What Does Skills Policy Look Like Now the Money Has Run Out?

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The function of this paper is to pose questions about what the future might look like – for the education and training system as a whole, and for FE in particular. The policy world and funding regime which colleges have known over the last 20 years or more is rapidly drawing to an end. A new era of austerity and very sharply reduced public funding is dawning. These developments will have profound long-term implications for colleges and their management teams, ranging from the way government seeks to manage and implement policy, the shape of colleges’ commercial strategies, the overall purpose of their strategic mission, and governance structures and roles. Thinking through responses to a world where public funding makes up a far smaller component of colleges income, especially for post-19 activity, is best conducted bottom-up by colleges, acting individually and collectively. This paper aims to assist in this process.
Introduction – A Moment of Challenge and Change?

The old model of English/UK skills policy is rapidly fading away, and a new world is being born. The reason for this transformation is extremely simple, the economic recession and the government's fiscal deficit have persuaded policy makers to embark upon a sustained period of deep retrenchment in government spending. As a result, the underlying assumption upon which the bulk of education and training (E&T) policy has hitherto been based – increasing underlying levels of public spending – is now at an end. This has huge implications for both policy and practice.

Over the last quarter of a century or more skills policy, broadly defined, has come to be seen as an essential component of both economic and social strategies (Keep and Mayhew, 2010). As a consequence, English/UK government policies on E&T and skills came to revolve around central government’s ability and willingness to allocate resources and hence establish priorities, in many instances by committing substantial sums of additional funding to support targets and goals that were unilaterally established by the state.

The aims of policy, broadly conceived, have been:

1. To make England/the UK ‘world class’ on skills, so that our E&T system and the outcomes and qualifications levels it generates allows us to figure close to the top of the OECD's various ‘league tables’. The Leitch Review of Skills (2006) was the apotheosis of this approach, but the current government’s endorsement of a ‘global skills race’ (Truss, 2014) shows that the importance of international comparisons remains undiminished within government.

2. The movement towards world class status on skills has been assumed to contribute to a wide range of economic objectives, relating to improved levels of productivity, innovation, wages and the design and delivery of higher quality goods and services that will allow us to compete successfully in a global economy (see Keep, Mayhew and Payne, 2006). In particular, it was widely believed that increased state support for E&T would create a ‘supply push’ effect, which would galvanise a change in firms’ competitive strategies and massively increase their willingness to embark upon a step change in skills investment (H M Treasury, 2002).

3. Better skills have also been seen as a major driver of the social justice agenda, delivering improved outcomes in terms of higher levels of inter-generational social mobility, reduced poverty and unemployment, and greater social inclusion.

There has been considerable debate about the efficacy of this state supply-led strategy (see for example, Keep, Mayhew and Payne, 2006; Heath et al, 2013; Lupton et al, 2013; Lupton and Obolenskaya, 2013), and this is almost certainly bound to continue. It is not the purpose of this paper to enter into this controversy. All that need be said here is that because the various commentators have chosen to define the aims of policy in slightly different ways, to include and exclude different areas of E&T activity in their assessments, and to gauge the long-term outcomes using a divergent range of measures (in some cases implicitly assuming that outputs from the E&T system more or less automatically generate desirable social and economic outcomes within the labour market and economy), it is not at all clear that this debate will generate anywhere near as much light as it will heat, particularly as it relates to educational achievement, however that might be defined and measured.

Whatever the effectiveness of this traditional model and the goals that it has set, it now faces two massive challenges. It is to these that we now turn.
The Challenges to Traditional Skills Policies

We continue to fail to be ‘world class’ on skills

Despite successive waves of fundamental government-dictated reform to programmes, institutions, the curriculum and assessment systems, and the inspection regime, as well as the investment of substantial sums of additional government spending, our skill levels remain stubbornly below anything that would allow us to claim to be world class. Indeed, on some measures, we appear to be slipping even further back.

The UK Commission for Employment and Skills’ two ‘state of the nation’ reports (UKCES, 2009 and 2010) made it clear that, with the exception of the target for higher education, the other aspirations for a world class skills system by 2020 that had been laid out in the Leitch Review (2006) will not be met. More recently, the OECD’s international adult skills survey (OECD, 2013) has confirmed the dire state of our standing in international league tables on adult skills. The survey shows that the overall skills profile of our workforce remains behind that found in many of our competitors; that UK 16-24 year olds performed less well in tests of literacy than much less well-qualified UK 55-65 year olds; that we have the second lowest (after Spain) demand from employers for workers educated beyond primary/compulsory education out of 22 nations; and at the same time our levels of apparent over-qualification in the workforce are the second highest (after Japan). All of this supports the suggestion that we may have a low skills equilibrium (Finegold and Soskice, 1988) within some substantial segments of our economy and labour market, and that our relatively low skill levels reflect structural problems embedded in our economy and labour market that limit demand for a better skilled workforce (Keep, Mayhew and Payne, 2006).

To put it another way, over the last two decades or more we have run a great deal harder in producing skills than we used to, particularly in terms of amassing stockpiles of qualifications, but other countries have run harder still, and appear better able to put the enhanced skills of their workforce to productive use. This outcome is not entirely surprising because traditional English skills policies have only ever really addressed the supply side, and have ignored problems bound up with deficiencies in the underlying levels of demand for skill within the economy, and also the issue of how effectively skills are deployed within the workplace (Keep, Mayhew and Payne, 2006).

In the past, the government response to this situation would almost certainly have been to announce yet another wave of reforms, and to commit resources (both political capital and public money) to another attempt to catch up with our competitors by expanding publicly funded provision. The problem for government is that the state of government finances and its plans for deficit reduction render this option unavailable. Indeed, far from expanding E&T provision, a major programme of contraction is under way, the full dimensions of which have yet to become apparent.

The money runs out.....

Government spending cuts. The reductions in the government’s E&T spending announced on June 26th 2013 represent the point at which the entire edifice of traditional skills policy started to look unstable and probably unsustainable, particularly for provision beyond the compulsory phase of initial schooling. The spending review sustained funding for schools, made relatively minor adjustments to the HE settlement, offered support for science
and innovation, and boosted apprenticeships. In essence, state spending is increasingly concentrating around schooling, HE and initial E&T in all its many forms, though even here severe challenges are looming. By contrast, FE and most forms of adult learning are already in deep trouble and liable to remain so.

The depth of the spending reductions needs to be stressed. Projections constructed by the Resolution Foundation (Whittaker, 2013a) before the spending review was announced offer some general pointers to the scale of the reductions that have occurred and will be taking place. Whittaker's work indicates that between 2010/11 and 2014/15 cuts totalling 24.3 per cent have been made in the overall DBIS budget and, although spending on schools is protected, DfE saw their overall budget fall by 7.5 per cent. Within this overall settlement, DBIS's Skills and FE budget took an overall hit of approximately 25 per cent.

The cuts subsequently announced on June 26 saw the DBIS budget decline by another 6 per cent per year between 2014/15 and 2015/16. The main weight of the E&T cuts fell, yet again, on adult FE (£260 million). However, these reductions are not the end of the story. After the next general election, if the new government chooses to try to meet existing deficit reduction targets, then further, even sharper reductions in public spending are required. On current projections, and if nothing else changes, the overall reduction in the DBIS budget between 2010 and 2018 will be 42.5 per cent. Given the protections afforded within the DBIS budget to science, innovation, and regional and sectoral support for industry, and given that the bulk of HE spending is now 'off the books' and resides with the Student Loan Company, a disproportionate amount of the reduction is liable to fall on the department's skills and FE spend (Westwood, 2013). Cumulative cuts of 60 per cent or more in funding for adult skills do not seem an unrealistic expectation, and, as Corney (2013) notes, because some elements of the post-compulsory skills budget have priority, the remaining areas are facing the prospect of even more massive reductions. As a result, some very hard choices – for example, between community learning and adult learner support - will need to be made. The outcome is liable to be that there will be entire areas of DBIS-supported E&T activity where government funding is liable to become close to nugatory. Overall, the state's resources for all forms of post-compulsory non-HE provision will be severely diminished.

