

**Delivering further education and investing in skills during the recession**  
**Association of Colleges Annual Conference**  
**19 November 2009**  
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**Further Education**

What a great pleasure it is to be here at your annual conference once again. Visiting members of the Association of Colleges is one of the best parts of my job. Only recently:

- I visited Long Road Sixth Form College in Cambridge, where I saw everything from Shakespeare to new media being taught – but where I also heard how their plans to rebuild have been thwarted by the capital crisis.
- I visited Lewisham College, where I heard about their rapid growth and enjoyed an excellent meal, the first to be cooked and served by a group of new catering students.
- And just last week, I visited Metropolitan College here in Birmingham to hear how they are responding to the changes in the Apprenticeships, Skills, Children and Learning Bill, which has just received Royal Assent.

Between us, my colleagues John Hayes and David Evennett and I, try to visit as many colleges and training providers as we can. At all the colleges we visit, we are struck by the sense of purposeful activity, by the diversity of the student body and by the enthusiasm of the Principals and staff. You deliver an excellent education, which now includes more A-Level entries than in maintained schools, as well as a huge amount of work-based learning, and of course you continue your traditional role in adult education. It is life affirming to see how you re-engage people who have dropped out school or who are fed up with unresponsive Government training schemes or who have been held back by glass ceilings because they lack important skills.

You represent the most diverse and most overlooked part of our education system: the typical college has a wider curriculum than most schools, closer links to local employers than most universities and a broader mix of students than any other part of the education system. And, although your role has always been crucial, we need you more than ever during the recession – the longest and deepest recession in modern history.

Above all, I want to pay tribute to the work of teachers in FE and the achievements of your students. The media largely ignored our recent success at the WorldSkills 2009 competition in Calgary, so too few people know that

we have jumped from 18<sup>th</sup> to 7<sup>th</sup> in the medal table since 2003. That success is worth celebrating. I know Boris is looking forward to hosting the next WorldSkills competition in London in 2011 and, if there is a Conservative Government in office then, it will have our support too.

### **The last 12 months**

When we met here in Birmingham this time last year, we knew the following 12 months were going to be difficult. But we had no idea just how difficult.

- This time last year, colleges were still optimistically spending money on preparing their rebuilding plans. Today they are paying the bills from architects and consultants for projects that have been abandoned.
- This time last year, we had scant details of how the FE landscape would look after the demise of the LSC. Today we have to try and imagine how the SFA, the YPLA, the RDAs, the SSCs and the local authorities can work smoothly together. One Principal recently told me she will receive funding from 17 different local authorities – and in London, that figure could be twice as high.
- This time last year, the Government said it was committed to big increases in funding. But today there are serious problems with the budgets for 16-18 learners, for Train to Gain and for adult apprenticeships – to name just three.

I re-read John Denham's address to last year's conference the other day. It reads like a speech from another age – by a man from another planet. He talked of a new 'Building Colleges for the Future Prospectus', of a £0.5 billion spending increase and of a 'Plan for Growth' for Train to Gain. But, despite the upbeat tone, the storm clouds were already gathering behind him. We know, for example, from our own Freedom of Information requests that DIUS were aware of the looming capital crisis by at least October 2008 – and possibly earlier. I was criticised for refusing to make uncostered spending commitments on the capital programme here last year, but events have shown why I couldn't do that. A year on, John Denham has gone. His Department has gone. And the capital programme seems to have gone too.

In the past fortnight, we have seen a leaked document which shows ministers are planning cuts of £350 million to next year's training budget, and which shows where the pain is likely to fall. This document – which has yet to be disowned by ministers – even provides a ready reckoner which shows that, under the current skills system, every £100 million cut equates to 133,000 fewer learners.

So I agree with your excellent Chief Executive, Martin Doel, when he said on Tuesday that it is ‘misleading’ to describe the new skills strategy paper as an ‘investment strategy’.

