needs. We welcome also the proposal to move towards outcome based funding and are keen to engage in the debate over how measures will be defined.

9. It is particularly welcome that government has acknowledged that the FE sector has been overly regulated in comparison to other sectors and that substantial progress has been made in terms of quality and control since incorporation. The Group is highly motivated by the notion of "empowered" providers, a single purse funding model and increased freedoms locally.

10. We welcome the proposal that colleges and training providers will have discretion to respond within the overall framework, shaping the range of courses they offer to meet demand. Again, we would question how this will work on the ground, particularly with the SFA's role in monitoring. We welcome the proposal that such discretion will be linked to future funds with rewards for those who respond flexibly and rapidly and seek further clarification on how decisions on such funds and flexibilities would be made. We would also like to see published funding figures for the overall SFA operating budget.

11. The 157 Group strongly supports the proposed UKCES model of a community scorecard and course labelling to enable empowered customers to make informed decisions. We are pleased there is clear commitment to amend the way in which the funding system currently works to enable top rate colleges and training providers to manage their budgets in a more flexible and demand led manner, and to offer more places than would otherwise have been the case through additional funding. Such a move, in which the market is more directly shaped by learner and employer needs, is correct and timely. We seek clarity on how those providers and courses will be selected and how funding would flow.

12. Whilst we welcome in principle the concept of a clear consistent "traffic light" system that enables learners to rank courses, programmes and institutions we have concerns that it may add an additional level of bureaucracy and would ask the committee to review the "multitude of scorecards". We note with interest that the system aims to include, where possible, the record of colleges in getting people into jobs. The 157 Group is extremely interested in this.

13. As a Group we take this opportunity to raise our concerns over commissioning. Commissioning tries to second guess learner demand and fund accordingly, leaving some organisations over-funded against actual recruitment and others under-funded when numbers exceed expectation. The 157 Group would strongly advocate a model where funding truly followed the learner, ie recruiting a learner brings a predictable funding allocation. Not only is this a market led model but it then leaves the LEA to address provider quality and the implications of consumer choice. This is intervention by exception rather than as the norm. It places faith in providers to be aware of and responsive to the needs of their community. It ensures that the government only pays for what is delivered and that schools, academies and colleges all benefit from the same funding regime.

14. A government that needs to cut public expenditure should devolve to local provider networks the tasks of meeting the government's strategic objectives and serving their local community. This requires trust and clear and transparent funding to these self managed skills networks. Accountability has to be both vertical to the funder and horizontal to the community. With this in place the 50–100 funded networks across England would allow the central bureaucracy to shrink to a few hundred key staff akin to HEFCE with dramatic savings. It also ties in to notion of empowered providers and increased autonomy for the top performing colleges.

*The delivery role that is envisaged for Local Authorities and the RDAs.*

15. The 157 Group remains concerned over Local Authorities understanding of the FE offer. The use of FfE by Local Authorities for commissioning high quality learning places is a much repeated but major concern. The arguments are well rehearsed; there are concerns over “like for like” measurements and difficulties in measuring across diverse provision. In addition, we would argue that LA's do not yet fully understand the role and work of the FE sector. We would welcome further discussion on this area.

16. The return to Local Authority control raises significant concerns over “cross authority” issues. Evidence from the ground suggests that travel to learn patterns are being affected, providers are faced with multiple data recording systems and funding levels vary. The 157 Group would urge the committee to examine the potential for national guidelines on these areas.

17. We welcome clarity of the new role for RDA's in strategy setting and accept the strategic role RDA's with LA's and SSC's will take in producing regional skills strategies which articulate employer demand and will align more closely skills priorities with economic development. Colleges are key players in this new landscape and it is critical that RDA's work in that framework in partnerships with colleges as well as the other key players. Colleges are central to the regional skills strategies and to the proposed single integrated strategies. We would encourage discussion on how FE should be represented at the table.

18. We would encourage committee members to ask BIS ministers and officials to explain the SFA and local authority/RDA interface, as well as the proposed freedoms for the top 15% of FE colleges and the role of Sector Skills Councils

19. The 157 Group strongly advocate that the SFA should be “a smaller, lighter touch body, focused on funding not planning” as was originally proposed by the government. That doesn't mean however that we would not welcome a strong employer voice at the local level such as the Employer and Skills Boards. We would however want to see the emergence of strong local provider networks to work with those Boards at local level to align demand and supply of skills training.

20. The Group are pleased that the skills strategy recognises the role of sub regional groupings. We believe that there is a need for greater discussion on how this would work in practice locally and regionally, particularly in the context of the new RDA role.

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