Moreover, although the compulsory phase of education has, to date, fared better, it has not been immune to cuts, and there are further squeezes to come. Spending on schools has increased slightly, with more funding for free schools, studio schools, the academies programme and University Technical Colleges (UTCs). However, the existing schools budget is also having to accommodate effectively unfunded developments such as the new school meals programme unveiled by the deputy prime minister. Moreover, demographic trends mean that the size of future cohorts moving up through the compulsory system are increasing, thereby putting under pressure both the capital budgets (new classrooms and schools), class sizes, and funding levels per student. At present, the 'baby boom' is hitting reception classes, but as these students work their way up the system, they represent a major potential pressure on resources. Thus, for colleges who have substantial streams of activity in the 14-19 field, although the funding outlook is less bleak and uncertain than for post-19, the prospects of further potential de facto reductions in the unit of resource per student loom.

In talking through this issue with stakeholders, it has become apparent that there are many within the E&T system who continue to believe that the return of a government of a different political hue at the next election might transform this bleak outlook, with the hope being expressed that a new administration would reverse or at least halt the
impending cuts. It is uncertain how realistic this assumption really is. At this juncture it is unclear whether any mainstream political party would be willing to countenance a commitment to greater public expenditure and a resultant slowing in the pace of public deficit reduction. For example, Nick Pearce, the director of the Institute of Public Policy Research (IPPR), noted recently that some journalists believe that for the Labour Party's spending plans to be credible, there is need for the shadow Chancellor to “shoot a puppy” in order to demonstrate that he is serious about deficit reduction (Pearce, 2014: 8).

Even if it were to be the case that current plans for deficit reductions beyond the election could be slowed or reversed, the government would be faced with a long list of supplicants, all arguing for greater public investment in health, care for the elderly, housing, infrastructure, early years and childcare provision, and so on. Where education would figure within this queue is uncertain, and where FE and skills would stand within the internal pecking order within the E&T sector, is even less clear. As a result, it would probably be unwise to formulate plans for the future of post-compulsory skills policy that are reliant upon a reversal of the existing cuts, and even less so ones that are predicated upon the injection of significant sums of new public investment.

If it were simply the case that it was the state's resources that were dwindling, the problems for established models of policy would be considerable, but perhaps not insurmountable. Unfortunately, E&T faces a ‘triple whammy’ – governmental resources (central and local) are being substantially reduced, just at the moment at which the ability of employers and individuals to contribute more towards the costs of E&T provision are also coming under sustained pressure.

Employer investment constrained? One of the key staples of official discussions of skills policy in England has been the frequently asserted ‘fact’ that employer investment in skills dwarves than made by the government, and since the cuts in government spending commenced it has been implied that funding from employers can be increased to make good retrenchment by the state – see Rigour and Responsiveness in Skills (DfE/DBIS 2013: 32) for example. Unfortunately, as with many other elements in the traditional skills discourse, this belief is open to serious challenge. As research undertaken for NIACE's inquiry into the future of adult learning revealed (Williams, McNair and Aldridge, 2010), headline figures of employer spend (currently running at £40.5 billion p.a.) derived from the UK Commission for Employment and Skills’ (UKCES) National Employer Skills Survey (NESS) are potentially highly misleading (Fletcher, 2013). Besides the fact that a substantial part of this sum is represented by the wage costs of trainees (even when training on the job), when the very substantial proportion of employer investment that is coming from public sector employers, such as the NHS and armed forces, is subtracted, the balance appears very different, with the state in its various guises putting up the lion's share of investment in human capital (Keep, 2012). This matters if state spending across the board is under pressure, as it implies that the overall volume of (public sector) employer spending on skills may also be liable to fall.

Somewhat paradoxically, the Coalition government's initial core assumption concerning employers and skills was that firms would be, “willing to invest – invest far more than they do at present – in the skills of their workforces if they can be sure that the training they buy will be of high quality and geared to their needs” (DBIS, 2010: 13). Unfortunately, although this was an extremely convenient belief to adopt at a moment when state spending on skills was inevitably going to be cut, there is little by way of evidence to support it. Indeed, there is good and reasonably hard data that suggests that across the board employer investment in skills reached its apogee a good while before the recession struck, and is currently set on a gradual, long-term downward trend. We know that in
In terms of the incidence of training across the whole workforce, this peaked in about 2000 and by 2010 was back to levels last seen in 1993 (Mason and Bishop, 2010).

Moreover, work by researchers at the ESRC Centre for Learning and Life Chances in Knowledge Economies and Societies (LLAKES) which analyses a wide range of survey data both confirms the Mason and Bishop findings on the incidence of training, and also suggests that there has been a much sharper reduction in the average number of hours of training per worker, with the level having fallen by perhaps as much as half between 1997 and 2012 (Green et al, 2013). Green et al (2013: 3) suggest that this development represents a “sea change” in employers’ training activity, and one that is reflected in the fact that since 2005 employer funding for training has declined. In thinking about these trends it is important to note that training volumes per worker, the incidence of training across the workforce, and employer investment all started to decline before the recession struck. These appear to be long-term developments that are not tied to the immediate health of the economy. Given the enormous effort expended by government on ceaselessly exhorting employers to do more, and the public resources invested in subsidy-led schemes such as Train to Gain (T2G) in the hopes of transforming firms’ attitudes towards adult training, this is a very disappointing result and one that does not bode well for a future where the state is stepping back and where the private sector will need to be doing more rather than less if overall training levels are not to fall even further.

The Individual. In recent times policy has stressed the need for individuals to invest more in upskilling, with the new HE fees regime, and adult loans for Level 3 and above as examples. However, there are questions to be posed about the realism of this policy when real incomes for many workers are constrained. Whereas in the past it was a reasonable and widespread assumption that real wages for the majority of the working population would, short-term fluctuations aside, be on a long-term rising trend, this is no longer the case, and the structural shifts that have led to the picture discussed below in many instances started to take effect before the recession hit.

On current projects, real wages for large segments of the working population are likely to continue to stagnate or fall for many years to come. The Resolution Foundation’s calculations (Whittaker, 2013b) suggest that even if wages for low and middle income earners were now to grow by 1.1 per cent above inflation, their average annual household incomes would take until 2023 to reach the same level as they stood at in 2008. Experience in the USA illustrates static earning for the bulk of the workforce can become very deeply entrenched over extended periods. Between 1975 and 2009 the real earnings of the average US worker remained at best plateaued (Parker, 2013). For many, the rewards accruing to paid work are liable to fall rather than rise for many years to come.

Furthermore, over the last decade, in-work poverty has risen by 20 per cent, and now stands at 6.1 million living in low income households (Aldridge et al, 2012). As a result, “it is in-work poverty that is becoming the modern face of hardship” (Ramesh, 2012). As Plunkett and Hurrell (2013: 5) note, “one in five workers still earn below £7.49 per hour (two thirds of median pay), just £13,600 a year for working full-time and too little to afford a basic standard of living. This proportion has risen steadily over time and is markedly higher in the UK than in comparable maturing economies”.

