Rising to the challenge:

The Further Education and skills sector over the next decade

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Social Market
Foundation

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FURTHER EDUCATION TRUST FOR LEADERSHIP

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ABOUT FETL

The Further Education Trust for Leadership (FETL) is a unique charity and independent think tank whose purpose is to enable the development of the leadership of thinking in further education and skills. Their vision is of a further education and skills sector that is valued and respected for:

- Innovating constantly to meet the needs of learners, communities and employers
- Preparing for the long term as well as delivering in the short term
- Sharing fresh ideas generously and informing practice with knowledge

For more information please visit http://fetl.org.uk/

FOREWORD FROM DAME RUTH SILVER (PRESIDENT, FURTHER EDUCATION TRUST FOR LEADERSHIP)

This is a timely and strategically important report, appearing as it does, at a critical moment for the further education and skills sector. While it reflects intelligently on the context in which the sector now operates, it is not preoccupied solely with its current challenges but rather has its sights set firmly on the longer-term future – a refreshing and wholly welcome perspective. The report makes clear that FE and skills has reached a point in its development where some variation of the status quo is no longer an option and, while the challenges of today are real and should not be understated, we must engage with them through a long lens, thinking five, 10, even 20 years ahead.

This is why I find this publication so very useful and why the Further Education Trust for Leadership is pleased to have had the opportunity to sponsor it. It presents a very clear picture of the compound turbulence, the fragility and the costly impact on learners and communities of decades of policy neglect and short-termism in UK politics, one outcome of which has been the dramatic reductions in spending on the sector in recent years. It is crucial to understand this febrile policy environment, the impact it has had on ordinary people's lives, and the losses that have resulted. We need also to understand the major forces which are currently sweeping across the territory, threatening to wipe away much that is of value while also offering opportunity and a strong sense of possibility. Localisation of funding, apprenticeship reform, curriculum changes and area-based reviews are among the factors driving change in the environment in which colleges and independent training providers operate and must make a place.

This report makes a valuable contribution in offering ways of navigating these places of possibility. In their exploration of the future, the authors make a powerful case for a strengthened role for FE and skills, noting, of course, the significance of Brexit, which has major implications for the sector, while also highlighting a range of scenarios each of which captures an important competitive challenge for the sector. In doing so, they not only reflect on the changing world of FE and skills but also think more broadly about its place in wider system-level change, informed by discussions with schools, universities and employers. This too is significant. We no longer think only in silos, dwelling on the closed world of FE and skills and ignoring what is going on outside our walls; the best leaders in the sector think widely and imaginatively about the future. The next stage, however, is to do this with relevant other players in order to understand these changes together and engage with them collectively.

The report makes clear that FE and skills has a great deal to contribute. We are resilient, flexible and responsive, in ways which few outside the sector fully appreciate. Those significant and distinctive strengths need to be mined and exploited fully, if our potential role in making the most of these openings and opportunities is to be realized. It isn't enough simply to carry on with business as usual. As the report also argues, transformation is necessary if we are to make a full contribution to the economy and society. This cannot be left to ministers and funders: we must deepen the habit of imagining in ways which can turn imaginings into reality. That is, above all, what FETL stands for and what we encourage the sector to do in working with reports like this one constructively and with impact in mind.

I urge leaders in the sector to take this report to your boards, share it with your staff, with employers, with directors of education, with your local chambers of commerce and begin the critical work of making sense of these emerging possibilities in local, contextualised ways responsive to the needs of our communities as they look towards the future and take responsibility for it.

EXECUTIVE SUMMARY

The Further Education and skills sector is under huge financial strain. It also, once again, finds itself the subject of enormous policy instability. However, it is easy for these present-day pressures to crowd out the challenges and opportunities of the future, which are very important in themselves.

This report casts forward ten years and seeks to imagine the competitive environment in which the Further Education and skills sector – including colleges, independent providers and employers – will be operating. It seeks to prompt the thought: what should we be doing now to prepare for the future?

The analysis focuses in particular on four market developments that will present different competitive threats to the sector as well as prospects for collaboration and innovation. In particular we envisage a world in which:

- With the backdrop of Brexit, and fewer EU students, the **university sector** competes more aggressively with the FE and skills sector for learners. In some cases, competitiveness may give way to cooperation. In others, the FE and skills sector will have to maximise its connections to employers and/or to new learners.
- **Schools and colleges** both collaborate and compete. While funding shortages may drive schools to attract 16-18 students, such threats are offset by a demographic bulge of school-age children that will emerge over the next decade.
- In response to changes to industrial policy and the Apprenticeship Levy, **employers** themselves may seek to provide what previously has been delivered by other parts of the FE and skills sector. Independent providers and colleges will need to further deepen their relationships with employers and develop more personalised and integrated offerings.
- **Educational technology (Edtech)** will see learners self-direct, whilst distance learning and virtual learning will undermine the hold that colleges have on their local population and expand competition. To remain competitive, the FE and skills sector will have to innovate, take risks, partner across the sector and embrace the move from physical learning to virtual learning.

Our conclusions explore three areas where the Further Education and skills sector could develop: identifying new markers of distinctiveness in an increasingly diverse and competitive market, collaborating in new ways with different partners across the FE and skills sector and beyond, and pitching to new pools of learners. In particular, a number of potential scenarios emerge for the sector:

- **'Local Social Mobility Champions'** – In the post-Brexit world, with the growing focus on UK competitiveness, regional growth and inclusive economic opportunities, we envisage that colleges, together with independent providers, could become local champions and engines of social mobility. This will include addressing the UK's deficiency in technical skills as the country reduces immigration and focuses more on domestic skills. Their role will also include close working with an increasingly diverse business and labour market, proactively helping push the self-employed and local businesses up the value chain. There are opportunities to become hubs for start-ups as well as the one-stop shop for apprenticeships provision.
- **'Tech chains'** – With technological developments eroding the importance of 'place', powerful UK and international providers will compete with the FE and skills sector to provide distance and virtual learning. We envisage combinations of colleges, independent providers and employers aggregating capital, skills and marketing power to compete under one brand. This will involve transitioning from physical learning and physical estates to virtual learning.
- **Employer-embedded partnerships** – With employers exercising greater control of training under the Apprenticeship Levy, independent training providers and colleges will have to be ever more adaptable to their skills needs. Employers themselves are likely to make more strategic decisions about their own role in training provision. Alongside this shift, there will also be greater need to integrate learning in the workplace. An older workforce is likely to require significant re-training. Technological change will drive new working practices and the adoption of new complementary skills. At the same time, the ability for training to take place in the workplace will increase with the rise of Edtech. Employers may, therefore, form even deeper partnerships with independent providers and colleges.

PART I: WHY THE REPORT

Our modern industrial strategy is a critical part of our plan for post-Brexit Britain. Our action will help ensure young people develop the skills they need to do the high-paid, high-skilled jobs of the future. That means boosting technical education and ensuring we extend the same opportunity and respect we give university graduates to those people who pursue technical routes.[1]

Theresa May MP, Foreword to Industrial Strategy

1. THE CURRENT CONTEXT

The further education and skills sector has historically played a fundamental role in educating and training young learners as well as helping adults update and extend their skills to meet the changing needs of work. In recent years, it has fulfilled this role with increasingly diminishing budgets and in the context of huge policy flux.

What is the FE sector and what does it provide?

The FE and skills sector comprises further education colleges, sixth form colleges, independent training providers, employers (as providers) and the charitable sector. When we refer to the FE and skills sector it is intended as an inclusive definition that captures this breadth of provision.