### **Adjusting to the fiscal crisis**

Of course, I would love to be able to tell you that the financial position will improve over the next 12 months. But I won’t because I can’t. We face a budget deficit this year which could be a massive £175 billion. The IMF have warned we will have the largest budget deficit of all G20 countries. A dose of realism has to be our starting point. We have to do more for less. And that is not a party political point because whoever wins the next election will face the same empty coffers and the same fiscal crisis. That is why you heard such a different tone from Lord Mandelson this year to the one from John Denham last year.

Given the length, depth and breadth of this recession, we are going to have to prioritise some groups over others. It would be wonderful if we could help all groups equally, but people aged under 25 are the biggest victims of this recession and they will be our most urgent priority for help.

- The number of young people aged under 25 who are long-term unemployed has grown by 66% over the last year and some people have predicted it will triple by 2011.
- The latest official figures show the number of new apprenticeship starts is 36% lower than in the same quarter last year.
- The number of NEETs is at record levels. Indeed only this morning we have had the shocking news that the number of young NEETs has passed a million, rising by 120,000 in the past three months alone.

So many missed opportunities and wasted lives.

David Blanchflower’s research shows that unemployment below the age of 23 drives unemployment later on and leads to significant wage penalties even twenty years later. This is a tragedy for the people involved and for our wider economy too because it limits our capacity for future economic growth.

So it is little wonder that it has been said, ‘We face nothing less than the waste of a generation not just of the gaunt, defeated young people begging in the streets, but less visibly, though no less wastefully, the hundreds of thousands of young people still living at home who have never had the chance to work and build their own lives’. That is admittedly a rather colourful way of describing the serious problems we face, and I wouldn’t

use those precise words myself, but that is how the Shadow Chancellor of the Exchequer, Gordon Brown, put it in 1993 on the last recession.

We want to focus particularly on those young people who are losing out most in the recession. And I do not just mean people aged 16 and 17, who are staying in education in greater numbers. We want to ensure new opportunities are there for all those who aged under 25 who need support. Compared to our international competitors, we are not good at providing smooth transitions to adulthood. That is why, in our skills green paper, we proposed refocussing much of the Train to Gain budget on apprenticeships and why our 'Get Britain Working' programme, launched at our party conference last month, includes 300,000 new apprenticeship, training and FE colleges places over the next two years.

### **A new direction**

At the same time as facing the consequences of the recession, you are facing unprecedented turbulence.

- Although the LSC was established only in 2001 and although your students tend to come from more than one area, responsibility for 16 to 18 year olds studying in FE is now going back under local authorities.
- Instead of true abolition, the LSC has become like a hydra with three heads – the SFA, the YPLA, and the NAS.
- Although Sector Skills Councils were only set up in 2002 and the first relicensing round is still continuing, ministers have now suggested they want to reduce their numbers – and their clout – in favour of RDAs.

We think it is wrong to be wreaking such substantial structural changes when everyone should be focussed on tackling the recession. That is why we called on the Government many months ago to suspend their changes until the worst effects of the recession are over.

There has been so much turbulence in skills policy in recent years that I am reluctant to propose yet more change. But as I have said before, by the time of the next election the skills landscape will be something between a bomb site and a building site. I do not relish the prospect of further change, but we think it is going to be necessary. The new arrangements are neither responsive nor sustainable enough. We need to move away from the current approach of more target-setting in Whitehall, more quangos and more red tape that saps frontline provision. Instead, we want to deliver a new compact between the centre and training providers of all types. In my speech today, I

want to set out the shape of this compact and to launch a consultation on the new funding arrangements to go with it.

Last year, I told this conference that I wanted to give colleges more freedom and that we favoured a single new Further Education Funding Council over the various existing funding streams. Our discussions with the sector, above all with the AoC and college Principals, as well as a detailed study of the successes and failures of the past, have proven one thing above all: it is the degree of extra central planning – and not the finer details of the funding methodology – that divides the LSC from its predecessors. This evidence has guided us to adopt four principles to underpin future reform.