At the same time as incomes for many workers and households are constrained, the costs of living are rising. We are told that the era of cheap energy is over, that the era of cheap food is drawing to a close (by no lesser personage than the CEO of Tesco - see Rayner, 2013), and that housing costs are also increasing sharply and are liable to continue to do so as a housing shortage drives up house prices and rents. Besides its direct effects
on disposable income, limited UK wage growth combined with the state of the housing market means that it now takes a low to middle income household 22 years to save the average deposit on a first-time home (Whittaker, 2013b). For low and middle income households and individuals, these multiple calls on such funds as are available to them are liable to make it harder rather than easier for them to contemplate significant investments in upskilling.

These problems are worsened by the fact that the evidence available suggests that the wage returns to many lower level vocational qualifications (VQs), especially NVQs, are often low (sometimes very low) and uncertain (Keep, 2009a; Keep and James, 2010). This is compounded by the fact that when issues of age, gender and occupation are added in, the picture becomes complex and therefore even more uncertain for any individual contemplating investing time, energy and money in acquiring such a qualification. As a result, as investments go, paying to acquire some lower level VQs may appear decidedly risky to those who have limited resources to allocate and many competing calls to answer.

What this means for policy

The implications of the issues sketched out above are stark. Any incoming government in 2015, of whatever political complexion, will be faced with a large number of challenges and some very hard choices about where to spend whatever money is available. For E&T within this fairly hostile fiscal environment, it is likely that any public investment in new programmes or forms of provision, beyond very small scale pilots, will need to be funded out of further cuts in existing budgets. As a result, although it may not have seemed the case at the time, the years 2000 to 2008 may well come to be seen as a high point for post-compulsory funding in England (Lupton and Obolenskaya, 2013). It is profoundly uncertain when, if ever, we will have it that good again!

In broader terms, the central consequence is that the traditional core objectives of public policy are now increasingly incommensurable with the level of public resources available to deliver them. Policy has outrun the funding available to support it. This has profound implications for the future shape and direction of policy development, and it is to this issue that we now turn.
The Consequences of Austerity for Future Policy Choices

In the medium to longer-term, the reduction in state support for both compulsory and post-compulsory E&T will impact upon:

4. The direction and formulation of policy
5. The patterns, levels and volumes of provision and learning
6. The structure and governance of the E&T system and the college sector therein

The sections that follow try to flesh out these implications.

Old ways of thinking about policy are under serious threat

The consequences of the looming resource famine are various and extremely far-reaching. In essence, as noted above, many of the basic tenets of established national skills policy are being put out of reach:

1. The meta-level goals of traditional skills policies become increasingly unattainable or irrelevant. As noted earlier, these policy goals have been:
   - To secure a step change in employers’, and to lesser extent individuals’, investment in skills via a publicly funded ‘supply-push’ effect.
   - To use enhanced skill levels to address a wide range of major social and economic challenges
   - To move England/the UK up to world class standards in skills

It is hard to see how these strategic governmental policy goals can remain realistic. The first requires additional state expenditure that is no longer available, and also additional employer efforts that appear unlikely to be readily forthcoming. On the third, the most likely outcome is that England/the UK will slide down the OECD Education at Glance league tables (alongside countries such as Greece, Portugal and Spain), in terms of spending, levels of provision and participation, and the outcomes that these generate (particularly as they relate to adult E&T, lifelong and community learning).

2. Traditional policy moves are become unavailable. Even if the policy objectives were to remain unaltered, the means to achieve them are being removed. Large swathes of government’s established policy repertoire in E&T are gradually being rendered more or less redundant, as the majority of these either entail incurring additional expenditure immediately, promising to do this in the future, or require leverage over other actors that is founded on the power to allocate public resources. In future, ministers responsible for all areas that are not bound up with providing initial E&T (basically spending on schools) will probably be unable, except in very limited circumstances, to announce new programmes, initiatives, or even institutional reform, not least as many of the state-funded institutions and agencies that have been the targets for successive waves of reform may no longer exist or be left with vestigial functions and budgets.

3. Diminution or loss of government control over the policy agenda. If the government has limited resources, and remains wedded to an essentially voluntarist approach to the provision of skills (i.e. it will not force either employers or individuals to invest) then its
ability to dictate and/or control events and levels of activity within whatever is left of the post-compulsory E&T system is liable to be severely curtailed, as whoever pays the piper names the tune, and less and less activity will be supported by public monies.

In thinking about future models of funding, DfE and DBIS have suggested that:

In simple terms, the government should only fund where it can add value, maximising the impact of that spend. Increasingly, its role should be to support employers and individuals as purchasers of skill, rather than as a direct funder itself.

(DfE/DBIS, 2013: 32).

Leaving to one side how realistic this expectation is it implies a very different set of power relationships and institutional relationships than those which have pertained hitherto. In the past, the incentives created by traditional government skills policies meant that E&T providers and their managements became, at least in part, supplicants in search of government support and largesse. Their enthusiasm for or at least acquiescence towards whatever policy moves government was currently espousing was there to be bought. The future looks very different.

Once government has relatively limited sums of money to dispense, its vision and priorities will tend to have much less purchase on the fundamental choices about the shape and direction of the post-compulsory E&T system, and on the views and actions of the various stakeholders therein. Without money the ability of government to unilaterally determine reforms without securing the material support of other stakeholders will be much more limited than has previously been the case. In essence, the government will need to move from buying compliance and activity to coordinating it and trying to marshal coalitions that might be willing to underpin existing activity or proceed with new developments.

To put it another way, the E&T system has generally come to be conceived of as a traditional, top-down hierarchical pyramid, with DfE and DBIS marking the apex of the system, from whence have cascaded targets, objectives and orders, and the resources earmarked to deliver them. It is hard to see how this model can continue to pertain for much longer, as funding constraints disrupt many of the key assumptions and expectations that have underlain traditional models of policy and practice for the last two decades or more (see below). Instead of a pyramid, the resultant systems architecture may be something within which a more ‘distributed’ model of power emerges.

This is a profound and fundamental shift, and requires skills, attitudes and capabilities that are very different from those that have been developed and deployed under the top-down, command and control approach of the past quarter of a century or more. It also demands the sort of leadership that secures agreement not through buying it by dispensing public funds, but rather springs from the ability to create a clear, compelling and coherent vision for skills policy. The development and pursuit of such a vision will thus need a very different sense and style of management from the one with which ministers and civil servants have become accustomed, and as such the process of adjustment to these new conditions will be difficult for some actors. The sooner that thinking about the longer-term implications of a different level of funding for post-compulsory E&T begins the more likely it is that the transition to a new mode of design and operation can be undertaken in a smooth and orderly manner.
Facing Up to the Future?

Unfortunately, it is as unclear if many in the E&T policy community, whether politicians, civil servants, think tank staff, employees in government E&T agencies and inspectorates, the senior management of E&T providers (public and private), and the various lobbying groups, have yet fully come to terms with the new world into which the cuts are ushering us. Indeed, there are some worrying indications that government is still assuming that it is a matter of relatively minor, incremental adjustments rather than any moves to a fundamentally different model, and seem loath to confront the hard choices and changes in thinking and behaviour that will be required (see DfE/DBIS, 2013; Wilshaw, 2013).