The sector delivers a mix of academic and vocational qualifications such as apprenticeships, BTECs, A-levels, basic skill courses and higher education courses aimed at both young (16-18) and adult (19+) students. In England, providers receive public funding of around £7bn to educate and train four million learners, more than half of whom are taught through 240 colleges, whilst 700 charitable and commercial providers teach the remaining students.[2] Funding derives from the Department for Education and is distributed by the Skills Funding Agency and the Education Funding Agency (now the Education and Skills Funding Agency).

Funding context

Since 2010, the adult skills budget has fallen in cash terms. Alongside this reduction, the Institute for Fiscal studies (IFS) has shown that 16–18 education spending has reduced. Between 2010 and 2015, spending on Further Education and sixth forms fell by 14% in real terms. Core funding is only protected in cash terms up to 2019–20.[3] Per student spending has also fallen significantly this decade and is projected to continue its decline through the rest of this parliament.

Falling funding levels have contributed to concerns about the financial sustainability of some institutions in the sector. A report by the Public Accounts Committee in December 2015 reported on the declining financial health of many colleges, and pointed to potentially detrimental consequences for learners and local economies.[4] The number of colleges deemed financially 'inadequate' numbered 70 in 2015 compared to 29 in 2013/14. Financial strain was making it more difficult to recruit and retain high quality staff and invest in improved facilities. The Government accepted many of the criticisms and implemented Area Reviews as a means to drive efficiencies and new ways of working in the sector.[5] It argued that there is 'significant scope for greater efficiency in the sector' with an objective of '[moving] towards fewer, often larger, more resilient and efficient providers'.[6]

Evolving policy environment

Area Based Reviews themselves have been part of a much wider suite of policy changes. Even for a sector used to witnessing the vicissitudes of government, the recent and current reforms are almost unparalleled. They include:

- *Structure of courses and qualifications* – The Sainsbury Review and the Government's response through the Post-16 Skills Plan will profoundly alter the shape of vocational courses, qualifications and awarding bodies. Fifteen new technical education pathways will be created, although there will be variation within these streams. The 2017 Budget announced £500 million per year (from 2019) for post-16 skills to increase the amount of training 16-19 year-olds receive on technical courses to more than 900 hours a year, including the completion of industry work placements during the programme.[7] The Government also announced the introduction of 'T-Levels'.

- *Educational focus* – Successive reforms have sharpened the focus on performance in English and Maths among learners aged 16 to 18, with a requirement for students who fail to achieve a C-grade or higher to study for GCSE England and Maths re-takes.
- *Apprenticeship Levy* – Larger employers will pay a charge of 0.5% of their payroll to fund a new system of apprenticeships. This is likely to affect the behaviour of employers (large and small though potentially in different ways), the college, HE and independent provider sector.
- *Localisation of funding* – Whilst central government continues to hold tightly onto the reins of funding in many areas, there is growing interest in devolving commissioning decisions to local and sub-regional government through City Deals and Devolution Deals, with Combined Authorities seeking control of the Adult Skills Budget[8] and Combined Authorities or Local Enterprise Partnerships (LEPs) directing the allocation of capital funds to FE providers. New city mayors bring the prospect of stronger civic leadership, including across FE and skills.
- *Loans for learners* – Advanced learner loans (above Level 2) are now being rolled out to include not only those aged 24+ but also those aged 19+.
- *Whitehall reforms* – The Department for Education has now taken over responsibility for apprenticeships, post-19 FE and HE teaching policy. As Professor Ewart Keep of Oxford University and others have argued, FE may find itself squeezed between the politically-dominant school and university agendas.[9]

2. THE FUTURE LANDSCAPE FOR FE – TRENDS AFFECTING THE SECTOR

The tight funding environment and the enormous policy change provide an immediate backdrop. But, looking ahead, the case for a strong, adaptable FE and skills sector of the future is incontrovertible and the emerging challenges and opportunities much more dramatic. The economy of the future, demographic factors and skills shortages necessitate it. First, we should note the UK's ageing population. Lifelong learning will become increasingly important, not least with the growth of a more flexible labour market and more regular job change. Younger generations now expect to move jobs frequently and to adapt as they do so; older people increasingly want to remain in the labour market for longer and need to re-skill.

Second, despite investment in education and expansion of higher education participation rates, social mobility has stalled. Research by the SMF's Commission on Educational Inequalities has shown that socio-economic differences remain important determinants of educational outcomes.[10] The Social Mobility Commission's work has illustrated the wider pervasiveness of the problem.[11] Higher education will continue to be a route to achieving more opportunities to advancement for those from poorer backgrounds. However, colleges, employers and independent training providers are likely to have a huge part to play, both in providing a second chance to learners after school and in providing a technical progression route.

Third, the UK economy requires better skills to succeed. UK productivity disappoints compared to other G7 economies. In particular, there are significant weaknesses in core skills such as English and Maths, and concerns about general employability and technical skills. The UK also has an established shortfall in technical education, with only 10% of the adult population holding technical education as their highest qualification, placing the country 16th out of 20 OECD countries.[12] This is particularly the case at post-secondary level and at Levels 3 and 4.[13]

The role of embedding technical skills in the workforce has been magnified in importance following the decision to leave the European Union, which may alter the economic horizon in unknown ways.

But, we can be relatively confident of some of the effects of Brexit. First, it is very likely that immigration flows into the UK will fall, although it is unclear how sharply. In this context, upskilling the domestic population to fill positions that would otherwise have been taken by EU workers will become an important agenda. The outlines of this can already be observed through the Government's Industrial Policy green paper. Second, the Skills Funding Agency distributes funding which originates in the European Social Fund. Although the Government is committed to retaining current EU funding levels to the end of the decade, there is no clarity on what will happen after that. Third, EU nationals living in the UK have been able to study through the Further Education and skills sector. This policy may change in the future. Fourth, there has been a growing recognition that the referendum vote revealed widespread discontent with the economic status quo, especially in specific regions. This is giving political impetus to regional economic policy.

3. PURPOSE OF THE PROJECT AND THE REPORT

Project focus

In the face of such huge changes, the purpose of the project is to look beyond the immediate policy and financial challenges in the Further Education and skills sector and envisage the next 10 years. It seeks to answer the following questions:

- What are the competitive challenges to the FE and skills sector over the next 10 years? How likely are these different threats to emerge? And are they accompanied by opportunities?
- What is the range of responses from the FE and skills sector? Can the sector emerge confident, secure and innovative?
- What are the gaps where the sector may need to develop thinking? What does this mean for the shape, governance and system leadership of the sector? And what should government do to support it?

In Part II, the report focuses on four scenarios that each captures a major competitive challenge:

- The **university sector** and why and how it may increasingly compete for students that would otherwise have studied through the FE sector.
- The **schools sector** and how emerging structures such as Multi-Academy Trusts and free schools may increase diversity and competition for pupils aged 16 to 18 as well different forms of collaboration.
- The changing role of **employers** in skills, both in terms of determining the nature of demand to which the FE and skills sector must respond as well as providers themselves.

- The transformation that **technology** is set to have on the FE sector both in terms of greater self-direction by learners and new opportunities for providers.

In Part III, we describe potential opportunities and ways in which the FE and skills sector could innovate and adapt.

There are compelling reasons to adopt a long-term perspective. FE colleges and providers are places of intense activity where the chance to think of future challenges is, by necessity, limited. There is also a danger that the sheer volume of policy change becomes all-consuming. Also, major demographic, economic, social and policy changes are set to alter the environment within which FE provision takes place. We seek, therefore, to contribute to the leadership of thinking in the FE and skills sector, and build on work that others have done, such as: the Further Education Trust for Leadership, the Skills Commission, the RSA, sector bodies such as the Association of Colleges and the Association of Employment and Learning Providers.