Our first principle is college autonomy. One of the things that always strikes me when I visit colleges is the long and proud history that so many of them have – for example, as local mechanics institutes serving the needs of local employers. The Conservative in me is attracted by the idea of strong local institutions acting as glue in the local community. This is what incorporation was all about, as I know myself having served on the corporation of Havant College in my constituency for six years. It is surely a retrograde step to replace the LSC with new structures that make colleges even more answerable to the bureaucrats and even less answerable to learners and employers. So I confirm that we will set you free.

But free institutions cannot operate effectively in a vacuum. They must be answerable to someone – and who better than individual learners? Therefore our second principle is to boost the power of individual learners. The National Institute of Adult and Continuing Education's recent report into lifelong learning, Alison Wolf's recent IEA report on further education and even the Government's own Milburn review of Access to the Professions all suggest learning accounts can help to improve the quality and relevance of the training on offer. We accept much of that analysis and our consultation includes important questions on the best way ahead here.

These consumers must be well-informed, so my third principle is better advice and guidance. We believe that much better careers advice is a necessary prerequisite for colleges to flourish, for independent learners to make informed choices and for learning accounts to work effectively. So we are committed to an independent all-age careers service, which the international evidence suggests is by far and away the most effective delivery model.

Unfortunately, all the evidence suggests that the current system is not providing young people with the advice and support they need. The system appears to be deteriorating rather than improving: only 55% of young people

had a formal Career Action Plan meeting with a careers advisor or teacher last year, compared to 85% in 1997; and only 51% completed more than five days work experience, compared to 69% in 1997.

And, of course, consumers must be able to choose between diversity of provision. That is why my fourth principle is to avoid artificial barriers against a more diverse and responsive system. I am looking at ways to improve the diversity of further education provision, just as we are committed to supply-side reform in schools. The recent problems in Train to Gain are a good example of why change is necessary: providers have received conflicting messages and inconsistent funding. So a new settlement for further education must include a level playing-field for all providers.

### **A new compact with the FE sector**

Let me flesh out what I think this could mean for the future funding of your sector. The current tariff-based funding formula is still largely based on the one used long before the LSC was established. Given the scale of change elsewhere in the skills arena, I have been struck by its resilience. While we might wish to change some elements of the calculation, such as the excessive focus on accreditation, I have no desire to alter one of the more stable and proven features of the skills system.

So I propose to take the existing funding formula as our starting point, but then to develop a system that ensures resources respond to demand from below rather than being tied down from above. In the consultation paper I am launching today, we propose giving each college or training provider an allocation based on a set number of students at a set price per student, based on past provision. This will be administered by a new Further Education Funding Council that will be a funding agency, not another planning body. At the heart of this proposal is a new arrangement that lets colleges trade any unused numbers with other providers online. These places will be offered at a marginal rate, so downsizing colleges have a financial cushion and expanding colleges can benefit from in-year expansion at a marginal rate. The following year's allocation will reflect any changes that occur. I hope you will look very carefully at the details of this proposition, which is based on what the sector has told us. We want to hear your views.

Your history shows you are responsive to the changing needs of local employers, while also serving the wider needs of the community. So we want to see each institution being given a clearer responsibility for its own mission. We envisage this being expressed in a clear statement from the governing body that offers a precise and detailed account of the people, commercial sectors and special interests each college wishes to serve – and

how it intends to do so. This will be made public and include a strategic plan that emerges after local consultation.

This will enable your sector to be more responsive to vulnerable groups – for example, NEETs who lose out too often at the moment. Our £100 million NEETs Fund and our commitment that funding will not be so heavily driven by chasing paper qualifications will enable you to reach out to people who, sadly, are not always ready for formal learning. It is a clear national scandal that we now have over one million disengaged young people. We are looking to you to take the lead in tackling this national emergency. And, where gaps in provision are not addressed, our FEFC would need to fund other provision.