One example is the continued stress being placed on the importance of maintaining our position in OECD league tables, despite the reduction in public funds to support E&T activity and, as noted above, the likely impact that this could have on our relative performance. It might be argued that this perspective matters less than in the past, as the Coalition Government claims to have abandoned the Leitch Review’s approach of viewing England/the UK’s standing in international E&T league tables as the over-arching goal of education and skills policy. However, as is often the way with high level policy objectives, the real picture within the policy world is slightly more complex and nuanced. After a quarter of a century of seeing international benchmarking of stocks of skills/qualifications as one of the central means to measuring our E&T system’s performance (Keep, 2008), it is proving extremely hard to break with old habits and with the mind-set that underpins them. Many policy makers, both within the Coalition and the Labour Party, continue to deploy international comparisons and OECD league table positions as both an organisational performance benchmark and as a central plank in their policy rhetoric.

Thus, despite supposedly abandoning the Leitch targets as an overt objective for policy, our standing in the OECD league tables on qualifications stocks has simply popped up again, this time as one of the internal governmental performance measures used to gauge the success of DBIS and its policies. In DBIS’s Annual Report and Accounts 2012-13 (DBIS, 2013) under ‘impact measures’ for skills policies, top item in a list of three is, “OECD comparisons of the qualification levels of the working age population in the UK (rank)” at Levels 2 and 4 (DBIS, 2013: 34).

Moreover, within the current policy discourse, international benchmarking remains highly popular across the political spectrum. See, for instance, the first annual Ofsted lecture on learning and skills (Coffey, 2012); speeches given by Stephen Twigg (2013); the report on HE and social mobility by Alan Milburn (2012), the government’s independent reviewer on social mobility and child poverty; and a recent speech by schools minister Liz Truss (2014). Moreover, the government’s white paper on skills and FE, Rigour and Responsiveness in Skills (DfE/DBIS, 2013) stresses the importance of our relative international performance in an entirely traditional fashion. Indeed, overall there is a very striking level of continuity between Gordon Brown’s enthusiasm for the metaphor of a global ‘arms race’ around skills and the need for the UK to become a ‘world skills power’, and the Coalition government’s enthusiasm for the metaphor of a ‘global race’ (DfE/DBIS, 2013; Truss, 2014).

Leaving aside the question of whether these kinds of international benchmarking of skills and qualification stocks can tell us anything very useful if treated in a simplistic fashion (Keep, Mayhew and Payne, 2006; Keep, 2008), the persistence of this policy goal suggest that much of the mainstream policy discourse has not yet caught up with the painful reality of straitened fiscal circumstances. It is easy enough to use statistics from the OECD and other sources to show that at some levels, and on some measures, we trail some of our competitors, but there are two problems. First, as noted above, the reasons for our
relative performance are often embedded within the structure of our labour market, its regulatory regime, and the product market and competitive choices of employers (see Keep, Mayhew and Payne, 2006). These will not be easily changed. Second, insofar as additional investment in both initial and continuing E&T is required to bring about the sought for improvement, there now loom some very large questions about who pays for this. The traditional answer – the state – is less and less likely to be credible. There is little point in continuing to obsess about an end point for public policy, when the means to secure it have long since faded away.

There are problems too at a broader level with perceptions and understandings of what declining public funding means for the ability to sustain traditional models of skills policy. Many commentators and stakeholders continue to advance the case for general additional state spending on their favoured areas of policy and provision (see, for example, AELP, 2013; NIACE, 2013; Adonis, 2013), and remain keen to revitalise the traditional policy narrative around the supply side, skills ‘shortages’ and a skills ‘crisis’. In a world of unemployment and under-employment, and with an accumulation of evidence that suggests that over-qualification and the under-utilisation of skill is now a major problem (OECD, 2013; Green et al, 2013) such a task might at first glance appear difficult to achieve. However, this has not deterred supporters of a traditional supply-led approach within the inter-linked communities of government and its agencies, employer bodies, think tanks and consultancies, and the various bodies and other lobbying groups who now represent the ‘skills industry’. Many of these groups have strong ideological and sometimes material interests in seeking to ensure that policy continues to centre upon a state-led expansion in the supply of skills and qualifications, and they often appear to share an assumption that education and learning is such an unalloyed good that finding more money for it is ultimately unproblematic.

Despite this deep reluctance or inability to acknowledge new conditions and abandon the comfort zone afforded by traditional approaches, it is apparent that, sooner or later, new models will be required as lack of resources renders pursuit of the old model increasingly unrealistic. It could also be argued that the longer the policy community clings to a dead or dying model, the more protracted and painful transition to any new paradigm is likely to be. On the other hand, parties that decide to strike out in new directions and embrace the need for change may acquire ‘first mover’ advantages in being able to set the strategic direction for future policy development.

In terms of starting the process of evolving new thinking, there would appear to be two, linked requirements:

1. To be clear what in future the overall aims and purposes of skills policy are to be. Do the old aims carry over into this new era, or is there now a need to re-think what the function of policy really is?

2. Whether the aims change or not, most of the old ‘design and spend’ models of intervention are unlikely to work all that well now that public resources are becoming so attenuated. Developing new models of design, delivery and funding will be essential.

These requirements in turn pose a set of questions that actors and stakeholders within the E&T system will need to address. These questions occur at a range of levels – at a macro/national policy level; at a meso level in terms of the structure and management of the E&T system; and at a micro or provider/institutional level. The function of what remains of this paper is to try to set out what some of the most important issues for consideration might be.
Macro Policy Questions - The Future Aims of Skills Policy

If the resources to support government policies within the areas of post-compulsory and training provision are now and for the foreseeable future going to be heavily constrained, then some re-assessment of what policy can reasonably be expected to deliver seems appropriate and necessary. More modest resources may dictate different and/or more modest goals, and new methods of pursuing them.

As noted above, in the recent past the vast bulk of national skills policy has been formulated by central government. In the world into which we are heading, where state funding will be a much smaller part of what drives many forms of E&T activity, it would make sense to assume that policy formulation will need to embrace a more bottom-up approach and a stronger input from a wider range of stakeholders/funders. This in turn suggests that the structures that deliver high level strategic policy may need to change, in order to take account of the changing role of central government and its agencies, and in order to incorporate and mediate between a wider range of viewpoints and priorities when policy is being formulated.

In trying to think through these issues, there is some merit in posing a set of questions, the answers to which might help structure thinking about the underlying design specifications for the policies and delivery systems that are required. These include:

1. What is skills policy for? What are its aims and objectives? To what kind of vision of society and the economy is policy being linked? What social, economic, cultural and political effects is policy meant to produce? With what other areas of policy does skills policy need to mesh with? As a result, what does success and failure look like? How might its performance be conceived of and measured?

2. At whom within the workforce and wider population is skills policy aimed? What different audiences/markets are there for its activities? To whose needs is it expected to cater? What are the different groups of stakeholders who might reasonably expect their voice to have some impact on shaping how the E&T system is designed, operated and managed? How should their views/interests be represented, by whom, and what relative weight should they be afforded? For example, who can represent the interests of the individual learner? How can differences of interest and competing priorities and needs be mediated, and by what mechanisms?

3. Who pays for the different streams of activity marshalled under the skills policy? In particular, which party can reasonably be expected to pay what proportion of the costs for which different types of provision? Given finite public resources, where do the priorities lie for the use of what remains of public funding?