Despite the ambition to look at long-term scenarios, our purpose here is not to predict what will happen (this would leave too many hostages to fortune and we don't pretend to have prior knowledge of the future). Uncertainties are greater than ever: the shape of the future economy is unknown with implications for public and private funding of training; post-Brexit policies on immigration will influence the size and shape of the workforce with consequences for the skills needs of domestic learners.

What we did

This project was built around engagement with the FE and skills sector and those operating in the sectors that may be competitors of the future. We convened four workshops bringing together experts, practitioners, school leaders, university administrators, business leaders, private providers and academics to test our ideas and help develop our thinking on how the FE and skills sector might respond. At each session we tested a range of trends and hypotheses. This paper is the sum of that collective thinking. For a list of attendees and participants in the research, please see Appendix.

PART II: THE COMPETITIVE ENVIRONMENT FOR FE

This section describes how the competitive environment for the FE and skills sector is likely to evolve over the next decade across four different dimensions. We envisage competition from schools and universities to be stronger. We foresee employers exercising greater control over training. We predict dramatic effects from educational technology. Each section seeks to understand the nature and severity of the threat, the advantages that the FE sector may enjoy and the responses it may take.

1. HIGHER EDUCATION

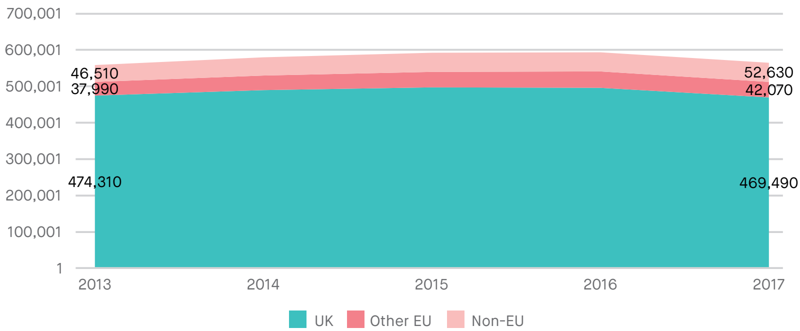
Against the backdrop of Brexit, the university sector may compete more aggressively with the FE sector for learners. In some cases, competitiveness may give way to collaboration. In others, the FE sector will have to maximise its connections to employers.

The threat, its nature and potency

University enrolments have risen substantially in recent decades, driven in large part by a policy ambition to increase participation rates. The vast majority of this growth has occurred through university rather than college provision.[14]

Demand from some sources may not be so strong in the future. As Figure 1 shows, in recent years, applicants from outside the UK have constituted a growing share of all applicants to university, growing from 15% in 2013 to 17% in 2017. Looking to the future, demand from EU students is likely to decline significantly, as a consequence of stricter immigration rules and EU students no longer being eligible for loans.[15] This pressure is likely to be felt most forcefully among lower tariff universities whose intake is declining.[16]

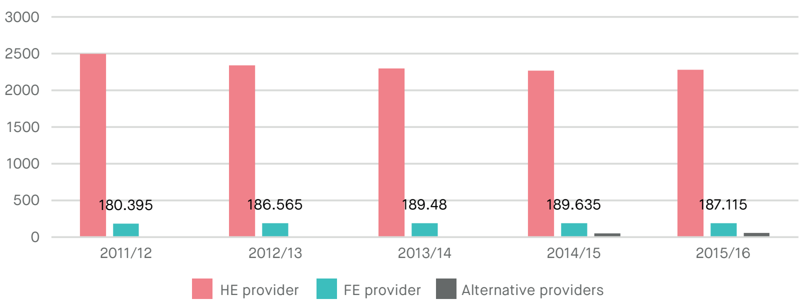
Figure 1: Total number of applicants to university, by domicile



Source: UCAS data: January 2017 Deadline Applications

It is unclear how higher education institutions will respond. However, one likely reaction will be to compete for students who have traditionally attended FE colleges. Figure 2 shows that the FE and skills sector accounts for a very small share of higher education enrolments currently. Any move from universities to attract more higher or further education students could have significant implications given the relative size of the sectors. The effects of any such move could be accentuated by new HE providers: the Higher Education and Research Bill will allow new entrants to offer degrees from day one on a probationary basis.

Figure 2: HE students, by provider (000s)

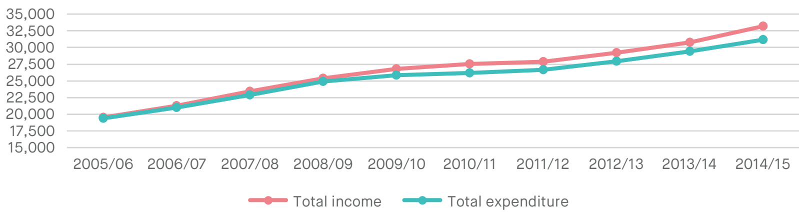


Source: HESA data

Policy changes may sharpen or blunt the incentives for universities to compete. Current industrial policy may push universities to take more seriously their roles as large anchor institutions in their sub-regions.[17] As post-Brexit skills policy switches to upskilling the UK population they may also feel the urge to do more to provide technical education. Other policies may, in contrast, push in the opposite direction: the Teaching Excellence Framework is likely to sharpen the focus on retention rates.[18] Universities may view expansion into the FE market as a risk given uncertainties as to whether this will increase non-continuation rates.

Such motivations coincide with significant competitive advantages. Across the HE sector, revenues have been higher than expenditure. Coupled with significant ongoing capital investment this puts universities in a commanding position to adapt their position in the market.

Figure 3: HE providers' income and expenditure (£M)



Source: HESA data

Many HE institutions enjoy a stronger brand in comparison to the FE and skills sector, thus potentially enabling them to attract students, parents and employers. Businesses may be attracted to universities' brand power, as well as motivated by opportunities to cut back on graduate schemes whilst expanding higher level apprenticeships training. This may also have implications for independent training providers. Such a picture is unlikely to be uniform. It is likely to be lower tariff institutions, with weaker brand power, that will compete with FE institutions. Meanwhile, the overall financial strength of the sector masks some weaknesses. The HEFCE report on financial health in the sector noted that: *'Institutions are increasingly reliant on generating increased cash reserves or increasing borrowing to deliver their capital investment programmes.'*[19]

Finally, participants in our research noted a power imbalance that exists between further education providers and universities, with the latter able to accredit their own qualifications and those of others. In contrast, few colleges have achieved degree awarding powers either for Foundation Degree (FDAP) or Taught Degrees (TDAP). In part this can be explained by some colleges preferring to depend on university branding for their HE awards and on how QAA procedures rate college applications. This gives universities a market advantage, even if colleges can 'shop around' for validation services. While the formation of Institutes of Technology and National Colleges may alter this balance, at present universities have significant influence over the content of college provision and its quality.

Opportunities and comparative advantages for FE

The FE sector, however, possesses its own set of advantages and opportunities. First, if the HE sector has stronger brand power, the FE sector has a convincing pedigree as a tool for social mobility, especially among people from a diverse range of backgrounds. In the aftermath of the EU referendum decision, the political geography is shifting. An early manifestation of this is the initiative to promote progression for those from disadvantaged areas through Social Mobility Opportunity areas. Spread across 12 regional areas, the aim is to develop local partnerships among schools, colleges, universities, businesses, charities and local authorities to promote opportunities for all children and young people to reach their full potential.[20] In particular, the UK's weaknesses in technical education may be an important channel for social mobility as well as productivity-enhancing skills development post-Brexit.

Second, our workshop participants noted the adaptability of colleges and independent providers and their responsiveness to employer demand. There are potential opportunities for expansion rather than contraction if the FE sector can display responsiveness in terms of workforce flexibility, academic timetable and length of courses, as well as offering non-HE routes for Level 4 and 5 skills needs.

How might the FE sector respond?

