

**ALP Summer Conference 2010 –
The Forum for Employment and Skills
14-15 July 2010**

Good afternoon

When I accepted this invitation, I thought I would be explaining the new vision for the Skills Funding Agency in a fairly stable world.

However, as you know, the Agency had to change its direction relative moments after it was born, and its final destination remains to be determined. So what I'll try to do is sketch out where I think we're heading in a much changed learning and skills sector. Overall - I am convinced it's a good story.

To start with, John Hayes has made it clear that skills and learning are of even greater importance than ever before – and ALP members have a key role to play.

The FE sector will be critical to the future plans of government. This will be:

- By helping to create a population with technical, practical, employable skills to drive our businesses;
- By ensuring that our young people are engaged in learning or employment;
- By reshaping and upgrading workplace training – particularly via apprentices; and
- By intervening to help people back into work swiftly and sustainably.

The sector will be part of meeting the Coalition's ambition to achieve the highest quality skills to support an advanced and competitive economy, and to support lifelong learning.

But we all know it will not be easy.

You're well aware of the economic context we operate in. Much has been said about tightening belts and doing more for less - that we are steering through muddy waters - and that these waters may not be safe for all vessels.

Nevertheless, adversity is the mother of invention. As there is a good deal of adversity, so we shall need a good deal of invention. But there is much that adversity demands of us that I feel the sector needed to address anyway.

We must use the catalyst of funding constraint to secure improvement in cost and delivery. FE is already the most cost effective form of education in this country – but others will now be forced down this route and it is important that we do not stand still or we will lose our competitive advantage.

We must also recognise that not just the economy has changed. The political environment has changed considerably as well.

In his speech last week to civil servants, the PM said of the previous approach:

“In [a] system of bureaucratic accountability, almost everything [was] measured or judged against a set of targets and performance indicators, monitored and inspected centrally.

Does any of that sound familiar?

The PM went on to say:

We want to replace the old system of bureaucratic accountability with a new system of democratic accountability. We want to give people the power to improve our country and public services, through transparency, local democratic control, competition and choice.”

The levers he talked about to achieve this shift are:

- consumer choice to force providers to raise their game;
- competition to create pressure to raise standards;
- payment for results on the outcomes that society needs; and
- transparency about what is spent and what it achieved.

It is this new philosophy of democratic accountability that will drive better value for money across government. I believe that how well the new approach is embedded in each public service will also influence the level of funding it attracts – as it will determine who has the most persuasive story to tell. Crucially, FE is probably better placed most other public services to lead the way in this new world.

The reasons I say this are twofold. First, FE is already competitive, contested by the private sector, and pretty responsive to customers and communities. The second is that the changes needed to adapt fully to the new agenda I think can be swiftly implemented - basically because we were heading in the right direction anyway.

We really only need to do two things:

- First - move away from “demand led” funding, where demand was defined by somebody other than the customer, to a system where funding is driven by how well providers respond to the outcomes that learners and employers in their communities want; and
- Second, transparent and accessible information on skills needs and opportunities and how well providers actually delivered them to their customers.

That’s it. That’s all we need to do to adjust the system to align fully with the new world. There are few other areas of public service that can say that.

Of course, the implications of these two changes are not trivial. For example, there is a clear bargain implicit in this model.

On the one hand, the sector is freed from bureaucratic control. But in exchange, you must deliver and be seen to deliver the outcomes - and I use that word very deliberately – that learners and employers in your communities want.

This ensures that money is spent on what is needed and not on what is easier or more remunerative, or indeed, on what someone in Whitehall thinks. It also means that the emphasis will not be on inputs like guided learning hours; or even outputs like qualifications, but on outcomes such as progress towards - or achievement of: sustainable employment; an apprenticeship; improved employee performance; acceptance to higher education; or starting a business.

So “demand led” will not just be a sound bite anymore, it will be a reality. The sector will be driven by direct demand from customers - in the form of well informed individuals and businesses seeking the skills and qualifications that will make them more employable, or more profitable.

Another clear implication of the change we need is that we have to do it in a way that reduces costs for both the funding body and the sector. So we have to create a system with the incentives and accountabilities that generate the right decisions for the economy and society, and that system must be virtually self and customer regulated. That is what democratic accountability means.

In addition, at a time when public funding is declining, the system must also ensure that those who can afford to contribute to their own skills and training do so. Otherwise, there is less for those who need help.

Precisely what the new system will look like will be the subject of a consultation process that will begin soon. We will make change as fast as we can, but with care and consideration. We will need your input to get it right.

However, some of the components of the system I think are not too difficult to imagine.

For example, I am certain we will need to encourage an even stronger and more direct relationship between providers on the one hand and learners and businesses on the other. These will be regular conversations within a community whose boundaries will be different depending on where a provider operates.

And as in any market, information and price are needed to make good decisions. We will have to get better at informing providers, learners and employers so they can make the best choices. Businesses and learners will need to know what skills and qualifications will be most relevant to them in the labour market - now and in the future. And providers will need help to predict what the future may hold so they can prepare to respond.

The UK Commission's reports will help inform these decisions and this and other information will be used by the Next Step careers service and in direct engagement between businesses and providers. Providers will also need to know what they will get paid - and learners what they will pay.

Information and price will also be the levers that are used to mitigate market failures. Examples of these include: unwillingness to take risk about future skills needs provision or learning or to invest in future delivery capacity; lack of knowledge about the benefits of apprentices; deprivation and unemployment that prevents access; or lack of basic skills to even get on the ladder.

So in the world of democratic accountability that is emerging, providers will have the freedom to interpret the information, to listen to their customers and to make business decisions themselves. It will be providers engaging in strategic discussions about what skills are needed in a town, in a sector or a region because providers will be the ones with the relationships with business and communities. And armed with that knowledge, providers will help to inform learners' choices and will make the tough decisions that courses are no longer needed, that the fees they charge may have to rise, that some skills are priorities and some skills are not.

I personally am trying to eradicate the word priority from the Agency vocabulary – but it has to become part of yours.

The Skills Funding Agency - or whatever it will be called - will simply oversee the market to ensure it is working smoothly and will fund government's share of the costs.

What we will not do anymore is try to determine demand and then control its delivery. What we will do is ensure transparent access to information on skills needs and what providers actually delivered. We will also have a light touch inspection system to monitor quality and ensure a level playing field and we also, of course, have to make sure the system does not overspend its budget. And as quickly as we can move to this new world, so will we become smaller and cheaper ourselves.

In return, the sector has to understand that the responsibility to make best use of scarce funding is yours.

I for one am confident that you will deliver on that challenge - probably better than any other public services I can think of.

Together, I believe we can present a compelling case to our political masters - and the Treasury - that we can help drive necessary economic and social outcomes by being the first to deliver true democratic accountability.

Thank you.