The remainder of this section sketches out one set of possible answers to some of these questions. These are by no means the only possibilities and other actors and stakeholders will have their own views on these topics. The key thing is that some kind of policy dialogue about the overall function and goals of the E&T system starts to occur, at national, regional and local levels. This process will need to embrace a wider range of stakeholders than has hitherto generally been the case.
Some Brief Reflections on Possible Aims and Objectives

Given limited government resources to support new policy ventures, and given the scale of the social and economic problems that now confront us, the following very general lines of thought are suggested as guides to future policy aims and aspirations (for more detailed thoughts, see Keep, Mayhew and Payne, 2006; Keep and Mayhew, 2010; Keep and Mayhew, forthcoming). To begin with, education, training and skills can make an important contribution to enhancing productivity and economic performance, but only in combination with a range of other inputs and enablers. Skills policy makes sense as part of a broader sweep of business improvement, economic development and innovation policy, but rather less sense as a ‘magic bullet’ that on its own can produce transformative effects. At the end of the day, an organisation’s skill needs are a derived demand – driven by what the organisation aims to do and how it structures work to achieve this. Fundamental changes in demand for skills require fundamental changes in competitive strategies, as well as increases in the supply of skill.

On the social front, E&T and skills policy have an important role to play in promoting social mobility and poverty reduction, but this is limited by wage systems and norms, and the broader structure of the opportunities for better paid and more rewarding work within the labour market. If the national labour market contains a large number of low paid jobs (as it does in the UK), and the supply of good jobs (however defined) is growing more slowly than the supply of people qualified to undertake them, then positional competition results, and within this there will be losers. The factors that determine the identity of losers may have little to do with individuals’ performance within the education and training system, and more to do with their geographic location, ethnicity, gender and class background. On its own, E&T will struggle to change this position. Therefore social issues can only be addressed by a broader suite of policies, which will need to confront labour market structure, recruitment and selection practices, and many other issues (Keep and Mayhew, 2010).

The critical importance of an integrated approach

The kinds of policy objectives sketched in above bring with them a requirement for a more integrated approach to the formation and delivery of skills policies. This integration would have two dimensions.

First, skills policy needs to become more closely integrated with other social and economic policies, in order for it to act in combination with other, adjacent policy levers to maximise their impact. This means that skills policy needs to be conceived and framed within the context of parallel measures on labour and product market regulation, people management and employment relations, workplace innovation, efforts to tackle low pay and in-work poverty, business improvement and economic development. In a sense, under this new dispensation, skills policy ceases to be a discrete ‘box’ and becomes part of a wider set of policies that are concerned with skills but also blur into other policy areas. Within this, it is likely that there will be a need for a relatively close integration of different tiers of economic development, workplace development and workforce development activity. In order to accomplish this, the new policy package will need to be capable of significant levels of policy and institutional boundary crossing (Keep, 2013a; Keep and Mayhew, forthcoming).

In other words, the overarching point is that rather than see skills policy as forming a stand-alone ‘cure-all’ that can solve a host of complex problems that are deeply
embedded within the structure of our society, economy and labour market; it would make more sense to embrace a view whereby education, training and skills can contribute to, and act as one component of, wider strategies to deal with these issues. Such an approach would allow policy formation to acknowledge and address the complexity and inter-connectedness of the problems that it seeks to solve, while at the same time more integrated policy design and delivery would help enable government, its agencies and other stakeholders to maximise the use of finite resources in ways that traditional, narrow forms of silo-based policy design usually did not. It would also help to enable efforts to boost underlying levels of demand for skill, the realisation of which would make it easier to persuade the various non-governmental stakeholders to invest more heavily in E&T.

Second, as a direct consequence of the point above, skills policy itself needs to be conceived of more broadly than has generally been the case hitherto, and to embrace:

- Improving the supply of skills and learning opportunities (volume and quality)
- Improving the underlying levels of demand for skills
- Improving the usage of skill within the productive process

in ways that bind the three elements together into a more synergistic whole. Traditional skills policies have concentrated on the first area, but done relatively little to explicitly and directly address the second or third. As UKCES and others have indicated, this supply dominated model is now of only limited value (UKCES, 2009; Keep, Mayhew and Payne, 2006; OECD, 2012). For example, in future, stimulating greater underlying levels of demand for skill will be essential to getting parties other than the state to pay for upskilling. Rather than the traditional government obsession with a ‘supply-push’ effect from public subsidy for E&T output, it might make considerably more sense to in future aim for a larger demand-pull effect from the economy and labour market.

A number of consequences flow from the adoption of the points outlined above. One is that policy interventions have to become much more tailor made and bespoke in nature than has been the norm previously, when much adult skills policy revolved around the delivery of universal entitlements to particular levels of certification. Blanket, one-size-fits-all interventions and programmes, of which Train to Gain (T2G) was an example, are extremely unlikely to be able to address complex issues to do with the interaction of demand and supply that will often be rooted in circumstances specific to individuals sectors and workplaces.

A further consequence is that there is liable to be some shift in emphasis from external provision of skills to developing the capacity of the workplace to be a site for learning (Keep, 2010). A key focus for traditional skills supply policies has been the provision and state sponsorship of a network or marketplace of external training providers (public and private), and of brokerage services to put employers in touch with a range of such providers. This model placed no emphasis upon the inherent capacity of the workplace and the productive processes within it to sustain learning. Instead learning was something, like contract cleaning, that was to be bought in from outside. Such a model tends to be extremely expensive to operate, and creates training opportunities and infrastructures that are highly ephemeral and subsidy dependent (Keep, 2013b; Wolf et al, 2010). A more cost effective alternative would be to move towards a workplace development approach that stressed enhancing the innate capacity of the workplace and work processes to support skills acquisition. Such an approach would allow skills policy to dovetail with aspects of business improvement, workplace innovation, productivity enhancement and quality of working life policies (Keep, 2013a; Keep and Mayhew, forthcoming).
Making explicit who should be doing what – the importance of the ‘3Rs’

Another fundamental requirement for the new form of skills policy being advocated here concerns clarity about who should be doing (and paying) for what. A major and consistent failing within the English E&T system has been its refusal to establish and then maintain a clear, mutually accepted understanding of the rights, roles and responsibilities (what some have dubbed the ‘3Rs’, see Gleeson and Keep, 2004) of the different parties and stakeholders within the E&T system. In particular, although there have been attempts by both the National Skills Task Force (NSTF, 2000a and b), and the Leitch Review of Skills (2006) to set out what levels and types of E&T employers might reasonably be expected to contribute towards the costs of providing, and what broad proportion of those costs they might reasonably be expected to bear, the government subsequently undermined these settlements by offering additional levels of subsidy in support of projects such as Level 3 Train to Gain, and the Higher Education Funding Council for England’s Workforce Development Programme.

In the new public spending environment, the need for such an agreed understanding of who will bear what costs seems all the more important. Without clear and agreed expectations, securing greater contributions from individuals and employers will be harder to achieve. That said, past experience suggests that many policy makers will seek to avoid the process needed to deliver such an understanding, seeing it as too daunting and uncomfortable an experience to countenance. This would be a very big mistake to make, as it could offer an opportunity to determine what the different stakeholders really value and desire (and are therefore willing to help pay for), and to re-appraise policy priorities accordingly. Moreover, once established, such a common understanding about who pays for what could underpin new funding agreements of the type discussed below.
Meso Level Issues – A New Systems Architecture for the College Sector?

Given the macro national issues concerning policy priorities outlined above, how should the wider E&T system be structured to achieve the desired outcomes, i.e. to be fit for purpose? With money in short supply there are strong arguments for adopting a systemic approach to linking policy formation and systems design as a means of ensuring that waste is minimised and scarce resources tightly focused around whatever core priorities the system is supposed to be achieving. For instance, given whatever over-arching objectives the system has been set, and the different learning needs it will be required to meet, how centralised or devolved should control of the system be, and what sorts of governance, funding and performance management systems should be deployed?