1. New alliances?

Since incorporation in 1993, the number of FE colleges has fallen by around a quarter.[21] Area Based Reviews are already posing the question of whether and how more consolidation can occur. The Department for Education has commented that the processes are likely to lead to collaboration between colleges; the academisation of sixth-form colleges; rationalisation of curriculum; and mergers. As of October 2016, covering the first three waves of reviews, 88 colleges were reportedly involved in merger discussions and it was estimated that between 50 and 80 mergers in total were expected from the area review process.[22]

However, across a ten-year horizon, is it clear that colleges should be merging with each other rather than with HE providers? Mergers come with huge financial and cultural costs and barriers. Yet, combining the advantages of the FE sector with those of the HE sector could make a compelling proposition, so long as the distinct mission and provision made by FE providers is recognised and preserved.

2. Prioritising quality and out-performing other sectors

As competition grows for the same students, the FE sector must embrace the challenge of quality. There have been criticisms that the inspection regime favours schools and universities rather than FE providers.[23] An immediate step could be for the sector to embrace and play the fullest part in the Teaching Excellence Framework, given this is the Government's current method for monitoring and assessing the quality of teaching at universities. This would be a confident step but one that would enable successful providers to display their teaching credentials. Likewise, the case for more conditional payments for skills provision could also be made as part of the Industrial Strategy. City Deals are starting to explore the practice of payment by results and these are likely to become more important as part of the Government's regional policy. This could help provide the level playing field which the independent provider sector sometimes argues is lacking.

2. SCHOOLS

Schools and colleges both collaborate and compete. While funding shortages may drive schools to attract 16-18 students, such threats are partially offset by a demographic bulge of 11 to 16 year-olds that will emerge over the next decade.[24]

The threat, its nature and potency

Schools and colleges face many similar constraints and challenges. Funding across both sectors is squeezed. Recruitment and retention of high quality teachers is difficult for schools as well as for colleges. Research by the IFS shows that spending per pupil at primary and secondary schools is likely to fall between 2015 and 2020.

Despite these similarities, the prospect of competitive pressure is real. First, there is significant overlap in the learner population. As with universities, schools have some branding advantages over colleges. In part this is, for some, a consequence of the regulatory methods and culture being more attuned to schools than colleges.[25] However, it may also derive from the fact that everyone has been to school and inherently understands its purpose.

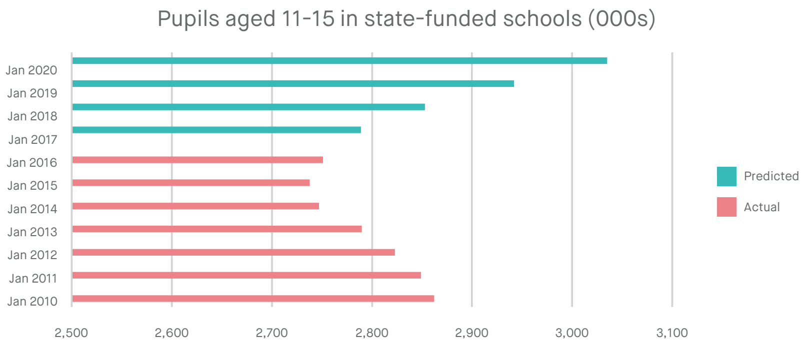
The evolving ecosystem of institutions potentially exacerbates latent rivalry, including university technical colleges, studio schools and academies. As of 2016 there were 39 UTCs. The age profile of learners (14-19) cuts across the traditional transition points of 11 and 16. Stories of local rivalries give credence to this threat.[26] Difficulties filling rolls may lead to more aggressive recruitment drives.

Equally uncertain is the future roles played by multi-academy trusts (MATs). MATs may be either vehicles for collaboration between colleges and schools or for new forms of competition. Between March 2011 and November 2016, the number of MATs nearly tripled.[27] As of November 2016, of the approximately 21,500 state-funded schools, 5,758 were academies, of which 4,140 were in MATs.[28] Around three quarters of all primary academies and half of secondary academies are in a MAT.[29]

As with universities, schools too may get pulled towards more technical subjects as the Skills Plan and Industrial Policy come into force and the focus on technical education grows. However, the scenario could just as easily be that schools specialise as academic institutions, stepping back to let colleges and other FE providers fill the vocational role.

Crucially, the college-school dynamic may be affected by the demographic equation over the next decade. A bulge of school-age children will be pushing through the system by the mid-2020s, as shown in Figure 4. Particularly noteworthy is the growth in the proportion of pupils aged 11-15 who will be feeding through into Key Stage 5 at the end of the next decade. Therefore, the story in ten years may be as much of diversity as of competition. Schools already have significant teacher recruitment and retention challenges without extending into new spheres of activity or stretching teachers further still.[30] Unlike universities, schools' ability to expand and adapt is also constrained by limited access to capital. Theoretically, this could come from the government, though this is unlikely given continued fiscal restraint and other priorities for capital spending. Developing school estates to provide a wider technical offer may be problematic. This is especially the case given the risk appetite typical among many schools and the rising bar on technical education that they would need to prosper.

Figure 4: All state funded schools: pupil numbers by age group, actual and projected



Source: DfE data

Opportunities and comparative advantages for FE

New dimensions of collaboration

Just as schools and new institutions may pose a competitive threat to the FE sector they may equally offer new and innovative opportunities for collaboration. Innovative partnerships are already evolving across the FE sector and schools:

- **Vertical chains**, including colleges, secondary schools and primaries are already emerging. For instance, the Midland Academies Trust in Warwickshire comprises four secondary schools and is sponsored by North Warwickshire and Hinckley College.[31] The college provides A-levels, apprenticeships and part-time Foundation degrees, offering progression routes into HE. It also provides links to employers. The Bright Futures Educational Trust based in Manchester contains three primary schools, four secondary schools (one of which is a grammar) and Connell Sixth Form College. Sponsorship and partnership with secondary schools can provide colleges with feeder schools. Our research also heard about colleges that have sponsored primary schools as a route to establish credibility and local connections.
- **Career Colleges** are offered from 14 to 19, to give pupils a mix of academic and vocational education with a particular focus on employability. They may also provide the basis for evolving FE structures that prove resilient to competitive pressure and manage the growing bifurcation of learning.
- **Administration and coordination** – There may be benefits to colleges providing consolidated back office and administrative functions to local schools, aping the role historically played by the Local Education Authority. For instance, due to their size, colleges may have more efficient procurement systems.
- **System leadership and governance** – The growing trend towards collaboration may also spawn stronger systems leadership across the local education ecosystem. Given that schools, colleges and the independent sector each have different governance and commercial structures, this may enable different institutions to take the lead in

different ways. The trend towards devolution may also re-shape the nature of collaboration as well as inspiring stronger local civic leadership, whether this is through city mayors, City Deals or Combined Authorities.

How might the FE sector respond?

Looking a decade ahead, it is clear that the changes to curriculum as well as the evolving ecosystem of providers of school-age education will require a concerted response from the FE sector.

We can envisage colleges formalising and scaling up the relationships with schools at secondary and primary level. Collaboration could be much deeper, thus maximising the potential synergies with the schools sector. For instance, colleges have capital intensive estates of use to many schools. This may allow schools and colleges to specialise across the academic and technical disciplines whilst allowing students to enjoy a wider curriculum. This could culminate in shared campuses. It could also include embracing contributions from the wider sector, including private and VCS providers, for instance through Career Colleges.

Colleges and schools could, over time, evolve governance structures and workforce arrangements that transcend the traditional divide. For schools, this may provide greater flexibility in terms of finance; for colleges routes to attract learners as well as more local influence.

