Choice and competition in further education

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This short paper traces the history of choice and competition in the further education sector, assesses what we currently know about its impact and concludes with some lessons for those seeking to introduce market mechanisms in public services.

History

The further education (FE) sector is poorly defined and understood. It has been characterised as the 'everything else' sector because of the sheer breadth of its provision. It comprises all post-compulsory education and training for 16 to 19 year-olds and adults that is not delivered in higher education institutions. This includes basic skills, A-Levels, NVQs, foundation degrees, diplomas, apprenticeships, work-based training, and personal and community learning.[1]

A range of providers currently deliver FE services including further education colleges, sixth form colleges, tertiary colleges, large private companies and smaller private and voluntary sector organisations. In addition to the provision that takes place on their own premises, providers sometimes deliver training and education in the community, workplace and in prisons.[2]

The diversity of the sector reflects the fact that there are three main interest groups – the government, employers and learners – who have different, and at times conflicting, objectives. The Government wants to develop a skilled and internationally competitive workforce that can drive national economic growth.[3] Employers want access to an employment-ready and productive workforce, often favouring firm, specific and on-the-job training. Learners want to increase their employability, progress onto higher education or simply learn for 'learning's sake'.

The lack of consensus about the main goals of FE has translated into somewhat chaotic policy making over the last two decades. The government has frequently shifted back and forth between centrally planning provision so that it reflects national skills priorities and devolving more choice to local employers and learners.[4] Alongside this policy churn, a number of institutions, geographical tiers and arm's-length bodies have been set up and abolished creating a complex and highly unstable system.

This short paper revisits the reforms that have had an impact on choice and competition in the sector over the last two decades and splits them into six periods:

- 1992 – 1999: Introduction of an output-based funding model
- 2000 – 2001: Establishment of the Learning and Skills Council and Individual Learning Accounts
- 2002 – 2006: Attempts to implement a performance based funding model in 16 to 19 education
- 2006 – 2008: Attempts to implement an employer-led funding model in adult education
- 2009 – 2010: Closure of the Learning and Skills Council
- 2010 – present: Coalition reforms.

1992	Further and Higher Education Act provides for the establishment of the Further Education Funding Council for England and Training and Enterprise Councils.
1997	New Labour comes to power.
2000	Learning and Skills Act provides for the establishment of the Learning and Skills Council (LSC) in 2001, a non-departmental public body of the Department for Education and Skills (DfES).
2000	Introduction of Individual Learning Accounts, a partly government-funded scheme that provides training grants to individuals.
2001	Closure of Individual Learning Accounts.
2005	Foster Review concludes that the FE funding system is over-regulated and places undue emphasis on qualifications.
2006	Launch of Train2Gain, a government-funded employer-led scheme that provides free work-based training to adult learners.
2006	Leitch Review advocates routing all funding through employer-led schemes.
2009	Apprenticeship, Skills, Children and Learning Act 2009 provides for the dissolution of the Learning and Skills Council.
April 2010	The Learning and Skills Council is dissolved and two successor organisations are established: the Skills Funding Agency (19+), an agency of the Department for Business, Innovation and Skills, and, the Young People's Learning Agency (16-19), a non-departmental public body of the Department for Education (DfE).
May 2010	Coalition government comes to power.
2010	Closure of Train2Gain.
2012	Young People's Learning Agency (YPLA) disbanded and replaced by the Education Funding Agency (EFA), an executive agency of the Department for Education responsible for funding three to 19 provision. It brings together the functions of the YPLA and Partnerships for Schools.

1992 – 1999: Introduction of an output based funding model

Prior to the 1990s, further education (FE), sixth form and tertiary colleges received annual block grants in advance from local authorities based on expected number of student enrolments, irrespective of performance or outcomes. The Department for Employment white paper *Employment for the 1990s* (1988) and the Further and Higher Education Act (1992) fundamentally changed this, and together represented the first of many attempts to introduce competition in the FE sector. The reforms established two new funding streams for 16 to 19 and adult further education administered by two new organisations: first, a network of local Training and Enterprise Councils (TECs) which funded work-based training programmes, and, second, the Further Education Funding Council (FEFC) which funded the newly incorporated FE college sector.[5]

The FEFC and TEC funding models were highly complex and differed significantly in their weighting criteria and payment bands. Broadly speaking, however, both were based on output related funding. FE colleges (under the FEFC) and work-based training providers (under the TEC) were awarded an annual funding allocation for delivering a target number of 'units'. This related to the number of student enrolments, teaching and learning time, and outcome (either course completion, achievement of qualification or job placement). The rationale was simple: the more 'units' a provider could deliver, the higher the funding allocation. This drove providers to compete for the limited supply of learners in their area.[6]

It was hoped that this funding model would encourage providers to not only recruit more students (as in the previous system), but maximise both student retention and achievement. The government's key objective was to ensure everyone had the basic numeracy and literacy skills (NVQ Levels 2 and 3) they needed to access employment.