System design and leadership

In thinking about how prioritisation can take place, structures of decision making and accountability loom large. At present, policy makers seem to wish to talk in very general terms about a new model of ‘system leadership’, though the exact meaning of the term remains obscure. In the eyes of government officials it appears to embody a hope or expectation that current developments, such as the creation of the Education and Training Foundation (ETF) and the granting of greater freedoms to colleges to choose how they allocate their public funding, will in and of itself shift responsibility downwards, and that new strategic directions will emerge bottom-up. However, what remains very uncertain is the degree to which, if such a shift in power and decision-making is the desired outcome, the government will be willing to reduce its now ingrained tendency to unilaterally intervene in, direct and ceaseless ‘reform’ multiple aspects of the E&T system (Keep, 2006 and 2009b). At present, there are few signs of this occurring.

One reading of the government’s white paper Rigour and Responsiveness (DfE/DBIS, 2013) is that the additional freedoms granted to colleges are in essence the freedom to decide where cuts are going to have to fall, and the freedom to have to answer for those decisions to other stakeholders as government stands back. The catch is that the process by which this can be undertaken in an orderly and equitable manner at local level (and some colleges are now federated or multi-operation institutions which makes notions of ‘local’ harder to determine), and also by which local decisions can then be aggregated and aligned with the remaining national priorities remains hard to identify.

This uncertainty is compounded by the underlying ambiguity inherent in the government’s position on competition versus co-operation. From time to time the government has indicated that too much competition could be wasteful, but current developments, such as Studio Schools, UTCs, Free Schools, Career Colleges, and the recent announcements concerning the founding of entirely new FE colleges (see FE Week, 27 January, 2014, page 1), such as a specialist institution to deliver engineering skills in support of the proposed HS2 railway line and another to deliver the skills that the nuclear industry will require around the Hinckley Point reactor site, all suggest that at the same time there is a strong presumption that creating multiple streams of provision and then letting the ‘market’ decide via student choice will help ratchet up standards. Within this model, government retains power in part through its role as ‘market maker’ and regulator. This enthusiasm for ‘57 varieties’ of institution and endless announcements of new providers may also reflect the desire for policy makers to have something fresh to announce. Leaving aside the large and important issue of whether added complexity and competition delivers
better results than the development of existing institutions and better co-operation between them (see, Robbins, 2014), the government’s current approach brings two problems.

First, in an era of austerity it risks leaving all providers fighting over dwindling pots of state funding, with implications for institutional financial stability and the ability of providers to maintain and upgrade their capabilities and deliver quality provision. Second, greater competition makes it ever-harder to deliver any kind of co-ordinated system, at national, regional or local levels. At present the strategic direction appears to be heading more towards market than system. A key problem with markets is that they tend to cater poorly, if at all, for customers who have less spending power (whether this comes from public or private sources). In other words, in a market, disadvantaged groups may find themselves falling through gaps in provision, and FE colleges yet again end up trying to act as ‘providers of last resort’.

Underlying this issue are competing visions or expectations of what FE is meant to be doing. On the one hand the Foster Review (Foster, 2005) and the government’s response to it (DfES, 2006), and more recently Ofsted (Wilshaw, 2013), have pointed to a lack of clear focus and the dangers of an overly-diverse set of missions for colleges. The Sharp Commission (2011) in turn stressed the need to balance social purpose, local planning, economic purpose and their role as deliverers of programmes of study. At the same time, central government and local communities and economies often have implicitly expected FE to act as a ‘provider of last resort’ to a multiplicity of groups and different E&T needs, and is far from clear that this assumption will change.

Some key questions for colleges and their representatives

There are plainly a host of questions and issues that might require answers from colleges. The section that follows can only raise a few examples:

- If choices about what types and levels of course to put on, and which streams of demand to cater for are made more and more by individual colleges (and other providers) in response to local markets and funding opportunities, how can we in future meaningfully talk about a national ‘FE system’/sector?
- In a world where central funding is far lower, especially post-19, and where colleges may be responding to funding incentives established by local demand and willingness to pay, how can we preserve national, regional, sectoral and occupational capacity, as well as minority subjects and types of provision that are needed across the country, but may not be able to pay their way at local level?
- The DfE has indicated its enthusiasm for a model whereby accountability for 14-19 provision in colleges is of the ‘hard’ variety in respect of relationships with DfE and Ofsted, but ‘soft’ in terms of parents and the community. DBIS (2011) on the other hand, have a somewhat different model in mind, where local accountability figures more strongly. How can these conflicting visions be reconciled, and by whom?
- How should colleges’ relationships with schools and other providers be structured, especially if some colleges move further into 14-16 and 14-19 provision.
- If more and more college provision for post-19s and employers is non-state funded and where colleges are responding to a market, to what extent can colleges be seen as being any different from private training providers, especially those PTPs that operate on a not-for-profit basis?
How far should colleges, individually and collectively, go in seeking to become local ‘hubs’ or ‘animateurs’ for the local community and economy? To what extent should their role embrace economic development in partnership with LEPs and other actors, and what role might they play in areas such as innovation support and business development (see below)?

*Hard times, hard choices.* Given whatever national policy objectives and priorities are established, another key issue at local level will be the relative weighting afforded to different users or client groups for whatever public funding is still available:

- employers – and within this group between small employers, large firms, the third sector;
- 14-19 individuals;
- 19-25 individuals;
- adults aged above 25;
- and disadvantaged groups – for instance, ethnic minorities, migrants, those with learning disabilities, those from severely disadvantaged backgrounds and communities

and different levels and modes of provision:

- A level and academic
- Level 2 and below vocational (general and specific)
- Level 3 and above vocational (general and specific)
- Degree and sub-degree
- ESOL
- Adult literacy and numeracy
- Community learning and other forms of non-vocational adult courses

Choosing between these different levels and types of provision in terms of where to target scarce resources will be very hard. Until recently, the policy model has tended to stress ‘and’ rather than ‘or’. The main historical exception to this was the Government’s decision in the wake of the Leitch Review (2006) to downgrade the priority for funding afforded to forms of adult learning that did not lead to qualifications achievement that would feed into the national targets.

Recent announcements by the SFA concerning the ‘de-funding’ of 1,500 adult qualifications suggest that the early stages of this process are already quietly under way, and are at this stage being conducted by central government and its agencies. Given constrained budgets, many colleges will also be making hard choices.

The questions for the future are:

- How these choices are arrived at – in terms of transparency and the criteria being used
- Governance issues about who is making them (at whatever level within the sector and wider E&T system)
- Who monitors, and in some cases addresses, whatever aggregated effects these individual changes on patterns of provision and different client groups/markets produce.
New local foci?

Given these challenges and choices, fresh thinking around local co-ordination and planning; labour market intelligence (LMI); information, advice and guidance (IAG); course choice; patterns of provision; and institutional and systemic capacity building, would be useful in shaping and managing the local E&T ‘offer’, particularly insofar as this offer may need to assist in the construction of funding coalitions to draw together resources from multiple sources (see below). Those involved might include:

- Private training providers (PTPs) – for profit and charitable
  - UTCs
  - Studio Schools
  - Academies
  - Community schools
  - FE colleges
  - VI form colleges
  - Employers that provide training – apprenticeship and adult
  - Organisations delivering adult and community E&T
  - Local Enterprise Partnerships (LEPs)
  - Local authorities

At present the mechanisms to facilitate this kind of conversation are lacking, and it is unclear who, if anyone, will take this agenda forward. However, in thinking about both the issues flagged up above – the governance of processes for determining future priorities, and engagement between colleges and the wider local community (and the E&T providers within it) – there are already some blueprints and models available for discussion. Both the Sharp Commission’s final report (Sharp, 2011) and the Association of Colleges’ *Thinking Outside the College* report (AoC, 2012) provide valuable starting points for thinking through what needs to be done and potential avenues for undertaking the work. The further development and application of these models is now the priority.