3. EMPLOYERS

Employers both supply training to their workers and commission training from external providers. Historically, the FE and skills sector has had excellent connections with local businesses. Given changes to industrial policy and skills policy, employers themselves may seek to provide what previously has been delivered by the FE sector. To this end, deeper and more personalised relationships with employers will be needed.

The threat, its nature and potency

Changing role of employers in the skills system

Past research has shown that of the training delivered in employment, about half is provided directly by employers and about half is provided by external providers.[32]

The role of employers in the skills system is changing dramatically. Successive governments have spoken of ‘employer-led’ skills. The Apprenticeship Levy is set to put these words into practice and alter business behaviour. The Apprenticeship Levy will be set at 0.5% of payroll for employers with staffing costs of £3m or more. Employers will then receive vouchers that they can spend on apprenticeship training.

The Apprenticeship Levy explained

As of 6 April 2017, all employers operating in the UK with an annual pay bill exceeding £3 million will be obliged to invest 0.5% of their pay bill towards apprenticeships, regardless of sector. Contributions will enter each employer’s individual digital account on a PAYE monthly basis (alongside income tax and National Insurance) and will remain at the employer’s disposal in the form of digital vouchers for 24 months. A range of financial incentives are available, such as a wavier-style levy allowance of £15,000 per year, which acts as an assurance that employers will only pay the levy on their wage bills above £3m, and a 10% top-up to levy contributions, which will be applied as money enters each employer’s digital account.

In order to promote taking on younger apprentices, the Government is to exempt employers from paying National Insurance Contributions for all apprentices aged under 25. Employers who hire 16-18 year-olds will also receive a payment of £1,000 per young apprentice. Additionally, the Government will increase the maximum funding band by 20% for sponsoring apprentices who are aged 16-18 and are undertaking a traditional framework programme. Small employers who hire fewer than 50 workers will not have to pay training costs for apprentices aged 16-18, as the government will cover 100% of such costs.

How the levy may affect behaviours of large employers

Participants in our research noted that large employers are likely to take apprenticeship activity much more seriously. The tangible charge will raise the issue much higher up the business agenda, and levy payers can be expected to seek to maximise the benefit to their firm and ensure that decisions are driven with greater sensitivity to future business needs. Employers, therefore, can also be expected to seek to play a more central role in influencing apprenticeship standards. The Government has estimated that around 19,150 employers will be eligible to pay the levy. Most of these will be very large firms although some mid-sized to large-sized employers will also be charged.

Table 1: Levy charge by employer size

Employer size	Total number of employers	Number of employers paying the levy	Proportion paying the levy	Levy paid
0-49	1,444,300	410	0%	*£5m*
50-249	48,050	8,120	16.90%	*£90m*
250+	13,030	10,620	81.50%	*£2,585m*
Total	1,505,380	19,150	1.30%	£2,675m

While it is hard to predict how levy-payers will respond in practice, qualitative research involving employers has suggested that behaviours will fall into one of four categories:[33]

1. *Business as usual:* The decision to train is already driven by employer demand, usually in sectors (e.g. engineering and construction) that are already reliant on high cost apprenticeships and have no viable alternative to training.

2. *Using the levy as a catalyst to increase the provision of apprenticeships:* Typically in sectors that provide low cost apprenticeships but have alternative means of training (e.g. business services). The levy is likely to tip these employers towards apprenticeship training.

3. *Capacity concerns:* Usually in sectors that provide low cost apprenticeships but have alternative means of training (e.g. hospitality,

customer service, health and social care). The levy payment may lead to concerns about whether the capacity exists to expand apprenticeships to the level required to reclaim levy monies in full.

4. *Writing off the levy as a sunk cost:* If employers could not reclaim their full levy payment, some would accept the levy as a sunk cost, but others would offset the cost against their overall training budget or HR departments.

In addition, to these behaviours, employers may switch from other forms of training to apprenticeships so as to capture available levy funding – whether that is moving from graduate programmes to higher level schemes or from-lower level technical training to apprenticeships.

At a practical level, research participants discussed specific steps that levy payers may take which could directly affect the roles that independent training providers and colleges play in apprenticeship provision. Employers may:

- Outsource provision entirely – whether to an FE college, to a university or to a large training provider.
- Insource provision entirely – allowing the business to capture more of the activity and enabling greater control over delivery and fuller influence over design.
- Partial in-sourcing – either bringing in-house lower-level training whilst using outside providers for Levels 4 and 5; or in-sourcing all training but using external qualifications and assessments.

Behaviours of small businesses

The behaviours of small businesses are harder still to predict. For the vast majority, this would be the first time that they take on apprenticeships, with only 5% of small businesses (below 50 employees) being apprenticeship employers in 2012. Under the new regime, SMEs will be required to fund 10% of the cost of the apprenticeship training. Being new to the market, they may seek or be persuaded to take ‘off the shelf’ provision. It is unclear how the market will evolve. Independent training providers have registered concern that take-up of apprenticeships may be high amongst large employers, thus reducing the amount of funding available for SME apprenticeships.[34]

Opportunities and comparative advantages for FE

It is an open question as to who will be best-placed to compete for the new-style apprenticeships. The large number of standards means that schemes will be tailored to the particular needs of employers; and, as demand changes, providers will have to be very responsive.

The FE and skills sector will find itself competing against universities in the apprenticeships market. A published register of training providers shows the range of FE, HE and private providers who are approved.[35] Many private providers will have lower legacy costs than colleges, the latter which have large physical estates, costly worker rights and benefits and social and community obligations. Some of these developments may also favour HE institutions with their strong brands, established schemes with large employers (such as sandwich courses) and professional training providers. However, the independent provider sector has noted that colleges themselves may benefit in ways that they do not.[36]

How might the FE and skills sector respond?

High road or low road?

In this evolving market, the FE and skills sector could assemble itself in a number of ways: colleges or independent private providers could act as lead providers; modules could be sold into employers; or large private providers could subcontract provision from colleges and smaller independent providers. Workshop participants noted that colleges may have to decide whether to compete on cost or quality. Competing on cost will involve having to address structural labour costs and introducing greater flexibility into the workforce. However, it is not clear that there is political or public appetite for FE colleges to become private providers, or to be permitted to amend the terms and conditions of their staff to achieve greater parity with the private sector (e.g. the removal of final salary pensions). Striking this balance will be difficult even if permitted by regulators.

Re-orientating around the needs of business

Given that purchasing decision-power has moved in the market, FE colleges and independent providers will need to re-orientate and change their business models. Capturing the 'high quality' end of the market could revolve around much deeper integration with large employers, right from recruitment through to initial training and continuing professional development. In this scenario, an FE provider could become a long-term and embedded learning partner for the employer. This is likely to be all the more important given the lifelong learning agenda and the increasing need for workers to update and adapt their skills as a consequence of emerging technologies. Employers too may spy opportunities to combine with providers through bids to become Institutes of Technology.

Focusing on the small – convening power

Many of the smaller employers entering the apprenticeship skills market are likely to be doing so for the first time. The FE sector has particular opportunities to maximise its connections to local businesses. Colleges may also be able to establish themselves as local platforms that provide the access point for SMEs to gain appropriate advice, guidance and training. Through this model, colleges could provide both the route to market for SMEs and the training itself.

4. EDTECH

Educational technology (Edtech) presents dual challenges for the FE sector. On the demand side, learners will increasingly self-direct, thus disrupting normal patterns of provision. On the supply side, new tech providers will enter the market whilst distance learning will undermine the hold that providers have on their local population. The question is which institutions are able to adopt, adapt and innovate most rapidly and most successfully.