We see an important role for private training providers under this proposed approach. FEFC will be able to contract with them on a similar basis to colleges. Of course, for a small minority of colleges, this could seem challenging. But individual colleges should not fear working with alternative providers where this can improve provision. We are open-minded about the structures colleges may wish to use. We are happy to see bold answers where improvements are needed. The whole sector will be strengthened by new competitive pressures which are a necessary quid pro quo for the freedoms you want and the freedoms we want to give you.

We believe this approach will allow us to consider the abolition of a whole range of planning bodies and mechanisms designed to ensure provision matches local need. We think ours is a clearer way to meet demand than the complicated new regional structures that have been proposed.

We also believe our approach will mean the end of multiple funding streams: our model incorporates 16 to 18 funding as well as funding for adults.

And we believe it will only require a single monitoring and audit requirement across all budgets and programmes. Because you will be freer, there will be less incentive to fiddle success rates to match government targets, which – to be frank – is an unacceptable practice that has to stop. We want to see the sector's imagination and energy applied to course design, and not to creative accounting.

It will also enable us to significantly rationalise the system of publicly-funded improvement organisations. The UK Commission for Employment and Skills has recommended all improvement organisations should be merged into one body. We are looking at that proposal very carefully.

This is nothing less than the transformation of the skills landscape. It is based on college autonomy and placing power in the hands of learners.

Our ultimate goal is one funding body, one audit regime and one improvement body.

Every college Principal I meet tells me they have literally dozens of staff whose job is to collect data for a multiplicity of regulators and funding bodies which is not needed for the good management of the college. At one leading college I visited recently, they said they have to fill in more than 200 data fields for every enrolment (average of 3 enrolments per learner), have a lever-arch binder full of paper for each Train to Gain learner and have 45 staff who work exclusively on collecting and entering data. Under our model, much of this can be swept away. Tough times lie ahead. This is where the savings have to be made. I don't want to read of cuts to courses when there are still lots of administrators collecting data that is not essential to your core mission.

But you will have to recognise the competitive pressures you will be under. You know, for example, what many welfare-to-work providers say about the FE sector. They find elements of it to be inflexible on issues like start dates and on the types of provision available. Under this Government, we are seeing the development of two parallel skills systems in which welfare-to-work schemes and mainstream training programmes overlap in a way which confuses the individual learner. Our Get Britain Working document said we will expect welfare-to-work providers to engage with you, but it must be a two-way process: you must engage with them too.

### **Looking ahead**

The most serious crisis you have faced over the past few months has been the capital programme. As you know, no politician in any party is going to be able to match the extravagant promises that were made – and eventually broken – on this. I have been impressed by the responsible way your sector has responded to the crisis, despite having seen your plans binned and your costs escalate. There were mistakes at every stage and, if ministers and the LSC had taken a more sensible approach, we would not be in the unfair situation we are now in, where some colleges have been entirely rebuilt and other needy cases have had their plans cancelled.

I want to look afresh at ways we can help you fund your own projects. For example, I have been struck by the differences between the rules for higher education institutions and the rules for colleges on the amount that you can borrow. I have also been struck by the complaints I have heard about how

the LSC's approval process is slowing down projects that are entirely self-funded. No one wants to see colleges overstretch themselves, but we are interested in sensible proposals that can ease the pressures you are under. So we are open to new ideas here too.

Finally, I want to return to the idea of lifelong learning accounts. A surefire way to make our new system more responsive to demand is to move towards genuine learning accounts that puts purchasing power in the hands of individuals. The Government's Skills Accounts do not achieve this as they do not enable individuals to access training in a way that is significantly different to their current entitlements – and are really a repackaging of existing entitlements rather than proper accounts. So the consultation paper I am launching today is bolder here as well. It considers four possible ways that we could deliver more responsive learning accounts.

I believe the package we are consulting on offers you a radical improvement on the way you have been treated by Government over the past decade. We are placing the ball at your feet because we know you have the ability to use it wisely.

Further education is at the heart of our education policy. I think you know that from the work that we have been doing. But our ambition goes even further than that. It's at the heart of our programme to Get Britain Working. It is a key part of our vision of a country which is skilled, socially mobile and fair.