In return for the extra demands placed on providers, they were given greater autonomy. TECs were given control over their budgets including the capacity to generate surpluses.[7] Similarly, the 1992 Further and Higher Education Act awarded self-governing status to the FE college sector which empowered the governing body to decide on the future strategy of the college including the level and form of provision made.[8] This gave providers greater freedom to innovate, flexibly tailor provision according to local needs and maintain competitive advantage.

This output related funding system generated a perverse incentive structure, however. Providers engaged in 'unit farming' (entering students for extra qualifications within a single course, thereby increasing the number of funding units without having to increase student numbers) and 'unit maximisation' (prioritising those students who would attract the greatest number of funding units).[9] The FEFC and TEC systems were criticised for encouraging the proliferation of low-cost, poor-quality courses that failed to equip learners with the skills necessary for their long-term employability.[10] Widespread 'gaming' was also a major problem with some providers placing students into temporary employment to trigger employment outcome payments.[11] And there were even cases of outright fraud where providers claimed qualification achievements for non-existent learners.[12]

2000 – 2001: Establishment of the Learning and Skills Council and Individual Learning Accounts

In 2000, less than a decade after their introduction, the FEFC and TECs were abolished and two major reforms were enacted to reshape the FE landscape. First, a new Learning and Skills Council (LSC) was established and, second, 'Individual Learning Accounts' (ILAs) were introduced. Although these reforms took place more or less simultaneously, they pointed in fundamentally different directions. The LSC pushed for a 'planned' approach to the FE sector, while ILAs aimed to give individuals more choice and control over the type of provision that was available.

Creation of the Learning and Skills Council

The Learning and Skills Act (2000) provided for the establishment of the LSC in April 2001 and gave it the responsibility to plan, fund and regulate *all* post-16 education and training (with the exception of higher education). The integration of the separate FEFC and TEC funding streams represented an attempt to create for the first time a single learning and skills sector.

The LSC was expected to deliver on a range of far-reaching objectives that blended the interests of the government, employers and learners, namely:

- to stimulate demand for learning among young people and adults
- to maximise the contribution of FE to national economic performance
- to make provision more responsive to local employer and learner needs
- to raise quality standards.[13]

Fundamentally, the LSC was to provide more strategic and holistic planning of FE provision and provide a single foundation on which to address the UK's skills needs.

Individual Learning Accounts

Individual Learning Accounts (ILA) were established to encourage individuals to take more control and responsibility for their learning. The government contributed a training grant of £150 to each individual account (which was then topped up by learners and employers) and was to be used by learners to pay for a training provider of their choice.[14] The government hoped that by giving individuals purchasing power, it would stimulate competition between providers and incentivise them to be more responsive to learners' needs.

The Department for Education and Skills (DfES) signed a contract with Capita to develop and operate the scheme and by, November 2001, 8,910 providers were registered with the ILA system.[15]

The design of the scheme was, however, seriously flawed. First, the DfES did not subject providers to any form of quality assurance, some of whom were new ventures with no previous experience in delivering further education training. Second, providers were free to market their services to individuals, but no effort was made to ensure learners had access to reliable information about the costs and benefits of each course, no doubt a reflection of the lack of consensus around what constitutes 'quality' in the sector. Third, there was no contractual relationship between DfES or Capita and the providers.[16]

It was unsurprising, then, that ILAs often ended up financing low quality courses irrelevant to individual needs. Outright fraud and abuse also occurred with some learning 'providers' providing no services at all. The NAO estimated that the cost of fraud amounted to around £67 million out of a total budget of £199 million.[17] The DfES promptly shut down the scheme in November 2001, only eighteen months after its establishment.[18]

The failure of the ILA experiment starkly illustrated the need for careful oversight and regulation of choice-based markets. In turn, the failure also played a significant role in shaping the future of the still nascent LSC as it encouraged the Department for Education and Skills (DfES) towards an increasingly centralised approach to the development of the sector.

2002 – 2006: Attempts to implement a performance-based funding model in 16 to 19 education

During its early years (2002 – 2006), the LSC attempted to raise standards in 16 to 19 education by linking funding to performance and quality improvement. It was hoped that this would correct some of the undesirable effects of the FEFC and TEC funding systems (i.e. practices such as 'unit farming' and 'unit maximisation') as well as the flaws of the ILAs (i.e. lack of quality assurance).