What is changing: why Edtech is set to transform skills provision in the decade ahead

For the learner, the potential benefits of Edtech are likely to be huge. Edtech offers significant opportunities also to FE providers and to their competitors. Below, we describe some of the principal transformations that might be generated through Edtech:

- **Better targeting of support and learning analytics** – Data analytics can be applied to help institutions understand the participation and learning behaviours of different student groups and their learning.[37] Teachers can identify who needs more instruction or tuition. This may be particularly valuable in FE where the intake is hugely diverse. For instance, it could enable more personalised learning in core skills with software helping teachers bring students up to expected standards more quickly.
- **Simulated learning** – Although use of Artificial Intelligence and Virtual Reality are thus far the exception, yet over a ten-year horizon, their practices are likely to be adopted widely. We should expect to see much wider use of 'augmented reality' learning environments and also of new mobile and wearable technologies such as Google Glass.[38]
- **Embedding practises of the 'Fourth Industrial Revolution'** – Experts note that we are on the cusp of a technological revolution. Mobile devices are proliferating, processing power and storage capacity soaring and breakthroughs such as AI, robotics, driverless cars, 3-D printing and nanotechnology emerging. Economic studies suggest that the next wave of technological advances and automation will affect those in mid-level technical and associate professional roles, including for instance legal professionals.[39] A recent PwC study found that 30% of existing UK jobs could be at risk to substitution by robots by the early 2030s.[40] New forms of skills and learning will be needed as employees adapt to technological developments.
- **New opportunities to embed training at work** – On-the-job training and development could be facilitated by very flexible packages of learning delivered remotely and through the workplace.
- **Improved management systems** – Better management information could allow education institutions to track how students perform across

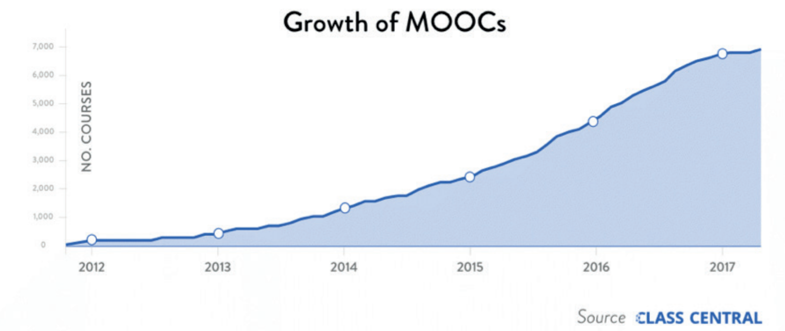
different learning environments, as well as facilitating benchmarking against other providers.

- **Reduced reliance on physical estates** – Effective simulation of technical learning could allow more learning to take place off site, in the workplace, at home or elsewhere. For FE providers this may allow them to dispose of physical assets and unlock capital for other purposes or for investment in Edtech. Equally, it may mean that the unique offering of colleges may be easier for other providers to mimic.
- **Innovative and efficient use of labour** – Some aspects of teaching could be automated (e.g. marking and assessment) thus reducing costs, whilst technology may enable a more flexible workforce to be coordinated around the needs of learners. This could include some radical propositions facilitated by platforms: more peer learning and support in the 'sharing' economy substituting for salaried teachers; 'on demand' learning provided by a wider pool of less attached workers.
- **Access to wider pool of consumers through distance learning** – Crucially, FE providers as well as their competitors will be able to reach, and compete for, a much larger group of learners. Via the use of platforms (e.g. Coursera), Edtech could allow local colleges and independent providers to compete nationally and internationally. Equally, such technology enables competitors to overcome geographic boundaries to attract students over whom local colleges were previously dominant.

How quickly is change occurring?

The future rate of technological change is as uncertain and unpredictable now as it was in past eras despite claims that it is evolving at an 'exponential' rather than linear pace.[41] However, evidence suggests that the education market is changing rapidly. Figure 5 below illustrates the huge growth in massive online open courses (MOOCs) this decade. While the largest growth market is the USA, the European market has also expanded significantly.

Figure 5: Growth in Massive Open Online Courses (MOOCs)



Opportunities and comparative advantages for FE

As noted, these developments are likely to enhance opportunities for learners and for providers. Two predominant factors are likely to determine the success of the FE sector in this sphere.

Readiness and ability to innovate

It is not the case that teaching techniques in colleges are inherently more traditional than in other settings. For instance, FE tutors are more likely to have computers in the classroom (83%), as compared with 78% of primary schools and 80% of secondary schools, 2016.[42]

However, innovation in Edtech is likely to be most viable for organisations with high capital resources, a flexible workforce and a high-risk appetite. For each of these reasons, it is easier to envisage employers, commercial providers or large tech firms reaping greater rewards than FE colleges.

Risk appetite is likely to vary by structure. Small charitable providers are likely to be more risk averse. Many colleges are relatively risk averse by nature. In part this is determined by an innate conservatism borne by their social features – their connections to the local community and commitment to serve specific student populations. However, risk aversion also likely stems from institutional, governance and structural factors.

Commercial providers, with large balance sheets, should be better placed to access the requisite capital from the markets to invest in new technologies and learning practices. Individual colleges may not possess the requisite scale to attract external investors. Large debts – estimated at £1.6bn – associated with previous capital funding decisions (by the Learning and Skills Council) and financial difficulties may make it more difficult to raise capital.[43] In this context, colleges will have to be imaginative to compete. The new Institutes of Technology are a potential source of capital with £170m made available but colleges are likely to have to look beyond this.[44]

Finally, colleges have less labour flexibility than commercial providers and new entrants. Lessons from other markets such as transport and delivery, and even professional services, suggest that labour platforms may facilitate rapid change to workforce models. New entrants, without legacy practices, may be able to adopt more efficient working practices quickly, allowing maximum investment in technology and lower labour costs.

Defining the USP

Fundamentally, Edtech will require providers to be precise about their distinctiveness in the market. The rise of online learning platforms reduces the incentive to attend a traditional institution in order to obtain qualifications. It will break down geographic boundaries meaning that brand and marketing power will gain importance in determining market share. It will allow many more providers to compete and to innovate. If the USP of a local college is its technical environment and its connection to employers, how do these get translated into a future world where learning can take place with virtual reality infrastructure and equipment and where students learn remotely?

How might the FE and skills sector respond?

Joint ventures

Looking to the next decade, two particular types of joint venture may increase the possibilities for the FE sector. First, colleges and independent providers could combine with Edtech partners. Tech firms may be seeking knowledge of the UK or local education environment, teaching staff, a complementary physical estate and connections to local employers. They may require a superstructure through which to engage with other local education institutes or for regulatory approval.

Second, providers could combine themselves and scale up an adult skills offer to the national level. While Area Reviews are looking at the local and sub-regional geography, Edtech should encourage colleges to think much more radically and combine across the regions. This may offer greater opportunities for specialisation by aggregating demand for more specialist courses, economies of scale in marketing and ability to pool capital budgets for investments. A group of colleges could morph into a digital college. They could combine with independent providers and large employers.

New 'social' delivery models

There may be little appetite for 'Uber Colleges', but is there scope to automate and rely more heavily on digital in some spheres whilst providing higher value services in other areas? For instance, this may mean automating assessment whilst investing more human resource in feedback.

Technological rather than physical assets

Colleges will have to think much more radically about their assets. If the assets of the past have been land, physical buildings and well-equipped classrooms, the assets of the future will be the talent and the skills in the workforce as well as the alternative learning environments, digital platforms and simulated settings and virtual equipment.

Fresh thinking will be needed about the role of physical estates. Partial divestment or leasing back estates could be routes to release capital. To complement this, colleges may need to turn to alternative sources of finance such as crowd-sourcing and crowd-funding or to amalgamation to achieve scale and maximise their connections to their local communities and their social purpose.

PART III: DECISIONS FOR THE FUTURE

Part II described the range of potential opportunities and threats presented by a new competitive environment for the FE sector over the next decade. So, what broader implications should we draw?

