

Adult skills

Purpose of report

For discussion

Summary

This report invites the Board to discuss the decentralisation of adult skills.

Recommendation

The Board is asked to comment on the paper.

Action

Officers to take forward the Board's comments.

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Decentralising Adult Skills

Introduction

1. The Open Public Services White Paper offers the prospect of decentralising “commissioning” for skills¹. The recent Government amendment to the Localism Bill gives cities the opportunity to bid for new tools to drive economic growth².
2. This is a welcome development and officers would invite the Board’s direction on the approach we should now take.

The adult skills system – the value for money problems

3. The Government invests £3.5 billion in adult skills for around 3 million learners a year alongside individual and employer investment. The public spending is administered, at a cost of around £100 million a year, by the Skills Funding Agency.
4. This public subsidy is rationed through a system of funding rules – on eligibility (types of individual and courses) and tariffs - and allocated on the basis of historic volumes with a retrospective reconciliation of predicted and actual volumes.³ A small proportion of the budget (2.5%) is allocated for job outcomes – the Job Outcomes Incentive Payment. A quality assured data collection and management system provides the audit trail for payments to providers.
5. There is a strong value for money case for exploring whether decentralised approaches could deliver even better skills outcomes⁴:
 - 5.1 there are local and regional imbalances in skill levels, with spatial concentrations of low skills
 - 5.2 employers and UK Commission for Employment and Skills report on continuing skills gaps⁵

¹ Paragraph 5.17 Open Public Services White Paper, July 2011

² Cities to bid for new powers to spark economic growth, CLG press release, 13 September 2011
<http://www.communities.gov.uk/news/corporate/1987935>

³ The detail can be found in Adult skills budget funding requirements 2011-12, Skills Funding Agency

⁴ Skills outcomes are improving – for example apprenticeship completion (73.8%) has doubled since 2004-05

⁵ Strategic skills needs in the low carbon energy generation sector, UK CES, March 2010

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- 5.3 there are local concentrations of high unemployment where the integration of skills and employment support provision will be critical (this is recognised in new skills conditionality for the unemployed)
- 5.4 information on learning destinations is difficult to access, lacks currency and shows wide variation in provider performance.⁶

Our solution - better value through decentralisation

- 6. Whilst skills provision will be determined by learner choices in the market, there needs to be a wider local discussion about how colleges and training providers best serve their communities and any market failure needs to be mitigated.
- 7. Local Enterprise Partnerships (LEPs), bringing together civic and business leaders, provide a new forum for such a conversation within a natural economic geography. They have an ambition to play a bigger role in skills and have ideas about how they would drive more value from the system.
- 8. This value could be driven out in various ways. At its most radical, there could be a full devolution to councils or LEPs of the Skills Funding Agency role and funding. There is of course an economy of scale argument for retaining a funding agency that operates a national payments system to colleges and providers, but that only applies to the bulk processing. In theory the function and funding rules could be disaggregated and decentralised in particular places into a local skills investment fund - where there is a local consensus behind such a proposition, and evidence that a new approach would produce better, more targeted outcomes.
- 9. Less radically, decentralisation could take a number of forms aimed at improving:
 - 9.1 the local accountability and performance of providers. We know that improving information flows, greater transparency and scrutiny improve provider performance. LEPs, councils and other local fora could provide this role acting as the local customer champion (for both individuals and employers)
 - 9.2 the delivery of particular qualification and job outcomes through locally agreed variations to tariff and payment structures
 - 9.3 the diversification of supply working across the local market of skills and education providers to enable both new entrants, partnership formation across tiers or shared services models that spread cost and reduce barriers to entry. There are also opportunities for places, rather than

⁶ Framework for excellence - <http://ffepublication.skillsfundingagency.bis.gov.uk/>

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institutions, to strengthen the local “skills” and place offer to overseas students in a global skills market

- 9.4 through the aligning and pooling of budgets (community budgets) to retrain a local workforce and reintegrate them into the labour market.

Guiding lights

10. Decentralisation should build on and enhance the central pillars of government’s skills policy – a choice-based approach, de-regulation of the provider/government relationship, greater transparency and diversifying provision.
11. We are unlikely to make progress if our approach comes across as a return to skills planning through the back door– the thrust of policy is de-regulatory, giving colleges and training providers more freedom.

Next steps

12. Through the LGA’s Local Growth Campaign, we would invite councils, BIS and the Skills Funding Agency, with colleges and business to consider how decentralisation might drive greater value from the skills system and build the case.
13. Whilst there is an open door through the Open Public Service White Paper, engaging BIS on a decentralisation agenda will be a significant challenge. We are following that up at officer level.
14. In building the case, we can develop the collaborative work between the LGA, 157 Group and the British Chambers – this was captured last year in “the role of local enterprise partnerships in tackling skills needs.” Copies will be available at the Board meeting.