In 2002, FE colleges providing 16 to 19 education and training were offered longer-term three-year funding agreements which were tied to performance against a set of improvement targets agreed with the local Learning and Skills Council (LLSC). Strategic area reviews (StARs) were introduced in 2003 to feed into these three-year funding agreements with the aim of ensuring that each provider responded to the needs of local stakeholders (i.e. learners, employers and the community). Progress towards the planned targets would be rewarded with a higher unit rate of funding, while persistent unsatisfactory performance would trigger a lower rate of funding and LLSC intervention to aid improvement.[19]

Within less than three years, however, StARs were dropped.[20] This partly stemmed from the reluctance of the DfES to give LLSCs the organisational power and support they needed to implement StARs and tailor funding to local needs.[21] Each November, the secretary of state for education announced annual funding allocations to the LSC, but also specified where the local budget was to be spent, which qualifications it was willing to fund and the key performance targets that were to be included in the three-year funding agreements, making it almost impossible for the nascent LSC to incentivise providers to address local needs.[22]

At the same time, there was little appetite for change among the newly-incorporated FE college sector. Under the previous system, FE institutions had developed significant expertise in delivering government mandated qualifications. A move towards locally relevant provision would require a whole new set of skills and procedures including proactive engagement with employers and learners and prediction (and sometimes even stimulation) of local demand. This new model posed a major threat to their future income flows, with some contemporaries predicting that it would lead to wide-scale closure of colleges.

Constrained by a controlling department and a resistant FE college sector, the nascent LSC was initially reluctant to force any change. As a local LSC manager put it, "We have taken a softly-softly approach. We're not yet sure how much power we have. The closure or merger of colleges and sixth forms is believed to be a political minefield!"[23] As a result, the LSC continued to pay providers for number of students enrolled and qualifications achieved regardless of quality or responsiveness to local needs.[24]

A few years later, in 2006, the LSC attempted once again to introduce a new performance regime aimed at improving service quality. A Framework for Excellence (FfE) was developed which assessed providers against 7 Key Performance Indicators (KPIs) covering responsiveness to local needs, employment and qualification outcomes, and financial health. Each provider was then awarded a single performance rating which could help employers and learners make comparisons of performance across the sector and thus make better informed choices.[25] High performers were to be rewarded with 'lighter touch' regulation including fewer inspections, longer-term funding and greater autonomy. 'Failing' providers faced the prospect of a change in leadership, cessation of funding or merger.[26] The LSC got ready to fully roll out this scheme in 2008, but a year later it was scheduled for closure (which occurred in March 2010).

2006 – 2008: Attempts to implement an employer-led funding model in adult education

As in 16 to 19 education, attempts were made to drive improvements in adult education. The 2005 Foster Review and 2006 Leitch Review defined 'quality' as matching provision to local labour market and employer needs. Both reports urged the LSC to introduce greater competition in the sector and only purchase provision that employers demanded.[27]

Train2Gain attempted to do exactly this. Introduced in 2002, and rolled out nationally in 2006, it was a government-funded scheme that provided free work-based training to adult learners. In theory, funding was to follow the choices made by employers and individuals. Private sector training 'brokers' would assess an employer's training needs, then a range of providers (public, private and voluntary) would 'compete' for training contracts and only receive LSC funding if they attracted customers.[28] Skills Accounts were introduced during this time to give employees access to information and advice about the quality of training courses, thereby helping them to make better informed choices than they could when the previous ILAs were in operation.[29]

This changing policy environment incentivised some FE colleges to form joint ventures with private companies. In 2006, for example, Castle College Nottingham signed a deal with Carter and Carter Plc to win work-based training contracts, the first of its kind. The aim was to capitalise on the strengths and expertise of the public and private sector and thereby increase both providers' market share. It proved, however, to be a short-lived affair. In March 2008, Carter and Carter went into administration leaving 25,000 learners without a training provider.[30] This undermined confidence in the private sector to deliver publicly funded education and training services. During this period, many large private companies were criticised for offering much lower quality Train2Gain provision than their public sector counterparts, due to their relative inexperience and failure to attract high-calibre staff.[31]

The responsiveness of Train2Gain provision to employers' training needs was heavily constrained by central government. Government-funded 'Sector Skills Councils' (SSCs) would provide the LSC with a list of approved courses to be funded by the public purse.[32] This meant that employers were only able to demand those courses which the government had decided to fund. These tended to be NVQ Level 2 and 3 qualifications central to the government's skills targets, but sometimes of little value to employers. Therefore, the range of courses limited the choices available to employers and individuals.