1. THE QUEST FOR DISTINCTIVENESS

Ask someone in FE and skills what is unique or distinct in their sector. The answer would likely comprise at least one of the following responses: its openness and the diversity of its student population, its curriculum and the technical learning that is undertaken and can be applied, its connections to the local area and relevance to employment and local employers. The question posed by the analysis above is: which of these could and should be special characteristics 10 years from now?

For colleges, local connections and 'place' are set to be undermined by technological opportunities that allow providers to reach much wider pools of consumers beyond their immediate geography. Colleges may feel it is in their commercial and social interest to serve such learners: this might be because the college believes it can promote social mobility among these groups or because it offers market-leading training in a specific sphere. The increasing bifurcation of secondary education may force colleges to take big decisions on curriculum shape and subject specialisation that mean they give up more general provision.

For independent training providers, the Apprenticeship Levy is likely to constitute an increasing share of work-based training, and therefore the agenda will be driven even more by the collective and individual needs of businesses. Employers, too, may seek to take more diverse approaches to delivering apprenticeships, whether this is insourcing or outsourcing different elements of training.

It is easy therefore to imagine a much more heterogeneous and diverse sector, in which the distinctiveness of individual providers is based on very different criteria from now. Providers from the same or different parts of the market may look to aggregate demand across a wider sub-region for more specialist or higher level courses. Alternatively, providers may accentuate their place-based features. For instance, colleges could become the hub and coordination point for local SMEs as they enter the world of apprenticeships.

2. NEW DIMENSIONS OF COLLABORATION

A second, dramatic part of the story is the huge range of potential partners that could coalesce over the next ten years. There are already some exciting initiatives whether it is career colleges, academy chains or new forms of employer relationships. Future collaborations may be different in both direction and dimension.

Many pieces of analysis and commentators have noted the imperfections and incompleteness of the Area Based Review process. The focus on cost reduction has sat awkwardly with mission-driven organisations; major potential partners such as schools and independent training providers have been effectively excluded from the process.[45] More fundamentally, the geographic focus of reviews may not reflect the opportunities of the future, whilst the ABR is vulnerable to putting structure before purpose. As one research participant noted, the reviews 'put the cart before the horse'.

The emerging influence of City Mayors, Growth Deals, City Deals and Devolution Deals may re-cast the nature of local leadership and collaboration. Many of the deals between LEPs and central government have had skills provision at their heart.[46] Research in 2015 showed that City Deals to date had led to focus on new partnership arrangements to foster coordination and cooperation across sectors and across localities and that the schemes had acted in some cases as catalysts for deeper engagement. Such policies have also been designed to contribute to more effective demand-led employment and skills systems at the local and sub-regional level.[47] Metro Mayors (six new ones to be elected in May 2017) are also expected to provide stronger civic leadership.

Below we describe five potential collaborations of the future.

From Tech to Edtech – a national college?

Historically, mergers have been driven by efficiencies via the consolidation of local institutions. However, there may be much more radical collaborations for the future. These could see providers with similar ethos, complementary teaching practices or similar specialisms join across geographic boundaries. Facilitated by technology, institutions can share platforms, teaching and brands. In particular, this may be the most efficient way for colleges to connect with external partners, raise capital for investing in new learning applications and techniques and compete effectively against more powerful university and technology brands. In this scenario, the millstone that is often the physical estate could be capitalised and invested in Edtech. This new offering would also allow space for other parts of the skills sector to participate including independent training providers and employers.

Envisaging a scenario for 2027: 'Tech chains'

With technological developments eroding the importance of 'place', powerful UK and international providers will compete with the FE and skills sector to provide distance and virtual learning.

We envisage combinations of colleges, independent providers and employers aggregating capital, skills and marketing power to compete under one brand. This would involve transitioning from physical learning and physical estates to virtual learning. It may also mean diluting the connections to local institutions and schools as the pitch is made to pools of learners from other parts of the UK and even abroad. A major challenge will be how to retain links to employers through this structure. This may make the case for employers as partners even stronger.

Vertical chains

Our analysis indicates the prevailing uncertainty as to whether schools will compete more aggressively for college students, given the growth in the school population. Equally likely is the continued evolution of collaboration between schools and colleges. The significant growth in MATs is likely to continue, in part as a consequence of college academisation through the ARB process. Colleges may seek to create ‘feeder chains’ with local schools. Soft partnership may include sponsorship and brand benefits. The bifurcation of learning envisaged in the Sainsbury Review may also offer greater prospect for complementarity between schools and colleges.

Single campus entities

As HE, schools, employers, colleges and private providers compete to provide apprenticeships, umbrella organisations may establish that capture a wide range of training and work placements. For instance, the City of Glasgow College teaches 27,000 students, delivering apprenticeships, work placements, and work-based learning projects as well as other courses. While universities can bring brand power and strengths at Levels 4 and 5, independent providers and colleges could bring the employer connections and technical expertise.

Federal alliances

We can also envisage alliances emerging at a city region or sub-region area, allowing a superstructure to coordinate and provide a very diverse suite of technical courses, study programmes, apprenticeships, work placements and Level 4 and Level 5 qualifications. Centralised functions across a city or LEP could facilitate ‘city contracts’ for teaching staff rather than contracts with a single institution. Such ventures may be able to attract a higher quality of staff as well as deploy its workforce more flexibly and efficiently. They may also be the routes to aggregating demand for more specialist higher-level qualifications that would be uneconomic for a single institution to provide. Some such initiatives – albeit very different in structure and purpose – are already being piloted. The RSA’s ‘City of Learning’ pilot will bring together a place’s cultural and education institutions, community groups and businesses to provide learning experiences for young people, with informal lifelong learning opportunities drawn together on an online platform.[48] A number of area review processes have recommended the formation of a Joint Apprenticeship Company between several colleges in order to provide a one-stop shop for the Local Enterprise Partnership, combined authority and employers.[49]

Becoming collaborators in workforce development

A recent commission argued that the FE sector could form new collaborations where the FE estate is made available to local businesses through skills hubs. Here, start-ups and local businesses could lease space and have access to good facilities, whilst the colleges would have opportunities to understand business, and embed learners within employers.[50] Other scenarios are also possible – with colleges embedding staff and learning in the day-to-day work context.

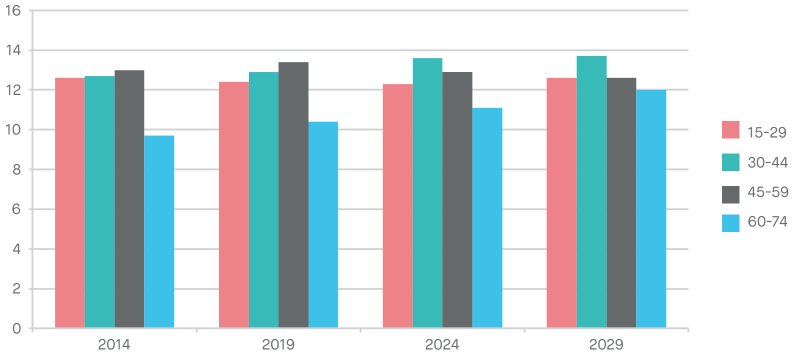
3. Discovering and adapting to new learners

Providers will also need to look to new markets. Ten years from now, colleges and independent training providers may no longer have such secure inflow of learners. HE, schools, employers and Edtech firms are likely to have competed away some of the demand that would historically have flowed to them. Colleges will need to be entrepreneurial and commercialise operations to identify and attract new pools of learners. They will also need to be flexible in meeting their particular needs and requirements, whether this is the hours at which courses are taught, or the specific size and shape of modules.