New skillsets, new structures and new thinking for agencies

New local co-ordination arrangements, greater freedom for and decision making by colleges, and, more integrated forms of policy intervention (for example, around skills and economic development) will, in turn also require new ways of government and its agencies conceiving of:

1. Performance Management Systems and KPIs
2. Project management
3. Intermediaries and delivery agents
4. Funding regimes
5. Policy management and implementation skills and routines
For example, it is interesting to note that in Scotland consideration of how to move away from one-size-fits-all programmes is already under way, as policy design and delivery starts to place greater emphasis upon more bespoke forms of response to skill needs, particularly from individual employers, occupations and sectors.

The requirements outlined above raise major questions about the status, functions and capabilities of the funding agencies – EFA, SFA and NAS (now again subsumed within NAS). In general, it would seem reasonable to characterise the EFA and SFA as currently able to administer different models of formula funding and their associated financial accountability regimes, but with an apparently limited and uncertain capacity to initiate or manage change, even within their own systems and processes. For example, the on-going debacle over the SFA’s roll out of the new Funding Information System (Fis) raises serious questions about the agency’s project and change management capabilities, which in a world where major structural change in patterns of provision and funding is liable to be the norm, ought to be a source of serious concern to government. The National Audit Office’s recent report on the EFA also suggests that there are capacity and capability issues around it fulfilling its current mission adequately due to the scale of administrative cuts it is undergoing (NAO, 2014). Moreover, the nature of current relationships between the EFA and SFA and providers are probably best described as relatively bureaucratic and transactional. This suggests that although they may be able to disburse whatever dwindling levels of government funding remain, their ability to initiate, lead or even support system-wide reorientations of both institutional form and mission is liable to be very limited indeed.

To some extent this reflects the fact that current institutional funding and control model is the remnant of a different era. Born in a time of expectations of rising funding, centralised control, top-down policy design and direction, and designed to deliver national targets and blanket one-size-fits-all government programmes (for example, Train to Gain), it, and the institutions it has spawned, are relatively ill-suited to the era of constrained public resources and bottom-up innovation (not least on funding) into which we are now heading. Moreover, cuts to the agencies’ governance and staffing, and changes to ‘Next Steps’ agency status, have combined to hollowed out whatever capacity for strategic thought and leadership they once possessed. As a result, there is now an increasing contrast between the strategic capacity of the agencies in Scotland (the Scottish Funding Council and Skills Development Scotland) to design, initiate and manage systemic change, and those of their English counterparts (Keep, forthcoming). This suggests that some thinking about the future development of the English skills funding institutions will be required if they are to be ‘fit for purpose’ in the world into which we are now heading.
Micro Level Issues

At the level of the individual college and its internal management and working, the new world is creating a host of issues. Given space constraints one will be highlighted here by way of example. This concerns the choices that colleges may want to make around the emphasis they place on different streams of provision.

It can be argued that colleges’ activities can be divided into two streams:

**Mode A** – which covers 14-16, and 16-19 provision. In other words, it caters for young people.

**Mode B** – which covers further education provision for the post-19s and adult provision of varying kinds, as well as work for employers, lifelong and community learning, and higher education.

This split reflects those areas of activity that come under the purview of the EFA (Mode A), and those that are either funded by the SFA or are within the policy remit of DBIS rather than DfE (Mode B).

At present, Mode A appears to offer funding streams from government that are more secure and generous than those on offer for a great deal of Mode B activity. However, as noted above, Mode A is not immune to funding pressures, as the government’s recent decision to reduce by funding for 18-year olds by 17.5 per cent demonstrates. This fact notwithstanding, it seems reasonable to judge that on many criteria Mode B is inherently less certain, more volatile and riskier than Mode A. The issue then becomes how colleges will choose to manage this risk; what relative weight they will put on the two modes in planning future provision; and what the impact of relatively homogeneous funding for Mode A, and much more diffuse and short-term resourcing of Mode B will be on staffing and management structures for the two respective areas of activity. It will, for example, be interesting to see whether some colleges decide to make strategic moves to develop as significant 14-16 providers within their locality.

The other major issue has already been noted – the degree to which individual institutions will be making choices about the balance between and composition of Mode A and B provision in isolation or in collaboration with other providers. There is a danger of an atomistic approach, which will leave gaps in provision, may disadvantage certain types of learner, and render the ability of providers of IAG to ‘amp’ provision even harder than it already is. How colleges (and other providers) go about deciding what their ‘offer’ is to be, is going to matter at local level, but also in terms of thinking about an FE or E&T ‘system’.
An Over-Arching Issue – New Sources of Funding

One final consideration that spans the macro, meso and micro-level issues that colleges and other stakeholders within the E&T system will need to confront, centres on the critical issue of finding innovative ways to fund E&T, especially for provision that caters for the post-compulsory phase. Unless new, non-governmental sources of funding can be identified and tapped into, the volume of E&T that can be supported is liable to fall quite significantly, with serious consequences for those groups that are not priorities for employers’ investment in skills, and who cannot invest heavily in their own learning.

At present, a range of opportunities are already being explored:

- Corporate sponsorship
- Tapping into the UKCES’s employer ownership pilots
- Overseas students
- Overseas provision/campuses
- European Social Fund (ESF) funding accessed via the LEPs
- Charities
- Full-cost provision for employers, including helping firms to upgrade their own internal human resource development capabilities*
- Local co-funding arrangements (with employers, trade unions and others)*
- More HE and FE (at degree and sub-degree level)
- Innovation and knowledge transfer activity*

A thorough review of these and other potential new sources of funding would require a separate paper. All that can be assayed here are some brief remarks on those items marked with an *:

**Full-cost provision for employers, including helping firms to boost their HRD capabilities.** If more responsibility for training is to shift to employers, not least around apprenticeships – as government policy desires – then, besides confronting issues to do with level of employer investment, policy also needs to address the actual capacity of employers to deliver training of good quality. To date, much attention has been focused on what external training providers can do for employers, but, as has been noted earlier in this paper, it is likely that it is as least as important, if not more so, to also consider how employers can be supported to do more to help themselves (Keep, 2010).

This is because research demonstrates extremely clearly that not only the volume and quality of formal learning within organisations be dramatically enhanced through having skilled trainers and adequate learning resources, but also that massive amounts of informal learning on-the-job can be delivered through the re-design of work processes and peer-to-peer learning support mechanisms (Keep, 2010; Eraut and Hirsh, 2007; Felstead et al, 2009). Currently, we know relatively little about the state of employers training or human resource development (HRD) functions, but anecdotal evidence suggests that it may be patchy and weak in some sectors and types of firm. Colleges ought to be well-placed to provide consultancy in this area, and to lay on ‘training of trainers’ courses.

**Co-funding arrangements.** In a world where government support for many forms of provision will dwindle or vanish, it will be important to try to construct new mechanisms, at sectoral, occupational and local/regional levels through which the costs of learning can be shared between the different beneficiaries, and funding streams pooled. For work-
related learning, this means employers and workers finding new ways to collaborate and to share investment costs.