The Train2Gain case again demonstrated that in practice the government wanted to control and plan provision so that it fell in line with national skills policy. This approach was heavily criticised for being over-regulative and unresponsive to the different needs of employers and individuals.[33] However, when learner preferences were prioritised, as was the case in Individual Learning Accounts, government was criticised for under-regulating the system. It is clear that the complexity of the sector has made it extremely difficult for the government to appropriately balance the degree of regulation and choice in the system.

2009 – 2010: Closure of the Learning and Skills Council

Towards the end of the decade it had become clear that the LSC had failed to achieve the far-reaching goals it had been set in 2000. Despite some attempts, there was little improvement in the performance of providers, and, the different objectives of the government, employers and learners remained largely unmet.

The Government recognised that major change was needed. In 2009, the Apprenticeships, Skills, Children and Learners Act provided for the dissolution of the LSC (which occurred in March 2010), nine years after it was established. The LSC was succeeded by two new agencies: the Young People's Learning Agency (YPLA) responsible for 16 to 19 education and the Skills Funding Agency (SFA) responsible for adult provision. The establishment of two separate funding streams for 16 to 19 and adult learners represented a reversal of the last decade's policies which had aimed for greater integration and coherence in the learning and skills sector.

Before Labour went out of office, the YPLA was mandated to support local authorities in commissioning 16 to 19 education and the SFA was to route public money to providers following the purchasing decisions of learners and employers through Train2Gain and skills accounts.

2010 – present: Coalition reforms

This short history has demonstrated that successive governments have struggled to address the difficult question of how to drive long-term improvements in skills and employment. The Coalition has, like previous governments, made some bold proposals, but it is too early to tell what impact these will have.

Soon after it came to power, the Coalition closed the YPLA and, in its place, a new Education Funding Agency (EFA) was established with a larger remit of funding three to 19 education. In 16 to 19 education, the reforms point in two quite different directions. On one hand, the Government will largely remove any role for central planning and fund providers on the basis of student demand and outcomes alone – specifically according to the number of students enrolled from the previous year and individual qualifications passed.[34] On the other, the Coalition will continue to ring-fence a certain proportion of funds around the delivery of 100,000 apprenticeships over the next five years.

In the adult skills sector, the Coalition has announced a reduction in government funding given the need to reduce spending across all public services. Train2Gain and skills accounts have been abolished.[35] Employers and individuals will be expected to co-invest alongside the state and the subsidy will be replaced by an income contingent loan, along the lines of the Higher Education funding model. It is hoped that this will encourage individuals to more carefully appraise the costs/benefits associated with different courses and only demand training that pays either in terms of improved wages or employment.[36]

Lessons

The history of choice and competition in the further education sector exposes three lessons for those applying market mechanisms in public services.

1. Failure to reconcile different objectives leads to chaotic policy making: The government, employers and learners all disagree somewhat on the main objectives of further education. Instead of reconciling these various objectives or gradually recalibrating the emphasis of the FE system, the government has shifted back and forth between policy extremes – yo-yoing between a centrally planned system and one where choice is devolved to local employers and/or learners with little oversight. Criticisms of the sector have tended to result in radical overhauls rather than a managed process of learning and adaptation where strengths of previous systems are built on and weaknesses addressed.

2. Institutional instability makes it very difficult to implement lasting reforms: The creation and closure of institutions have often been viewed as a way of solving problems in the FE sector. The sector has therefore undergone five major reorganisations during the last two decades. However, the fact that no institution has survived for longer than a decade has made it difficult for any of them to build the necessary experience and skills to learn, adapt and become more effective over time. For example, the LSC developed a new performance regime in the mid-2000s which offered the potential to drive improvements in the quality and diversity of provision. However, by the time it got ready to roll it out at scale, it was abolished.

3. Policy and institutional churn prevents the government from building the information capability necessary for the effective use of market mechanisms: The government's ability to regularly monitor and measure providers is highly dependent on having access to reliable information. In FE, the debilitating mix of policy and institutional instability has completely impeded the development of this capability. As a result, there are no performance or quality assurance measures that cut across the whole sector. So when choice has been devolved to individuals and employers, there has been a complete absence of government oversight or regulation (e.g. Individual Learning Accounts). This remains a problem today. The Coalition has proposed paying providers on the basis of the numbers of students they attract, but does not yet have reliable information to monitor provider performance or help users make informed choices between them.[37]

Endnotes

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