Older lifelong learners

Perhaps the largest growing population of future learners will lie among those who are of working-age. The ONS's population charts show significant growth among those aged 60 to 74. The wider context is a rising state pension age, less generous private pension and a growing social norm for people to work later into life. The Government has committed to testing new approaches to encourage lifelong learning, including direct outreach with busy people.[51]

Figure 6: Projected population by age, United Kingdom, mid-2014 to mid-2029 (millions)[52]



Growing labour market participation rates are likely to continue the trend they have shown over past years. Employment levels for those aged 50-64 and those aged 65+ have steadily increased.[53] This is particularly important given that many such workers will need to retrain.[54]

How to attract older learners is an open question. Colleges may benefit from the fact that older people are more likely to have strong roots in their community. The diversity of the independent provider sector may offer routes to attract them. However, Government intervention may be necessary to stimulate demand and finance re-training if the productivity of the older workforce is to be maximised. For instance, 'mid-career' appraisals seek to encourage 50 year-olds to proactively reassess the next 15 or 20 years of their career and take up necessary training opportunities. Making it easier for people to update their skills while in work is likely to be part of the answer as is providing opportunities for people to develop totally new skills sets.

Envisaging a scenario for 2027: Employer-embedded training

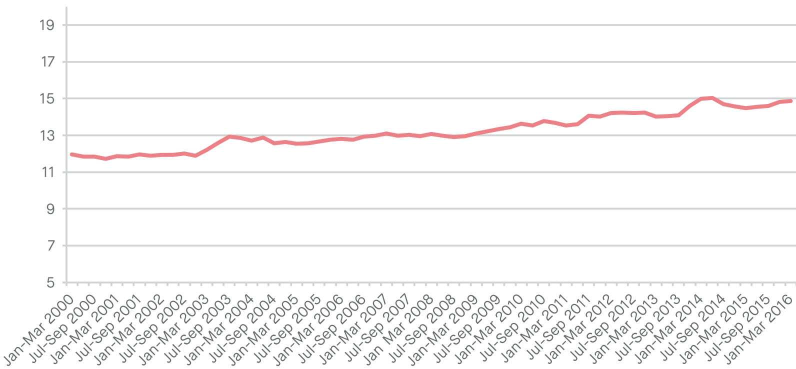
With employers exercising greater control of training under the Apprenticeship Levy, training providers will have to be ever more flexible to the skills needs of employers. Employers themselves are likely to make more strategic decisions about their own role in training provision.

Alongside this shift, there will also be greater need to integrate learning in the workplace. An older workforce is likely to require significant re-training. Technological change will drive new working practices and the adoption of new complementary skills. At the same time, the ability for training to take place in the workplace will increase with the rise of Edtech. Employers may, therefore, form deeper, more embedded partnerships with independent providers and colleges.

The self-employed and the part-time

The self-employed comprise a growing share of the UK's workforce, rising from around 10% in the mid-1980s to 15% in the latest figures.

Figure 7: Self-employment as proportion of all workers



Source: ONS, Trends in self-employment in the UK: 2001 to 2015 (2016)

Levels of uptake of training are much lower among the self-employed than the employed. As past SMF research has shown, the self-employed are around half as likely as the employed to have received training.[55] This is despite the fact that many self-employed are on low wages and therefore could benefit from training.[56] When the self-employed do participate in training it is less likely to be on the job and more likely to take place during their own time. While employers may structure training activities and opportunities, the self-employed have to generate their own. As individuals they also directly bear the costs.

As in other areas, attracting such students is likely to require additional flexibility and readiness to fit around the lives and needs of learners. Some providers are embarking on this journey already, offering flexible dates and times to suit learners and more regular enrolment on programmes.[57]

Envisaging a scenario for 2027: 'Local Social Mobility Champions'

In the post-Brexit world, with the growing focus on UK competitiveness, regional growth and inclusive economic opportunities, we envisage that colleges could become local champions and engines of social mobility. Here their role would include close working with an increasingly diverse business and labour market, and partnering with independent training providers and employers. Particular areas where these Champions could focus include proactively helping push the self-employed and local businesses up the value chain.

More broadly, what is likely to be a tighter immigration policy will mean a stronger focus on domestic skills and technical education. The local and social focus could open wider sources of funding, whether from the government as it seeks to reduce regional disparities and promote social mobility, or from other sources. For instance, there is significant scope for social investment in further education (e.g. focusing on NEETs), although the sector is yet to receive the level of attention that schooling has.[58]

HOW POLICY CAN SUPPORT THE SECTOR

Ensuring a thriving FE sector through the next decade will require innovation within the sector but also support from policymakers. The following steps would help.

Establishing a fair playing field: 'provider blind' policies

The future envisaged in this report is of greater competition, innovation and diversity of provision. This has significant implications for regulation and inspection. In the past there have been criticisms that the FE sector has been unfairly treated compared to schools.[59] For some this has been because Ofsted's expertise and experience has been stronger in school teaching and management than in colleges. Others have suggested that there is bias within the FE system, with colleges treated more favourably than independent training providers (for instance in terms of what is deemed acceptable performance and financial security).[60] The emerging market that we describe above must be regulated fairly. In a context where learners self-direct, funding should also increasingly follow the learner rather than be block grant distributed.

Permitting and encouraging responsiveness

Research participants noted the lack of flexibility currently in how colleges are remunerated for the training they provide. Other studies have identified limited flexibility on execution of England and Maths requirements. The Government and its predecessor have both sought to focus more on outcomes than activities across a range of public services. Looking to the 2020s, this will be both more necessary and more feasible: more feasible because technological advances and digitisation will enable much better data on outcomes for learners; more necessary because learning will take place in less traditional settings and formats and at a time and intensity tailored to the needs of the learner. Models such as payment by results should be utilised more fully – encouraging providers to add value to the learner in a personalised way.

Funding certainty

Irrespective of the level of funding given to the FE and skills sector, there remains the question of certainty of income. Many of the scenarios described above require providers to alter their practices and to invest. This cannot be done when future funding is uncertain. The Area Review process included an ambition to give colleges greater certainty over future funding policy.

Stimulating demand

The UK's changing labour market requires different modes of intervention from government. The Apprenticeship Levy is set to give employers a clear incentive to take the training of young workers seriously. However, other workers may be harder to engage. Older workers may drift into retirement or lower productivity work unless they are given the nudge or the offer of a new career path and the skills that are necessary. The growing ranks of self-employed workers likewise need a training offer that meets their needs.

APPENDIX: LIST OF ORGANISATIONS THAT PARTICIPATED IN THE RESEARCH

We are very grateful to the following organisations for participating in the research and contributing so openly with their ideas and views.

Association of Education and Learning Providers

Association of Colleges

Barclays

CBI

Education Policy Institute

Further Education Trust for Leadership

Gatsby Charitable Foundation

HEFCE

Institute of Directors

Key Paths

New York University in London

North Herts College

OU / Future Learn

Pearson

Reform

South Tyneside College

The Society of Motor Manufacturers and Traders Limited

UCL / Institute of Education

ENDNOTES

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Rising to the challenge:
The Further Education and skills sector over the next decade

The Further Education and skills sector is under huge financial strain and the subject of enormous policy instability. However, it is easy for these present-day pressures to crowd out the challenges and opportunities of the future. This report casts forward ten years and seeks to imagine the competitive environment in which the sector will be operating.

The analysis focuses on four market developments that will present different competitive threats to the sector as well as prospects for collaboration and innovation, including with the university sector, schools, employers and educational technology.

The report concludes that providers in the Further Education and skills sector will need to become more distinctive, will need to collaborate in new ways with others in and beyond the sector and to search for new pools of learners. The report envisages potential scenarios for the future with colleges and other providers acting as champions locally for social mobility, collaborating with others to design a powerful Edtech brand and embedding themselves within employers as the Apprenticeships Levy takes hold.

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