One of the lines of policy development that is relatively weakly developed in the UK, but which is often an established feature of E&T systems elsewhere in Europe, is that of co-investment infrastructures. These are generally the offspring of sectoral or industry-level collective bargaining arrangements that create a pooled fund that draws on employer and employee contributions to support adult training (see Cedefop, 2008). However, such models are not totally alien to the UK, but exist at organisational rather than sectoral level. For example, the Ford Motor Company's Employee Development Programme (EDAP), was, for a brief moment in the early to mid-1990s, seen by policy makers as the coming thing. EDAP offered financial support to adult workers' wider lifelong learning (rather than work-related training), and was jointly managed by the firm and its trade unions. Despite their relative invisibility, EDAP and other similar schemes continue to operate, often within public sector organisations, and where possible efforts to bolster this mechanism and the learning offer it supports would make considerable sense.

More importantly, there have been relatively recent attempts to explore new kinds of pooled funding mechanisms via Unionlearn's DBIS-supported Collective Learning Fund (CLF) pilot projects. The CLFs, which were tested in 23 workplaces in the North West and East Midlands, were:

*union-led initiatives to stimulate co-investment in the personal development of the workforce to make such learning affordable....the pilots involved increased funding and in-kind contributions from employers and providers, obtaining greater support from unions and enhancing employee commitment.*

(Stuart, Clough and Rees, 2011: 5)

For an evaluation of the strengths and weaknesses of this approach, see Stuart, Clough and Rees (2011).

Although the CLF pilots attracted little attention and were over-shadowed by the vastly larger Train to Gain (T2G) programme, they appear to offer a more tenable model than T2G in the financial climate within which we now find ourselves. Further exploration of, and experimentation with, forms of collective funding arrangements are liable to prove to be an important element within the more diverse set of resource streams that post-compulsory learning will be forced to rely upon in the coming years.

**Innovation and knowledge transfer activity.** Although the UK government’s current innovation policies place their central stress on HE and its responsibilities for research, knowledge transfer and innovation support, research suggests that FE also potentially has an important part to play (Hughes and Stanton, 2003; LSIS, 2010). This activity, alongside that supporting employers to upgrade their HRD capabilities, might work best if integrated into wider local economic development and business support offers.

Many colleges are already working to develop the kinds of activities and income streams highlighted above. Overall, it is plain that the balance within college funding between top-down, central government support and income streams that are being developed bottom-up is going to shift, particularly for post-19 activity. An interesting question is the degree to which local/regional and sectoral approaches may also be required, and, if they are, who will lead them. Another consideration is what more might be done to measure the income flows arising from these activities, and to make them more visible when policy for the sector is being developed, particularly by government.
Final Thoughts

People will look back on the noughties as a ‘golden age’ for E&T spending. It is profoundly unlikely that the state will, at least in the foreseeable future, be in a position to commit any similar level of central government funding to E&T activities, particularly those beyond compulsory schooling.

This is important for a number of reasons. Some are practical, in terms of how colleges and other providers respond, which areas of activity are subject to cuts, and what the implications for overall volumes of E&T activity and for different client groups might be. Others relate to the underlying purpose and direction of national skills policy. This has for many years suffered from an implicit tension between the massive aspirations that policy makers have loaded onto E&T, and the underlying likelihood that E&T could ever satisfy these expectations (Keep and Mayhew, 2010). Now there is the added complication that there is a large and growing disjunction between the aims and intentions of public policy and the level of government funding available to support their delivery.

In the future many of the activities previously supported by government will either have their funding reduced or withdrawn, so the establishment of priorities becomes extremely important, as does the development of new ways of thinking about skills policy. This paper has set out why fresh thinking is necessary, and offered some early indications of potential directions for exploration.

It would be good to believe that others within government and its various skills and E&T agencies and within the wider world of policy development were busy with this task, but current indications are that as yet relatively little attention is being devoted to either a re-casting of the purposes of E&T policy, or any fundamental reflection on what a new model for E&T system design and governance might look like. Indeed, in some quarters there appears to be a belief that the old system, albeit in somewhat slimmed down form, will continue to pertain. For the reasons outlined above, this may not a particularly realistic assumption. As money becomes tighter and traditional models of intervention and activity become harder and harder to sustain, the need to move beyond traditional thinking will hopefully become clearer and more compelling, and that as a result new activity will result.

Colleges have a vital and central role to play in this process. At an individual level the management and governance teams; as well as their staff, students and stakeholders; will need to think through where they want to be, not just in the short term, but also in relation to the longer term strategic development of the institution. At a local and regional level there may well be sense in colleges addressing some of these issues collectively; and institutions with similar missions, particularly specialist colleges, will probably want to develop joint solutions and ways forward. At national level, there is plainly a major role for the Association of Colleges, not least in trying to stimulate and inform policy thinking.

In addressing this agenda, it would seem essential to try and involve and work with a wide range of stakeholders who have an interest in what might emerge:

- Ministers and civil servants in DfE and DBIS
- Staff in the EFA, SFA and NAS
- MPs and parliamentary select committees
- LEPs
- Sector Skills Councils
- Industrial partnerships in the government's priority sectors (see Whitehead, 2013: 25)
- Local authorities
- Employers and their representatives
- Trade unions and Unionlearn
- Students and their representatives
- College staff and their representatives
- Bodies such as NIACE, the ETF and the WEA
- Think tanks with an interest in the field (for example, IPPR, the Work Foundation, and Compass)

In the world towards which we are now heading, what government thinks may come to matter a great deal less than hitherto, and what colleges think and choose to take the lead on may come to matter a great deal more. Whoever seizes the opportunity to confront some of the issues discussed in this paper is likely to be able to establish the policy agenda for the next decade.

Some potential questions to consider in tackling the issues raised in this paper:

1. The old model of government as designer, controller, funder and sole/lead ‘customer’ is dying. What should the state’s role within FE and the wider skills system be in future?
2. What should be the purposes and objectives of national skills policy now that government’s capacity to fund activity is reduced? How and by whom should they in future be set?
3. To what extent should policy design be established by bottom-up innovation by providers and other actors (sometimes working in partnership)?
4. What, in future, should be the roles and required capabilities of the EFA and SFA? Are they currently configured and staffed to meet these needs?
5. How likely is it that employers will be willing to contribute significantly more towards the costs of training than they do at present? Will different employers/sectors react differently? What are the prospects for full cost recovery provision? What are the implications for colleges (and other providers) if employers fail to rise to the challenges set by Whitehead and the Richard Review? How will low income individuals pay for courses given the current and likely continuing squeeze on real wages and living standards? Is an extension of loans the answer (down to Level 2)? If this won’t fly, what is the answer?
6. If colleges tailor their provision to match local ‘market’ opportunities, how will we be able to talk about an FE ‘system’? How will national, regional, sectoral, and occupational capacity be maintained and by whom?
7. If less activity, especially post-19 is funded by government, to whom will colleges be accountable for that activity? How?
8. What will/should be the role of Ofsted in this emerging new world?
9. Will some (more) colleges go 14-19 only? What are the implications of diminished post-19 funding for colleges whose main focus is adult learning? How will colleges manage risk in future?
10. Will funding drive colleges to have an ever-wider focus/range of provision or force them to focus in on a few core markets? What happens to colleges as the ‘provider of last resort’? Who else can/will fill the gaps? How will policy makers react if colleges exit markets/provision that policy regards as important? What is the future for community learning?

11. What are the opportunities for colleges to expand into knowledge transfer, workplace innovation, business improvement and economic development?

12. What new sources of income might be important? Should these be developed by individual colleges, consortia, partnerships with other actors, or systems wide?
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